OSHAWA PUC NETWORKS INC.

Response to Board Staff Interrogatory 1.0-Staff-1

Ref: Exhibit 1, Tab C

OPUCN recognizes in its evidence that the value to customers of its planned spending must be demonstrated. Please provide detailed information, preferably in chart form.

a) What specific outcomes does OPUCN target for its planned OM&A and capital spending over the five year plan term (e.g. reduction in unit cost to targeted level, reduction in outage length by x%)?

b) How is progress toward the targeted outcomes to be quantified?

c) By what metric of performance will success in achieving the outcome be demonstrated?

d) How is the value to customers of the proposed spending over the plan term to be demonstrated?

e) What consequences should occur if targeted outcomes are exceeded? If targeted outcomes are not achieved?

f) Please describe how each of the targeted outcomes aligns with customer preferences identified by OPUCN, with reference to the evidence in this application.

Response:

OPUCN's Mission Statement reads as follows:

"We develop and provide innovative energy services to meet the needs of our customers"

OPUCN's Mission Statement sets out our "reason for being" in business and establishes the standard to which our organization aspires. The Mission Statement represents the vision for OPUCN and enables alignment of its Board members and staff around a specific agenda.

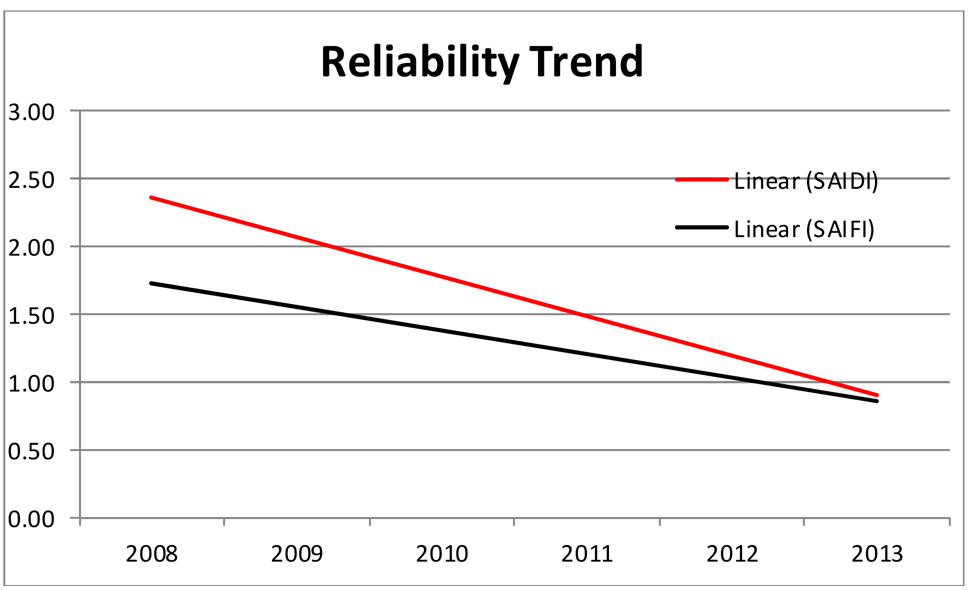
Additionally, OPUCN's strategic objectives include:

- Providing a safe and reliable electricity distribution system with appropriate and sufficient capacity to meet the expectations of our customers and support local economic growth.
- Promoting and practicing excellence in safety.
- Committing to excellence in customer satisfaction.
- Maintaining the lowest electricity delivery rates possible for customers while preserving the financial integrity of the corporation, providing a reasonable rate of return for our shareholder and achieving corporate strategic plans to ensure the long term success of the organization.

OPUCN's strategic objectives represent specific outcomes that we strive to achieve. OPUCN measures its performance against these stated specific outcomes as follows:

<u>Reliable Electricity Distribution System</u>

OPUCN utilizes System Average Interruption Duration Index (SAIDI) and System Average Interruption Frequency Index (SAIFI) to continuously monitor its system operations and measure reliability. The following shows OPUCN's trend for SAIDI and SAIFI since 2008 using reported results from the Board's Yearbook of Electricity Distributors (2013 results were adjusted to remove the impact of the December ice storm):



As can be seen from the trends, OPUCN has been improving on its overall reliability to customers.

The service reliability indicators for the industry as reported in the Board's 2013 Yearbook of Electricity Distributors were SAIDI - 7.33 and SAIFI - 2.34 (excluding the impact of the December ice storm). By comparison, OPUCN's SAIDI and SAIFI were 0.79 and 0.76 respectively (not including the December ice storm) which are indicative of OPUCN significantly outperforming the industry average.

OPUCN's forecast for planned system renewal is $19.7 million for the Test Years which is an average $3.9 million per year. The average spend is in line with 2015 forecast depreciation of $3.9 million which suggests the renewal plans are consistent with maintaining reliability performance for current infrastructure.

Additionally, OPUCN has substantial expenditures forecast in response to expansion plans in the City of Oshawa which represent investments in new infrastructure which should have the effect of improving the overall reliability performance however, the impact of that improvement is difficult to predict given that a number of assumptions are outside of OPUCN's control.

Lastly, OPUCN is planning to invest in technologies that are expected to improve reliability performance overtime. The plans include investments in an Outage Management System, intelligent switching devices and mobile workforce applications that will enhance customer service and improve overall efficiency and performance.

Safety

The Company participates in the following Safety Programs and measures its performance through the following initiatives and indicators:

- Participation with Infrastructure Health and Safety Association (IHSA) in the Certificate of Recognition (COR) health and safety system auditing protocol.
- COR is a national standard for the measurement and continuous improvement of workplace health and safety systems in Canada.
- COR requires internal staff to be trained in the COR protocol using a prescriptive criteria to audit the success of OPUCN's Occupational Health and Safety Management System.
- Successful progress through the ZeroQuest Health and Safety System Audit Protocol - OPUC achieved the ZeroQuest Sustainability Health and Safety Award September 2014.

- Development and continual updates to high risk work procedures as identified in risk assessment reviews.

- Development and continual monitoring of safety issues through OPUCN's Incident Investigation Protocol.

Customer Satisfaction

OPUCN has measured its performance in customer service and customer experience using the Board's Service Quality Indicators and the standards established therein.

