

**Ontario Energy Board**

**IN THE MATTER OF** the *Ontario Energy Board Act, 1998*,  
S.O. 1998, c. 15, (Schedule B);

**AND IN THE MATTER OF** an application by St. Thomas  
Energy Inc. for an order approving just and reasonable rates  
and other charges for electricity distribution to be effective  
January 1, 2015.

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**TECHNICAL CONFERENCE QUESTIONS OF  
ENERGY PROBE RESEARCH FOUNDATION  
("ENERGY PROBE")**

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**September 15, 2014**

**STEI RESPONSES  
September 20, 2014**

**ST. THOMAS ENERGY INC.  
2015 RATES REBASING CASE  
EB-2014-0113**

**ENERGY PROBE RESEARCH FOUNDATION  
TECHNICAL CONFERENCE QUESTIONS**

**EXHIBIT 1 – ADMINISTRATIVE DOCUMENTS**

**1-Energy Probe-43TC**

**Ref: 1-Energy Probe-1**

Please confirm that the \$248,000 of one time smart meter expenses that STEI recorded in 2012 is equivalent to the \$247,071 shown in the table in the response to part (a) and that the interest expense of \$48,528 shown in the response was not included in the OM&A figures in 2012.

**STEI Response:**

STEI confirms that the interest expense of \$48,528 was not included in the 2012 OM&A figure

**EXHIBIT 2 – RATE BASE**

**2-Energy Probe-44TC**

**Ref: 2-Energy Probe-11 &  
Exhibit 2, Tab 1, Schedule 6 (Appendix 2-AA) &  
Exhibit 1, Tab 1, Schedule 1 (Appendix 2-BA)**

- a) Please explain the relationship between the capital project figures shown in Appendix 2-AA and the capital additions shown in Appendix 2-BA. In particular, for 2011 and 2015 the figures shown in Appendix 2-AA are equal to the gross additions shown in Appendix 2-BA. However, this does not appear to be the case for 2012, 2013 or 2014. Please provide a table that shows the reconciliation of the Appendix 2-AA and Appendix 2-BA capital projects/additions.
- b) The response to 2-Energy Probe-11 shows that there are two projects in each of 2014 and 2015 that are not forecast to be entirely completed in the years where the capital project costs are shown in Appendix 2-AA. Please confirm that for all four of these projects, discrete amounts of the project can be placed into service before the entire project is completed. If this cannot be confirmed, please explain.

- c) As an example Item 49, New Power Line, has a cost associated with the project of \$208,750. The interrogatory response indicates that 25% of the project would be in service by the end of 2015, with the remaining 75% in service by the end of the second quarter of 2016. Please confirm this is the correct interpretation of the response.

**STEI Response:**

- a) The differences noted between capital projects provided Appendix 2-AA and the capital additions provided in Appendix 2-BA is attributed to amounts transferred in and out of the work-in-process account and the contributed capital. Appendix 2-AA is the gross capital activity whereas Appendix 2-BA represents the amount capitalized.

The following table provides the reconciliation between the two Board Appendices.

<b>Board Appendix 2-AA</b>			
	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>Total</b>	7,402,655	2,127,870	2,528,000
<b>WIP</b>	(14,447)	14,447	88,742
<b>Adjustments</b>	-	15,348	-
<b>Contributed Capital</b>	(318,521)	(596,144)	(100,000)
<b>Board Appendix 2-BA</b>	<b>7,069,687</b>	<b>1,561,521</b>	<b>2,516,742</b>

- b) STEI confirms that discrete amounts of the projects can be placed into service before the entire project is completed.
- c) STEI confirms that the interpretation of the response is correct.

**2-Energy Probe-45TC**

**Ref: 2-SEC-9**

- a) **What is the status of the Service Area Amendment?**
- b) **Has STEI included any costs associated with this contested subdivision in its application?**

**Response:**

- a) At the request of the developer SAA EB-2014-0137 was filed for the entire subdivision, but it was closed in June as Hydro One would not provide an Offer to Connect on this basis. STEI expects to file new SAA's for different phases of this development.

- b) STEI has not included specific cost related to the SAA in this application. This cost will be covered by the amounts included in the Regulatory costs.

