

**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 PowerStream Inc. for an order approving just and reasonable rates and other charges for electricity distribution to be effective May 1, 2009

**CONSUMERS COUNCIL OF CANADA**

**INTERROGATORIES: POWERSTREAM INC.**

**Consumers Council of Canada Interrogatory #1**

**ADMINISTRATION:**

**(A/Appendix 1/S9)**

**Question:**

**Please provide an updated corporate organization chart reflecting current staffing that includes both the PS Division and the Barrie Division of the merged entity.**

**Response**

The pre-merger organization chart for PowerStream Inc. is included in the Application, Appendix A, Schedule 9. 2009 is a transitional year in which PowerStream Inc. and Barrie Hydro move towards a fully integrated utility. In response to VECC-6, PowerStream has provided a table that shows the degree of integration, on a department by department basis, as of March 31, 2009, and the expected degree integration as of December 31, 2009. Accordingly, as of the date of writing this response, there is no organizational chart that reflects a fully integrated organization.

**Consumers Council of Canada Interrogatory #2**

**(A/Appendix 1/S9)**

**Question:**

**On February 3, 2009, PS updated its evidence to reflect a revised load forecast that incorporates the impact of the economic downturn that has occurred since the original load forecast had developed. Please explain why it is appropriate for PS to update its application and revenue requirement to reflect a revised load forecast, but not update to reflect any changes that may reduce the revenue requirement.**

**Response**

In its February 2009 update, PowerStream revised its load forecast to reflect the expected impact of the economic downturn in 2009. The net effect of this revisions was to **reduce** the applied for revenue requirement, relative to the original October 2008 filing, **not increase it** as implied by the question.

The combined effect of two factors drove this result. The first factor was that the reduced load forecast meant reduced [throughput] volumes which, in turn, resulted in reduced “revenue at current rates”. The second factor was that the reduced load forecast was used to update PowerStream’s “cost of power” expense. This, in turn, reduced the “working capital allowance” and, thus, the “return” component of the revenue requirement. The combined effect of these two factors was to lower the revenue requirement.

There are a number of reasons why PowerStream did not file a more comprehensive update in February 2009 to: (i) reflect the impact of the economic downturn on other components of the revenue requirement; and (ii) to reflect other changes. As for other impacts of the economic downturn, PowerStream decided that it was premature to revise its forecasts of OM&A and capital spending, given the fluidity of the economic outlook at the time (January/February 2009) and uncertainly as to how the downturn would impact PowerStream’s way of doing business in 2009. The impact of the economic downturn is discussed further in response to Staff-6.

Distribution system planning is based on a long-term view as opposed to a snapshot in time. As for other changes, PowerStream decided it would be more efficient consider the need for an update at a point in time after 2008 actual results were available and after it had received and responded to interrogatories.

**Consumers Council of Canada Interrogatory #3**

**(B1/T2/S1/p. 4)**

**Question:**

**The evidence states that PS's corporate goals and initiatives pertain to a number of topics including "Mergers and Acquisitions Strategy" and "New Business Opportunities".**

**Please provide a detailed explanation of the activities planned in 2009 related to Mergers and Acquisitions Strategy. Please provide a list of all expenditures in the 2009 budget that relate to M&A Strategy.**

**Response**

PowerStream has, in the past, and will continue in the future, to pursue growth opportunities that enhance its strategic position and economics of scope and scale, as such opportunities arise. At the current time, PowerStream's "merger and acquisition" efforts are largely focused on transitioning the PowerStream and Barrie Hydro organizations, post-merger, to a fully integrated utility company. No specific new merger and acquisition initiatives and no new business opportunities are currently being pursued and no amounts related to any such activities have been included in the applied-for revenue requirement.

**Consumers Council of Canada Interrogatory #4**

(B1/T2/S1/p. 4)

**REPEAT OF CCC#3**

**Question:**

**The evidence states that PS's corporate goals and initiatives pertain to a number of topics including "Mergers and Acquisitions Strategy" and "New Business Opportunities".**

**Please provide a detailed explanation of the activities planned in 2009 related to New Business Opportunities. Please provide a list of all expenditures in the 2009 budget that relate to New Business Opportunities.**

**Response**

Please see response to CCC-3.

**Consumers Council of Canada Interrogatory #5**

**RATE BASE:**

(B1/T2/S1, p. 1)

**Question:**

**The evidence states that PS has a strategic plan that is reviewed regularly and subject to formal review and revision annually – in February – by PS’s Board of Directors and its Executive Management Team. Please provide copies of all materials provided to the EMT in February 2008 and February 2009 related to their review of the strategic plan.**

**Response**

PowerStream’s strategic plan sets out the over-arching principles that guide the Company in setting its corporate objectives targets. These, in turn, are used as the basis for deciding upon corporate initiatives and measurable deliverables which drive the capital investment process. Please see response to VECC-9. Where this information will be filed in accordance with the Board’s Rules of Practice and Procedures and its Practice Directions on Confidential Filings.