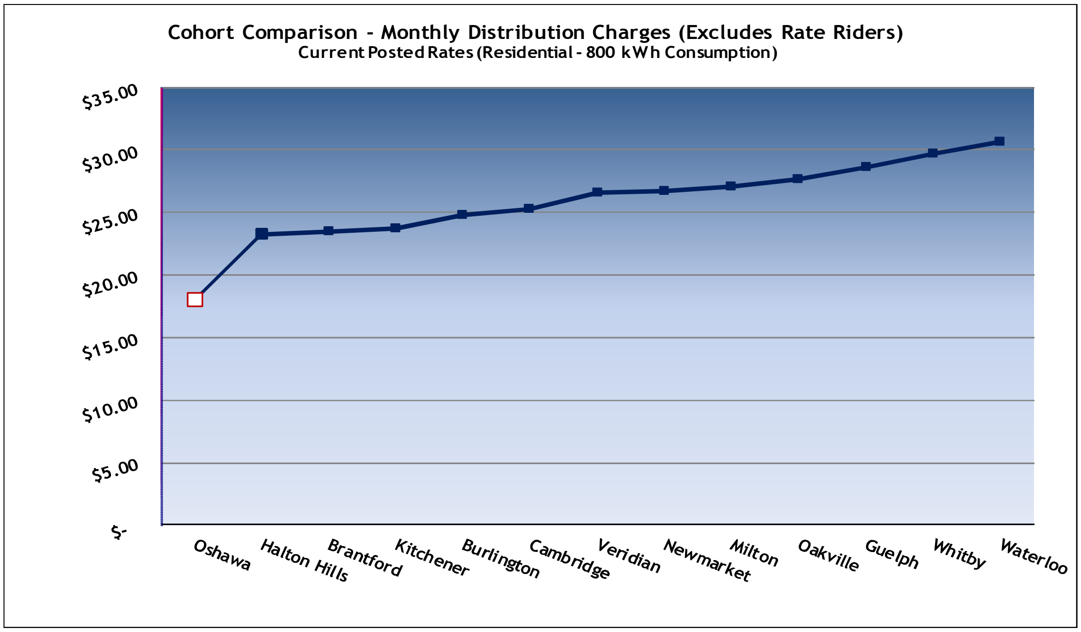
Recently, the Board has introduced their Electricity Distributor Scorecards. The following was copied from the Board's website and appropriately summarizes the initiative:

This is a new format that measures how well Ontario's electricity distributors (also called utilities) are performing each year. It is designed to encourage electricity distributors to operate effectively, continually seek ways to improve productivity and focus on improvements that their customers value.

The scorecard includes traditional metrics for assessing a distributor's services, such as frequency of power outages, financial performance and costs per customer. In addition, future performance results (for 2014 and onward) will include a number of new metrics that directly reflect the customer experience, such as how well the distributor resolves a customer's concern on the first contact, the accuracy of customers' bills, public safety and more.

OPUCN plans to continue meeting or exceeding the standards established by the Board for service quality while being prudent in their management of costs required to achieve the results.

Lowest Electricity Delivery Rates



As exemplified by the chart above included in OPUCN's presentation filed as evidence on April 1, 2015, typical rates for residential customers are currently the lowest amongst OPUCN's comparative utilities in Ontario.

OPUCN has been able to achieve this objective principally by managing its expenses and capital investments in an efficient and prudent fashion.

Net OM&A Per Customer	Kitchener	Oshawa	Newmarket	Veridian	Brantford	Halton Hills	Waterloo
2013	186	208	215	221	230	241	244

Net OM&A Per Customer	Milton	Burlington	Whitby	Oakville	Cambridge	Guelph	Industry Average
2013	248	260	266	270	275	298	325

Net Fixed Assets Per Customer	Oshawa	Brantford	Burlington	Newmarket	Whitby	Veridian	Milton
2013	1,436	1,547	1,553	1,597	1,671	1,720	1,784

Net Fixed Assets Per Customer	Cambridge	Kitchener	Halton Hills	Oakville	Guelph	Waterloo	Industry Average
2013	1,999	2,011	2,125	2,422	2,561	3,279	3,080

The tables above were also included in the presentation and reflect the efficiencies in OPUCN's management of expenses and capital investments.

Net OM&A per customer is a metric reported by the Board in their annual Yearbook of Electricity Distributors and is calculated by dividing total operations, maintenance and administration expenses (net of expenditures capitalized) by the number of customers serviced in each territory.

Net fixed assets per customer is a metric reported by the Board in their annual Yearbook of Electricity Distributors and is calculated by dividing the net book value of fixed assets by the number of customers serviced in each territory.

OPUCN is amongst the lowest in net OM&A per customer and the lowest in net fixed assets per customer when compared with similar utilities and the industry average in Ontario.

OPUCN believes comparable low electricity delivery rates can be achieved under its five year forecast presented in the application. For the Test Years 2015 through 2019, forecast expenses and capital investments combined with expected customer growth planned for the City of Oshawa will result in increases to rates but those rates are forecast to be underpinned by prudent spending levels and comparable to other utilities in Ontario.

As included in the presentation filed on April 1st, forecast 2019 metrics at forecast customer growth rate are:

- OM&A per customer remains at $208 – unchanged from 2013 levels; and
- Net fixed assets per customer of $1,818 is lower than average for comparable LDC's for 2013.

The strategic objectives are established and set out by senior management and the Board of Directors for OPUCN, and subsequently monitored monthly by senior management and quarterly by OPUCN's Board of Directors. Under a dynamic process, variances and deviations from planned objectives are reported, actions are formulated and revised plans are developed when necessary. Additionally, management compensation plans include a component for performance and achievement of strategic objectives.

As evidenced by OPUCN's Customer Satisfaction Survey included as Exhibit 1, Tab B, the most important attributes of a utility are better prices/lower rates and improve reliability of power. OPUCN's strategic objectives address these needs.

OSHAWA PUC NETWORKS INC.

Response to Board Staff Interrogatory 1.0-Staff-2

Ref: Exhibit 1, Tab C

On Oshawa PUC's Scorecard on the OEB website, the row "Asset Management – Distribution System Plan Implementation Progress" is presently blank. The management discussion and analysis for Year 2013 indicates that the DSP Implementation Progress metric is a new measure that OPUCN is logging for fiscal year 2014.

- Please describe what metric OPUCN will use for this measure, and relate this metric to the measures of performance for its proposed capital spending and DSP filed in this application.

Response:

As per the Board, "Distributors use a range of approaches to measure their effectiveness at implementing their distribution system plan. While all distributors will be required to report their results to the Board, distributors are not required to use the same measure."

Included in the Custom IR rate application, are a number of proposals that may influence OPUCN's decision on metrics related to its Distribution System Plan. These include: the approval of the Distribution System Plan for rates; Board Decision on adjustment mechanisms; and Board Decision on incentive mechanisms. OPUCN believes it is prudent to wait until the rate application process is complete and a Board Decision is rendered before finalizing its decision on metrics required to monitor progress in 2015 and thereafter.

OSHAWA PUC NETWORKS INC.

Response to Board Staff Interrogatory 1.0-Staff-3

Ref: Exhibit 1, Tab D

In this Customer Engagement Exhibit, OPUCN provides information on its customer engagement activities and customer engagement surveys. Please provide a program or investment project roadmap that directly connects OPUCN's creation and adjustment of its future plans in accordance with the findings of its customer engagement surveys.

Response:

OPUCN has applied the results of its customer engagement activities to validate that its proposed investment plans include investments which address its customers' top stated electricity distribution service priorities. As set out in the referenced exhibit, and also in the Distribution System Plan [See Exhibit 2, Tab B, page 21], in terms of priority investment, OPUCN's customers support; i) upgrading and maintaining plant to improve reliability; and ii) investment to reduce the number and duration of outages.

OPUCN's System Renewal Program will maintain system reliability.

