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Ontario

BY E-MAIL

August 10, 2012

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: PowerStream Inc.
Application for 2013 Distribution Rates
Board File Number EB-2012-0161

In accordance with Issues List Decision and Procedural Order No.2 issued on July 25, 2012, please find attached the Board staff interrogatories on the cost of service rate application filed by PowerStream Inc.

Original Signed By

Martin Davies
Project Advisor, Applications & Regulatory Audit

Attachment

cc: Parties to EB-2012-0161 proceeding

Board Staff Interrogatories
2013 Electricity Distribution Rates
PowerStream Inc.
EB-2012-0161

1. GENERAL

1) Ref: Appendix 1 Support Schedules Schedule 11

It is stated that the current version of PowerStream's Conditions of Service is available on PowerStream's website. With respect to this document:

a) Please identify any rates and charges that are included in the applicant's conditions of service and if there are any such rates and charges, provide an explanation for the nature of the costs being recovered.
b) If there are any such rates and charges, please provide a schedule outlining the revenues recovered from these rates and charges from 2008 to 2011 and the revenue forecasted for the 2012 bridge and 2013 test years.
c) If there are any such rates and charges, please explain whether in the applicant's view, these rates and charges should be included on the applicant's tariff sheet.

2) Updated Revenue Requirement Work Form

Upon completing all interrogatories from Board staff and intervenors, please provide an updated RRWF with any corrections or adjustments that the applicant wishes to make to the amounts in the previous version of the RRWF included in the middle column. Please include documentation of the corrections and adjustments, such as a reference to an interrogatory response or an explanatory note.

3) Updated Appendix 2-W, Bill Impacts

Upon completing all interrogatories from Board staff and intervenors, please provide an updated Appendix 2-W with any corrections or adjustments that the applicant wishes to make incorporated for all classes at the typical consumption / demand levels (i.e. 800 kWh for residential, 2,000 kWh for GS<50).

4) Updated Revenue Requirement

Upon completion of responses to all interrogatories, please identify any adjustments to the proposed service revenue requirement that the applicant wishes to make relative to the original application.

5) Filing Requirements Update

The Board in a letter dated January 26, 2012, identified those electricity distributors, which included PowerStream, which it expected to file a cost of service application for 2013 rates. In this regard the Board indicated that applicants that wished to request cost of service rates effective January 1, 2013 should file their applications sooner, and no later than April 27, 2012. The Board also expected that distributors filing applications in advance of any revisions to the Filing Requirements for Transmission and Distribution Applications would update their applications in due course to address any material changes that may be reflected in the revised Filing Requirements.

The Board on June 28, 2012 issued the filing requirements for 2013.

Please make any necessary updates to bring PowerStream's application into conformity with the 2013 filing requirements (including the revised Chapter 2 Appendices issued on July 12, 2012) and state what these adjustments are. For all relevant years, please file the following Appendices:

Appendix 2–B Fixed Asset Continuity Schedule,
Appendix 2–CA CGAAP Depreciation Expense 2011
Appendix 2-CB MIFRS Depreciation Expense 2011
Appendix 2-CC MIFRS Depreciation Expense 2012
Appendix 2-CD MIFRS Depreciation Expense 2013
Appendix 2-D Overhead
Appendix 2-U IFRS Transition Costs

Please update the PILs proxy calculations using the PILs model Income Tax/PILs Work Form_Version 2.0 as posted on the Board's website on June 28, 2012. Please ensure that the PILs filings are updated in accordance with section 2.7.8 of the Filing Requirements.

If PowerStream does not make any of these updates, please provide an explanation

6) CDM Update

The Board's Conservation and Demand Management ("CDM") Guidelines for Electricity Distributors (EB-2012-0003) at page 3 notes that: "At a minimum, distributors must apply for disposition of the balance in the LRAMVA at the time of their Cost of Service rate applications. Distributors may apply for the disposition of the balance in the LRAMVA on an annual basis, as part of their Incentive Regulation Mechanism rate application, if the balance is deemed significant by the applicant." Board staff acknowledges that the final results for PowerStream's 2011 OPA-Contracted Province-Wide CDM programs are not currently available.

a) Does PowerStream plan to update its evidence to identify and/or seek disposition of variances between the final results of its 2011 CDM programs and the CDM savings reflected in PowerStream's 2011 rates in this proceeding after it has received the final results from the OPA?

b) What is PowerStream's plan for disposing of its LRAMVA in future applications?

Issue 1.1 Are PowerStream's economic and business planning assumptions appropriate?

7) <u>Ref: E A3/ T1/ S1, p.1</u>

It is stated that:

"PowerStream commences its annual business planning and budgeting process in the first quarter of each year. The outcome of this process is a detailed budget for the two upcoming years (the "Two Year Budget") and a more general plan for the three subsequent years, collectively called "the Five Year Budget Outlook."

Please provide the key economic assumptions on which the forecast underpinning this application was based.

Issue 1.2 Is service quality, based on the Board specified performance indicators, acceptable?

8) <u>Ref: E B4/ T1/ S1, p.1</u>

Table 1 presents service quality and reliability measures. The notes to this table state in part that:

"PowerStream does not distinguish between low voltage and high voltage connectors. The data for both types of connections is included in the low voltage category. Similarly underground cable locates have been included in the Appointment Scheduling category."

a) Please explain why PowerStream does what is described in the above quotation and what impact this treatment has on the service quality and reliability measures.
b) Please explain what, if any adjustments have been made to the statistics in this table for days with unusual events (e.g. a major storm).

Issue 1.3 Are the proposals to align the rate year with PowerStream's fiscal year, and for rates effective January 1, 2013 appropriate?

No interrogatories.

Issue 1.4 Is the proposed Green Energy Act Plan appropriate?

