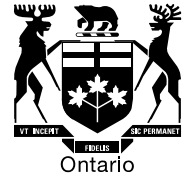


**Ontario Energy  
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**BY E-MAIL**

September 17, 2014

Kirsten Walli  
Board Secretary  
Ontario Energy Board  
2300 Yonge Street, 27<sup>th</sup> Floor  
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: St. Thomas Energy Inc. ("STEI")  
2015 Distribution Rate Application  
Board File No. EB-2014-0113**

In accordance with Procedural Order #1, please find attached Board staff questions for the technical conference, scheduled for September 22<sup>nd</sup> and 23<sup>rd</sup>, 2014. The applicant and all intervenors have been copied on this filing.

Yours truly,

*Original Signed By*

Stephen Vetsis  
Analyst – Applications & Regulatory Audit

## **STEI RESPONSES**

### **Board Staff Technical Conference Questions St. Thomas Energy Inc. ("STEI") 2015 Cost of Service Application EB-2014-0113**

*Please note: These questions are indicative of the questions Board staff may ask and identify major areas of interest. The list is not intended to be exact or complete, and Board staff may have further questions arising from the answers to the sample questions below.*

#### **Ref: 2-Staff-7**

On page 2, STEI provide a table summarizing its planned capital expenditures from 2015-2019. Board staff notes that the planned annual spending in administrative capital significantly decreases over the 2015-2019.

- a) Please explain STEI's approach to the pacing of these expenditures. Did STEI consider spreading these investments in administrative capital evenly over the planning period? What impacts would such an approach have on STEI's operations?

#### **Response:**

STEI's administrative capital spending decrease over the 2015 to 2019 period is primarily related to two items, timing of fleet acquisitions and building renovation expenditures. The fleet acquisitions are "pushed" out as far as possible and STEI has allocated the building renovations over a three-year period.

As provided in the following table, when these two components are removed from the administrative capital, the base expenditures are consistent through the 2015 – to 2019 period

<b>Administrative Capital</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Administrative Capital	513,000	436,000	448,000	265,000	222,000
Fleet acquisitions	125,000	60,000	265,000	20,000	-
Building renovations	170,000	175,000	-	-	-
<b>Base Administrative Capital</b>	<b>218,000</b>	<b>201,000</b>	<b>183,000</b>	<b>245,000</b>	<b>222,000</b>

Therefore, due to the nature of these expenditures, specifically fleet replacement, administrative capital expenditures cannot be "smoothed" over the 2015 – 2019 period.

**Ref: 2-Staff-11**

**Ref: 2-Staff-12**

In STEI's responses to 2-Staff-11 and 2-Staff-12, STEI states that it acknowledges that it provided a high-level capital overview in the application evidence before responding to Board staff's interrogatories.

- a) Please provide a more detailed breakdown of the proposed capital expenditures for the voltage conversion project.

**Response:**

- a) The detailed capital expenditures are provided in an excel spreadsheet attached to these responses.

**Ref: 2-Staff-15**

STEI states that outages have impacted a greater number of customers for a longer period of time typically on the 27.6kV system.

- a) Please discuss the technical reasons that would explain the statement above.
- b) Given the above statement, please discuss the pacing and prioritization of STEI's investments in areas that may address the reliability issues experiences by customers on the 27.6kV system.

**Response:**

- a) In 2011 and 2013 every outage in STEI started with the opening of breakers in the Hydro One Edgeware transformer station. These breakers supply the 27.6 kV distribution lines. The losses of major feeders like these affect many customers at the same time.

Also, when we look at these years, 46% of the customer-hours in 2011 and 95% in 2013 were caused by loss of supply, i.e. the problem was at Hydro One's station, and was not caused by St. Thomas' system. These outages were also of longer duration than have been experienced in prior years.

- b) The voltage conversion program is targeting the oldest sections of the distribution system in priority. The voltage conversion program will help minimize the outages on 27.6 kV feeders in two ways:
  - a. About half of the 27.6 kV system that is overhead will be buried, reducing outage due to tree contact,

- b. More and better placed isolation switches are being installed that will allow a faster response to outages, and customers will have power returned more quickly

**Ref: 3-Staff-18**

Why did STEI reject the notion of using no change in customer count for the GS < 50 kW class?