OPUCN's "smarter grid" and Outage Management System (OMS) proposals [see OPUCN's Distribution System Plan, Exhibit 2, Tab B, at pages 70 and 71] will reduce the number and duration of outages. OPUCN plans to implement distribution automation, including intelligent devices, equipment and systems, to reduce restoration time and minimize the number of customers being impacted by outages. OPUCN also plans to complete the installation of an OMS, to be fully integrated with OPUCN's SCADA, GIS, AMI, CIS and IVR, so that OPUCN will be able to proactively identify customers without electrical power, and;

- proactively provide more frequent and more timely updates to customers during an outage;
- reduce the duration, frequency and impact of interruptions; and

- enhance its capability to quickly detect, restore and report to its customers on the on the status of, outages.

OSHAWA PUC NETWORKS INC.

Response to The Consumers Council of Canada (CCC) Interrogatory 1.0-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.

Response:

Please refer to the discussion at interrogatory response 10.0-VECC-55, parts d) and e).

OSHAWA PUC NETWORKS INC.

Response to The Consumers Council of Canada (CCC) Interrogatory 1.0-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.

Response:

Refer to response for 1.0-SEC-3.

OSHAWA PUC NETWORKS INC.

Response to The Consumers Council of Canada (CCC) Interrogatory 1.0-CCC-3

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

Response:

Refer to response for 1.0-SEC-6.

OSHAWA PUC NETWORKS INC.

Response to The Consumers Council of Canada (CCC)
Interrogatory 1.0-CCC-4

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

Response:

Refer to response for 1.0-SEC-9.

OSHAWA PUC NETWORKS INC.

Response to The Consumers Council of Canada (CCC) Interrogatory 1.0-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.

Response:

Refer to response for 1.0-SEC-4.

OSHAWA PUC NETWORKS INC.

Response to The Consumers Council of Canada (CCC) Interrogatory 1.0-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?

Response:

Prior to the implementation of the Board's RRFE, utilities were required to trigger an off-ramp of ±300 basis points on ROE in order to apply for early rebasing. OPUCN did not meet the off-ramp requirements until it produced Audited Financial Statements for 2013. There wasn't sufficient time in between the Board's regulatory changes to allow for OPUCN to assess the changes and implement a strategy to rebase earlier than for 2015 rates.

OSHAWA PUC NETWORKS INC.

Response to The Consumers Council of Canada (CCC)
Interrogatory 1.0-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?

Response:

Refer to response for 1.0-SEC-5.

OSHAWA PUC NETWORKS INC.

Response to The Consumers Council of Canada (CCC) Interrogatory 1.0-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?

Response:

OPUCN did not send out a notice regarding its December 23rd request that its then current rates be made interim as of January 1, 2015. Other than becoming interim, rates did not change as of January 1, 2015.

OPUCN is only asking for one rate increase for 2015. The Notice published by OPUCN in respect of the current application, as directed by the Board, contains information on the impact on residential customers of the requested 2015 rate increase (as well as information on the impact on residential customers of the requested rates for each of the years 2016 through 2019). OPUCN's application contains further information in respect of the rates proposed in this application for all of OPUCN's rate classes.

Depending on the Board's determination of the effective date for OPUCN's approved final 2015 rates, OPUCN proposes to apply a rate rider to collect any under recovery as a result of final rates being implemented after the approved effective date of those final rates. OPUCN will file a copy of its proposed customer notices with the Board for review and approval once the effective date for final rates is determined. It is anticipated that the customer notices will explain any difference between the date that rates were made effective and the date that rates were implemented, and, as appropriate, also explain how the difference for the first part of the new rate period will be recovered over time so as to limit the immediate impact of the approved rate changes.

OSHAWA PUC NETWORKS INC.

Response to The Consumers Council of Canada (CCC) Interrogatory 1.0-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.

Response:

For each year, OPUCN calculated its revenue deficiency after PILs to determine the shortfall in ROE. The following steps were used in the calculation:

- OPUCN determined its rate base for each year by adding the average net fixed to its working capital allowance.
- The rate based was used as the basis for calculating the deemed net income and deemed equity based upon the rates approved in OPUCN's last cost of service.
- The Board-approved ROE is 9.42% and the deemed equity is 40% of OPUCN's rate base.
- The deemed ROE was compared to OPUCN's ROE net of the revenue deficiency after tax.

The calculations are consistent with the Board's models for calculating revenue deficiency and deemed ROE.

OSHAWA PUC NETWORKS INC.

Response to The Consumers Council of Canada (CCC) Interrogatory 1.0-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?

Response:

OPUCN is proposing a rate smoothing mechanism that is most favourable to its rate payers while staying within its proposed rate term – 2015 through 2019. OPUCN has determined it can manage the impact of the delay in receiving the cash through rates in its forecast for financing requirements.

OSHAWA PUC NETWORKS INC.

Response to The Consumers Council of Canada (CCC) Interrogatory 1.0-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.

Response:

OPUCN has provided comprehensive evidence of its forecasts for the costs of its proposed large, multi-year capital investments for the years 2015 through 2019, and has requested rates that are set to allow for recovery of the revenue requirement impact of, inter alia, those costs as forecast. On a forecast basis, these multi-year capital investment requirements exceed both historical spending levels and the ability of OPUCN to fund such investment requirements and cover the depreciation on its growing rate base with revenues that would be realized under a 4th generation IRM plan. It is the investment needs so evidenced that drive OPUCN's determination to file a Custom IR Plan.

While variance accounts are requested to address certain costs which could vary materially from forecast as a result of external, non-controllable factors, and variance in which should neither benefit nor burden OPUCN or its ratepayers, the request for these variance accounts does not alter the forecast of large, multi-year capital investment requirements exceeding historical spending levels and dictating Custom IR Rate Plan treatment. Rather the variance account requests provide a mechanism to address the uncertainty inherent in such forecasts (primarily as a result of the scope and pace of customer and load growth, and related infrastructure relocation requirements externally imposed).

OPUCN's Distribution System Plan provides various listings of the capital projects included in OPUCN"s Capital Investment Plan for the years 2015 through 2019, including a comprehensive listing provided in Exhibit 2, Tab B, Schedule 7, which listing is further broken out by category in Attachments A through I of that exhibit.

OSHAWA PUC NETWORKS INC.

Response to The Consumers Council of Canada (CCC)
Interrogatory 1.0-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.

Response:

Re-opening of OPUCN's Custom IR Rate Plan for a full review would not be necessary because, except for the few specific areas in which annual adjustments are proposed, the balance of OPUCN's Capital Investment Plan spending, cost of service and associated revenue requirement determinations for the test years 2016 through 2019 will be made in this proceeding.

OPUCN has proposed essentially the following in-period adjustments to rates otherwise determined in this proceeding:

1. Annual rate adjustments for variances in:

    a. Forecast growth in the Oshawa area (updated customer connections, demand and consumption forecasts); and

    b. Cost of power (and associated working capital requirements).

    c. Cost of capital, as determined annually by the OEB.

2. One-time adjustments for variances in:

    a. Hydro One transmission contribution/regional planning cost requirements; and

    b. Plant relocation costs in response to third party requests.