9) Ref: E B2/T1/S1/p.3, 5, 6

On pages 5 and 6 of the above references, PowerStream requested a funding adder for its Green Energy (GEA) Plan, stating as follows:

"Given the magnitude of the spending incurred to date and the ongoing work to be done regarding smart grid demonstration projects, PowerStream is applying for approval of a funding adder which will assist in the interim to fund these expenditures. The funding adder will address the plan period from 2012-2016 based on smart grid investments of $2,950,000 and OM&A expenditures for Smart Grid and REI of $1,766,000…PowerStream calculated revenue requirement for each year of the plan and is requesting the funding adder be set for the plan period 2012-2016. Instead of changing the adder every year, PowerStream proposes to use the average rate adder of $0.20 per customer per month. PowerStream proposes this adder will be in effect for a four year period. Differences between actual spending and funding collected will be tracked in a variance account to be reviewed and approved for disposition at the end of the plan period."

a) The Board's EB-2009-0397 *Filing Requirements: Distribution System Plans – Filing under Deemed Conditions of Licence* Revised May 17, 2012 outlines in Section 5.2, the conditions under which additional funding is available for proposed expenditures. Please discuss whether or not in PowerStream's view, its requested funding adder meets these conditions and if so why and, if not, why PowerStream's circumstances would justify a departure.
b) The Board's requirements state that when a funding adder is requested "The costs will be subject to a prudence review in the first cost of service application following the implementation of the adder." However, PowerStream states that "Differences between actual spending and funding collected will be tracked in a variance account to be reviewed and approved for disposition at the end of the plan period." Please state whether the implication of this statement is that PowerStream wishes the Board to make a determination in this proceeding as to the prudence of all GEA costs forecasted to be incurred by PowerStream up to 2016.

10) Ref: E B2/T1/S1/p. 5, Table 3, E B2/T1/S2/pp. 33-34 and E I

The table at the first reference summarizes the amounts for disposition relating to renewable generation connection and smart grid expenditures recorded in deferral accounts 1531, 1532, 1534 and 1535 over the 2010-2011 period.

At the second reference on page 34 PowerStream outlines some of the activities related to the Smart Grid OM&A Deferral Account. The table at this reference also indicates that management of the smart grid strategy for 2010-2011 has resulted in $395,000 in OM&A

expenses, and will continue to impose a somewhat steady annual cost of about $200,000/year until 2016. At the same time PowerStream indicates in various instances that if the adoption of some technologies currently tested occurs, expenditures beyond 2013 will be included in the regular capital plan.

With respect to Smart Grid, at page 33 of the second reference PowerStream states that "any reports or findings from these activities are openly shared amongst other LDCs or other interested parties".

a) Please expand on the second reference by providing a summary of the activities, cost and benefits corresponding to the item on the table "Manage the Smart Grid Strategy" for 2010 and 2011.
b) For 2010 and 2011, have any Smart Grid activities resulted in particular findings or reports? If so, please indicate how to access them.
c) Have the REI activities undertaken in 2010 and 2012 resulted in any premature asset retirements? Where applicable please give an estimate of the remaining useful life of the "replaced" asset and indicate in each case whether there is a residual value.
d) Based on the response to part c, if applicable adjust account 1531 (REI Capital) at the first reference accordingly.

11) Ref: E B2/T1/S1/p. 4, Table 2, E B2/T1/S2/pp. 63-64 and *Report of the Board, Framework for Determining the Direct Benefits Accruing to Customers of a Distributor under Ontario Regulation 330/09*, Paragraph 1.1, Regulation 330/09 (EB-2009-0349) June 10. 2010

With respect to the first reference, the direct benefits calculation has only taken into account capital expenditures related to the connection of renewable generation.

With respect to the second reference, on OM&A costs, the *Framework for Determining Direct Benefits* clarifies that:

> "Eligible investment" costs, as set out in O. Reg. 330/09 and section 79.1 (5) of the Act, are not limited to only the initial capital investment costs but also include the *up-front* OM&A costs necessary for the purpose of "enabling the connection of a qualifying generation facility". However, given that section 79.1 focuses solely on the initial investment, ***ongoing OM&A costs that are incurred by the distributor after the investment has been made will not be eligible for provincial recovery."*** (emphasis added)

a) Please clarify whether any of the labour costs identified at the second reference are fully or partially, initial costs.
b) If initial OM&A costs exist, please revise the direct benefits calculation and funding adder amount accordingly.

12) Ref: *Filing Requirements: Distribution System Plans – Filing under Deemed Condition of Licence*, revised May 17, 2012 [EB-2009-0397], Paragraph 3.2.2, p.11-12.

a) In accordance with the Filing Requirements, and if any such facilities exist, do present plans to connect renewable energy projects have any impacts on embedded distributors?
b) If so please indicate whether appropriate discussions with embedded distributors have taken place.

Issue 1.5 Has PowerStream responded appropriately to all relevant Board directions from previous proceedings?

No interrogatories

2. RATE BASE (Exhibit B)

Issue 2.1 Is the proposed Rate Base for Test Year 2013 appropriate? (B1)

No interrogatories

Issue 2.2 Is the Working Capital Allowance for Test Year 2013 appropriate? (B3)

No interrogatories

Issue 2.3 Is the proposed Capital Expenditures forecast for Test Year 2013 appropriate? (B1)

Sustaining Capital Expenditures

13) Ref: E B1/ T1/ S4/p. 2 and 4

Table 1 on page 2 of the above referenced schedule includes an expenditure level in the 2013 Test Year on the category “Sustainment Driven Lines Projects” of $23.2 million. Expenditures in this category for the years 2007 to 2012 in Table 1 range from a low of $6.5 million to a high of $10.7 million.

On page 4 of this schedule, PowerStream explains this increase as follows:

“The largest increase in Sustainment Capital for 2013 can be attributable to rehabilitation of underground cable. PowerStream has significant underground cable which was installed during the 1970’s and early 1980’s and is now at end of life…Outages as a result of cable faults on the early generation of cable have been increasing and sections of cable which failed during 2011 could not be repaired.”

a) Given that the need to replace underground cable appears to be an ongoing requirement, please state why a level of expenditure in 2013, which is more than double the highest level spent in prior years, is necessary.
b) Please state whether PowerStream anticipates any difficulties in completing a replacement program in 2013 that is so much larger than that of previous years. Please explain why or why not.
c) Please state whether there has been any quantitative evidence such as declining service quality or reliability indicators that there is a need to accelerate this replacement program. If yes, please provide details, if not please explain why the stated service deterioration is not showing up in these indicators.

