Enersource Hydro Mississauga Inc.
EB-2012-0033
Filed: October 1, 2012
Exhibit K6.1

EB-2012-0033
Enersource Reply Argument

September 28, 2012

Context and Overview

Enersource Hydro Mississauga Inc.
EB-2012-0033
Filed: October 1, 2012
Exhibit K6.1

Comparative Performance Measures: Relevance and Metrics

- Relevance:
  - Context is Cost of Service Rebasing.
  - Ultimately a review of prudence of expenditures.
  - Not a formulaic adjustment as in an IRM year.
- Can inform, not replace prudence review:
  - where utility specific information is available and on the record, the Board can "base its determinations primarily on the record before it." (Decision and Order setting rates for Hydro Ottawa, December 30, 2011 (EB-2011-0054), p. 13).

Informing Prudence Review

- Requires a consideration of function of prudence review and, in particular, presumption of prudence.
- Presumption of prudence ultimately a form of governance where managers make decisions and regulators do not "second guess" without a good reason to do so.

Enersource Hydro Mississauga Inc.
EB-2012-0033
Filed: October 1, 2012
Exhibit K6.1

Presumption of Prudence and Utility Management

"Effective regulation of operating expenses and capital outlays would require a detailed, day-by-day transaction-by-transaction, and decision-by-decision review of every aspect of the company's operation. Commissions could do so only if they were prepared completely to duplicate the role of management itself. This society has never been willing to have commissions fill the role of management, each with an equally pervasive role in its operations." (Alfred Kahn, *The Economics of Regulation*, vol 1, pp. 27-28(MIT, 1998).

The Presumption of Prudence

- The presumption of prudence is informed by utility performance: where utilities perform well, there is less need for a remedial intervention by a regulator.
- Consistent with "outcomes" based approach now being pursued by regulators.

Intervenor Approach to Comparators

- Varies from replacing prudence analysis with "top down" approach (SEC) to require use of OEB comparator data as a management tool ("Regulatory Management") (CCC).

Top Down

- "Top Down" approach is little more than applying a formulaic adjustment during a cost of service rebasing.
- Unlike IRM adjustment, no rigour or analysis of what informs the "Top Down" adjustment. Entirely discretionary, even arbitrary.
- Intervenors therefore propose menu:
  - Energy Probe: 2.5% annual OM&A from 2008 approved.
  - SEC: 5% annual OM&A from 2008 actuals.

Regulatory Management

- Alternative intervenor approach to comparators is for Board to require utility management to use OEB data as a management tool and punish for failure to do so.
- In response to evidence that allocation between capital and OM&A differ among utilities and are not helpful to management decision making, counsel for CCC pursued the following line:

Regulatory Management: exam (CCC)

Enersource Hydro Mississauga Inc.
EB-2012-0033
Filed: October 1, 2012
Exhibit K6.1

MR. WARREN: Mr. Macumber, would you be aware of the Board's regulatory website, where all of the evidence filed in cost of service is a matter of public record, available to anybody who wants to navigate that site?

MR. MACUMBER: I'm sure it's available, then.

MR. WARREN: So all of the information which you say you can't get is publicly available, if you wanted to get it, right?

MR. MACUMBER: I'm saying we don't use that data to run our business.

MR. WARREN: You don't bother to look for it, do you, Mr. Macumber?

MR. MACUMBER: No, we do not (transcript vol 2, p. 146).

Enersource Hydro Mississauga Inc.
EB-2012-0033
Filed: October 1, 2012
Exhibit K6.1

Regulatory Management: Final Argument (CCC)

"I would ask the Board in its decision to reiterate the absolutely critical importance of utilities not just disciplining themselves during their IR period, but using comparables in a thorough, disciplined way to assess their performance…" (transcript, Vol 5, p. 33).

Regulatory Management: Final Argument (SEC)

Enersource Hydro Mississauga Inc.
EB-2012-0033
Filed: October 1, 2012
Exhibit K6.1

"But, see, that's part and parcel of the issues that we've raised earlier, which is they are not comparing themselves to other utilities. They are not looking at others and saying, What are they doing? Should we be doing something like that? Why are they different from us?

If they did that, they would be seeing that all of their peers are spending more on capital renewal than they are. " (Transcript, vol. 5, p.14)

Regulatory Management

- Relevance of comparator (presumably OM&A cost per customer).
- Availability of data (different capitalization policies).
- Impact on meeting customer needs.
  - Cost of rate base additions versus OM&A expenditures.
  - Procurement processes versus anecdotal comparisons.

Enersource Approach: Behind the Metric of Total Cost/KWh

- Looking at total cost is central to Enersource's approach to asset management.
- SEC asserted in argument that Enersource provided no evidence on trade-off between OM&A and capital expenditures:

> "Certainly it's possible that Enersource is spending more on maintenance and fixing things rather than on replacing things. It's possible. But you don't have any evidence of that…"(transcript, v. 5, p. 18).

Evidence on OM&A/Capital Trade Off

Enersource Hydro Mississauga Inc.
EB-2012-0033
Filed: October 1, 2012
Exhibit K6.1

MR. FAYE: What impact does OM&A, your maintenance program, have on reliability?

MR. PASTORIC: Well, I guess it's a trade-off between... Yeah, it's a trade-off between capital and OM&A. If I want to replace a whole subdivision today, it's capital. If I want to fix that subdivision today, I go in and I do OM&A changes to that.

We have a -- we have a belief that we should try to fix it rather than just replace everything anytime anything goes wrong.