As a result of the merger between PowerStream and Barrie Hydro, the strategic plan has yet to be updated for 2009. For 2008, please refer to Schedule CCC 5-1 which is a document entitled “Strategic Direction”. This document was filed as part of the PowerStream-Barrie Hydro MAADs application.

**Consumers Council of Canada Interrogatory #6**

**(B1/T2/S1, p. 1)**

**Question:**

**With respect to the strategic plan please explain, specifically, how it has changed, since the merger with Barrie.**

**Response**

Please see response to CCC-5.

**Consumers Council of Canada Interrogatory #7**

**(B1/T2/S1/p. 2)**

**Question:**

**The evidence states that the capital investment planning cycle starts with a review and revision, if required, by the Board of Directors and the EMT and culminates with the approval of the capital investment budgets by the Board of Directors in December. Please provide all materials provided to the Board of Directors in December regarding the capital investment planning cycle.**

**Response**

Please see response to EP 3(a) and VECC 5.



**Consumers Council of Canada Interrogatory #8**

**(B1/T2/S1, p. 11, B1/T4/S2/p. 5)**

**Question:**

**The evidence states that the most significant component of capacity related projects is the planning for new or upgraded transformer stations. PS is forecasting the need for one new 28kV transformer station every three years commencing in 2009. Please provide a complete list of all existing TS's and the expected life of each. Please indicate where, within the franchise area PS expects to build or replace transformer stations over the next 10 years and the proposed budget related to those expenditures.**

**Response**

**Table CCC 8-1: 28kV Transformer Stations**

<b>Transformer Stations</b>	<b>Address</b>	<b>Voltage Level</b>	<b>Size</b>
Markham TS#1	3430 14th Avenue, Markham	230/27.6kV	2 x 50/83 MVA
Markham TS#2	7970 Highway #48, Markham	230/27.6kV	2 x 50/83 MVA
Markham TS#3	7932 Kennedy Road, Markham	230/27.6kV	4 x 50/83 MVA
Richmond Hill TS#1	150 Hwy. 7 E, Richmond Hill	230/27.6kV	2 x 75/125 MVA
Richmond Hill TS#2	160 Hwy. 7 E, Richmond Hill	230/27.6kV	2 x 50/83 MVA
Vaughan TS#1	8000 Dufferin St, Concord	230/27.6kV	4 x 75/125 MVA
Vaughan TS#2	7301 Weston Rd. (1 Century Pl.), Woodbridge	230/27.6kV	2 x 75/125 MVA
Vaughan TS#3	6531 Rutherford Rd., Woodbridge	230/27.6kV	2 x 75/125 MVA

PowerStream builds transformer stations to a Dual Element Spot Network (DESN) configuration. The key components of a DESN transformer station are the power transformers, switchgear, circuit breakers, protective relaying equipment, metering equipment and any buildings associated with the station. For regulatory and accounting purposes, the expected life of a TS is 40 years and asset condition assessment practices are used to determine the replacement or refurbishment needs of existing station components on an individual or class basis.

PowerStream's current demand forecast indicates the need for additional station capacity in 2009 (Markham) 2012 (Vaughan) and 2017 (Markham). The new stations would be subject to the Class Environmental Assessment Process for Minor Transmission facilities and as such their specific location cannot be determined with complete certainty at this time although locations near to existing transmission line facilities would minimize network connection costs.

PowerStream plans for a cost of \$44 million per station. This figure includes feeder integration costs.

**Consumers Council of Canada Interrogatory #9**

(B1/T2/S1, p. 27)

**Question:**

**The evidence states that in order to enhance the budget process PS has developed a prioritization methodology to assist in ranking discretionary projects. Given the merger with Barrie, how has the 2009 prioritization of projects within the PS Division changed?**

**Response**

The 2009 prioritization of capital projects within PowerStream has not changed as a result of the Barrie merger. In 2009, PowerStream's capital plan and Barrie's capital plan will be managed independently.

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**Consumers Council of Canada Interrogatory #10**

**(B1/T4/S2, p. 2)**

**Question:**

**Please update Table 2 to include 2006 Board approved and actual numbers and 2008 actual numbers.**

**Response**

For 2006 Actual Capital Spending see PowerStream's response to SEC-16(d) and for 2008 Actual Capital see PowerStream's response to Staff-10.

**Consumers Council of Canada Interrogatory #11**

**(B1/T4/S2/p. 2)**

**Question:**

**The overall capital budget for 2009 is \$85.2 million. Please indicate the estimated impact on the revenue requirement if the budget is reduced by \$20 million.**

**Response**

The impact of this change on the revenue requirement depends on the nature of the capital reduction, since asset type defines depreciation, accumulated amortization, as well as impacts on taxable income and taxes.