Operations Capital Expenditures

14) <u>Ref: E B1/ T1/ S5/p. 11</u>

Table 1 on this page "NPV Analysis of the Service Centre Alternatives" shows that the NPV for Alternative #1 was $33.8 million, while the NPV for Alternative #2 was $30.4 million. Below the table, it is stated that "The only available option meeting PowerStream's requirements was the long term lease of Addiscott," which was Alternative #2.

a) Please provide the key assumptions on which the NPV analysis of Alternatives #1 and #2 was undertaken.
b) Please state whether or not PowerStream considered outright ownership of Addiscott, rather than a long term lease. If yes, please explain why this alternative was not adopted. If not, please explain why not.

15) <u>Ref: E B1/ T1/ S5/pp. 21-23</u>

On these pages, the three alternatives that PowerStream considered regarding its CIS system are discussed. These are: Alternative 1: Status Quo, Alternative 2: Oracle Based CIS and Alternative 3: SAP Based CIS. PowerStream states that Alternative 2 was chosen.

Please state whether or not this decision was made on the basis of any economic comparison between the three alternatives. If yes, please provide a summary of the results for the three alternatives. If not, please explain why not.

16) <u>Ref: E B1/ T1/ S5/p. 29</u>

It is stated that:

"An RFP was developed and released for bids in late 2011 in order to secure the services of a Systems Integrator to assist PowerStream in implementing the CC&B (Customer Care and Billing) product. A recommendation for a vendor is scheduled to be prepared by the end of April 2012 and finalization of the terms and conditions with the successful candidate completed by the end of May 2012. The targeted implementation or "Go Live" date of the new system is scheduled by the end of Q2 2014."

a) Please provide an update as to the status of this process and provide the key terms and conditions at this stage of the process.
b) Please state whether costs related to this process have been incorporated into the 2013 Test Year and if so what the costs would be.

3. OPERATING REVENUE (Exhibit C)

Issue 3.1 Is the proposed forecast of 2013 Test Year Throughput Revenue appropriate? (C1)

No interrogatories

Issue 3.2 Are the proposed customers/connections and class-specific load forecasts (both kWh and kW) for Test Year 2013 appropriate, including the impact of CDM and weather normalization? (C1)

17) <u>Ref: E C1/ T1/ S1, p. 1</u>

Table 1: “Distribution Revenue at Current Rates” provided the changes in PowerStream’s Total Distribution Revenue for the 2009 to 2013 period. It shows a year-over-year increase for the years 2010 to 2012 in the range of 3.7% to 4.1%.

In this context, please explain why PowerStream considers an increase of only 1.1% in the 2013 Test Year to be reasonable.

18) <u>Ref: E C1/ T1/ S1, p. 2</u>

It is stated that:

“Customer growth is slowing from historic levels to approximately 2.0% in both the bridge and test years. PowerStream has peaked in terms of high growth single family developments and therefore residential customer growth is beginning to reduce as the availability of “green field” development becomes less. In addition, economic factors in recent years have contributed to the slower pace of growth for all classes.”

Please state what PowerStream would view as being the relative significance of the two factors described above in producing the slower pace of growth for all classes.

19) <u>Ref: E C1/ T1/ S2, p. 1</u>

It is stated that:

“Given that PowerStream continues to strive to improve its load forecasting methodology, PowerStream explored the ability to forecast class-specific loads, as suggested by the Board in 2009, EB-2008-0244 Draft Rate Order, Schedule H, Section

3.5. Class specific sales models were not nearly as strong statistically as the total purchase model."

Please provide details of the studies that were undertaken which supported this conclusion.

20) Ref: E C1/ T1/ S2, p. 3

It is stated that:

"While these statistics are comparable across the three methods, PowerStream concluded that Method 3 is the most robust and technically sound and it produces a reliable and accurate load forecast. PowerStream has adopted Method 3 and has grossed up the historical load based on reported CDM results."

a) Please elaborate on why PowerStream concluded that method 3 was the most robust and technically sound.
b) Please state whether net or gross CDM targets have been reflected in the proposed load forecast.

21) Ref: E C1/ T1/ S2, p. 6

It is stated that:

"The net energy purchase forecast is allocated to rate zones (i.e. PowerStream South and PowerStream North) based on the 3-year average for the 2009-2011 period."

Please state why a three-year time period was used and what impact the selected time period would be expected to have on the resulting allocation and why.

22) Ref: E C1/ T1/ S2, pp. 11-12

On page 11, it is stated that:

"Several models of energy purchases were specified, estimated and tested to derive the energy purchases forecast. The statistical software generated the coefficients that were used in the variables suitability assessment. The detailed results of the model testing are presented in table 10. Model 5, using Ontario GDP as a proxy for service area customer growth and economic activity, was selected as the most accurate."

On page 12, Table 10: "Evaluation of Alternative Forecast Drivers" shows the various models and the independent variables used.

a) Please discuss the impact of the number of independent variables chosen on the expected accuracy of the model.
b) Please describe the process by which it was determined which independent variables would be used for each model. Please include a discussion as to how the number of variables to be included in each model was determined and why

some independent variables are shown in the Table but were not used in any of the models.

23) Ref: E C1/ T1/ S2, p. 20

It is stated that:

"Table 13 presents gross actual and normalized gross energy purchases for 2002 through 2011 and forecasts for 2012-2013. In 2012 the total weather-normalized gross energy for PowerStream amounted to 8,890 GWH, an increase of 1.3%. For the 2013 Test Year, the forecast predicts a 1.1% decrease from 2012."

Please explain the divergence described above between 2012 and 2013.

24) Ref: E C1/ T1/ S2, p. 25

It is stated that "Estimated total losses are subtracted from these forecasts to determine the distribution sales forecast."

Please explain how estimated total losses are determined.

25) Ref: E C1/ T1/ S3, p. 4

For Table 3, "Customers by Rate Class," please clarify which of the numbers in the table represent total PowerStream numbers and which are either the North or the South rate zone.