So frankly, it's a -- again comes back to that total cost equation. Either it's going to be capital or it's going to be OM&A. **We try to fix it first, and if we find that it's beyond what our engineers believe is acceptable through our principles, then we would replace it and put that into future plans to replace.** (Transcript vol 1, p. 80)

Enersource Hydro Mississauga Inc.
EB-2012-0033
Filed: October 1, 2012
Exhibit K6.1

Behind the Metric of Total Cost/KWh

- Total cost management is central feature of Asset Management Plan (Ex.2, Tab 2, S. 2, App. 1). Key goal of AMP is to:

"Present a multi-dimensional over-arching strategy and tactical plan for investing in and maintaining assets in order to effectively achieve **the lowest long-term owning costs**. Enersource's AMP involves a centralization of key decision making to maximize the effectiveness of investments, while maintaining performance levels. The AMP was developed on the principle of investing in and maintaining assets to achieve the **lowest long-term owning costs** while conforming to system design standards/requirements, construction standards/codes, system performance standards and prescribed set of manufacturing specifications."

Evidence on OM&A/Capital Trade Off

- AMP discussed at Technical Conference:

  "we look at the lowest long-term owing costs of our assets; certain times we repair them, certain times we rebuild them." (Vol. 1, p. 39).

- See also: Hearing Transcripts, Vol. 1, pp. 80-81, 181; Vol. 2, p. 20, 39.

Enersource Hydro Mississauga Inc.
EB-2012-0033
Filed: October 1, 2012
Exhibit K6.1

Behind the Metric of Total Cost/KWh

- Evidence provides extensive detail on how this is done – 129 pages of analysis on how these trade-offs are strategically identified and decided upon on an asset by asset basis.
- Changing strategy from lowest long term owning cost to singling out OM&A or lowest total cost per customer is both fundamentally at odds with this and is bad policy: customers and the system would be worse off.

Issue: General
1.1 Is the proposed approach to set rates for two years appropriate?

ICR and OEB's Objectives

"To protect the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service."

- Consumer interest in rate smoothing
  - if capital costs are prudently incurred, they will be recovered from rate payers.
  - Gradualism better than deferring and accumulating costs.
  - Not impacted one way or another by other cost drivers.

Issue: General
1.1 Is the proposed approach to set rates for two years appropriate?

ICR and OEB's Objectives

"To promote economic efficiency and cost effectiveness in the generation, transmission, distribution, sale and demand management of electricity and to facilitate the maintenance of a financially viable electricity industry."

- Approach here is to take forward look at requirements for a financially viable on a longer term basis.
- Crises is not a good time to make decisions.
- Capital expenditures are "steady state" but out pacing depreciation (Undertaking J2.4).

Issue: General
1.1 Is the proposed approach to set rates for two years appropriate?

Positions of Parties

- CCC: New Framework is already in place.
- New framework not in place, but
  - Guiding principles can start to apply now:
    - Long term value for money
    - “Maintaining a focus on total costs will encourage utilities to make choices between infrastructure investments and non-capital solutions based on which is the least cost over the long term.” (OEB Chair Speech to Board of Trade, September 26, 2012, p. 5).

Issue: General
1.1 Is the proposed approach to set rates for two years appropriate?

RRFE

- Purpose of review is clear. At launch of consultations, Chair stated:
  - "...the focus on consumers will very much be central to the development of our renewed regulatory framework, especially in light of the significant capital investments for expansion, renewal, and modernization that are expected in the coming years." (Renewed Regulatory Framework for Electricity Stakeholder Conference March 28, 2012, p. 8)

Issue: General
1.1 Is the proposed approach to set rates for two years appropriate?

Positions of Parties – Board Staff Critique

- Dealing with capital only is "contrary to principles of good rate making".
  - Good rate making principles are not categorical – Board has had different focus at different times.
  - Should deal with relevant, real world challenges.

Issue: General
1.1 Is the proposed approach to set rates for two years appropriate?

Positions of Parties – Board Staff Critique

- Enersource did not do a comparison between ICR and IRM prior to filing.
  - Comparison is simple, but hypothetical, based on assumptions that are outside of company's control. Through Undertaking J2.1, Board has that information.
  - It is not possible to provide a more definitive comparison.

Issue: General
1.1 Is the proposed approach to set rates for two years appropriate?

Positions of Parties – Board Staff Critique

- Enersource can smooth out expenditures over the next several years.
  - Proposal assumes smoothing, but expenditures still have costs and will be made. Only issue is when they should be paid for and at what pace.

Issue: Rate Base

2.1 Is the proposed rate base for 2013 and 2014, including capital expenditures for 2013 and 2014, appropriate?

- Administration Building
- Customer Contributions

Administration Building

- Evidence:
  - Basic Facts;
  - Reasonableness of Space Requirements (including admissibility of TAC evidence); and
  - Comparison to PowerStream.

Issue: Rate Base
2.1 Is the proposed rate base for 2013 and 2014, including capital expenditures for 2013 and 2014, appropriate?

Administration Building - Basic Facts – Mavis Road Facility

- Mavis Road is currently a mixed use operations centre, administrative office, and retail space. It is inadequate for health, crowding and mix use reasons.
- After determination that further renovation of Mavis Road was not prudent, it was clear a new head office was required.
- Enersource retained Avison Young and TAC Facilities group to determine the spatial requirements of the new head office.
- Conducted *prior* to purchase of Derry Road (not simply filling it in; cf: SEC argument, vol. 5, p. 11).