If an average depreciation rate of 25 years is assumed, the estimated impact on revenue requirement would be a reduction of \$1.3M to approximately \$119M, from the base revenue requirement of \$120.3M, as filed.

Please note that this calculation is not taking into account that the reduction in capital will lead to increase in OM&A due to factors such as burden allocation or the need for increased maintenance.

**Consumers Council of Canada Interrogatory #12**

**(B/T4/S2/p. 13)**

**Question:**

**PS annually establishes a capital allowance budget for sustainment and development capital to ensure funds are available for unforeseen projects. In addition, PS has a category of “unplanned equipment replacement” as part of its operations budget. Please provide any OEB precedents PS is aware of regarding approval of such contingency allowances. In addition, if the funds go unspent, why should they not be returned to ratepayers?**

**Response**

PowerStream is not aware of any OEB precedents for budgeting for contingencies such as “unplanned equipment replacement” and “unforeseen projects”. PowerStream is able to budget these relatively small amounts with reasonable accuracy based on prior years’ experience.

Please see Staff 9.

**Consumers Council of Canada Interrogatory #13**

**(B/T4/S2/p. 14)**

**Question:**

**The budget for residential subdivisions development capital is approximately \$5 million in 2008 and 2009. Please provide an actual number for 2008 and an updated budget for 2009 taking into account the slowing of new home construction. Please explain how the 2008 and 2009 budgets were initially developed and include all assumptions.**

**Response**

Please refer to PowerStream's response to Staff-10 for 2008 actuals. Refer to PowerStream's response to Staff-2(b) and Staff 6 for comments on the slowing of new home construction.

The 2008 and 2009 budgets for residential subdivisions development capital were created by applying unit costs to construction forecasts provided by developers.

**Consumers Council of Canada Interrogatory #14**

**(B/T4/S2/p. 15)**

**Question:**

**What is the current status of the project related to relocation of the distribution system to accommodate the bus rapid transit corridor (\$5.5 million)?**

**Response**

For the purposes of clarity and with reference to Exhibit B1, Tab 4, Schedule 2, Lines 352-353, the \$5.5 M is the estimated total cost of a multi-year project expected to begin in 2009. \$0.7 M has been included in line item 2c of Table 2, Exhibit B1, Tab 4, Schedule 2 as a project expenditure for 2009.

Over the past several years, PowerStream has been working closely with YRRT to determine the location of the existing overhead distribution system to accommodate a bus rapid transit (BRT) system (and eventually leading to a light rail transit system) along Hwy 7 and Yonge Street in its service territory. The 2008 announcement of the extension of the Yonge Street subway and the Spadina subway systems to Hwy 7 changed the construction schedule of the BRT proposal.

The planned road widening on Yonge Street from Hwy 407 south to Steeles Avenue has been cancelled. It is anticipated that the YRT project will still commence in 2009.

Many of the projects for planned road widening on Yonge north of Hwy 7 and on Hwy 7 have been delayed to future years.

These types of projects are non-discretionary as the timing is determined by road authorities, the Region of York in this case.



**Consumers Council of Canada Interrogatory #15**

**(B/T4/S2/p. 19)**

**Question:**

**PS has a budget of over \$1 million in each year (2007-2009) related to Suite-Metering Costs. Please provide a detailed budget for each of those years and identify the types of activities that PS undertakes with respect to suite metering.**

**Response**

Please see PowerStream's response to SSMWG-1.

**Consumers Council of Canada Interrogatory #16**

**(B/T4/S2/p. 24)**

**Question:**

**PS has begun a process to replace its CIS system over the next three years and plans to spend \$1.35 million in 2009. Please provide a full business case to justify PS's CIS replacement. Please provide a detailed break-down of the 2008 and 2009 budgets and include all assumptions.**

**Response**

The 2009 forecast spending of \$1.35M is not solely to replace the CIS system and is allocated amongst many discrete CIS projects which are done for various reasons including but not limited to, regulatory requirements, rate changes, improving customer service and internal efficiency and security. PowerStream is beginning to explore the options available for replacing or upgrading its current CIS system. PowerStream is planning to spend approximately \$252K in 2009 to conduct research and prepare a feasibility study for this large future project. This will lead to the development of a business case.

**Consumers Council of Canada Interrogatory #17**

**(B1/T5/S1/p. 2)**

**Question:**

**Please provide all materials provided to PS's Board of Directors in December 2004 to assist it in its decision-making process regarding the options related to its head office and service centres.**

**Response**

Information provided to the PowerStream Board of Directors in December 2004 to assist it in its decision-making process regarding the options related to the head office and service centres were as follows:

1. Report by EVP, Asset Management, PowerStream Head Office, Schedule CCC 17-1
2. Presentation by Dean Newman and Barbara Wright, LNR Corporation, Schedule CCC 17-2.