26) Ref: E C1/ T1/ S4, Tables 3 to 6 and E C1/ T1/ S3, Table 3

In the tables in the first reference, there are two groups of columns labelled as "2012 Actual Norm vs 2011 Actual Norm." in each table. Please clarify whether or not the second set of columns is intended to refer to the 2013 Test Year. If not, please explain and provide the equivalent information for the 2013 Test Year.

Table 6 of the first reference appears to contain different "Number of Customers (Connections)" amounts from Table 3 of the second reference. For instance for 2013 in the first reference, this number is 430,475, while in the first reference, the equivalent number is 434,566.

Please explain this differential.

Issue 3.3 Is the proposed Test Year forecast of other revenues appropriate? (C2)

27) Ref: C2/ T1/ S1/p. 3

PowerStream states that it proposes to harmonize the Specific Service Charges in the South and North rate zones using the Board default amounts from the 2006 EDR Handbook, as currently used in PowerStream South.

Please state whether or not PowerStream anticipates any impacts on revenue from this change and, if so, what such impact would be.

28) Ref: C2/ T1/ S1/pp. 3-4 and May 28, 2012 Letter to Board

In the first reference, PowerStream states that it proposes to introduce two new specific service charges. In the second reference, PowerStream provided further justification for these two charges. These two charges are described as follows:

- "Disconnect/Reconnect at meter during/after regular hours" to be used in the cases of vacant rental properties with no active account. The charges are equal to the default charges "Disconnect/Reconnect at meter during/after regular hours" in the cases of non-payment. PowerStream states that the only reason to introduce a new charge is that a current definition of the existing charge assumes that the current charge is to be applied in cases of non-payment only and does not address the situation with vacant properties
- "Install/Remove load control devices during/after regular hours to be used in cases when a load control device is installed during the winter time instead of disconnecting the service. PowerStream states that its proposed treatment is "consistent with the provisions of the *Distribution System Code* (Section 2.9, added on July 1, 2011), which considers installation of load control devices to be an activity equivalent to disconnecting supply. Consequently, PowerStream does not consider this charge as unique and proposes to use the established standard charge."

In both cases the difference between the standard Board charge and the charge that PowerStream is proposing is that existing charges that were designed for customer non-payment situations are being used in situations where it appears customers will continue to pay their accounts but usage levels will drop (i.e. in the case of the first charge because the property is vacant and in the second when a load control device is installed in the winter time).

a) Please clarify whether or not the two proposed charges would be applicable in customer non-payment situations.
b) If these charges are not intended for customer non-payment situations, please state why PowerStream believes that the costs underlying such charges would be the same as the Board's standard charges which were designed for non payment situations.

4. OPERATING COSTS (Exhibit D)

Issue 4.1 Is the overall Test Year 2013 OM&A forecast appropriate? (D1)

29) Ref: E D1

Please identify the increases (decreases) in OM&A expense for the test year, arising from other than from a decrease (increase) in capitalized overhead

30) Ref: E D1/T1/S1/p.5

It is stated that:

"In its efforts to improve organizational efficiency and ensure that good governance practices are in place, PowerStream created the Project Management Office ("PMO"), Enterprise Risk and Internal Audit, and the Legal department. PowerStream has also developed a business-driven technology strategy to support growing business needs and enable better customer service and efficiency in the future. Eighteen additional staff were hired in this period to implement these organizational initiatives."

a) Of the referenced eighteen additional staff, please state when they were hired and which of these staff were hired to work in the PMO and which were hired to assist in developing the referenced business-driven technology strategy.
b) Please provide a year-by-year breakdown of costs for each of these initiatives from the time of their establishment.
c) Please expand on the explanation provided as to why PowerStream created the PMO and provide any quantification of savings that have been achieved through its establishment.

31) Ref: E D1

Please identify the inflation rate used for the 2013 OM&A forecast and the source document for the inflation assumptions.

32) Ref: E D1/T5/S3/p.1

On this page donations are discussed. For all charitable donations included in the revenue requirement, please identify the amounts and the account in which the donations are recorded, and whether the amounts are compliant with Section 2.7.2.5 of the Filing Requirements.

Issue 4.2 Is the proposed level of the Depreciation/Amortization expense for 2013 appropriate? (D1)

33) <u>Ref: E D1/T4/S1/p.1</u>

PowerStream states that for the purposes of this application, it has included a full year of depreciation and amortization expense for 2013 additions which has increased depreciation expense by $1,569,000 compared with the amount determined using the half-year rule.

Please state whether PowerStream believes that there are any circumstances specific to it that would justify a departure from the Board's normal practices in this regard. If yes, please explain what they are. If no, please explain why this proposal wouldn't be more appropriately considered in a more generic proceeding such as the Renewed Regulatory Framework for Electricity process.

Issue 4.3 Is the Test Year 2013 forecast of PILs appropriate? (D2)

No interrogatories.

Issue 4.4 Is the proposed allocation of shared services and corporate costs appropriate? (A4)

34) <u>Ref: App. 1/S 21/App. 2-L</u>

Appendix 2-L states that for services provided to PowerStream by the City of Vaughan and the Town of Markham that the pricing methodology is "Fully allocated costs w. markup."

a) Please state how the markup for these services is determined and what basis PowerStream has for believing that these costs are reasonable.
b) Please discuss whether or not PowerStream has considered alternative providers for these services. If yes, please state why such providers were not used. If not, please explain why not.

35) <u>Ref: App. 1/S 21/App. 2-L</u>

Appendix 2-L states that for services provided by PowerStream to PowerStream Solar, the pricing methodology for such services is "Allocated based on the % time spent," or similar indicators.

Please state why for the provision of these services, PowerStream does not include a weighted cost of capital markup, as is the case for services provided to PowerStream's municipal owners.

36) <u>Ref: E A4/T1/S2</u>

A copy of the shared services agreement between PowerStream and the City of Vaughan is provided, which although it is effective January 1, 2011 has not been executed.

Please state why this agreement has not been executed and when it is expected that it will be.

37) <u>Ref: E A4/T1/S4</u>

A copy of the shared services agreement between PowerStream and the Town of Bradford West Gwillimbury is provided, which although it is effective December 1, 2009 has not been executed.

Please state why this agreement has not been executed and when it is expected that it will be.