These are five specific areas where precise prediction is difficult and activity or cost changes could be material and are beyond OPUCN's ability to control. OPUCN does not believe that either ratepayers or OPUCN's shareholder should bear the risks associated with timing or scope changes to OPUCN's Capital Investment Plan resulting from these external factors. (In the case of the cost of capital, OPUCN believes that this annual adjustment to incorporate the OEB's updated cost of capital parameters will maintain OPUCN's opportunity to earn a reasonable return and thus meet the fair return standard for rate making.)

In all other respects, OPUCN is committing to operate within its revenue requirement as determined in this proceeding, subject only to the overall "off-ramp" notification and review requirements and z-factor contingencies contemplated in the RRFE.

OPUCN is not requesting adjustment mechanisms for; i) controllable capital expenditures which represent more than 75% of total capital expenditures; ii) all components of working capital allowance other than cost of power which has escalated significantly over recent years; or iii) OM&A expenses.

Annual Reporting is described in Exhibit 10, Tab E. While Annual Reporting for Adjustment Mechanisms and new rates for the 2016 through 2019 Test Years will be required, it is OPUCN's belief that the Board's Decision can be provided through written proposals and re-opening of the application for a full review would not be necessary.

OSHAWA PUC NETWORKS INC.

Response to The Consumers Council of Canada (CCC) Interrogatory 1.0-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?

Response:

Yes.

OSHAWA PUC NETWORKS INC.

**Response to The Consumers Council of Canada (CCC)
Interrogatory 1.0-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?

Response:

OPUCN does consider implementing "smart grid" infrastructure to be a good business decision. Perhaps that is why it is also the Ontario's government's and the OEB's policy.

Because investments in a smarter grid reflects Ontario government and energy regulatory policy, OPUCN has included certain affordable "smart grid" automation investments in its 5 year Capital Investment Plan (as noted in the evidence referenced and also in the Distribution System Plan – see Exhibit 2, Tab B, page 2).

The "smart grid" investments included by OPUCN in its Distribution System Plan and associated Capital Investment Plan for the plan period are evaluated in the Utiliworks report filed as Exhibit 2, Tab A, Schedule 4. There are no other "detailed business cases" for these projects, though the costs of the projects are included in the capital investments reviewed NBM Engineering (see Exhibit 10, Tab B).

OPUCN has also included a Smart Grid Pilot project (see Exhibit 2, Tab B, pages 84, 3rd full paragraph et seq.) in its Capital Investment Plan in response to this policy (see Exhibit 2, Tab B, Schedule 5, page 7 under "Moderate Priority").

As a result of the Utiliworks study, OPUCN now includes Smart Grid Infrastructure as part of its business decision making process. As per Utiliworks' Smart Grid Roadmap and Financial Analysis [Exhibit 2, Tab B, Schedule 4], the decision process is based on five key elements; Internal Data Collection, Industry Research, Benefit Analysis, Cost Analysis, and Validation.

The specific business cases for the smart grid investments are summarized below as total benefits calculated by project as follows:

(All figures in $000)		Total Benefits
Metering	AMI Process Redesign	$850.1
	Remote Connect/Disconnect	$1,133.8
	AMI Extension	$101.1
	Prepaid Metering	$4,726.0
Customer Service	Billing System Redesign	$282.2
	Enhanced IVR	$1,388.5
Distribution Operations	Outage Management	$2,165.6
	Voltage Monitoring	$1,174.9
	Feeder Gateway Temperature Monitoring	$1,196.2
	Automated Switching	$379.5
Distributed Resources	Transmission Management	$1,875.4
	Demand Management	$2,645.8
	Load Control	$10,583.1

OPUCN does not have any other planned undertaking to address public policy responsiveness.

OSHAWA PUC NETWORKS INC.

Response to The Consumers Council of Canada (CCC) Interrogatory 1.0-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.

Response:

Please see response to interrogatory 10.0-VECC-55, part d.

OSHAWA PUC NETWORKS INC.

Response to The Consumers Council of Canada (CCC)
Interrogatory 1.0-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.”

Response:

Please see response to interrogatory 1.0-CCC-12.

OSHAWA PUC NETWORKS INC.

Response to The Consumers Council of Canada (CCC) Interrogatory 1.0-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.

Response:

Please refer to interrogatory responses relating to Exhibit 3. OPUCN will update its load forecast accordingly and file it on RESS.

OSHAWA PUC NETWORKS INC.

Response to The Consumers Council of Canada (CCC) Interrogatory 1.0-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?

Response:

Please refer to 1.0-CCC-11 for response.

OSHAWA PUC NETWORKS INC.

Response to The Consumers Council of Canada (CCC) Interrogatory 1.0-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.

Response:

The amounts associated with actuarial gains and losses in OPUCN’s post-retirement benefits obligation can fluctuate significantly from changes in interest rates overtime and experience in claims made on the benefit program.

It is OPUCN’s proposal to retain actuarial gains and losses in a deferral account perpetually rather than subject rate payers to the fluctuations noted above.

OSHAWA PUC NETWORKS INC.

Response to The Consumers Council of Canada (CCC) Interrogatory 1.0-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?

Response:

Total number OPUCN customers was 405.

Customer Focus with its sub-categories of Service Quality and Customer satisfaction is a major component of the scorecard. As such, OPUCN participated in the 16th Annual Customer Satisfaction survey conducted by UtilityPULSE. OPUCN has participated from time to time in the UP Annual survey since 2005; the last time in 2011.

The UP survey is a comprehensive survey covering multiple aspects of what it means to have Customer Focus. While the scorecard values a hard metric on items such as “Billing Accuracy”, the UP survey does ask responds about “Accurate billing”. It is a way of showing that a “hard metric” may not translate into the same “customer perception” rating.

For this rate application, OPUCN worked with UP to assist in designing some of the supplemental questions that were asked in the 16th Annual Survey. In addition OPUCN worked with UP, and commissioned them, to conduct a GS>50 customer survey.

OPUCN believed the Survey reinforced its Distribution System Plan (“Plan”) to the extent the Plan addressed issues of interest to customers. OPUCN’s Plan includes discretionary System Renewal activities the forecast amount of which is between $4 million and $5 million annually. The majority of the remaining planned expenditures are in response to City and Regional expansion plans, and Hydro One’s regional activities which are mostly non-discretionary and therefore difficult to measure against customer's survey responses.

OSHAWA PUC NETWORKS INC.

Response to The Consumers Council of Canada (CCC)
Interrogatory 1.0-CCC-21

(Ex.1/TD)

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

Response:

No. Please refer to 1.0-CCC-20 response.

OSHAWA PUC NETWORKS INC.

Response to The Consumers Council of Canada (CCC) Interrogatory 1.0-CCC-22

(Ex.1/TD)

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

Response:

Please refer to 1.0-SEC-8 response.

OSHAWA PUC NETWORKS INC.

Response to The Consumers Council of Canada (CCC) Interrogatory 1.0-CCC-23

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

Response:

The first step is to calculate the total projected billed revenue from Distribution & Other Charges/Rate Riders for each customer class selected for rate mitigation, as shown in table below.