### **EXHIBIT 3 – OPERATING REVENUE**

#### **3-Energy Probe-46TC**

**Ref: 3-Energy Probe-12**

- a) The response to part (b) refers to an attached spreadsheet, which does not seem to have been provided. Please provide the live Excel spreadsheet that contains all of the historical data used to calculate the 20 year trend in degree days.
- b) Part (b) of the question as requested the equations used to estimate to the 20 year trend, but no equations have been provided. How did Elenchus calculate the normal HDD and CDD values shown in Table 2.4?

**Response:**

- a) STEI has provided the spread sheet in response to this question.
- b) Elenchus calculated the normal HDD and CDD values by using a simple average of 20 years of HDD and CDD data.

#### **3-Energy Probe-47TC**

**Ref: 3-Energy Probe-16 & 17**

- a) Based on the responses to the two referenced interrogatories, is the STEI forecast for total other operating revenue in the 2015 test year \$496,044 being the sum of \$35,000, shown for account 4405 in 3-Energy Probe-16, and \$461,044, shown in the response to 4-Energy Probe-17? If not, please provide the current forecast for 2015 along with its derivation based on these interrogatory responses.
- b) Please provide a table that shows accounts 4375 and 4380 only, along with the net margin for each of 2011 Approved through the 2015 forecast with CDM revenues and costs removed.

**STEI Response**

- a) STEI confirms that the \$496,044 is correct.

- b) The following table provides the breakdown of 4375 and 4380 only with CDM revenues removed and identified separately. STEI has also provided the July 31, 2014 actuals

<b>Account 4375 and 4380 Reconciliation</b>						
<b>Account</b>	<b>2011 Actual</b>	<b>2012 Actual</b>	<b>2013 Actual</b>	<b>2014 BY</b>	<b>2015 TY</b>	<b>July 2014</b>
4375	17,059	528,084	759,055	342,000	329,000	338,272
4380	-	423,691	492,116	292,256	299,351	299,351
<b>Total</b>	<b>17,059</b>	<b>104,393</b>	<b>266,939</b>	<b>49,744</b>	<b>29,649</b>	<b>38,921</b>
<b>CDM</b>						
4375	326,027	536,372	699,184	-	-	370,966
4380	200,025	514,874	632,254	-	-	370,966
<b>Total</b>	<b>126,002</b>	<b>21,498</b>	<b>66,930</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>						
4375	343,086	1,064,456	1,458,239	342,000	329,000	709,238
4380	200,025	938,565	1,124,370	292,256	299,351	670,317
<b>Total</b>	<b>143,061</b>	<b>125,891</b>	<b>333,869</b>	<b>49,744</b>	<b>29,649</b>	<b>38,921</b>

### **3-Energy Probe-48TC**

**Ref: 3-Energy Probe-18 &  
3-SEC-11**

- a) Please provide a version of the table provided in the response to 3-Energy Probe-18 that excludes CDM related revenues and costs.
- b) Please explain the difference in the July 31, 2014 figures provided in the responses to the two interrogatories.

**Response:**

- a) Please see the above table provided in response to 47TC.
- b) As provided in the table above, the difference is attributed to CDM revenue and expenses that net out to 0. However, STEI has recently been advised by the OPA that STEI may have to repay approximately \$27,000 related to the 2010 Peak saver program due to potential over funding.

## **EXHIBIT 4 – OPERATING COSTS**

### **4-Energy Probe-49TC**

**Ref: 4-Staff-22 & Exhibit 4, Tab 1, Schedule 2**

**The evidence indicates (Exhibit 4, Tab 1, Schedule 2, page 12) that STEI pays \$22,000 for community relations through the AGI annual fee. The interrogatory response indicates that the total amount of \$22,000 represents the budget for the entire enterprise (AGI and all of its subsidiaries). Does this mean that STEI is financing all of the community relations costs of AGI?**

**Response:**

The majority of the \$22,000 community relation expenditures occur within the STEI service territory.

STEI is allocated approximately \$4,400 which has been included in the revenue requirement.

### **4-Energy Probe-50TC**

**Ref: 4-Energy Probe-23**

**The response to part (a) indicates that if the City chose to move the service to another provider, STEI would be left financing the increased postage costs that have not been included in rate base.**

- a) Does STEI mean revenue requirement rather than rate base?**
- b) Please explain what is meant by the increased postage costs that have not been included.**
- c) Please explain the \$35,400 recovered from the City for the costs noted when the evidence indicates that these costs are paid for entirely by STEI. Is the \$35,400 related to costs incurred by STEI for billing water and sewer customers that are not STEI customers?**

**Response:**

- a) STEI confirms that it is the revenue requirement, as provided in the RRWF.**
- b) The City is charged postage costs for water and sewer only customers.**

The City is not being charged postage for combined bills. If the City was charged postage on an allocated basis and then decided to use a different water and service billing provider, STEI's postage costs would increase by the amount allocated to the City on the combined bill.