Issue: Rate Base

2.1 Is the proposed rate base for 2013 and 2014, including capital expenditures for 2013 and 2014, appropriate?

Administration Building - Basic Facts – Mavis Road Facility

- From Exhibit I, Issue 2.1 Board Staff IR #12 –Attachment 1, p. 6:

A full spatial database profile of the new administration centre offices was created during June and July 2011. The spatial database quantifies:

Brainstorming session definition of performance requirements

Review of existing facilities deficiencies and improvement opportunities

Developed workplace spatial and accommodation standards for individual functions

Staff requirements forecasts in the current, two year and five year time periods as input by Enersource individual business leaders

Circulation factors and Rentable to Usable area ratio factors

Facilities Support Areas, Files, Office Services, Storage

Ancillary and public facilities requirements as developed by Enersource Facilities Management group working in conjunction with the real estate advisors.

The spatial database documents individual employee positions in each group and work area, forecasted by growth year. The result is a working document, updated as the organization moves forward, forming a key tool for planning.

The results of the database development showed the requirement for the five year post move-in as 82,700 s.f. Accommodations for the following 5 year forecasts the current growth trend continuing in the 11% range, adding an additional 21 headcount in the period 2016 to 2021.

Issue: Rate Base

2.1 Is the proposed rate base for 2013 and 2014, including capital expenditures for 2013 and 2014, appropriate?

Administration Building - Basic Facts – Derry Road Acquisition

- Derry Road was compared to 4 different facilities and 11 potential land purchase opportunities (Exhibit I, Issue 2.1 Board Staff IR #12 –Attachment 1, pp. 7-8).
- A comparison of the options to renovate, build or buy Derry Road demonstrated that Derry Road is the lowest cost option for rate payers (Ex. 2, Tab 2, Schedule 5, Table 1, p. 12; submissions in chief, para. 48).

Issue: Rate Base

2.1 Is the proposed rate base for 2013 and 2014, including capital expenditures for 2013 and 2014, appropriate?

Administration Building - Basic Facts – Derry Road Facilities

- Enersource Space Requirements:
  - 16 year old Building
  - Total Usable Office Space: 79,000 Square Ft.
  - Office Spaces Required at move in: 176
  - 5 years after move in: 189
  - 10 years after move in: 202 (Exhibit I, Issue 2.1, Board Staff IR 12, Att. 1, App. 5, p. 1 of 55) (see also Undertaking J.4.1).

Enersource Hydro Mississauga Inc.
EB-2012-0033
Filed: October 1, 2012
Exhibit K6.1

Basic Facts: Mavis Road Operations Centre

- Mavis Road Space Requirements:
  - Operations Centre with Supporting Administrative Staff.
  - Administrative Office Space 28,000 Square Feet.
  - Administrative office staff:
    - Move in: 127
    - Five years from now: 134

(Exhibit I, Issue 2.1, Board Staff IR 12, Att. 1, App. 5, p. 2 of 55; vol. 4, 33-34).

Issue: Rate Base

2.1 Is the proposed rate base for 2013 and 2014, including capital expenditures for 2013 and 2014, appropriate?

Mavis Road Operations' Centre

- Operations Centre: 40,000 Square Feet to be converted from current office use.
  - Staff serviced by operations centre: remainder of Enersource's staff, including both inside and (approximately) over 100 outside workers. (transcript, vol. 4, pp. 23 and 65).
  - Other uses of operations centre:
    - Storage, training, warehousing, materials, shower facilities (Transcript, vol. 4, pp. 15, 23, 28).
    - Precise design a work in progress (vol. 5, p. 29)

Issue: Rate Base
2.1 Is the proposed rate base for 2013 and 2014, including capital expenditures for 2013 and 2014, appropriate?

Administration Building - Reasonableness of Space Requirements

Evidence of Brent Kingdon, TAC.

- Worked with Enersource to develop office space requirements using a spatial database profiling exercise.
- 23 years' experience in facilities consulting:

“On behalf of our clients, we undertake the collection and compilation of functional needs and spatial information, and create spatial forecasting.” (Vol 4, p. 2).

Issue: Rate Base

2.1 Is the proposed rate base for 2013 and 2014, including capital expenditures for 2013 and 2014, appropriate?

Administration Building - TAC's conclusions on Enersource's Office Space Requirements

"They fit within the range of what we see in our other clients, in terms of their individual work spaces." (Vol 5, p. 7).

"I certainly recall discussions with Mr. Pastoric that talked about, ["]Are we within general industry standards and what would you normally expect to see in other spaces?["]. Yes, I do recall that, and I was able to affirm with him that, yes, he is generally in what I would expect to see" (Vol 5, p. 49)

Issue: Rate Base
2.1 Is the proposed rate base for 2013 and 2014, including capital expenditures for 2013 and 2014, appropriate?

Administration Building - TAC's conclusions on Enersource's Office Space Requirements

"However, I can tell you that the individual spaces that they've assigned per individual are certainly in keeping with what I see in the balance of my experience.

Certainly where we see the space assignment to the support, design tech and supervisor's level, up through manager and through executive, very similar to what we see in other facilities we've recently created." (vol. 4, p. 55).

Issue: Rate Base

2.1 Is the proposed rate base for 2013 and 2014, including capital expenditures for 2013 and 2014, appropriate?

Administration Building - TAC's conclusions on Enersource's Common Space Requirements

"They're within the range of what we expect to see in our other clients, with the exception of the public or retail component of this piece. Enersource has a public payment centre and a customer care centre, and we don't typically find that in our other office users." (Vol. 5, p. 9)

Issue: Rate Base
2.1 Is the proposed rate base for 2013 and 2014, including capital expenditures for 2013 and 2014, appropriate?

Administration Building - Weight of TAC's Evidence

- SEC argues that TAC's evidence should be given no weight because Mr. Kingdon was not formally qualified as an expert.
- Incorrect statement of the law respecting expert opinion evidence.