38) <u>Ref: E D1/T5/S4/p.3</u>

It is stated that:

"Table 1 is a year-over-year comparison of budgeted staff positions for the period 2009 to 2013 and the corresponding growth in PowerStream's customer base over the same period."

However, Table 1 does not appear to show the corresponding growth in PowerStream's customer base over the same period.

Please provide this information, or clarify the referenced statement.

Issue 4.5 Are the 2013 compensation costs and employee levels appropriate? (D1)

39) <u>Ref: D1/T5/S4/p.9</u>

Table 6 "Compensation – Average Yearly Base Wages" shows an increase in average compensation to the Board of Directors from $22,027 in 2011 to $30,481 in 2013, an increase of over 38%.

Please provide an explanation for this increase.

40) <u>Ref: D1/T5/S4/p.11</u>

Table 8 "Compensation – Average Yearly Incentive ($)" on this page provides changes in these incentives for the categories of Senior Management, Management and Non-union.

Please provide explanations for the 2011 to 2013 changes for each of these categories including an explanation as to why the senior management incentives increased while the non-union incentives decreased.

41) Ref: E D1/T1/S2/p.2

Table 1 on this page presents OM&A Cost Productivity Information for PowerStream. This table shows that OM&A Cost per FTE increased by 7.5% in the 2013 Test Year relative to 2011 Actuals under MIFRS. Comparisons between 2011 Actuals under CGAAP compared to 2008 and 2009 Board Approved levels for this statistic also under CGAAP for Barrie Hydro and PowerStream show increases of 43.6% and 17.8% respectively.

a) Please state whether or not PowerStream has undertaken any productivity studies internally, or had any external studies done. If yes, please provide a copy of any such studies. If no, please state why not.
b) Please comment on the increases in the OM&A Cost per FTE noted above.

42) Ref: E D1/T1/S2/p.2 and December 1, 2011 Report for Ontario Energy Board *Third Generation Incentive Regulation Stretch Factor Updates for 2012* (EB-2011-0387)

The above referenced Board Report, which is available on the Board's web site, shows in Table 4 "Performance Rankings Based on Econometric Benchmarks" that PowerStream is ranked 52nd of 77 distributors. Table 7 "Performance Rankings Based on Unit Cost Indexes" ranks PowerStream 45th of 76 distributors.

Please comment on these rankings in light of the comparisons noted in the preamble of the preceding interrogatory.

43) Ref: E D1/T5/S4/p. 12

OMERS has announced a three-year contribution rate increase for its members and employers for the years 2011, 2012, and 2013. Please state whether or not the applicant's proposed pension costs include this increase. If so, please provide the forecasted increase by years and the documentation to support the increases. If not, please state how the applicant proposes to deal with this increase.

Issue 4.6 Are the savings due to the merger with Barrie Hydro been properly reflected in the test year? (D1)

44) Ref: D1/T5/S4/p.9

It is stated that:

"In 2009, following the merger of PowerStream and Barrie Hydro, an independent consultant was retained to review the compensation structure for management employees. The consultant conducted salary surveys of comparable companies in terms of size, both within and outside of the utility sector. On the basis of the results of this review, PowerStream adopted a new salary total compensation structure for Management level positions."

Please provide a copy of this report.

5. DEFERRAL AND VARIANCE ACCOUNTS (Exhibit I)

Issue 5.1 Is the proposed clearance of deferral and variance account balances appropriate?

45) <u>Ref: E I</u>

Where PowerStream's proposals related to deferral and variance accounts are concerned:

a) Has PowerStream made any adjustments to deferral and variance account balances that were previously approved by the Board on a final basis in a previous Cost of Service or IRM proceeding (i.e. balances that were adjusted subsequent to the balance sheet date that were cleared in the most recent rates proceeding)? If yes, please provide explanations for the nature and amounts of the adjustments and include supporting documentation.

b) Please provide breakdowns of energy sales and cost of power expense, as reported in the audited financial statements, by USoA account number. Please tie these numbers to the audited financial statements. If there is a difference between the energy sales and cost of power expense reported numbers, please explain why the applicant is making a profit or loss on the commodity.

c) Please state whether or not PowerStream pro-rates the IESO Global Adjustment Charge into the RPP and non-RPP portions. If this is not the case, please provide an explanation.

46) <u>Ref: E I</u>

In accordance with Section 2.12.2 of the Filing Requirements for the 2013 cost of service rate applications (Harmonized Sales Tax ("HST") Deferral Account), please confirm that PowerStream will not record more amounts in Account 1592 (PILs and Tax Variances, Sub-account HST/OVAT ITCs for the Test Year and going forward, as the impact of the HST and associated ITCs on capital and operating costs in the Test Year should be reflected in the applied-for revenue requirement.

47) <u>Ref: E I / T1/ S1/p.5, 12</u>

It is stated that:

"There is a small variance in the retail cost variance accounts (1518 and 1548) that has developed over several years between costs to service retailers and charges to retailers. No change is proposed to retail service charges."

a) Please state whether or not the applicant has followed Article 490, Retail Services and Settlement Variances of the Accounting Procedures Handbook for Account 1518 and Account 1548. Please explain if the applicant has not followed Article 490. In other words, please confirm that the higher of, the relevant revenues (i.e. account 4082, Retail Services Revenue and/or account 4084, STR Revenue) and the incremental expenses in the associated expense accounts (i.e. account 5315, Customer Billing, and possibly 5305, Supervision and 5340, Miscellaneous Customer Accounts Expenses) is reduced (i.e. revenues debited or expenses credited) at the end of each period, with an offsetting entry to the variance account. Please explain if the applicant has not followed Article 490, and if so, please quantify the variance.
b) Please confirm that all costs incorporated into the variances reported in Account 1518 and Account 1548 are incremental costs of providing retail services.

48) <u>Ref: E I / T1/ S3</u>

For the Rate Rider calculations for PowerStream South, the Billing Determinant amount used for calculating the rate rider for the Large Use customer class is 187,932 kW (based on projections for the 2013 test year). The actual kW for 2011 for this customer class was 80,298 kW (per sheet 4 of this Schedule). Please provide an explanation for the projection for 2013 to be materially higher than the actuals recorded in 2011.