Total Projected Billed Revenue from Distribution & Other Charges/Rate Riders

Customer Class	2014	2015	2016	2017	2018	2019	2015-2019 Total
Residential	13,563,962	15,774,301	16,248,828	16,681,713	17,329,861	17,606,553	83,641,256
GS Less Than 50 KW	3,451,174	3,691,527	3,796,634	3,907,899	4,071,741	4,150,040	19,617,842
GS 50 To 999 KW	5,025,858	5,836,460	6,431,965	6,767,758	7,191,767	7,491,507	33,719,457
Unmetered Scattered Load	59,764	72,861	76,349	76,717	78,266	77,950	382,143
TOTAL	**23,654,167**	**27,144,850**	**28,398,594**	**29,286,487**	**30,557,637**	**31,202,367**	**146,589,935**

The next step is to calculate the same total for 2015-2019 billing, but redistributing the amounts by year in order to give a constant growth rate. The attached excel file "IR 1.0-CCC-23 Rate Smoothing Excel Working.xlsx" illustrates how this is calculated.

Total Projected Billed Revenue from Distribution & Other Charges/Rate Riders - At Constant Growth Rate

Customer Class	2014	2015	2016	2017	2018	2019	2015-2019 Total
Residential	13,563,962	14,523,317	15,550,526	16,650,387	17,828,040	19,088,985	83,641,256
GS Less Than 50 KW	3,451,174	3,599,822	3,754,872	3,916,600	4,085,294	4,261,254	19,617,842
GS 50 To 999 KW	5,025,858	5,526,787	6,077,645	6,683,406	7,349,544	8,082,076	33,719,457
Unmetered Scattered Load	59,764	64,733	70,114	75,943	82,257	89,096	382,143
TOTAL	**23,654,167**	**25,484,360**	**27,297,975**	**29,178,737**	**31,231,136**	**33,397,728**	**146,589,935**

This creates a difference by year which can be converted to a rate rider which when applied results in the rate smoothing effect.

Difference in Billed Revenue - To be credited/debited via Volumetric Rate Rider

Customer Class	2015	2016	2017	2018	2019	2015 - 2019
Residential	1,250,984	698,302	31,325	(498,179)	(1,482,432)	0
GS Less Than 50 KW	91,705	41,763	(8,701)	(13,553)	(111,214)	(0)
GS 50 To 999 KW	309,673	354,320	84,352	(157,777)	(590,568)	(0)
Unmetered Scattered Load	8,128	6,235	774	(3,991)	(11,146)	(0)
TOTAL	**1,660,490**	**1,100,620**	**107,751**	**(673,500)**	**(2,195,361)**	**(0)**

OSHAWA PUC NETWORKS INC.

Response to The Consumers Council of Canada (CCC)
Interrogatory 1.0-CCC-24

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

Response:

Please refer to 1.0-SEC-1 for response.

OSHAWA PUC NETWORKS INC.

Response to The Consumers Council of Canada (CCC)
Interrogatory 1.0-CCC-25

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

Response:

Please refer to 1.0-SEC-11 response.

OSHAWA PUC NETWORKS INC.

Response to Energy Probe Research Foundation (Energy Probe) Interrogatory 1.0-Energy Probe-1

Ref: Exhibit 1, Tab C, page 18

The evidence states "The balance of the costs underlying OPUCN's proposed rates for each of year of the Custom IR plan term are at OPUCN's risk".

Please provide a comprehensive list of the items for which OPUCN is at risk.

Response:

Please refer to 1.0-CCC-12 for response.

OSHAWA PUC NETWORKS INC.

Response to Energy Probe Research Foundation (Energy Probe) Interrogatory 1.0-Energy Probe-2

Ref: Exhibit 1, Tab C

Please update Tables 5 and 6 to reflect actual data for 2014.

Response:

Table 5: Historical and Bridge Year Revenue

	At Board-Approved Rates			
	2012 Board-Approved	2012 Audited	2013 Audited	2014 Audited
Residential	10,753,668	10,500,774	10,563,015	10,835,486
GS Less Than 50 KW	2,575,166	2,613,205	2,610,463	2,688,818
GS 50 To 999 KW	3,505,793	3,210,935	3,274,806	3,315,311
GS Intermediate 1,000 To 4,999 KW	465,943	542,792	570,202	548,520
Large Use	197,547	226,694	232,630	239,073
Street Lighting	696,349	670,252	626,148	639,759
Sentinel Lighting	1,826	0	0	0
Unmetered Scattered Load	54,793	47,426	47,816	49,811
Operating Revenue	18,251,085	17,812,079	17,925,081	18,316,778
Other Distribution Revenue	1,792,057	2,030,035	1,934,649	1,872,639
Total Distribution Revenue	20,043,143	19,842,114	19,859,729	20,189,417

Table 6: Change in Revenue 2012 through 2019

	At Board-Approved Rates				Test Years at Proposed Rates				
	2012 Board-Approved	2012 Audited	2013 Audited	2014 Audited	2015	2016	2017	2018	2019
Change in Revenue Requirement		-201,029	17,616	329,688	2,712,166	2,153,010	967,838	1,035,192	653,851
Cumulative Change in Revenue			17,616	347,303	3,059,469	5,212,479	6,180,317	7,215,509	7,869,360
Percentage Change in Revenue Requirement		-1.0%	0.1%	1.7%	13.4%	9.4%	3.9%	4.0%	2.4%
Cumulative Average Percentage Change			0.1%	0.9%	4.9%	6.0%	5.6%	5.3%	4.9%

OSHAWA PUC NETWORKS INC.

Response to Greater Oshawa Chamber of Commerce (GOCC) Interrogatory 1.0-GOCC-1

Oshawa PUC originally requested a January 1, 2015 effective date.

a) Is Oshawa PUC amending its application to request a different effective date as it is now April 2015?

b) If Oshawa PUC is not revising the effective date, please explain the basis for such a request given the late filing of the Application.

c) Has Oshawa PUC considered the potential rate impacts on customers if it continues its request for a January 1, 2015 effective date.

Response:

a) No.

b) Please refer to 1.0-SEC-5 response.

c) Yes.

OSHAWA PUC NETWORKS INC.

Response to Greater Oshawa Chamber of Commerce (GOCC) Interrogatory 1.0-GOCC-2

Exhibit 1, Tab 2, Schedule D

a) Did Oshawa PUC meet with any GS>50 to 999 kW customers in 2014 as part of its customer engagement process? If so, describe the concerns expressed and how the Application addresses such concerns.

b) Did Oshawa PUC consult with any GS>50 to 999 kW customers regarding the rate increases proposed in the Application?

c) Was there any difference between GS>50 to 999 kW customers and the responses from other rate classes? Please explain the basis for the answer.

Response:

a) OPUCN did commission UtilityPULSE to conduct a telephone survey from November 28 to December 9, 2013 of customers GS>50. The top two items coming from the survey were: Prices and Knowledgeable staff.

b) No. Please refer to part c) below.

c) Every GS>50 customer interviewed is asked for "one or two suggestions to help OPUCN improve their service". The number one suggestion received by all classes of customers – residential, small commercial and GS>50 is to reduce rates. GS>50 customers will cite power quality and extended service hours with more frequency than residential customers. Residential customers will suggestion "better online presence" more frequently than GS>50 customers.

