

INTERROGATORIES FROM THE CONSUMERS COUNCIL OF CANADA

FOR OSHAWA PUC NETWORKS INC. (OPUCN) - EB-2014-0101

2015 - 2019 CUSTOM INCENTIVE RATE APPLICATION

1. ADMINISTRATIVE

1-CCC.1

On March 12, 2015, the Board released its Decision regarding the Hydro One Inc. rate application for a five-year custom plan (EB-2014-0247). In that Decision the Board set out a number of reasons why Hydro One's application is insufficient as a Custom IR application under the RRFE. In light of the conclusions reached by the Board in that case, please explain how OPUCN's application is compliant with the RRFE.

1-CCC.2

Please provide a copy of all materials provided to the Board of Directors in approving this application. Please also provide a copy of the Applicant's most recent Business Plan.

1-CCC.3

Please explain the Applicant's budgeting process. Please provide any internal budget guidance documents that were issued.

1-CCC.4

Please provide a copy of the Applicant's 2014 audited financial statements.

1-CCC.5

Please provide copies of any corporate scorecards OPUCN has in place. Please provide results and targets for the past 5 years and targets for the rate plan period.

1-CCC.6

(Ex.1/TC/p 2)

"The elevated capital investment requirements during the years since OPUCN's 2012 cost of service filing have steadily eroded OPUCN's earnings, such that rebasing of rates for 2015 is necessary in order to avoid earnings degradation to more than 900 basis points below Board approved ROE."

Since OPUCN knew that its earnings degradation was significant since 2012, why was an application not submitted in the 3rd year of the 3rd generation IRM?

1-CCC.7

(Ex.1/TC/p 3)

The evidence explains why OPUCN is requesting rebasing of rates for 2015 and explains why it is requesting a 2015 Revenue Variance Account Rate Rider. Why does OPUCN not consider this retroactive rate approval?

1-CCC.8

(Ex.1/TC/p 3)

OPUCN has interim rates as of January 2015. Did OPUCN send out a notice regarding this potential change in rates to its customers? If so please provide. If not, why not? OPUCN is asking for an additional increase in rates for 2015 in two ways. One is a rate increase from the date of approval of this application to the end of the year. The second is through a rate rider to capture the difference between revenue at OPUCN's current interim rates and the revenue that would have been collected had OPUCN's final 2015 rates been in place as of January 1, 2015. How is OPUCN going to explain these rate changes to its customers?

1-CCC.9

(Ex.1/TC/p. 3)

"At current rates, declared interim as of January 1, 2015, on a deemed capital structure basis OPUCN forecasts a 2015 ROE of approximately 0.1%, which would be approximately 930 basis points below Board approved ROE of 9.42%. This shortfall would aggravate earnings shortfalls in 2013 and 2014 of approximately 350 basis points and just under 520 basis points, respectively."

Please provide the methodology and each step in calculating OPUCN's respective basis points listed above.

1-CCC.10

(Ex.1/TC/p. 4)

Please explain why OPUCN is requesting the 2015 Revenue Variance Account to be implemented over the full term of the CIR plan when most variance accounts approved by the OEB are set for two year terms or less?

1-CCC.11

(Ex.1/TC/p. 5)

OPUCN states that the main driver for approval of a Custom IR is its large multi-year capital investment requirements that exceed historical spending levels. The examples provided are non-controllable items that OPUCN has asked variance accounts for. Please list the large multi-year capital investments which will not be part of any variance account and that demonstrate spending exceeding historical levels.

1-CCC.12

(Ex.1/TC/p.9)

OPUCN proposes an annual rate adjustment due to several risks and unknowns over the 5-year period, saying this would preclude reopening OPUCN's rates to full review. If these adjustments affect major capital spending, please explain why a re-opening of the application for a full review would not be necessary.

1-CCC.13

(Ex.1/TC/p.12)

The PEG Benchmarking report provided evidence that OPUCN's proposed capital investments are efficient, fair and reasonable, and comparable to investment levels of other LDCs in the Province. Was PEG considering both the controllable and non-controllable capital expenditures in its report?

1-CCC.14

(Ex.1/TC/p.16)

OPUCN states that its Public Policy responsiveness is attributed to modernizing its distribution system with "smart grid" projects. Please explain why OPUCN does not consider implementing "smart grid" infrastructure as a good business decision rather than responding to public policy? Please provide the detailed business cases for the smart grid investments. What other activities is OPUCN undertaking to address public policy responsiveness?

1-CCC.15

(Ex.1/TC/p.17)

"OPUCN's Custom IR Plan proposes that rates will be determined on a cost of service basis for each test year of the plan period."

This statement implies that OPUCN is really requesting approval for a 5-year cost of service application. Please explain why OPUCN considers this a custom IR application.

1-CCC.16

(Ex.1/TC/p.17)

In the RRFE report p. 19 (Oct 18, 2012) it states, " the Board expects a distributor's application under Custom IR to demonstrate its ability to manage within the rates set, given actual costs and revenues will vary from forecast."

Please explain how OPUCN's application addresses this expectation when it states that: "Rates so determined now will be subject to certain pre-defined annual adjustments for external events that are beyond OPUCN's control and could have a material impact on the level and timing of distribution costs or revenues."