49) <u>Ref: E I / T1/ S5, EI/T1/S6 and EI/T1/S7</u>

The total balance as of December 31, 2011 for account 1562 in the Continuity Schedules does not match the account balance reported under RRR 2.1.7 filing for 2011.

The table below shows the discrepancy between the RRR 2.1.7 filing for 2011 and the balances presented in the Continuity Schedules for account 1562 and 1560.

	Account 1560	**Account 1562**
Total per Continuity Schedules Exhibit 1/Tab1	$0	$4,591,624
RRR 2.1.7 for 2011	4,591,624	$0

Please provide an explanation for the discrepancy.

50) Ref: EA1 / T2/ S1/p.2, and EI/T1/S10/p.1

In the case of account 1508, sub account IFRS Transitional costs, Powerstream is proposing to dispose the projected balances as at December 31, 2012. PowerStream is proposing to keep the account open so that any variances between the actual and approved amounts can be reviewed by the Board for disposition in the future.

a) The normal practice of the Board is to dispose the audited balances and not to clear the projected or forecasted costs in the deferral and variance accounts. What is the rationale for PowerStream to propose Board approval for disposition of unaudited balances?

b) Please clarify whether PowerStream is proposing to dispose of the projected balances to December 31, 2012 on an interim basis.

51) Ref: E I Account 1562

Please file the 2003 federal and Ontario PILs tax returns for Aurora. It appears that the 2004 tax returns were filed to support both the 2003 and 2004 SIMPIL models.

52) Ref: E I Account 1562 Continuity Schedules/ Appendix 5/ Schedules 5-1 to 5-5

For each of the service areas, please explain how PowerStream calculated the PILs amounts contained in the unbilled revenue accruals at each December year end from 2002 through 2005 and at April 30, 2006.

53) Ref: E I Account 1562 Markham SIMPIL Models for 2003 and 2004: App. 5/Sch 5-14, p.9 and Sch 5-15, p.11

In the 2003 and 2004 SIMPIL models in sheet Reserves as referenced above, Markham shows amounts for holdbacks. Please describe the nature of these reserve amounts and whether they relate to unpaid bonuses.

54) Ref: E I Vaughan 2001 SIMPIL Model: App. 5/Sch. 5-22

Board staff cannot locate the T2 Schedule 1 that supports the entries in Vaughan's 2001 SIMPIL model. Please file the schedule or identify the evidence page reference.

55) Ref: E I Vaughan 2002 SIMPIL Model App. 5/Sch 5-23/p. 9 and App. 5/Sch. 5-26/p.30

On the Reserve schedule, an amount of $200,000 has been entered as an allowance for doubtful accounts. This amount trues up to ratepayers. However, on the 2002 Statement of Adjustments, which is the second reference above, the amount of $200,000 was disallowed as a deduction for tax purposes. Immediately above this entry on the Statement of Adjustments, there is an amount of $165,842 related to a disallowance for pre-October 1, 2001 bad debt write-offs. Please explain why this amount of $200,000 should true up to ratepayers when it has been disallowed by the tax authorities. If PowerStream agrees that this amount should not true up to ratepayers, please enter the amount on sheet TAXREC3 and file a revised continuity schedule.

56) <u>Ref: E I 2001 to 2005 SIMPIL Models, Actual and Deemed Interest Expense for Tax Years 2001 to 2005 for True-up Calculations</u>

When the actual interest expense, as reflected in the financial statements and tax returns, exceeds the maximum deemed interest amount approved by the Board, the excess amount is subject to a claw-back penalty and is shown in the TAXCALC worksheet as an extra deduction in the true-up calculations.

For each service area of Markham, Richmond Hill, Vaughan, Aurora and PowerStream South for 2001 through 2005 please respond to the following questions:

a) Please provide a table for the years 2001 to 2005 that shows all of the components of interest expense and the amount associated with each type of interest. For each year, please balance the numbers in the table to the financial statements, to the tax returns and to the amounts used in SIMPIL sheet TAXCALC for the interest true-up calculations.

b) Did the distributor have interest expense related to other than debt that is disclosed as interest expense in its financial statements?

c) Did the distributor net interest income against interest expense in deriving the amount it shows as actual interest expense in the SIMPIL models? If yes, please provide details to what the interest income relates and explain why interest income and expense should be netted to reduce the interest expense used in the true-up calculations.

d) The Board has decided in a number of recent decisions (Hydro One Brampton, EB-2011-0174, December 22, 2011, Kingston Hydro, EB-2011-0178, April 19, 2012 and Innisfil Hydro, EB-2011-0176, April 19, 2012) that interest expense used to calculate the interest claw-back variance should not include interest on customer deposits. Please provide models which exclude interest expense on customer security deposits in interest expense for purposes of the interest true-up calculations.

e) Did the distributor include interest income on customer security deposits in the disclosed amount of interest expense in its financial statements and tax returns?

f) Did the distributor incur interest expense or standby fees or charges on IESO or other prudentials? Please provide a table that lists all of the prudential costs by year for 2001-2005 with the amounts by type of charge for letters or lines of credit whether shown as interest expense or as OM&A. The Board has decided in a number of recent decisions (Burlington Hydro, EB-2011-015, March 20, 2012, Kitchener-Wilmot Hydro, EB-2011-0179, April 4, 2012 and Thunder Bay Hydro Electricity Distribution Inc., EB-2011-0197, April 4, 2012) that prudential costs are interest expense and should be included in the interest claw-back variance calculations.

g) Did the distributor include interest carrying charges on regulatory assets or liabilities in interest expense?

h) Did the distributor include the amortization of debt issue costs, debt discounts or debt premiums in interest expense?

i) Did the distributor deduct capitalized interest in deriving the interest expense disclosed in its financial statements? If the answer is yes, did the distributor add back the capitalized interest to the actual interest expense amount for purposes of the interest true-up calculations? Please explain.

j) If a revision has been made to the SIMPIL interest claw-back calculations, please file the revised SIMPIL models and update the PILs continuity schedule and final balance for disposition in active Excel format.