Response:

- a) Elenchus sought a balance between the approaches of modelling GS < 50 customer counts with the known flaws, using Residential as a proxy for GS < 50, and assuming no change in customer count. Given the reclassifications in GS < 50 and uncertainty around customer count in that class, using no change in customer count for the GS < 50 kW class is a credible alternative, which STEI is open to.

**Ref: 6-Staff-32 - RRFW**

**Ref: 8-Staff-34 – Bill Impacts**

Please provide the information requested in the interrogatories above.

**Response:**

STEI has been unable to update the requested information, but will endeavor to provide a list of items impacting the RRFW and Bill Impact at the technical conference.

**Ref: 9-Staff-37**

- a) Please provide detailed calculations supporting the derivation shown in the table provided in response to 9-Staff-37a, i). In the calculations, please clearly separate the impacts of any changes to the cost of capital additions and amortization for STEI assets prior to restructuring and assets acquired as part of the restructuring. Please explain and support the nature and quantum of any costs related to STEI's former Master Services Agreement that are used to derive the indicated net increase of \$2,517,783, indicated on page 2 of STEI's response.
- b) Please clarify STEI's request regarding the disposition of balances in Account 1576.
- c) Board staff acknowledges STEI's position as presented in its response to the referenced interrogatory. Please provide the calculations originally requested in 9-Staff-37a, ii).

**Response:**

- a) As provided in the IR response, the \$2,517,783 was understated by the capitalization policy relative to capitalization basis in the Board Approved 2011 Cost of Service Application. This amount that should be included in that calculation of the actual capital reduction equates to \$2,982,232 (\$2,517,783 + \$464,449).

The following table provides the components of the \$2,983,232:

<b>2011 Board Approved Per MSA</b>	<b>(1) MSA</b>	<b>(2) Restructuring OM&amp;A increase</b>	<b>(3) MSA Fee Reduction</b>	<b>(4) Restructured Capital Additions</b>
<b>2012</b>	2,934,971	661,071	335,419	<b>1,938,481</b>
<b>2013</b>	2,976,108	588,867	341,537	<b>2,045,704</b>
<b>2014</b>	2,855,338	665,125	390,213	<b>1,800,000</b>
<b>Total</b>	<b>8,766,417</b>	<b>1,915,063</b>	<b>1,067,169</b>	<b>5,784,185</b>
<b>Total Capital Reduction (2 + 3)</b>			<b>2,982,232</b>	

*Note: MSA Fee refers to the return paid by STEI to AESI in compensation for its PIL type return as identified during the technical conference at the 2011 Cost of Service process.*

The MSA capital amount of \$8,766,417 is based upon recalculating the 2012 and 2013 actual capital expenditures and the 2014BY capital expenditures by component and applying the MSA based cost structure. The MSA based cost structure had specific costs and all general overhead calculations attributed to Labour, Material, Equipment, Purchases.

The \$2,982,232 is the amount of the reduced capitalized cost attributed to restructuring from the 2011 Board Approved Cost of Service, MSA cost structure.

The OM&A increase represent the amounts that would have been capitalized under CGAAP versus being expensed under MIFRS.

STEI has also provided the following table that encompasses the total financial impact on STEI.

Shareholder Impact (recovery) / expense				
	2012	2013	2014	Total
Amortization change	(812,124)	(806,836)	(809,804)	(2,428,764)
OM&A Increase	661,071	588,867	665,125	1,915,063
Additional amortization (excluding smart meters)	283,778	273,078	318,932	875,789
<b>Net Shareholder Impact</b>	<b>132,725</b>	<b>55,109</b>	<b>174,253</b>	<b>362,088</b>

STEI submits that the 1562 account is a recovery of \$362,088. However, STEI is not requesting recovery of these costs related to the prior periods.

STEI believes that it has also demonstrated that the Shareholder has not benefited from an accounting policy change and that it is in the best interest of the customer if the account be deemed neutral with no recovery or repayment.

- b) STEI is not requesting recognition or disposition of account 1562 based upon STEI's unique circumstance. As such, STEI is not asking to recognize the potential recovery of \$362,088.
- c) As provided in the table in response to 9-Staff-37, account 1576, based upon amortization changes only, would have a credit balance of \$2,428,764.