**Consumers Council of Canada Interrogatory #18**

**(B1/T5/S1/p. 3)**

**Question:**

**The evidence indicates that the budgeted cost of the Markham TS #4 is \$47 million. One-half of the cost to the end of 2009 has been included in rate base for 2009. Please provide evidence to support the in-service date of December 2009.**

**Response**

Please see the response to VECC-23.

**Consumers Council of Canada Interrogatory #19**

**(B1/T6/S1/p. 4)**

**Question:**

**The evidence states that PS continues to explore opportunities to improve operational and service efficiencies, maximize use of assets, and to expand its service area and customer base. To that end PS is in merger discussions with a number of LDCs. Please provide a list of all costs included in the 2009 revenue requirement related to those activities. Does PS have a “merger strategy” or a strategic plan specifically related to merger activities? If so, please provide. What are the goals and objectives of PS’s merger strategy?**

**Response**

Please see response to CCC-3 and Staff-35.

**Consumers Council of Canada Interrogatory #20**

**(B1/T6/S1/p. 4)**

**Question:**

**The evidence states that h strategic plan sets out measurable achievable goals and is reviewed regularly and subject to an annual formal review and revision by PS's Board of Directors an EMT. Please provide all documents provided to the Board of Directors and EMT in the most recent annual review.**

**Response**

Please see the response to VECC-9, where this information will be filed in accordance with the Board's Rules of Practice and Procedures and its Practice Directions on Confidential Filings.

**Consumers Council of Canada Interrogatory #21**

**(B2/T1/S1)**

**Question:**

**PS has a working capital allowance that represents 15% of the forecast cost of power and controllable distribution expenses. Would PS be willing to undertake a lead-lag study to assess a more accurate assessment of what would be an appropriate working capital allowance? If not, why not?**

**Response**

Please see PowerStream's response to Staff-19.

**Consumers Council of Canada Interrogatory #22**

**REVENUE REQUIREMENT:**

(C2/T1/S1)

**Question:**

**Please provide a detailed explanation as to why each of the elements of the Revenue Offsets exceeded the Board approved amounts in 2006. Please provide actual numbers for 2008.**

**Response**

Table 1 of Exhibit C2-1-1 is updated with 2008 actual below. Please note that 2008 actuals are preliminary, as they are based on 2008 draft financial statements.

**Table CCC 22-1: Updated 2008 Actual (\$000)**

	<b>2006 Board Approved</b>	<b>2006 Actual</b>	<b>2007 Actual</b>	<b>2008 Actual</b>	<b>2009 Forecast</b>
Specific Service Charges	2,428,383	2,612,980	2,593,600	2,670,625	2,621,919
Late Payment Charges	1,030,530	1,665,845	1,700,463	1,845,745	1,834,000
Other Distribution Revenue	1,012,033	981,696	915,435	945,457	954,255
Other Income and deductions	1,625,403	1,761,431	2,186,779	2,879,870	1,157,873
<b>Total Revenue Offsets</b>	<b>6,096,348</b>	<b>7,021,952</b>	<b>7,396,277</b>	<b>7,648,606</b>	<b>6,568,047</b>

The 2006 Board Approved amounts were based on 2004 historical data. Since then PowerStream experienced significant customer growth in its service area; the increase in Specific Service Charges, both actual and forecasted in 2009, reflects the customer growth. There are no increases in the specific service charges; PowerStream continues to use standard charges, as determined and approved during the 2006 EDR process.

As explained in Exhibit C2, Tab1, Schedule 2, the Late Payments amount in the 2006 Board Approved application, was unusually low and not reflective of normal course of business. The 2006-2007 charges are more reflective of normal business. The increase in 2008 actual Late Payment Charges based on actuals is higher than initially forecast. The 2009 charges are forecast to be at approximately the same level as 2008 actual.

The “Other Distribution Revenue” and “Other Income and Expense” in 2009 Test Year are forecast to be lower than in 2006 Board Approved application. The total increase in



revenue offsets from the 2006 Board Approved to 2009 test year is \$472,000. This is mainly due to the forecasted increase in Specific Customer Charges, as explained above.

**Consumers Council of Canada Interrogatory #23**

**COST OF SERVICE:**

(D1/T1/S3/ p. 13)

**Question:**

**Please provide a detailed budget for 2008 and 2009 for the following Administration Expense categories: Billing and Collection, Community Relations/Advertising, Administrative and General, and Other Distribution Expenses. For 2008 please include the budget and actual amounts.**

**Response**

Please refer to PowerStream's response to Staff-36, where the 2008 Bridge Year and 2009 Forecast data is submitted on a USoA level. Please refer to PowerStream's response to EP-16(a) that include details of 2008 actual OM&A expenses.