57) Ref: E I App. 5/ Sch. 5-1/ pp. 1-9

Did PowerStream include the retroactive repeal of the Large Corporation Tax as at January 1, 2006 in the PILs continuity schedule? If the answer is yes, please provide the calculations of how the amount was determined and where it appears in the evidence. If the answer is no, please explain why this amount has not been included in the continuity schedule.

58) Ref: E I 2001 to 2005 Tax Returns

For each service area, please confirm that all tax years from 2001 to 2005 are now statute-barred.

Issue 5.2 Are the proposed new and existing deferral and variance accounts for the test year appropriate?

59) Ref: E I / T1/ S4, EA3/T1/S5/p.20 and p. 26, *Accounting Procedures Handbook For Electricity Distributors* ("APH"), Article 220, p.31 and *Addendum to the Report of the Board,* EB-2008-0408, June 13, 2011, Issue 6, pp. 22-23

PowerStream is requesting a new variance account to track the difference between the estimated PP&E derecognition expense included in the approved 2013 rates and the actual costs in each year until the next setting of cost of service rates.

On page 26 of the second reference, PowerStream stated that:

> "PP&E derecognition arises mainly from storm and accident damage requiring assets to be retired prematurely. Storm damage can vary greatly from year to year."

The Board has established guidelines for Z-factors claims related to unforeseen events outside of a distributor's management control such as storms. The Board also established Account 1572, Extraordinary Event Costs, to be used to record extraordinary event costs, e.g., costs arising from storms, etc. that meet the qualifying criteria established by the Board, as contained in the APH.

a) Please clarify why PowerStream did not choose to file a Z-factor application for the storm related costs and follow accounting treatment as established by the Board using Account 1572 while meeting the IFRS accounting requirements, i.e., recognize gains or losses on retirement ("derecognition") in other income.

b) Please state whether or not PowerStream is aware of any regulatory precedents for the proposed variance account?

c) As per the *Addendum to the Report of the Board*, utilities can apply to the Board for a utility specific variance account if they can demonstrate the probability of significant ongoing volatility. PowerStream has stated that it has not tracked this expense in the past and has very little data on which to base an estimate. Please provide justification for this account by demonstrating the probability of significant volatility for PP&E derecognition expense.

d) Given the fact that PowerStream has not tracked this expense in the past and has very little data to forecast it with precision, please explain how PowerStream can justify the inclusion of the PP&E derecognition expense in its 2013 forecast revenue requirement.

e) As per the *Addendum to the Report of the Board*, the Board may grant a variance account, for utilities that have rebased under modified IFRS, to mitigate volatility in certain expenses that may arise from the application of IFRS rules. Please explain why in PowerStream's view the PP&E derecognition costs that are due to mainly storm and accident damage requiring assets to be retired prematurely may arise from the application of IFRS rules.

60) Ref: E I / T1/ S4, EA3/T1/S5, pp. 26-27, EA3/T1/S5/p.10 and *Addendum to the Report of the Board,* EB-2008-0408, June 13, 2011, Issue 2, p. 15

PowerStream is requesting a new deferral account for the changes in the Post Retirement Employee Benefits ("PREB") liability and costs under MIFRS compared to CGAAP up to this cost of service rebasing. In its application, PowerStream stated on page 26 of the second reference:

> "Under IFRS, the PREB liability was increased by $1.7 million with a corresponding charge against retained earnings. This was the result of recognizing "Unrecognized Losses", "Unrecognized Past Service Cost" and "Unrecognized Transitional Obligation" amounts."

In the third reference, PowerStream stated that:

> "Dion Durrell provided us with a summarized actuarial report to determine the employee future benefit liability under IFRS."

a) Please provide a copy of the report by Dion Durrell and refer specifically to the evidence with respect to the PREB liability increase of $1.7 million as result of recognizing "Unrecognized Losses", "Unrecognized Past Service Cost" and "Unrecognized Transitional Obligation" amounts.

b) Please state whether or not PowerStream is aware of any regulatory precedents for the proposed deferral account and, if so, what they are?

c) As per the *Addendum to the Report of the Board*, the option is available for utilities to seek an individual account if they can demonstrate the likelihood of a large cost impact upon transition to IFRS. Please state whether or not PowerStream is aware of any new or additional information that would be useful to the Board in making a decision on the proposed deferral account?

61) <u>Ref: E I / T1/ S4, EA3/T1/S5, p. 27 and *Addendum to the Report of the Board,* EB-2008-0408, June 13, 2011, Issue 6, p. 23</u>

PowerStream is requesting a new variance account for PREB expense included in the approved 2013 rates and the actual costs in each year until the next setting of cost of service rates.

a) What is the regulatory precedent for the proposed variance account?

b) Please confirm that PowerStream's request for a new variance account for PREB is due to adoption of IAS 19, Employee Benefits, which eliminates the corridor method effective January 1, 2013.

c) As per the *Addendum to the Report of the Board*, utilities can apply to the Board for a utility specific variance account if they can demonstrate the probability of significant ongoing volatility. Please provide information to demonstrate the probability of significant ongoing volatility with respect to the PREB expense included in the proposed 2013 rates.

Issue 5.3 Is the proposal related to the recovery of stranded meter costs appropriate?

No interrogatories

6. COST OF CAPITAL (Exhibit E)

Issue 6.1 Are the proposed Test Year cost of capital parameters appropriate?

62) <u>Ref: E E/ T1/ S1/p.4</u>

It is stated that:

"PowerStream has been working with its financial advisors, Bank of Montreal – Nesbitt Burns in preparation for refinancing the $125.0 million EDFIN debenture which comes due in August 2012. The interest rate in August 2012 for the new debt is uncertain. The deemed LT rate of 4.41% has been used as the forecasted rate for this and other new debt in the calculation of weighted average long-term debt rate for 2012 and 2013."

a) Please provide an update on the status of this refinancing.
b) Please state whether financing from Infrastructure Ontario is among the options being considered by PowerStream and its financial advisors. If not, please explain why not.

63) <u>Ref: E E/ T1/ S1/p.5, 12</u>

It is stated that:

"Promissory notes issued to shareholders totalling $166.1 million, $78.2 million held by the Corporation of the City of Vaughan, $67.9 million held by the Corporation of the Town of Markham and $20.0 million held by the Corporation of the City of Barrie, at an interest rate of 5.58% per annum with a maturity date of May 31, 2024."