Issue: Rate Base

2.1 Is the proposed rate base for 2013 and 2014, including capital expenditures for 2013 and 2014, appropriate?

Sopinka, Leterman & Bryant, The Law of Evidence in Canada (3d),2009

"A threshold requirement for the reception of evidence from lay witnesses is that they must possess firsthand knowledge of a fact perceived through one of their senses. Expert witnesses, on the other hand, have specialized knowledge, skill or experience and are not required to have firsthand knowledge of the facts which form the basis of their opinions." (at p. 785)

Issue: Rate Base
2.1 Is the proposed rate base for 2013 and 2014, including capital expenditures for 2013 and 2014, appropriate?

Admissibility of TAC Evidence

- Board has experience with expert opinion evidence: cost of capital, econometric modelling, etc.
- Characterized as expert opinion evidence because witness does not have firsthand knowledge or experience in buying or selling capital or running a utility.

Issue: Rate Base
2.1 Is the proposed rate base for 2013 and 2014, including capital expenditures for 2013 and 2014, appropriate?

Admissibility of TAC Evidence

- Mr. Kingdon is a practioner, not theoretician.
- did not purport to provide evidence that was unrelated to his firsthand knowledge of the facts respecting the space requirements of Enersource or any other company that he worked with. All of his evidence based on personal experience.
- Evidence is admissible and relevant and Enersource was prudent to rely on TAC's advice.
- SEC's proposal is for Board to disregard TAC's 23 years' experience and, instead, at best, rely on counsel's web-searches. (Transcript, vol 2, p. 31).

Issue: Rate Base

2.1 Is the proposed rate base for 2013 and 2014, including capital expenditures for 2013 and 2014, appropriate?

Examples of assertions not in Evidence

- Workplace 2.0 standard is 193 square feet per employee (Final argument, para. 2.1.34).
  - Evidence on Workplace 2.0 standard much more complicated (vol 4, p. 51).
- Three large meeting rooms not reasonable or necessary (Final argument 2.1.37(c)).
  - Evidence is that rooms can be divided and will be used almost every day (vol. 4, p. 61)

Issue: Rate Base

2.1 Is the proposed rate base for 2013 and 2014, including capital expenditures for 2013 and 2014, appropriate?

Examples of assertions not in Evidence

- The CEO's office, including Chair, EVP and support staff, is planned to comprise 4647 square feet (Final Argument, para. 2.1.37(g))
  - These are offices for 8 people plus dedicated work areas, not one office (Exhibit I, Issue 2.1, Board Staff IR 12, Att. 1, App. 5, p. 155).

- The lobby and customer service areas are planned to be at least double, and perhaps triple, the size of the lobby and customer service areas at larger utilities like Enbridge (Final Argument, para. 2.1.37(g)).
  - evidence: none.

Issue: Rate Base
2.1 Is the proposed rate base for 2013 and 2014, including capital expenditures for 2013 and 2014, appropriate?

Comparison with PowerStream (K.4.6)

Evidence: Building Comparison **12-Sep-12**

Powerstream					
Head office cost					
	1	$	27,700,000		PowerStream Inc. Application, EB-2008-0244, Exhibit B.1, Tab 5, Schedule 3
Square Footage	2		92,000		PowerStream Inc. Application, EB-2008-0244, Exhibit B.1, Tab 5, Schedule 3, p. 12
Head Office Employees (projected)	3		270		PowerStream Inc. Application, EB-2008-0244, Exhibit B.1, Tab 5, Schedule 3, p. 8
Gross square foot / employee	2 / 3		340.74		
Cost / employee	1 / 3	$	102,592.59		Based on 2007-2008 $Cdn
$/gross sq ft for bldg	1 / 2	$	301.09		
Enersource					
Head office cost					
	1	$	20,000,000		Enersource Application, EB-2012-0033, Exhibit 2, Tab 2, Schedule 5, p. 13
Square Footage	2		79,000		Enersource Application, EB-2012-0033, Exhibit 2, Tab 2, Schedule 5, p. 1
Head Office Employees (projected)	3		202		Board staff IR# 12, Issue 2.1, Attachment 1, pages 101 to 156
Gross square foot / employee	2 / 3		391.09	114.8%	Based on Gross Sq Ft
Cost / employee	1 / 3	$	99,009.90	96.5%	Based on 2011 $Cdn
$/gross sq ft for bldg	1 / 2	$	253.16	84.1%	

Issue: Rate Base

2.1 Is the proposed rate base for 2013 and 2014, including capital expenditures for 2013 and 2014, appropriate?

Criticism of Comparison (SEC Argument 2.1.41)

- First, it does not compare move-in numbers for PowerStream and Enersource
  - **Response: Projected Numbers for both are more relevant for long term decision.**
- Second, compares Derry Road to the new Powerstream Head Office, failing to mention employees left at Mavis Road.
  - **Response: PowerStream's staff at two operations centres not included in comparison.**

Issue: Rate Base

2.1 Is the proposed rate base for 2013 and 2014, including capital expenditures for 2013 and 2014, appropriate?

Adding Employees with Office Space at Mavis

	Employees with Office Space	Square Footage /Employee
28,000	134	208.96

Enersource Hydro Mississauga Inc.
EB-2012-0033
Filed: October 1, 2012
Exhibit K6.1

2.1 Is the proposed rate base for 2013 and 2014, including capital expenditures for 2013 and 2014, appropriate?

PowerStream Comparison

- Third, with respect to cost, PowerStream built a new building to LEED Gold standard which will lead to lower operating costs.
  - No evidence on comparative operating costs.