This potential increase would not be included in the revenue requirement.

- c) STEI confirms that the \$35,400 recovered from the City is for costs incurred by STEI for billing water and sewer customers that are not STEI customers.

#### **4-Energy Probe-51TC**

**Ref: 4-Energy Probe-24**

**Please provide the requested responses and include whatever caveats STEI believes are needed. Please fully explain each caveat.**

**Response:**

STEI is not able to provide a response based upon hypothetical assumptions for another entity. This question contemplates the City of St Thomas undertaking a large IT development project and then providing billing and collecting service prices to STEI. STEI doesn't know how the City would go about doing that.

#### **4-Energy Probe-52TC**

**Ref: 4-Energy Probe-26**

**If no postage costs are allocated to the City please explain how, if the City chose to move the service to another provider, STEI would be left financing the increased postage costs. In particular, what increased postage costs is STEI referring to and please explain how under the current agreement with the City these increased postage costs are shared with the City.**

**Response:**

As provided in response to 4-Energy Probe-50TC.

#### **4-Energy Probe-53TC**

**Ref: 4-Energy Probe-32, 33 & 35**

- a) **For each of the items listed in 4-Energy Probe-32 and 33, please indicate whether or not STEI accepts the changes.**
- b) **Please provide the updated CCA continuity schedules for 2014 and 2015, as requested, showing all changes being made and accepted by STEI.**

**Response:**

- a) STEI accepts the changes.

- b) STEI has attached a revised PIL model that reduces the PIL amount by \$20,772 from \$54,162 to \$33,440.

## **EXHIBIT 5 - COST OF CAPITAL AND RATE OF RETURN**

### **5-Energy Probe-54TC**

**Ref: 5-Energy Probe-38**

- a) Please provide any evidence the company has that supports the statement that if STEI were to replace the affiliate debt with third party debt, the overall risk profile of STEI would increase which may result in an increase in the overall interest rate for STEI.
- b) Could STEI borrow from Infrastructure Ontario to finance its bridge and test year capital expenditures? If not, please explain why not. If yes, please provide the current interest rates from IO for terms of 5, 10, 15, 25 and 30 year terms.

#### **Response:**

- a) The CFO provided the response based on his credit structuring experience gained while working in the Large Commercial Banking market in Canada from 2000 to 2010. Based on his credit structuring experience, he stated that if STEI were to replace the Shareholder loan which was formally subordinated to the senior credit lender, with third party credit then the overall credit risk would increase. The credit risk increases because:
- An additional lender is now providing funds to STEI
  - This credit may not be formally subordinated
- When the risk of the credit increases, the senior lender would then be required to increase its capital support to continue providing the same level of credit. Since the senior lender would need to provide more capital, then they would need to raise the pricing in order to maintain their rate of return for the capital invested in the STEI loan.
- b) STEI does not plan to borrow to finance the planned bridge year and test year capital expenditures. The reason for not borrowing is because these expenditures can be financed through existing cash flow

### **5-Energy Probe-55TC**

**Ref: 5-Energy Probe-39**



- a) **Please explain why STEI is forecasting the renewal of the affiliated debt in November, 2015 for only a six year period.**
- b) **Please explain why STEI believes that it is appropriate to apply the Board's deemed long term debt rate, which is based on a term of 30 years, to debt that has a term of only 6 years.**

**Response:**

- a) STEI plans to renew the shareholder loan for a period longer than 6 years but will not be able to begin renegotiating this loan until 2015 after the municipal elections.
- b) STEI believes that it is reasonable as the Board's deemed long term rate is also based on A-rated Utility Bond Yield Spread over the Canada Bond forecast rate. STEI is not an "A-rated Utility" mostly because of its relative size. Because of the lower rating, the spread would normally be higher for STEI. It is then reasonable to assume that the extra potential credit quality spread would offset the potential savings from reducing the credit term.