**Consumers Council of Canada Interrogatory #24**

**(D1/T1/S3/p. 17)**

**Question:**

**Please provide a schedule which sets out all regulatory costs for the years 2006 to 2009. Please include the following categories:**

- **Internal costs**
- **External legal costs**
- **External consulting costs**
- **OEB assessment costs**
- **Other costs**

**Response**

Please refer to PowerStream's response to Staff-47

**Consumers Council of Canada Interrogatory #25**

**(D1/T1/S3)**

**Question:**

**Please explain how the regulatory costs specifically related to the 2009 rate application are accounted for.**

**Response**

Please refer to PowerStream's response EP-16 (b), (c), and (d).

**Consumers Council of Canada Interrogatory #26**

**(D1/T1/S3)**

**Question:**

**Please provide a detailed list all regulatory costs associated with the merger application and explain how those costs were recovered.**

**Response**

Please see the response to Staff-35(a). These costs are not included in the rate application.

**Consumers Council of Canada Interrogatory #27**

**(D1/T1/S3)**

**Question:**

**With respect to the savings associated with the merger with Barrie, would PS be willing to share those savings with its ratepayers once the costs of the merger are recovered? If not, why not?**

**Response**

This application is restricted in scope to a consideration of the appropriate rates for the PowerStream rate zone in 2009. Accordingly, this question is not relevant to the issues in this proceeding.

**Consumers Council of Canada Interrogatory #28**

**(D1/T1/S3/ p. 18)**

**Question:**

**Please provide a schedule which sets out all costs related to IFRS that have been incurred to date. Please explain how the \$3 million amount was developed. Please include all assumptions.**

**Response**

Please see response to Staff-46.

**Consumers Council of Canada Interrogatory #29**

**(D1/T1/S4/p. 3)**

**Question:**

**With respect to Purchased Services and Products the evidence indicates that PS does not forecast the value of services or product purchases at the vendor level. For each of the companies listed in Table 1, that are providing services in 2009 please indicate how PS forecasts the cost of those services. Of all of the vendors listed in Table 1 that have “ongoing” service arrangements please indicate how PS manages the amounts related to those arrangements.**

**Response**

The forecast amount of purchased services and products is estimated based on the volume of work that needs to be done in the budget year. For the new projects, the planned amount is estimated based on market rates for the required product or service. For the existing vendors, that have “ongoing” service arrangements, the forecasted value could be estimated based on:

- a) historic experience, if the volume of work is relatively stable (for example, for ongoing maintenance projects)
- b) based on agreed hourly rates and the number of hours required to implement the project (for Purchased Corporate Services)



**Consumers Council of Canada Interrogatory #30**

**(D1/T1/S9/p. 2)**

**Question:**

**The evidence states that the 2009 budgeted headcount is 401, which represents an increase of 64 staff positions relative to 2006. Given the merger with Barrie what is the most recent forecast of staff positions expected at the end of 2009.**

**Response**

PowerStream expects to have the same number of FTEs as shown in the rate application.

**Consumers Council of Canada Interrogatory #31**

**(D1/T1/S9/p. 2)**

**Question:**

**What is the total amount included in the 2009 revenue requirement related to the Board of Directors (support and compensation)? Where are these costs accounted for?**

**Response**

The total amount included in 2009 revenue requirement related to Board of Directors costs is as follows: (i) as shown in Table 4, Exhibit D1-1-9 of \$320,826. These costs are included in Administrative and General Expenses (Executive Salaries and Expense) category; (ii) support cost which are minimal (approximately \$1000, in 2008) are included in the Administrative and General Expense (Miscellaneous Expenses) category. These costs are not budgeted on an item by item basis but the category is reviewed on the basis of gross amounts and then trended for budget purposes.

**Consumers Council of Canada Interrogatory #32**

**RATE DESIGN:**

**(I/T3/S1)**

**Question:**

**PS is proposing a rate adder credit and a new rate rider to deal with its smart meter costs post December 31, 2007. Please provide a schedule which sets out all smart meter costs incurred prior to and after December 31, 2007 (including 2008 actuals). Please provide a detailed breakdown of all of those costs. How was the rate adder amount derived?**

**Response**

For actual Smart Meter costs to 2007 see Exhibit I, Tab 3, Schedule 2, Table 1.

For 2008 actual costs see the response to VECC-55(A).

See Exhibit I, Tab 3, Schedule 3 for the calculation of the Future Cost Offset Smart Meter rate adder. Please note that actual capital costs for Smart Meters installed up to December 31, 2007 have been included in rate base and excluded from the calculation of the Future Cost Offset rate adder.

**Consumers Council of Canada Interrogatory #33**

**(I/T3/S3/p. 1)**

**Question:**

**PS has a forecast of \$100,000, in each year 2008-2010, related to smart meter customer communication costs. Please indicate what has been spent in 2008 and the nature of those expenditures. What is the communication plan for 2009?**

**Response**

In 2008 PowerStream spent \$106,926 on:

- Door hangers which notified customers of the pending installation of smart meters and provided a customer contact number.
- A customer welcome package which included a DVD and a question and answer booklet addressing the most commonly asked questions about the SMART Meter retrofit program.