**Appendix 2-ED**  
**Account 1576 - Accounting Changes under CGAAP**  
**2012 Changes in Accounting Policies under CGAAP**

Assumes the applicant made capitalization and depreciation expense accounting policy changes under CGAAP effective January 1, 2012

Reporting Basis Forecast vs. Actual Used in Rebasing Year	2011 Rebasing Year	2011	2012	2013	2014	2015 Rebasing Year	2016	2017	2018
	CGAAP	IRM	IRM	IRM	IRM	IRM	IRM	IRM	IRM
	Forecast	Actual	Actual	Actual	Forecast	Forecast			
<b>PP&amp;E Values under former CGAAP</b>			\$	\$	\$	\$	\$	\$	\$
Opening net PP&E - Note 1			18,970,924	23,679,241	23,259,817				
Net Additions - Note 4			7,069,689	1,523,521	2,516,792				
Net Depreciation (amounts should be negative) - Note 4			-2,361,372	-1,942,944	-2,036,666				
<b>Closing net PP&amp;E (1)</b>			23,679,241	23,259,817	23,739,943				
<b>PP&amp;E Values under revised CGAAP (Starts from 2012)</b>									
Opening net PP&E - Note 1			18,970,924	24,491,365	24,878,778				
Net Additions - Note 4			7,069,689	1,523,521	2,516,792				
Net Depreciation (amounts should be negative) - Note 4			-1,549,248	-1,136,108	-1,226,862				
<b>Closing net PP&amp;E (2)</b>			24,491,365	24,878,778	26,168,708				
<b>Difference in Closing net PP&amp;E, former CGAAP vs. revised CGAAP</b>			-812,124	-1,618,960	-2,428,764				

**Ref: 9-Staff-38**

Given STEI's response to this interrogatory, please confirm that STEI has not been in compliance with the APH.

**Response:**

STEI confirms that it has not been in compliance.

**Ref: 9-Staff-42**

Does STEI have any objections to using the methodology provided in this response to calculate its stranded meter rate riders?

**Response:**

STEI has no objections to the methodology provided.

**Ref: 2-Energy Probe-9**

**Ref: 2-Energy Probe-11**

Please reconcile the updates to the in service dates of material projects in 2014 and 2015 provided in response 2-Energy Probe-11 with the statement in 2-Energy Probe-9 that indicates that the "2014BY capital expenditures [are] on plan with only a small variance in the general plant category."

**Response:**

Response:

The in-service dates have been updated below  
2014 material Capital Projects, per Appendix 2-AA

- Voltage conversion, item 37 is complete
- Voltage conversion, item 38 is complete
- Voltage conversion, item 39 is complete
- Voltage conversion, item 40 is complete
- Voltage conversion, item 41 is now projected to be complete Dec 2014
- System upgrade, item 42 now projected to be 50% complete in Dec 2014 and the other 50% by Mar 2015
- Voltage conversion, item 43 is complete
- Voltage conversion, item 44 will be completed by Nov 2014
- Voltage conversion, item 45 will be completed by Dec 2014

2015 material Capital Projects, per Appendix 2-AA

- Voltage conversion, item 46, target completion by Sep 2015
- Voltage conversion, item 47, target completion 25% by Dec 2015 and the remaining work by Jun 2016

- Voltage conversion, item 48, target completion by Dec 2015
- New power line, item 49, target completion is 25% by Dec 2015 and the remaining work by Jun 2016

For the 2014BY only 50% of item 42 is expected to move into 2015, which is a small variance for the 2014 work program.

**Ref: 2-VECC-11**

In this response STEI states that as it is in the first year of its DSP, it will be reviewing what measures and indicators are available to determine the progress against the various components of the action plan in its DSP. Please provide updates on STEI's review of metrics/measures/etc. for use in monitoring the progress of its DSP.

Response:

The DSP is a new process for STEI and STEI will be reviewing and refining its plan going forward. STEI is in the process of filling the position of Engineering Manager who will be leading this effort. However, some of our current thoughts are:

- STEI will seek more customer input on the distribution system planning: overhead vs underground, use of more electricity for intensive items like electric vehicles, interest in installing green energy generators, power quality
- Using more factors to assess equipment condition in the next Asset Conditions Assessment per recommendations from the 2011 report
- Equipment capacity and loading calculations/measures
- Formalized process for comparing planned capital expenditure in-service dates and capital costs against actuals
- Look at performance by circuit to determine which have the worst performance