OSHAWA PUC NETWORKS INC.

Response to School Energy Coalition (SEC) Interrogatory 1.0-SEC-1

Please confirm that all 2014 amounts included in the application are based on unaudited year-end results. If this is not confirmed, please provide the basis for the 2014 amounts.

Response:

Confirmed. Several interveners have requested updates to reflect Audited 2014 results. OPUCN will prepare an update to its evidence for Audited 2014 results and file a report accordingly.

OSHAWA PUC NETWORKS INC.

Response to School Energy Coalition (SEC) Interrogatory 1.0-SEC-2

Please provide a table showing, for each, between 2015-2019:

a) The proposed distribution revenue to be collected under the plan.

b) The distribution revenue the Applicant would expect to receive under 4th Generation IRM using 2015 proposed rates as the base.

Response:

Please refer to the following table:

Distribution Revenue (Base Revenue Requirement)

Year	EB-2014-0101	IRM @ 1.45%
2015	21,565,264	21,565,264
2016	23,547,653	21,877,960
2017	24,391,239	22,195,190
2018	25,605,243	22,517,021
2019	26,193,843	22,843,517

OSHAWA PUC NETWORKS INC.

Response to School Energy Coalition (SEC)
Interrogatory 1.0-SEC-3

[Ex.1]

Please provide a copy of all materials provided to the Board of Directors in approving this application, and the underlying test period budgets. Please also provide a copy of the Applicant’s most recent Business Plan.

Response:

Board materials are attached.

Request for Board Resolution
Rate Application

The following report to the Board includes the following:

1. Draft Board Resolution to satisfy the Ontario Energy Board's regulations to obtain and provide evidence that OPUCN's Board of Directors approve the Application for electricity delivery rates for the years 2015 through 2019.

2. A summary of the Key Elements included in the Application.

3. An overview of the impact on revenue requirement and Customer bills resulting from the Application.

LEGALLY PRIVILEGED DRAFT

[FORMAT FOR OPUCN RATE APPLICATION APPROVAL RESOLUTION]

RESOLVED:

1. That OPUCN file an application with the Ontario Energy Board (OEB) for approval of rates for the period 2015 through 2019, in accord with the OEB's "Custom Incentive Rate" plan framework.

2. That the rates requested for 2015 (2015 Rates) be substantially in accord with the rates set out in Schedule A.

3. That the rates requested for 2016 through 2019 be set in accord with a Custom Incentive Rate Plan (substantially in accord with Schedule A);

    a. the basic elements of which are substantially in accord with the "Custom IR Plan Key Elements" description set out in Schedule B; and

    b. the expected rate impacts under which, subject to pre-approved variance treatment for some of the rate plan elements, will be substantially in accord with those set out in Schedule C.

4. That OPUCN management are authorized to participate in the OEB's rate application process, which is expected to include settlement discussions with intervenors and OEB Staff, and which could include, if and as required, an adjudicative hearing process, all in order to obtain a rate order substantially reflecting;

    a. the 2015 proposed rates set out in Schedule A; and

    b. the Custom IR Plan Key Elements and expected rate impacts reflected in Schedules B and C;

    and that OPUCN's President is authorized, as OPUCN pursues the rate application process, to amend and/or compromise on OPUCN's 2015 Rate and/or Custom IR Rate Plan proposals as may, in his discretion, be advisable in order to achieve revenue and operational outcomes consistent with those reflected in the 2015 Rates and the Custom IR Plan framework hereby approved.

LEGALLY PRIVILEGED DRAFT

TOR_LAW\ 8535912\4

October 21, 2014

OPUCN 2015 – 2019 Custom IR Plan
Schedule A
Rates

The annual revenue requirement is provided in the following table:

	At Board-Approved Rates				Test Years at Proposed Rates				
	2012 Board-Approved	2012 Audited	2013 Audited	2014 Bridge Year	2015	2016	2017	2018	2019
Total Distribution Revenue	20,033,142	19,484,234	19,471,948	19,484,080	22,923,093	25,013,156	25,912,050	26,777,820	27,346,306
Other Distribution Revenue	-1,782,057	-1,672,155	-1,546,867	-1,370,475	-1,482,717	-1,509,808	-1,637,145	-1,482,378	-1,516,783
Operating Revenue	18,251,085	17,812,079	17,925,081	18,113,604	21,440,376	23,503,348	24,274,905	25,295,442	25,829,523

Rates are a function of prescribed billing determinants for each Customer Class and are set in order to achieve revenue requirement based upon each Customer Class' allocated share of the Company's costs and expected return on equity.

The following table presents the annual revenue requirement calculated for each Customer Class:

	At Board-Approved Rates				Test Years at Proposed Rates				
	2012 Board-Approved	2012 Audited	2013 Audited	2014 Bridge Year	2015	2016	2017	2018	2019
Residential	10,753,668	10,500,774	10,563,015	10,728,223	12,902,423	14,188,453	14,582,940	15,130,452	15,287,791
GS Less Than 50 KW	2,575,166	2,613,205	2,610,463	2,641,120	2,778,582	3,073,757	3,164,302	3,282,328	3,321,681
GS 50 To 999 KW	3,505,793	3,210,935	3,274,806	3,301,935	4,218,932	4,769,820	5,028,218	5,339,461	5,533,302
GS Intermediate 1,000 To 4,999 KW	465,943	542,792	570,202	535,829	404,372	422,172	409,512	404,300	360,263
Large Use	197,547	226,694	232,630	237,328	253,726	279,201	288,263	299,306	303,378
Street Lighting	696,349	670,252	626,148	620,072	823,733	707,474	738,959	776,276	960,714
Sentinel Lighting	1,826	0	0	0	2,067	1,885	1,820	1,768	1,702
Unmetered Scattered Load	54,793	47,426	47,816	49,096	56,540	60,586	60,891	61,551	60,692
Operating Revenue	18,251,085	17,812,079	17,925,081	18,113,604	21,440,376	23,503,348	24,274,905	25,295,442	25,829,523
Other Distribution Revenue	1,782,057	1,672,155	1,546,867	1,370,475	1,482,717	1,509,808	1,637,145	1,482,378	1,516,783
Total Distribution Revenue	20,033,142	19,484,234	19,471,948	19,484,080	22,923,093	25,013,156	25,912,050	26,777,820	27,346,306

Billing determinants include the number of customers in each rate class, the amount of electricity used (kWh) and the total demand for electricity (kW). Rates are made up of two components:

1. The fixed component is the monthly amount charged to each customer in the class; and
2. The variable component is charged on the amount consumed (kWh) or the demand (kW) depending on the Customer Class.