Issue: Rate Base
2.1 Is the proposed rate base for 2013 and 2014, including capital expenditures for 2013 and 2014, appropriate?

Administration Building - Prudence

- The costs of the head office were prudently incurred.
- While it contains a small amount of currently unusable space (3,700 sq. ft.), converting it to rental space would be expensive and require an additional 1,000 sq. ft for public access, etc. (vol 1, p. 23). Not a prudent or practical suggestion.

Capital Customer Contributions

- Intervenor position: the total customer for 2012, 2013 and 2014 are understated by reference to the average capital contributions in the areas of industrial and commercial services, new subdivisions and road projects as a percentage of the gross capital over the historical period 2007 through 2011.
- Enerource position: When forecasting the amount of contributions, Enersource reviews the characteristics of each actual project and runs the economic evaluation calculations as determined by the model found at Appendix B of the Distribution System Code (DSC).

Capital Customer Contributions

- It should be noted that the DSC has recently been amended to remove upstream costs from the economic evaluation (paragraph d.1 of section B.1 of Appendix B). This has the impact of reducing customer contributions.
- As appears at Issue 2.1, Energy Probe IR 3, the relevant proportions of Industrial and commercial services and new sub-divisions are relatively the same as in the past. There will also be specific outlier projects that are described in the evidence. With respect to Road Projects in particular, the ratio is determined by provincial legislation which does not apply to MetroLinx which, in 2011 provided a 100% contribution (Transcript, vol. 1, pp. 103-105).

Issue: Rate Base
2.2 Is the proposed Working Capital Allowance for 2013 and 2014 appropriate?

- Intervenor position: The service lag should be calculated using revenue weights instead of the customer-weight approach; as a result of this change, the WCA should be changed from 13.5% to 10.4%.
- Enersource response: Enersource's proposed approach was developed by Navigant Consulting who also used this approach for Toronto Hydro, Hydro Ottawa and Hydro One Networks Inc. The Board has approved this approach for all of these distributors.

Working Capital Allowance

- The Board has confirmed that the customer-weight approach is appropriate (see: Hydro Ottawa (EB-2011-0054)). In that decision, the Board specifically noted:

"The Board finds that the 11.0% WCA factor proposed by Energy Probe is too low when compared with Hydro One Networks, Horizon and THESL, and this may be the result of changing only two elements in isolation." (at p. 6).

Working Capital Allowance

- Also, in response to Issue 2.2 Board Staff Interrogatory #14, Enersource provided an updated Working Capital Study based on 2010 actual amounts applied to the forecasted 2013 Test Year amount; this study calculated an updated working capital allowance of 17.1%.
- Energy Probe was critical of this updated study and working capital allowance. However, Enersource is not proposing to change its proposed working capital allowance from 13.5% as originally proposed.

2.3 Is the proposed Green Energy Act Plan appropriate?

- Board staff proposes that Enersource should remove the non-Direct Benefits capital expenditures from its rate base and record them in account 1531 for recovery via the IESO protocols. Enersource should also identify and exclude from its proposed OM&A for 2013 initial OM&A associated with the GEA Plan and record them in account 1532 for recovery via the IESO protocols (Board Staff Argument at page 9)
- Enersource is agreeable to this proposal.

3.1 Is the proposed load forecast for 2013 and 2014, including billing determinants, appropriate?

- Intervenor Position: Disagrees with Enersource's regression model, specifically, the population variable, and proposes that the load forecast be based on the equation in Issue 3.1 Board Staff 25(d).
- Enersource: as outlined in the undertaking JT2.23, when the 'Population' variable is removed two variables, namely the 'Temperature Cubed' and 'Build Up', become statistically insignificant with P-values of 11.35% and 5.19%, respectively.

Load Forecast

- Because it is an industry accepted approach that independent variables with P-values of 5% or less are statistically significant and are appropriate to be used in model estimation, these variables would also have to be removed.
- The consequence of doing this is to increase the load forecast for the test year by 12 million KWh. Taking out the population variable alone would increase the load forecast by 30 million kWh. Either of these adjustments reduce the model accuracy of the load forecast (JT 2.23).

Load Forecast Methodology

- Intervenor Position: Concerns were expressed in relation to whether the following was addressed in the evidence:
  - using medians instead of means for the degree day explanatory variables;
  - using a 10 degree day base for heating degrees rather than the industry standard;
  - Deriving rate class demand from energy purchases; and
  - calculating degree days using a different methodology than that used by Environment Canada.

Load Forecast Methodology

- All of these issues were addressed in the evidence (Exhibit 3, Tab 1, Schedules 1 & 2):
  - The use of 10 degree day base for heating degree days (HDD) is a well accepted threshold used across the utility sectors (e.g. PowerStream's Cost of Service Application EB-2012-0161). The evidence was also provided by Enersource in Exhibit 3, Tab 1, Schedule 1, pages 7-8 on appropriateness of using a 10-degree base of HDD versus 18 degrees used by Measurement Canada. Heating Degree Days are used to capture the electricity usage due to space heating which is not expected to occur at temperatures above 10 and below 18 degrees ('dead band').

Load Forecast Methodology

- With respect to the derivation of demand, Enersource has consistently relied on the calculation of demand (kW) in this application as performed in its annual budgeting process. Enersource calculated monthly historical load factors by calculating the monthly ratio of kWh to kW divided by average monthly hourly usage.
- Enersource believes that its approach is appropriate and more accurately reflects the demand values by customer class.