On page 12, the issuance dates for these promissory notes is shown as June 1, 2004 for Vaughan and Markham and January 1, 2009 for Barrie.

Please state how the 5.58% rate was determined on June 1, 2004 and why it was considered appropriate to apply to the Barrie promissory notes which were issued four and a half years later.

7. COST ALLOCATION (Exhibit G)

Issue 7.1 Is PowerStream's proposed cost allocation methodology for 2013 appropriate?

64) <u>Ref: 2013 Cost Allocation Model, v2.0, Sheets I5.1 and I6.1</u>

In row 26 of Sheet I5.1 of the Cost Allocation Model, PowerStream has provided values for the approved monthly service charge for each rate class. Similarly, in rows 34 and 35 of Sheet I6.1 of the Cost Allocation Model, PowerStream has provided values for the approved variable charges for each rate class. PowerStream currently has distinct fixed and variable charges for each rate class in each rate zone.

Please explain the methodology used to calculate the indicated charges provided in Sheets I5.1 and I6.1 and the rationale for using this methodology.

65) <u>Ref: 2013 Cost Allocation Model, v2.0 and 2013 Cost Allocation Model, v3.0, issued on June 28, 2012</u>

On June 28, 2012, the Board issued version 3.0 of the Cost Allocation Model. The "Instructions" worksheet of the model stated:

> "Version 3.0 is designed for use with 2013 rate applications. It is identical to Version 2 except for accommodating the deferred PP&E balance due to the transition to IFRS (account 1575)."

The "Instructions" worksheet indicated (in red) the inputs a distributor should make to account for the deferred PP&E balance.

Please provide an updated Cost Allocation Model, in version 2.0, that incorporates the changes indicated in the "Instructions" worksheet of version 3.0 of the Cost Allocation Model. When providing the Service Revenue Requirement on Sheet I3 (cell F13) of the model, please ensure that the adjustment to return on rate base associated with the deferred PP&E balance as a result of the transition to IFRS is accounted for.

66) <u>Ref: 2013 Cost Allocation Model, v2.0, Sheet I5.2 and *Report of the Board – Review of Electricity Distribution Cost Allocation Policy* (EB-2010-0219), p.26</u>

On Sheet I5.2 of the Cost Allocation Model, PowerStream has provided the default weighting factors for billing and collections. On page 26 of the second reference, the Board states:

> "Default values and the basis on which they were derived will be included in the documentation; however, any distributor that proposes to use those default values will be required to demonstrate that they are appropriate given their specific circumstances."

Please provide evidence in support of the continued use of the default weighting factors for allocating costs related to billing and collections.

67) <u>Ref: 2013 Cost Allocation Model, v2.0, Sheet I5.1</u>

PowerStream has provided a service weighting factor of 1 for the Residential class and zero for all other classes. Please provide the rationale for the use of these weighting factors.

68) <u>Ref: 2013 Cost Allocation Model, v2.0, Sheet O1 and EH/T1/S2/p.2</u>

In the second reference, PowerStream states that it is "proposing to harmonize Standby Power monthly charges by applying the current Standby charge of $2.6854 per kW, approved on an interim basis for Barrie rate zone, for both South and Barrie rate zones."

The first reference, Sheet O1 of PowerStream's Cost Allocation Model shows that no costs have been allocated to the Standby class.

Please explain how PowerStream has accounted for the costs incurred to provide Standby Power to its affected customers in its cost allocation study.

Issue 7.2 Are the revenue-to-cost ratios in the cost allocation for Test Year 2013 appropriate?

69) <u>Ref: EG/T1/S2/p.2/Table 1, *Settlement Proposal, PowerStream 2009 Cost of Service Application* (EB-2008-0244) May 29, 2009, p.26 and *Decision and Order,* Barrie Hydro 2008 Cost of Service Application (EB-2007-0746) March 25, 2008, p.12</u>

The first reference shows a revenue-to-cost ("R/C") ratio of 43.7% for the Large Use class resulting from PowerStream's 2013 cost allocation study.

In the second reference, parties agreed to a R/C ratio of 115% for the Large Use class.

The third reference shows that Barrie Hydro did not have a Large Use class at the time of its last cost of service application (EB-2007-0746). The Board approved R/C ratio of the most comparable class at the time (i.e. GS > 50 kW) was 86.3%.

In the current application, PowerStream is proposing to harmonize rates between the Barrie and PowerStream South rate zones. For most other classes, the R/C ratio proposed in the Application has resulted in a value between what was approved for Barrie Hydro in 2008 and PowerStream in 2009.

Please provide an explanation for the significant reduction in the R/C ratio for the Large Use class resulting from the 2013 cost allocation study? Please explain why PowerStream believes this result to be reasonable.

8. MODIFIED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Exhibits A and F)

Issue 8.1 Is the proposed service revenue requirement calculated using modified IFRS appropriate?

No interrogatories.

Issue 8.2 Is the treatment of property plant and equipment due to the transition to the new accounting standard appropriate?

No interrogatories.

9. RATE DESIGN

Issue 9.1 Is the full Tariff of Rates and Charges as proposed appropriate?

No interrogatories.

Issue 9.2 Is the derivation of the proposed base distribution rates appropriate?

No interrogatories.

Issue 9.3 Are the proposed changes to LV rates appropriate?

No interrogatories.

Issue 9.4 Are the proposed Total Loss Factors appropriate?

No interrogatories.

Issue 9.5 Is PowerStream's proposed rate harmonization appropriate?

70) Ref: EH / T2/ S1/p.1

PowerStream states that it used a method similar to the one approved by the Board in its application to harmonize the rates for the four former rate zones of Richmond Hill, Aurora, Markham and Vaughan and that that it seeks to harmonize rates for its two rate zones into a single rate.

a) Please provide a more detailed summary of the approach used by PowerStream to harmonize rates across the four former rate zones.

b) Please provide the rationale for PowerStream's proposal to harmonize rates across its two rate zones. Please provide any analysis that PowerStream has performed to support its decision to harmonize rates across its two rate zones.