LEGALLY PRIVILEGED DRAFT

The following table summarizes the monthly rates for each Customer Class in each year accompanied by the current year for comparison:

Class	Item Description	Unit	2014 Act	2015 Rate ($)	2016 Rate ($)	2017 Rate ($)	2018 Rate ($)	2019 Rate ($)
Residential								
	Monthly Service Charge	per month	$8.47	$9.88	$10.68	$10.83	$11.08	$11.05
	Distribution Volumetric Rate	per kWh	$0.0120	$0.0140	$0.0151	$0.0154	$0.0157	$0.0157
GS Less Than 50 KW								
	Monthly Service Charge	per month	$8.38	$8.50	$9.19	$9.33	$9.54	$9.52
	Distribution Volumetric Rate	per kWh	$0.0170	$0.0173	$0.0187	$0.0190	$0.0194	$0.0194
GS 50 To 999 KW								
	Monthly Service Charge	per month	$43.13	$50.14	$54.20	$55.04	$56.23	$56.09
	Distribution Volumetric Rate	per kW	$3.7097	$4.3001	$4.6419	$4.7127	$4.8131	$4.8037
GS Intermediate 1,000 To 4,999 KW								
	Monthly Service Charge	per month	$1,221.57	$1,067.46	$1,153.87	$1,171.79	$1,197.15	$1,116.74
	Distribution Volumetric Rate	per kW	$2.5923	$2.3361	$2.4798	$2.5095	$2.5517	$2.3711
Large Use								
	Monthly Service Charge	per month	$8,270.63	$8,469.98	$9,155.63	$9,297.82	$9,499.00	$9,421.14
	Distribution Volumetric Rate	per kW	$2.0531	$2.0881	$2.2086	$2.2335	$2.2689	$2.2704
Street Lighting								
	Monthly Service Charge	per month	$1.17	$1.86	$2.01	$2.04	$2.09	$2.51
	Distribution Volumetric Rate	per kW	$18.1042	$28.7345	$31.0607	$31.5385	$32.2106	$38.7598
Sentinel Lighting								
	Monthly Service Charge	per month	$4.34	$5.05	$4.77	$4.77	$4.80	$4.79
	Distribution Volumetric Rate	per kW	$6.2114	$7.2276	$6.8199	$6.8210	$6.8651	$6.8500
Unmetered Scattered Load								
	Monthly Service Charge	per month	$3.34	$3.90	$4.22	$4.28	$4.38	$4.37
	Distribution Volumetric Rate	per kWh	$0.0136	$0.0159	$0.0172	$0.0175	$0.0179	$0.0178

LEGALLY PRIVILEGED DRAFT

OPUCN 2015 – 2019 Custom IR Plan
Schedule B
Key Elements

"Allowed Revenue" approval based on 5 year cost of service forecasts.

1. OPUCN will seek approval for an "allowed revenue" for each year of the plan.

2. The application will include a forecast of OPUCN's expected total costs of service for each year of the plan. The "allowed revenue" requested for each year of the plan is that required for OPUCN to recover its expected total costs (including its cost of capital) for that year, subject to adjustment for each year of the plan for variances in certain, pre-defined non-controllable costs/revenues and volume forecast.

3. The "allowed revenue" will then be subject to the cost allocation and rate design methodology approved in this application to set rates for each of the rate plan years. Annual rate setting applications should be relatively mechanical, adjusting "allowed revenues" for flow through cost/revenue items and applying the cost allocation/rate design methodology to be confirmed in this application to those "allowed revenues" to determine rates.

Flow through of variances in major uncontrollable cost/revenue items.

4. The proposed cost/revenue flow through items, updated values of which will be used to adjust the "allowed revenue" each year during the plan period, are:

   a. Non-controllable capital projects:

      (i) Contributions for Hydro One Networks Inc. upstream transmission upgrades: Currently estimated for the plan period at $6.5 million.

      (ii) Plant relocation in response to 3rd party (407, region and city) requests: Currently estimated for the plan period at $7.7 million.

      (iii) System access requests for new customers (expansions, connections and metering): Currently estimated for the plan period at $6.1 million.

   b. Volume forecast (given customer growth and energy efficiency achievement timing uncertainty).

   c. Cost of capital (capital structure, ROE and debt costs to be updated annually to apply Board approved parameters).

   d. Major Regulatory events that would have a negative impact on the outcomes of the Application; for example, revenue decoupling.

LEGALLY PRIVILEGED DRAFT

Two efficiency incentive mechanisms: long-term (avoided rate base) and short term (efficiency carry over).

5. To respond to the OEB's stated objective of incenting efficiency OPUCN will propose two efficiency incentive mechanisms;

    a. A capital investment efficiency incentive mechanism.

    b. A total cost short term efficiency carry over mechanism.

6. A Controllable Capital Investment Efficiency Incentive Mechanism (CCIEIM) will be proposed. The purpose of this incentive mechanism is mitigate, to some extent, the <u>dis</u>incentive to control capital expenditure and thus avoid rate base.

7. The CCIEIM would be applied as follows:

    a. Two major capital investment programs, currently estimated at $25 million, are identified for incentive treatment;

        (i) System renewal program (overhead, underground and station rebuilds required to maintain grid reliability).

        (ii) New municipal substation and associated distribution feeders.

    b. Actual costs over the plan period will be tracked for each of these programs.

    c. Variances from approved capital costs for each of these programs will be subject to the following efficiency incentive mechanism:

        (i) For each program, the revenue requirement benefit/burden of variances from the approved capital spending forecast will be shared between OPUCN and ratepayers on a 50:50 basis.

        (ii) If the variance is positive (i.e. OPUCN executes the capital program at a cost lower than approved), OPUCN will earn an incentive equal to the revenue requirement impact of 50% of the avoided rate base costs, for the duration of the average depreciation period for the capital items included in the program.

        (iii) If the variance is negative (i.e. if OPUCN spends more on the capital program than approved), OPUCN will only be able to include 50% of the incremental capital costs in its rate base following the end of the Custom Rate Plan term.

(iv) The incremental benefit/burden will be subject to "off-ramp' regulations

8. A total cost short term efficiency carry over mechanism (ECM) will also be proposed. The purpose of this mechanism is to continue to incent general efficiency initiatives late in the Custom IR Plan period, by allowing the utility to capture resulting cost savings for a short period of time following the end of the rate plan period.

9. The ECM would be applied as follows:

a. At the end of the 5 year Custom IR Rate Plan period, actual earnings in each year of the rate plan period will be determined, inclusive of allowed flow through costs but exclusive of costs and revenues associated with the two capital programs subject to the CCEIEM.

b. An average of the difference in each year of the plan between the actual ROE and the Board approved ROE will be calculated.

c. If that average difference in earnings is positive, OPUCN will be entitled to recover in rates in each of the next 2 years following the end of the Custom IR Plan an ECM "rate rider" equal to 50% of that difference.

d. The ECM will be subject to "off-ramp" regulations.

Supporting Independent Studies

10. OPUCN will file the following independent studies in support of its cost forecasts, to validate the reasonableness and veracity of the forecasts, and to support the request for efficiency incentive mechanisms (i.e. to demonstrates that cost reductions from forecast are true efficiency achievements and not a function of inflated cost forecasts):

a. A review by Metsco to validate OPUCN's asset condition assessment and resulting asset management project prioritization and implementation plan.

b. A review by NBM Engineering Inc. to validate OPUCN's asset investment cost forecasts.

c. A total cost benchmarking analysis by Pacific Economics Group to demonstrate, based on the OEB's own distributor cost benchmarking model, that OPUCN's cost forecasts are at or below predicted values given OPUCN's forecast system and service requirements.