Normal Weather (31 vs 11 Years)

- Intervenor Position: If the impact of the last 11 years was used in place of the last 31 years, the revenue requirement was estimated to be a reduction in the deficiency of approximately $400,000 (Exhibit I, Issue 3.1, Energy Probe IR#6c).
- Enersource position: A 31-year methodology was used and accepted by the Board and intervenors in Enersource's 2008 Cost of Service application. It is also used by the IESO and the OEB (EX. 3, tab 1, S.2, pp. 7-10).

Enersource Hydro Mississauga Inc.
EB-2012-0033
Filed: October 1, 2012
Exhibit K6.1

Normal Weather (31 vs 11 Years)

- In addition, the historical performance of load forecasting model has shown a high level of accuracy (i.e 1.7%). In addition, Enersource confirmed its weather adjusted 2012 year-to-date results are very close to the load forecast (i.e. 0.32%) as provided on August 23, 2012. Enersource also notes that from the above comparisons of load forecasts to actuals (1.7% and 0.32%) in both cases Enersource has overestimated its energy purchases to weather-adjusted actuals (E3-T1-S2-Table 7).

CDM Adjustment

- Intervenor Position: The CDM adjustment for the test year should be less than forecasted.
- Enersource position: The OEB has issued a directive on April 26, 2012 EB-2012-0003, with respect to 2011 to 2014 CDM programs, whereby verified CDM results are to be recorded in a newly created variance account (an "LRAMVA") and are to be tracked against the CDM included in the utility's Board-approved load forecast.

3.2 Is the proposed forecast of other regulated rates and charges for 2013 and 2014 appropriate?

- Intervenor Position: Other Revenues for the following categories should be increased:
  - Interest
  - Specific Service Charges
  - Pole Rental
  - SSS Administration Charge

Other Revenue - Interest

- Intervenor Position: Interest revenue should increase by $425,000 over Enersource's forecast for 2013 based on year to date actuals. The assertion relating to the $425K figure is derived from gross revenue amount of $478K, June year to date (2012). (Issue 3.2, Energy Probe IR 1)
- Enersource position: The $478 figure is not appropriate to determine interest to date because it **includes** net regulatory carrying charges owed to customers (Ex. 3, Tab 3, S. 1, p. 2). The net amount for 2012 was not requested in the interrogatory and is therefore not on the record.

Other Revenue

- Intervenor Position: With respect to remaining charges (Specific Service Charges, Pole Rental, and SSS Administration Charge), Energy Probe and VECC seek increases largely based on trends based on actuals.
- Enersource position: the 2012 and 2013 forecast is largely based on the average of actual amounts recorded for 2008 to 2011 (See Issue 3.2 VECC IR #28).

Other Revenues

- Energy Probe and VECC have selected only those that appear to be trending lower than forecast, while disregarding those that are trending higher than forecast such as collection charges, setup charges, credit check charges, return payment charges, late payment charges, etc.
- On the whole, Enersource is trending $800K higher for Total Other Revenue (excluding interest income) than the four year average from 2008-2011 (JT2.33).
- Further, the average amount of Total Other Revenue (which includes interest income) over the past three years (2009-2011) is approximately $4.60 million, and the four-year average (2008-2011) is approximately $4.75 million. Both are below the amount projected for 2013 Test Year of $4.83 million.

4.1 Is the Proposed 2013 and 2104 OM&A Forecast Appropriate?

Enersource Hydro Mississauga Inc.
EB-2012-0033
Filed: October 1, 2012
Exhibit K6.1

Intervenor Position: The following specific OM&A forecasts are excessive:

- Corporate Costs
- Corporate Allocation
- Capitalization
- Bad Debt
- Incentive Plan
- Compensation
- Board of Directors
- Property Taxes
- Regulatory Costs

Corporate Compensatio Costs

- **Intervenor Position: Corporate Costs should be limited to 2.5% annual growth since 2008 Energy Probe (p. 28 (a))**
- Enersource Position:
  - *Total* costs (not just compensation) associated with EC in the 2008 COS proceeding was $10.1 million. The forecast for 2013 is $11.6 million representing an increase of 15% or a compounded 2.8% per year.

Corporate Compensation Costs

Evidence: Exhibit 4,Tab 1, Schedule 8

- Significant increase in employee benefit costs associated with the company's pension plan
- Increased staff levels (due to ongoing ISO 14001, and IFRS compliance costs) (2 positions)
- Increased management responsibility resulting in increased average compensation.

Corporate Allocation

- **Intervenor Position:** Reduce the 2013 allocation percentage from 93.4% to 83.8% as used in 2008 COS (Energy Probe (b))
- **Exhibit 1, Issue 4.1, SEC IR # 46 and Transcript, vol. 3, pp. 97-98**: Enersource Corporation's employees provide services to both its regulated and non-regulated entities. Non-regulated businesses reduced since 2008. Current allocation accurately reflects contribution to regulated company.

Capitalization

Intervenor Position: (Energy Probe (c), p. 29): Increase the 2013 capitalization ratio from 20.7% to 26.1%, (2011 actual ratio) and allocating the difference of $1,975,000 to capital from OM&A.

- Enersource Position:
  - This would lead to an increase in rates over time (depending on the asset – no proposal for which type).
  - capitalization policy has not changed. The ratio in any given year reflects the projects to be taken on that year. Enersource forecasts the capitalization ratio to decrease depicted in Appendix 2-K.

Enersource Hydro Mississauga Inc.
EB-2012-0033
Filed: October 1, 2012
Exhibit K6.1

Capitalization

- A key driver for this is that Enersource is transitioning from growth to maintenance which is also indicative of the decrease in capitalized labour in 2013 and the increase in OM&A.