The cost of the 2009 communication plan consists of Smart Meter information kits and Time of Use Advertising.

**Consumers Council of Canada Interrogatory #34**

**(I/T3/S1)**

**Question:**

**Are there any costs included in the 2009 revenue requirement related to smart meter technology that goes beyond the minimum functionality prescribed by Government regulations? If so, what are those costs and to what extent have they been subject to a business case analysis?**

**Response**

There are no costs included in the 2009 revenue requirement related to smart meter technology that goes beyond the minimum functionality prescribed by Government regulation.

The residential Smart Meters purchased by PowerStream contain two-way communications however, there is no cost differential compared to a meter with one-way communication.

**Consumers Council of Canada Interrogatory #35**

**OTHER ISSUES:**

(I/T2/S1/p. 5)

**Question:**

**PS is seeking approval to recover from its customers an SSM amount of \$398,000 and an LRAM amount of \$429,000. Who made the decision to apply for recovery of the LRAM and SSM amounts? If this was a Board of Director's decision please provide all materials provided to the Board at the time of that decision.**

**Response**

There was no Board of Director's decision to specifically identify the inclusion of LRAM and SSM in PowerStream's 2009 rate application. In 2008, a presentation was provided to the Board of Directors as general update regarding the 2009 filing considering the overall impacts to revenue requirement.

**Consumers Council of Canada Interrogatory #36**

(I/T2/S1/p. 5)

**Question:**

**The evidence indicates that PS utilized CDM consultants for the preparation of the annual reports to the Board from which most of the data flows and used other CDM consultants to assist in the preparation of the LRAM/SSM claim. How were the consultants cost recovered?**

**Response**

Consultant costs were charged to OEB-directed third tranche account 1565 (regulatory deferral account).

**Consumers Council of Canada Interrogatory #37**

**(I/T2/S1/p.5)**

**Question:**

**Please provide a detailed schedule setting out all merger costs and benefits. Please set out the amounts by year, including 2008 actual costs.**

**Response**

Please see responses to Staff-5 and Staff-35.



**SCHEDULE 2.5**  
**STRATEGIC DIRECTION**

The Corporation's objective will be to provide industry leading reliability and customer service, efficient and effective business operations, conservation and demand management programs, responsible environmental stewardship, excellent health and safety performance, and good corporate citizenship. In short, the Corporation aspires to be a complete organization, striving for excellence in all that we do, providing value to all we serve.

The Corporation believes there is value to our customers and our municipal shareholders in continuing to grow the company given the current operating environment for rate regulated electrical utilities in Ontario. In order to ensure the benefits of that continued growth can be realized by our key stakeholders, the Corporation aims to be a leading utility with respect to size, scale, and scope, giving us the ability to realize the potential synergies and efficiencies which come with growth.

The Corporation's vision of future growth will initially be focused on York Region and Simcoe County along with Hydro One Brampton. This geographic footprint will position the Corporation for the continued development of an industry leading regional utility, capable of influencing and supporting energy policy in Ontario, while meeting the increasing regulatory and operating challenges LDCs face. This inspiring vision will help the Corporation attract and retain the best and most talented staff.

**Objectives and Guiding Principles**

The Corporation recognizes the need to balance the following objectives and guiding principles:

**Business:** The Corporation will participate in those areas of business, permitted by the Electricity Act and the Ontario Energy Board Act, in which it has expertise and which are related to our core business of electricity distribution.

The Corporation will seek to conduct our business in a commercially prudent manner while actively seeking to expand our business activities, building on our excellence in electricity distribution. This business expansion may occur through acquisitions or amalgamations with other utilities. In all cases, business expansion will only occur where it enhances The Corporation's strategic position, economies of scope and scale exist, and where it adds value to The Corporation and financial returns to its Shareholders.

**For-Profit Corporation:** The Corporation will be a for-profit corporation, with the primary objective of optimizing rate of return and Shareholder value, including regular dividends and interest payments. As a for-profit corporation, the Corporation will seek the full market rate of return for LDC as permitted by the Ontario Energy Board. Optimizing returns and Shareholder value will be balanced with prudent investments in all facets of our business operations to ensure the key requirements of stakeholders can be met or exceeded.

**Shareholders:** It is recognized that The Corporation is integral to the prosperity and infrastructure of the communities in which it operates. Our Shareholders understand that the

Corporation will best serve the communities through the delivery of services at competitive rates and by optimizing shareholder value. The Corporation will establish and maintain a financial and capital structure consistent with industry standards sound financial principles in order to provide the Shareholders with regular dividend and interest payments.