1-CCC.17

(Ex.1/TC/p.27)

Please provide the updated load forecast reflecting OPA's (IESO's) increased CDM target through 2019 from 68.4 to 73.0 GWh's.

1-CCC.18

(Ex.1/TC/p.28)

OPUCN's average annual capital expenditure is stated as \$10 million from 2011 through 2015. As detailed in OPUCN's Distribution System Plan (Exhibit 2, Tab B), the planned capital expenditures are forecast to continue at the current pace and will total approximately \$61 million for the Test Years 2015 through 2019. Why has OPUCN applied for a Custom IR when its expenditures are forecast to continue at the current pace?

1-CCC.19

(Ex.1/TC/p.37)

Please indicate when OPUCN will seek Board approval for a rate rider to clear the balance of the Pension Cost Differential Deferral Account.

1-CCC.20

(Ex.1/TD/p.1)

Please explain how OPUCN's participation in an industry-wide customer opinion research with a total of 10,000 residential and small commercial customers across Ontario meets the OEB's requirement for responding to Customer Focus. How many respondents were OPUCN customers in the industry-wide customer opinion research?

1-CCC.21

(Ex.1/TD)

Did the Applicant do any other customer engagement specific to this Custom IR application? Please explain.

1-CCC.22

(Ex.1/TD)

Did any of OPUCN's customer engagement activities result in a change to the applicant's work program?

1-CCC.23

Please provide the methodology and associated calculations used in developing the rate smoothing proposal.

1-CCC.24

Please provide updated evidence showing the 2014 audited actuals rather than the forecasts found throughout this application.

1-CCC.25

Please provide details of all efficiency and productivity measures the Applicant has undertaken since 2012.

2. RATE BASE

2-CCC.26

(Ex.2/TA/ p.84)

Please provide a version of Table 2-32 on an in-service additions basis.

2-CCC.27

(Ex.2/TA/ p.112)

Please explain the methodology used to estimate the allocation of capital contributions between OPUCN, Hydro One Distribution and Hydro One Transmission, for the upgrades to the Thornton TS. If the methodology that Hydro One has proposed, that is the subject of the EB-2013-0421 Phase 2 proceeding, is approved how would the amount OPUCN be required to contribute be affected?

2-CCC.28

(Ex.2/TA)

Please provide any further information OPUCN has regarding the contribution for a permanent capacity constraint relief solution that the utility may have received from further meetings with Hydro One and IESO.

2-CCC.29

(Ex.2/TA/p.145)

Please provide the forecast of OPUCN’s reliability metrics for 2015-2019.

4. OPERTING COSTS

4-CCC.30

(Ex./p.8/Table 4-3 modified)

OM&A - \$000s	2015	2016	2017	2018	2019
Total OM&A @IRM rates	11,967	12,152	12,341	12,532	12,726
OM&A requested	12,146	12,614	12,887	13,110	13,183
\$ difference	(179)	(462)	(546)	(578)	(457)
% difference	1.5	3.7	4.2	4.5	3.5

Please explain why OPUCN needs additional funds above the annual OM&A @ IRM rates when it is the expectation within the Custom IR criteria that keeping to the OM&A @ IRM rates demonstrates productivity efficiencies embedded within its forecast?

4-CCC.31

Please list the productivity efficiency activities that are embedded in this application by year.

4-CCC.32

Please provide copies of any compensation studies that the Applicant has undertaken since 2012.

4-CCC.33

(Ex.4/p.24)

OPUCN has estimated 20 employees will be eligible to retire in the years 2014 to 2019. What is the basis of this estimation? From 2010 to 2014 how many employees were eligible to retire? Out of that number, how many actually retired?

4-CCC.34

(Ex.4/p.47)

Please list the individual activities, services, etc. that OPUCN will receive from OPUC in return for a management fee of \$480,000 in 2015?

4-CCC.35

(Ex.4 p.61)

“OPUCN estimates that it will incur incremental costs of \$973,694 in respect of this Application. This estimate includes special studies, reports, preparation, defence and Adjudication costs, as well as Board and intervenor costs.”

Please provide the detailed costs for each activity included in this estimate. Has OPUCN undertaken any benchmarking of these activities compared to other LDC's?

4-CCC.36

Please provide the RFP's associated with each special study and report undertaken as part of this application.

10. CUSTOM IR SUPPORTING EVIDENCE

10-CCC.37

(Ex.10/TC/p.2)

OPUCN has measured its embedded efficiencies in relation to “per customer” measures. Has OPUCN measured its embedded efficiencies in relation to unit costs of work? For example, during the test years, how do the costs compare to replace like transformers, poles and other equipment to historic years. Are there other units of measurement to demonstrate improved efficiency and productivity that OPUCN has studied? If not, why not. If yes, why were none of those other metrics proposed in this application?

10-CCC.38

(Ex.10/TC/p.15)

Why is OPUCN only including the System Renewal Program and the New Municipal Substation in their proposed Incentive Mechanism rather than including all capital work programs?

10-CCC.39

(Ex.10/TD/p.9)

Please explain how OPUCN adjusted its working capital allowance in previous rate applications?

10-CCC.40

(Ex.10/TD/p.9)

Has OPUCN completed any benchmarking or review to see if any other LDC has used this approach to adjust its working capital allowance?