**5-Energy Probe-56TC**

**Ref: 5-Energy Probe-39 &  
1-Energy Probe-5 &  
Exhibit 4, Tab 1, Schedule 2**

- a) **Please explain the difference in the Bank of Nova Scotia loan rate of 5.0% shown in the table provided in the response to 5-Energy Probe-39, the weighted rate of 4.40% shown in the response to part (b) of 1-Energy Probe-5 and the 3.25% noted for this loan on page 2 of Exhibit 4, Tab 1, Schedule 2.**
- b) **Please provide the current weighted average rate of the loan rate for 2014.**
- c) **Please provide the forecasted weighted average rate of the loan for 2015.**

**Response:**

- a) 5% was the amount used for budget purposes. The 5% rate was deemed reasonable in light of the existing interest rate swap that was put in place for more than half of the long term loan. The original swap was put in place in January 2011 prior to the 2011 Cost of Service application. The remaining portion of the long term loan was at a floating rate of prime plus 0.55%. It is expected that the floating prime rate should be increasing during cost of service period.

The 4.40% represents the historical actual interest rate calculation for the \$3,500,000 loan during the fiscal year 2013 which was a blend of the fixed (via swap) and floating rate for the loan.

The 3.25% rate mentioned was the rate for the short term loan.

In summary, 5% is the projected rate (which is reasonable in light of the interest rate swap and the potential for increase in the floating rate). The 4.40% is the historical actual rate for 2013 and 3.25% was the actual 2013 rate for the short term loan.

- b) STEI currently (at this point of time) has an estimated rate of 6.43% for approximately 56% of the distributable assets. The following chart outlines the rate composition:

**LT Debt Rate - Approximately 56% of Distributable Assets**

	<u>Rate</u>	<u>Amount</u> <u>\$MM</u>	<u>Weighted</u>
City of St. Thomas	5.00%	7.70	68.75%
Scotia Based - Fixed *	4.87%	1.75	15.63%
Scotia Based - Floating **	3.55%	1.75	15.63%
	<b>Rate</b>	<b>4.75%</b>	<b>11.20</b>
			<b>100.00%</b>
<i>revised weighting for rate base</i>			63.64%
Equity Financed***	9.36%	6.40	36.36%
<b>for entire 56% of rate base</b>	<b>6.43%</b>	<b>17.60</b>	<b>100.00%</b>

\* Interest Rate Swap May, 2014. 2.82% plus stamping fee of 2.05%

\*\* Floating Rate of Prime plus 0.55%. This is not fixed and likely to increase

\*\*\* Per 5-Energy Probe-38. Rate per November 25, 2013 Cost if Capital Paramaters

- c) For the rates shown in section b), only one rate, the 4.87% for \$1.75 million, is fixed. The other rates are unknown and, as such, STEI believes that 5% continues to be a reasonable rate for estimated level of drawn debt.

**EXHIBIT 6 - CALCULATION OF REVENUE DEFICIENCY OR SUFFICIENCY**

**6-Energy Probe-57TC**

**Please provide the requested RRWF and tracking sheet that incorporates all changes, corrections or updates that STEI proposes as a result of the interrogatory responses and technical conference questions.**

**Response:**

STEI will provide the requested RRWF and tracking sheet that incorporates all changes or updates as a result of the interrogatory and technical conference questions.

**EXHIBIT 7 – COST ALLOCATION**

**7-Energy Probe-58TC**

- a) Please provide a table that shows each of the 26 budget line items, their weights and the derivation of the overall weighting factors for the 26 budget items.
- b) Please show the derivation of the labour factors for each rate class.

**Response:**

- a) A table providing the 26 budget items and an effort weighting factor is provided below.
- b) Please see the table provided on the following page.