**Customers:** The Corporation will provide safe, reliable, effective and efficient electrical distribution to its customers. Excellence in customer service will be a primary focus of the Corporation.

**Employees:** The Corporation will treat all employees in a fair and equitable manner. The Corporation will develop with our employees a shared commitment towards workplace health and safety, excellent customer service, employee growth and development and a culture of continuous improvement.

The Corporation will ensure that all staff understand our business plan and direction, and that they have the skill required to fulfill their part in achieving our shared goals.

**Community and Economic Development:** The Corporation will play a significant role in the communities in which it operates. The Corporation will strive to be a good corporate citizen and a facilitator of economic development throughout the Corporation's service area.

**Environmental Stewardship:** The Corporation will act as responsible stewards over the resources it has been asked to manage, exercising a strong commitment to energy conservation and environmental sustainability. The Corporation will employ business and operating practices which seek to minimize our impact on the environment.

**POWERSTREAM INC. BOARD OF DIRECTORS MEETING – DECEMBER 15, 2004**

**POWERSTREAM HEAD OFFICE**

Report by the EVP Asset Management and presentation by LNR.

**Recommendation**

The President & CEO and the EVP Asset Management recommend that the Board authorize staff to pursue the Strategic Facility Plan Alternative 2 as presented to:

- a. Negotiate a "long-term" lease, at market rates, with the Town of Markham to accommodate PowerStream's Lines east, truck storage, Metering, indoor storage, outdoor storage and required supervisory offices at the 8100 Warden Avenue, Markham.
- b. Power Stream negotiate a "long-term" lease, at market rates, with the City of Vaughan to accommodate PowerStream Lines east, truck storage, Metering, Control Room (subject to review), indoor storage, outdoor storage and required supervisory offices at the 2800 Rutherford Road, Vaughan.
- c. Prepare recommendations for Board approval for a PowerStream Head Office that would accommodate Finance, Customer Service, Engineering, Information Technology, Operations, Corporate Services and offices for Executive Management.

The recommendation is to include, but not be limited to site location, building design, relevant costs, lease vs. ownership, required square footage and schedule.

**Basis of Recommendation**

As discussed in the presentation by LNR, the above option is the least long-term cost.

The current facilities for Engineering, Finance and Corporate Services are over-crowded and inadequate and do not allow the full benefit of staff synergies to be achieved.

This option provides both shareholders with the benefits of a secure long-term lease for their existing facilities.

The Warden Avenue and Rutherford Road locations position the Lines function close to a major 400 series highways and enable PowerStream to provide the quickest service to our customers.

By leaving staff in our current locations, we avoid the expense of constructing or modifying another property and transferring staff to that location.

Staff at both the Town of Markham and the City of Vaughan has indicated that they are short of office space and wish to acquire the office facilities at Warden Avenue and Rutherford Road.

Separating the main office facility from the field staff offers greater opportunity to search for the appropriate office location that will accommodate PowerStream's needs.

The growth strategy proposal is to move the Head Office functions from any additional utilities to the PowerStream Head Office and create an additional service centre in the new areas.



# PowerStream Facility Plan

## Board of Directors

### Meeting

December 15, 2004



L N R



# Agenda

- LNR Overview
- Facility Planning Process
- Current Situation
- Defined Needs & Objectives
- Conceptual Alternatives
- Conclusions & Recommendations
- Financial Analysis
- Buy vs Lease Analysis
- Timeline



# LNR Overview

- Independent Corporate Real Estate Advisor and Broker
- CRESA Partners - Top 5 real estate firms in NA
- Fully Integrated Services: Strategic Planning, Real Estate Transaction, Project Management
- Dean Newman, President: 17 Years' Real Estate Experience
- York Region Clients: Philips Electronics Limited, Mazda Canada Inc., Sanofi-Synthelabo, Enbridge Services, Earth Tech (Canada) Inc., Centrinity / Open Text, St. Lawrence Cement

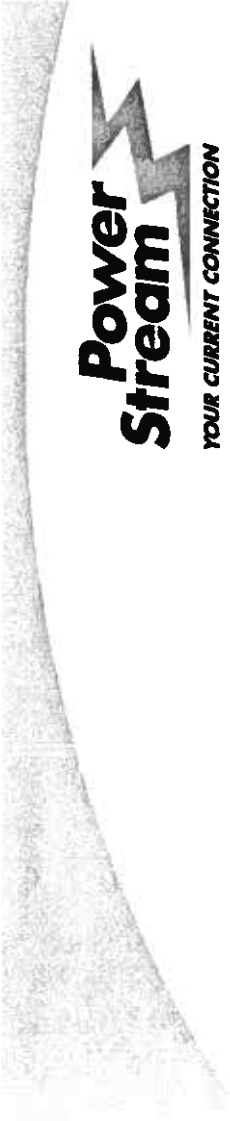


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# Facility Planning Process

- Study Commissioned September 2004
- EMT Sessions, Interviews, Focus Groups and Site Evaluations
- Analysis of Future Needs (business objectives, organization, culture, growth)
- Architectural / Space Planning Evaluation, Market Analysis, Financial Analysis
- Building Specifications
- Recommendations
- Presentation of "Draft" Facility Plan to EMT - December 9, 2004