Bad Debt/Late Payment Revenue

Enersource Hydro Mississauga Inc.
EB-2012-0033
Filed: October 1, 2012
Exhibit K6.1

- Intervenor Position: Bad debt expense should be decreased in light of 2012 actuals (Energy Probe (d)).
- Enersource Position: Any reduction in bad debt expense leads to a reduction in late payment revenue. This part of the equation cannot be ignored (recognized by Board staff, p. 12) (**Exhibit I, Issue 3.2, Energy Probe IR#1)**.

Bad Debt/Late Payment Revenue

- As for 2012 actuals Enersource has experienced a reduction in its allowance for doubtful accounts. However, Enersource anticipates that the hot summer weather and the overall increase in commodity prices that has occurred over the last few years will only allow the Enersource to maintain the level of doubtful accounts at the forecasted level (**Exhibit I, Issue 4.1, Board Staff IR # 32)** .

Incentive Plan

- Intervenor Position: Incentive costs should be reduced on the assumption that targets will not be met and the amount tied to financial performance should be further reduced because it does not benefit rate payers(Energy Probe, p. 30 (e)).
- Enersource Position:
  - The total amount of incentive costs included in rates is $1.54 million. These relate to reliability, safety and ESQR measures. The net income component is **not** part of the Application and is paid by the shareholders (**Exhibit 4, Tab 3, Schedule 1 pg. 15)**
  - Incenting employees to achieve these targets benefits ratepayers.

Base Salaries

- Intervenor Position: Reduce base salary increases from 3.25% to 2%.
- Enersource Position:
  - Compensation estimates are based on the four year collective bargaining agreement between Enersource and the IBEW The agreement is effective April 1, 2010 - March 31, 2014 and provides for increases of 3% in the first and second years and 3.25% in the third and fourth years (**Exhibit 1, Tab 2, Schedule 2 pg. 4).**
  - increases are similar to those granted by Hydro One Brampton, Horizon and PowerStream (**Exhibit 1, Issue 4.1, VECC IR # 37**)

Base Salaries

- Non-union increases are formulated by compensation survey data produced by compensation consultants. Enersource is a client of The Hay Group (Hay Group Compensation Planning Update Bulletin for 2012). (**Exhibit 1, Issue 4.1, VECC IR # 37, Attachment**)

Additional FTEs

- Intervenor Position: company should be able to function effectively without 8 proposed new positions for 2012 and 2013.
- Enersource Position: Enersource strives for continuous improvement and the additional requirements on the business has resulted in the need for additional staff:
  - The Asset Management Plan initiative requires additional resources. These are required to focus on designing, implementing and supporting the system requirements from the IT and Engineering side **(Exhibit 4, Tab 1, Schedule 5; Exhibit 2, Tab 2, Schedule 2**)

Additional FTEs

- Improved communication with customers through a customer self-service initiative (**Exhibit 4, Tab 1, Schedule 9; Exhibit 1, Issue 4.1, Board Staff IR#33**)
- Deployment of mobile version of the IOM allowing for closer communication between the control room and the field staff (**SEC IR #39**)
- Additional requirements of the business: New building (**Exhibit 4, Tab 1, Schedule 12; Exhibit 2, Tab 2, Schedule 5**)

Board of Directors of Enersource Corporation

- Intervenor Position: Costs for the Board of Enersource Corporation should be disallowed in accordance with the OEB's decision in Erie Thames Powerline Corporation (EB-2007-0928).
- Enersource Position: Oversight of EHM is provided by both its Boards: the EHM Board has 3 members (at a cost of $6K); the Enersource Corporation Board has 10 members (at a cost of $148K to EHM) (Ex1, Tab1, s. 9, p.1).

Enersource Hydro Mississauga Inc.
EB-2012-0033
Filed: October 1, 2012
Exhibit K6.1

Board of Directors of Enersource Corporation

- The Erie Thames board consisted of 11 members. In addition, to the costs of compensating these board members, the utility applied for an additional $104K for the parent company's board, which was denied. The Board observed that "There is no justification on the record for the size of the Board adopted by Erie Thames." (at p. 11).

Enersource Hydro Mississauga Inc.
EB-2012-0033
Filed: October 1, 2012
Exhibit K6.1

Property Taxes

Intervenor Position: $82k is of the proposed increase of $1.2 million in property taxes in unaccounted for Energy Probe, p. 32 (i).

- Enersource's position: Increase related to new substations is $53k **Exhibit 1, Issue 4.1 EP IR #6**). There is an additional $32k for general cost increases as a result of anticipated increases in property tax assessment values (**Exhibit 1, Issue 4.1 EP IR#12**).
- Note that the Intervenor Submission miscalculated the property taxes for the new building; it is $250k, not $200K (**Exhibit 4, Tab 1, Schedule 12 pg. 3 Table 3).**

Enersource Hydro Mississauga Inc.
EB-2012-0033
Filed: October 1, 2012
Exhibit K6.1

Regulatory Costs

- Intervenor Position: Annual regulatory costs should be reduced by $228K; the cost of the current application should be reduced by $150K (VECC).
- Enersource Position: Forecasted costs were based on the Applicant's best estimate and there is no evidentiary basis for reducing these costs.

4.3 Is the proposed PILs and property taxes forecast for 2013 and 2014 appropriate?

- Intervenor Position: Increase tax credits by a total of $42K; increase Co-op credit by $16K; and increase apprenticeship credit by $26K (Energy Probe, p. 33) based on credits received in 2011.
- Enersource Response:
  - To estimate tax credits, the application uses the actual tax credits received in the recent past (and not just 2011) to develop its expectation for the 2013 Test Year (Issue 4.3 Energy Probe IR #2).