	Customers, 2015 Forecast							Allocated Cost per Customer				
	Res	GS<50	GS>50	Strt Lgt	Sent Lgt	Total Weighted	Customers	Res	GS<50	GS>50	Strt Lgt	Sent Lgt
	2014 B	15,099	1,709	147	2	2						
Bell Mobility	7,300	1.0	1.0	-	-	-	16,808	0.43	0.43	-	-	-
Canada Post Corp	130,000	1.0	1.0	1.0	1.0	1.0	16,959	7.67	7.67	7.67	7.67	7.67
Cox Transportation Ltd	1,200	1.0	1.0	1.0	-	-	16,955	0.07	0.07	0.07	-	-
Credit Bureau Of St Thomas	16,000	1.0	1.0	1.0	-	-	16,955	0.94	0.94	0.94	-	-
Elster	34,800	1.0	1.0	0.9	-	-	16,940	2.05	2.05	1.85	-	-
Elster	13,000	1.0	1.0	0.9	-	-	16,940	0.77	0.77	0.69	-	-
ERTH Business Technologies	13,500	1.0	1.0	1.0	-	-	16,955	0.80	0.80	0.80	-	-
ERTH Holdings Inc. (Ecaliber) ?	31,200	1.0	1.0	1.0	-	-	16,955	1.84	1.84	1.84	-	-
Harris Computer Utility	5,000	1.0	1.0	1.0	1.0	1.0	16,959	0.29	0.29	0.29	0.29	0.29
Impressions Printing	10,800	1.0	1.0	1.0	1.0	1.0	16,959	0.64	0.64	0.64	0.64	0.64
ITM-AS2 Hosting	2,200	1.0	1.0	-	-	-	16,808	0.13	0.13	-	-	-
Jesstec Industries Inc	3,300	1.0	1.0	-	-	-	16,808	0.20	0.20	-	-	-
JSI Data Systems	300	1.0	1.0	-	-	-	16,808	0.02	0.02	-	-	-
Loris Technologies Inc	22,100	1.0	1.0	1.0	1.0	1.0	16,959	1.30	1.30	1.30	1.30	1.30
Neopost Canada Ltd	4,500	1.0	1.0	1.0	1.0	1.0	16,959	0.27	0.27	0.27	0.27	0.27
Olameter Inc.	168,000	1.0	1.0	1.0	-	-	16,955	9.91	9.91	9.91	-	-
Purolator Courier Ltd	100	1.0	1.0	1.0	1.0	1.0	16,959	0.01	0.01	0.01	0.01	0.01
Savage Data	32,900	1.0	1.0	1.0	-	-	16,955	1.94	1.94	1.94	-	-
Scotiabank, EDI, Etc	17,300	1.0	1.0	1.0	1.0	1.0	16,959	1.02	1.02	1.02	1.02	1.02
St Thomas Times Journal	200	1.0	1.0	1.0	1.0	1.0	16,959	0.01	0.01	0.01	0.01	0.01
Util-Assist - Sync Op	29,600	1.0	1.0	-	-	-	16,808	1.76	1.76	-	-	-
Utilismart Corporation	54,600	1.0	1.0	1.0	1.0	-	16,957	3.22	3.22	3.22	3.22	-
UCS - CIS Analyst	17,000	1.0	1.0	1.0	1.0	1.0	16,959	1.00	1.00	1.00	1.00	1.00
Utility Collaborative Services	244,600	1.0	1.0	1.0	1.0	1.0	16,959	14.42	14.42	14.42	14.42	14.42
<b>Total Vendors</b>	<b>859,500</b>							<b>50.71</b>	<b>50.71</b>	<b>47.89</b>	<b>29.85</b>	<b>26.63</b>
Labour												
Supervision	82,158	1.0	0.8	0.6	0.6	0.6	16463.8	4.99	3.74	2.74	2.74	2.74
Billing	38,400	1.0	1.0	1.0	1.0	1.0	16959	2.26	2.26	2.26	2.26	2.26
Collection & Customer Service	243,031	1.0	0.5	0.1	0.1	0.1	15968.6	15.22	7.61	1.52	1.52	1.52
<b>Total Labour</b>	<b>363,589</b>							<b>22.47</b>	<b>13.62</b>	<b>6.53</b>	<b>6.53</b>	<b>6.53</b>
<b>Total Identified Cost</b>	<b>1,223,089</b>							<b>73.18</b>	<b>64.33</b>	<b>54.42</b>	<b>36.38</b>	<b>33.16</b>
<b>WEIGHTING FACTORS</b>								<b>1.00</b>	<b>0.88</b>	<b>0.74</b>	<b>0.50</b>	<b>0.45</b>

## **EXHIBIT 8 - RATE DESIGN**

### **8-Energy Probe-59TC**

**Ref: 8-Staff-34**

**Based on the changes proposed by STEI as a result of the interrogatory responses and technical conference questions and any other corrections or updates, please provide an updated Appendix 2-W to show the proposed bill impacts for all rate classes.**

#### **Response:**

STEI will provide the Bill Impact for all rate classes Appendix 2-W when all changes or updates as a result of the interrogatory and technical conference questions.