# Current Situation

- Pre-Merger Occupied Markham / RH / Vaughan:
  - 155,243 SF of Office
  - 73,735 SF of Warehouse / Stores
  - 401,864 SF of Outside Storage
- Currently Consolidated in Markham / Vaughan:
  - 69,398 SF of Office
  - 60,898 SF of Warehouse / Stores
  - 354, 904 SF of Outside Storage





# Current Situation (cont'd)



- **Cons:**
  - Difficult to Achieve Desired Organizational Synergies with Head Office Staff in 2 Locations
  - Managerial adjacencies to staff not ideal
  - Offices are Overcrowded
  - No Capacity for Growth
  - Quality of Facilities is Inconsistent

**Pros:**

- Good Warehouse and Fleet Facilities
- Outside Storage
- Service Centres Well Located





# Defined Needs & Objectives

- Facilitate PowerStream’s cultural and organizational synergies by consolidating staff under one roof
- Elevate PowerStream’s image and presence in the community
- Increase overall operating efficiency
- Cost efficiencies
- Increase accessibility of EMT and staff
- Provide for future growth / flexibility
- Accessible to customers





# Conceptual Alternatives

## 2 Conceptual Alternatives Considered:

- Alternative 1 (2 Sites)**  
 Relocate all staff to one Consolidated HQ & Service Centre Facility. Maintain a secondary Service Centre location (either existing or new)
- Alternative 2 (3 Sites)**  
 Relocate all HO staff to a new standalone Office Facility. Maintain Service Centres at existing locations in Vaughan and Markham (or elsewhere)





# Conceptual Alternatives (cont'd)

- **Alternative 1 (2 Sites)**

Relocate all staff to one Consolidated HQ & Service Centre Facility. Maintain a secondary Service Centre location (either existing or new)

- **Pros**

- Consolidates most staff together in new, efficient environment
- Accommodates growth
- Creates PowerStream Brand / Image

- **Cons**

- Specialized building not as feasible to develop
- Locations limited due to outside storage requirements
- More expensive than Alternative 2





# Conceptual Alternatives (cont'd)

- **Alternative 2 (3 Sites)**

Relocate all HO staff to a new standalone Office Facility.

Maintain Service Centres at existing locations in Vaughan and Markham (or elsewhere).

- **Pros**

- Lower overall cost than Alternative 1
- New HO would provide efficient, effective workplace
- Selection of sites with desired visibility and exposure
- Potential for lease payments for Service Centres to continue to flow to Shareholders





# Conceptual Alternative NPV Analysis

COMPARISON OF CONCEPTUAL ALTERNATIVES	
<b>Alternative 1</b>	\$28 - \$31 Million NPV
Consolidated HQ & Service Centre Facility with secondary Service Centre location	
<b>Alternative 2</b>	\$21 - \$24 Million NPV
Standalone Head Office Facility with 2 Service Centres at Existing Locations in Markham and Vaughan	
* NPV's based on Lease Scenarios	





# Conclusions & Recommendations

- Proceed with Alternative 2 on the basis of lower overall cost than Alternative 1 and other advantages
- Achieves majority of PowerStream's stated objectives
- Will provide for HO occupancy 4th Quarter 2006



# Financial Analysis



CURRENT VS FUTURE OCCUPANCY COSTS	
Pre-Merger Occupancy Costs (3 Facilities)	\$3.4 million
Estimated 2005 Occupancy Cost (2 Facilities)	\$2.3 million
<b>Alternative 2 - Estimated Year 1 Occupancy Cost (3 Facilities) - Lease Basis</b>	<b>\$2.2 - \$2.7 Million</b>
Estimated Year 1 Savings	\$ .7 - \$1.2 Million





# Buy vs Lease Analysis



- Estimated cost of New HO Building \$11-13 Million (land and building)
- Preliminary analysis suggests Lease may be more advantageous than Purchase
- Final analysis will be determined through Market Factors
- Lease may be more favourable from a Regulatory perspective



# Timeline



NEXT STEPS	
Deliver Draft Report to EMT	December 9, 2004
Board of Directors' Meeting	December 15, 2004
Board Approval	December 15, 2004
Selection of Architect	January 3 - 21, 2005
Site Selection Process	January 3 - March 31, 2005
Negotiation of Lease / Purchase	April 1 - June 22, 2005
Design and Construction	July 2005 - December 31, 2006
Base Building Substantial Completion	December 2006