Issue: Capital Structure and Cost of Capital
5.2 Is the proposed long term debt cost for 2013 and 2014 appropriate?

- Intervenor Position: Change method from effective interest to weighted average, resulting in a drop from 5.0914% to 5.0303%; results in a decrease of revenue deficiency of $210K (Energy Probe, p. 34).
- Enersource Position:
- Enersource agrees with the proposed change in method, but notes that this must be accompanied by an increase to OM&A to recover the debt issuance costs (see EB-2001-0054 Hydro Ottawa decision, p. 18).

long term debt

- When these costs are taken into account, the net decrease to revenue requirement is not $210K as submitted by EP, but is approximately $84K
- **Increase in OM&A (E5-T1-S1, p4)**

	Debt Issuance Cost	Increase In OM&A
10 year	$ 792,941	$ 79,294
30 year	$ 1,402,941	$ 46,765
		$ 126,059

- **Impact on revenue requirement (E5-T1-S1, p4)**

	Change in RR
Change from 5.0914% to 5.0303%	$ (210,000)
Increase in OM&A	$ 126,059
Net change	$ (83,941)

Issue: Cost Allocation

6.1 Is the proposed cost allocation methodology for 2013 and 2014 appropriate?

- Intervenor Positions:
  - Energy Probe and VECC oppose moving the residential class from 85% to 90%.
  - AMPCO proposes moving the residential class to 92% followed by a move to 100% by 2014.
- Enersource's position.
  - All customer classes are within the Board approved range (Exhibit 7, Tab 1, Schedule 1, App. 2-o; see also: Brant County Hydro Decision, EB-2010-0125, p. 5).

Issue 8.3

Are the deferral and variance accounts, including both existing and proposed new accounts appropriate?

- Board Staff: Opposes the disposition of $619K in the IFRS transition account (P&OPEB) because it does not meet the materiality threshold of approximately $650K.
- Enersource Response: Actuarial gains and losses are unpredictable and, given that the net actuarial loss incurred is close to the materiality threshold, Enersource submits that its request for a deferral account is reasonable. Enersource will only seek disposition in the future if the materiality threshold is met.

Deferral Accounts

- If the proposed disposition is not permitted, Enersource proposes carrying the balance in the proposed new OCI deferral account (Ex. 9, Tab1, S. 1, pp. 19-20) so that it is not considered an out of period adjustment.

Establish a Deferral Account for Inspecting or Certifying Installed Suite Meters

- **Board Staff Argument:** The forecasted amounts do not meet the materiality threshold; If approved, the new deferral account would come into effect in 2013 and therefore any 2012 costs would be “out of period”.
- Enersource Response: Enersource withdraws its request for this account.

Issue: Modified International Financial Reporting Standards
9.1 Is the treatment and disposition of the Property Plant & Equipment adjustments due to the transition to MIFRS appropriate?

- Board Staff position: while not opposing the proposed one year disposition, stated that a four year disposition period is the default approach (p. 19).
- Enersource position: The Board has stated that it will address the disposition period "on a case-by-case basis and will be guided primarily by such considerations as the impact on rates, implications of any other IFRS transition matters and any requirements for rate mitigation". Page 32 of the *Addendum to the Report of the Board: Implementing International Financial Reporting Standards in an Incentive Rate Mechanism* (EB-2008-0408).

Modified International Financial Reporting Standards

- Enersource has proposed to refund this balance over a one year period for the following reasons:
  - To reduce intergenerational inequities for customers compared to a one-time adjustment to rate base that would refund customers over a four year period:
  - To mitigate rate volatility due to the proposal to dispose of other deferral accounts over the same term; and
  - To align more closely with the length of time over which the IFRS-CGAAP transitional differences ((Issue 9.1Board Staff IR#55).
- Enersource also agrees with Board Staff that Board guidance on the PP&E deferral account (EB-2008-0408) does not consider PILs and will therefore remove PILS from this account.

Issue: Smart Meters

10.1 Are the proposed quanta and nature of smart meter costs, including the allocation and recovery methodologies appropriate?

- Board staff: Enersource's proposal at paragraph 176 of its argument in chief was not in the pre-filed evidence, was unclear and was inconsistent with Board policy (p. 22).
- Enersource response: Enersource's proposal is found at May 17, 2012 updated evidence, Ex1, Tab 2, S. 1, p.16 and Ex. 9, Tab 2, S. 1, pp. 3-4, and Board staff IR Issue 3.2 IR 30.
- To be clear, Enersource is not seeking to record these additional costs in new or existing deferral accounts, and Enersource is not proposing specific rates or charges; Enersource is merely requesting approval to pass through **additional** costs to the customers responsible for their creation.

Issue: Smart Meters
10.2 Is the proposed treatment of stranded meter costs appropriate?

- Board staff’s position is that the allocation method shown in Undertaking JT1.2, which is based on the 2006-2007 cost allocation study, is the preferable method in calculating the stranded meter rate rider rather than Enersource’s original application that used the number of meters to allocate stranded meter costs among the customer classes. Energy Probe appears to agree with this position.
- Enersource is agreeable to this proposal.

10.2 Is the proposed treatment of stranded meter costs appropriate?

- Energy Probe's position is that the Board should increase the recovery period from one to up to four years.
- Enersource's position: a one-year disposition period avoids intergenerational inequities. Enersource's smart meter deployment began in 2006; by implementing a disposition period of more than one-year, it would only increase the gap between the time at which the mechanical meters became stranded and the time at which these costs are reflected in rates.