Fixed/Variable Rate Design Adjustment

11. OPCUN will propose to increase its proportion of fixed to variable rate components to align with the distribution sector average, in order to stabilize

distribution revenue. Such a change will also smooth transition to full revenue decoupling if the OEB moves in that direction. (OPUCN's proposal will be to adopt any future OEB directed change in fixed/variable cost recovery in rates if and as directed by the OEB.)

TOR_LAW\ 8546132\1

LEGALLY PRIVILEGED DRAFT

OPUCN 2015 – 2019 Custom IR Plan
Schedule C
Bill Impacts

Electricity bills include a number of components. The billing components can be grouped into the following four categories:

1. Distribution revenue is derived from a fixed rate plus a variable rate applied to consumption or demand depending on the Customer Class.
2. Flow through charges are billed to customers on behalf of other stakeholders in the process of providing electricity. For example:
   - Cost of power and global adjustment (GA) charges (generally, although a component of GA is to pay for initiatives like CDM) are billed on behalf of power generators;
   - Transmission and network charges flow through to Hydro One;
   - Smart meter entity charge is for the recovery of the IESO's centralized meter data processing system (MDM/R); and
   - Wholesale market services charge (WMSC) is collected on behalf of the IESO.
3. Variances occur between the amounts collected for flow through charges and the amounts paid to the IESO. These amounts are recorded in regulatory receivable/payable accounts over time and cleared through "Rate Riders" and "Rate Adders". These amounts allow distributors to reconcile their cash inflows and outflows.
4. Taxes are the final category. HST and Debt Retirement Charges apply.

The following tables provide the changes in rates relating to billing components for distribution revenue only. The amounts in the first table are expected monthly distribution charges for a "typical" customer in the respective Class. For example, a "typical" Residential Customer is considered to consume 800 kWhs. The annual percentage change in the monthly amounts is provided in the second table.

Sub-Total A (excluding pass through)	Current Rates	Test Years at Proposed Rates				
Represents Distribution Revenue	2014 Bridge Year	2015	2016	2017	2018	2019
Residential (800 kWh monthly use)	$ 18.74	$ 21.75	$ 22.76	$ 23.15	$ 23.64	$ 23.61
GS < 50 kW (2,000 kWh monthly use)	$ 45.30	$ 46.02	$ 46.59	$ 47.33	$ 48.34	$ 48.32
GS 50 - 999 kW (140,000 kWh, 480 kW)	$ 1,823.79	$ 2,114.19	$ 2,282.31	$ 2,317.14	$ 2,366.52	$ 2,361.87
GS Intermediate 1,000 - 4,999 kW (417,000 kWh, 919 kW)	$ 3,603.89	$ 3,214.34	$ 3,432.81	$ 3,478.02	$ 3,542.16	$ 3,295.78
Large Use (3,662,000 kWH, 7,828 kW)	$ 24,342.30	$ 24,815.63	$ 26,444.55	$ 26,781.66	$ 27,259.95	$ 27,193.83
Street Lighting	$ 4.61	$ 5.31	$ 4.49	$ 4.56	$ 4.67	$ 5.61
Sentinel Lighting	$ 6.82	$ 7.94	$ 7.50	$ 7.50	$ 7.55	$ 7.53
Unmetered Scattered Load	$ 13.54	$ 15.83	$ 17.12	$ 17.41	$ 17.81	$ 17.72

LEGALLY PRIVILEGED DRAFT

Sub-Total A (excluding pass through)	Current Rates	Test Years at Proposed Rates				
Percent Change	**2014 Bridge Year**	**2015**	**2016**	**2017**	**2018**	**2019**
Residential (800 kWh monthly use)		16.1%	4.6%	1.7%	2.1%	-0.1%
GS < 50 kW (2,000 kWh monthly use)		1.6%	1.2%	1.6%	2.1%	0.0%
GS 50 - 999 kW (140,000 kWh, 480 kW)		15.9%	8.0%	1.5%	2.1%	-0.2%
GS Intermediate 1,000 - 4,999 kW (417,000 kWh, 919 kW)		-10.8%	6.8%	1.3%	1.8%	-7.0%
Large Use (3,662,000 kWH, 7,828 kW)		1.9%	6.6%	1.3%	1.8%	-0.2%
Street Lighting		15.1%	-15.3%	1.5%	2.3%	20.2%
Sentinel Lighting		16.4%	-5.6%	0.0%	0.6%	-0.2%
Unmetered Scattered Load		16.9%	8.2%	1.7%	2.3%	-0.5%

The following tables include the amounts from above plus Rate Riders to clear variance accounts. These amounts, with a few exceptions, represent cash flow to Oshawa.

Sub-Total B - Distribution	Current Rates	Test Years at Proposed Rates				
Represents Distribution Revenue plus Rate Riders	**2014 Bridge Year**	**2015**	**2016**	**2017**	**2018**	**2019**
Residential (800 kWh monthly use)	$ 23.03	$ 27.58	$ 28.27	$ 28.66	$ 29.15	$ 29.12
GS < 50 kW (2,000 kWh monthly use)	$ 54.64	$ 59.21	$ 59.18	$ 59.92	$ 60.93	$ 60.91
GS 50 - 999 kW (140,000 kWh, 480 kW)	$ 2,383.90	$ 3,013.29	$ 3,177.91	$ 3,212.74	$ 3,262.12	$ 3,257.47
GS Intermediate 1,000 - 4,999 kW (417,000 kWh, 919 kW)	$ 5,239.37	$ 5,614.78	$ 5,855.67	$ 5,900.89	$ 5,965.03	$ 5,718.65
Large Use (3,662,000 kWH, 7,828 kW)	$ 29,055.35	$ 34,478.32	$ 36,303.73	$ 36,640.84	$ 37,119.13	$ 37,053.01
Street Lighting	$ 4.97	$ 5.62	$ 4.67	$ 4.74	$ 4.84	$ 5.78
Sentinel Lighting	$ 7.43	$ 8.64	$ 8.10	$ 8.10	$ 8.15	$ 8.13
Unmetered Scattered Load	$ 16.67	$ 20.40	$ 21.54	$ 21.83	$ 22.23	$ 22.14

Sub-Total B - Distribution	Current Rates	Test Years at Proposed Rates				
Represents Distribution Revenue plus Rate Riders	**2014 Bridge Year**	**2015**	**2016**	**2017**	**2018**	**2019**
Residential (800 kWh monthly use)		19.7%	2.5%	1.4%	1.7%	-0.1%
GS < 50 kW (2,000 kWh monthly use)		8.4%	-0.1%	1.3%	1.7%	0.0%
GS 50 - 999 kW (140,000 kWh, 480 kW)		26.4%	5.5%	1.1%	1.5%	-0.1%
GS Intermediate 1,000 - 4,999 kW (417,000 kWh, 919 kW)		7.2%	4.3%	0.8%	1.1%	-4.1%
Large Use (3,662,000 kWH, 7,828 kW)		18.7%	5.3%	0.9%	1.3%	-0.2%
Street Lighting		13.1%	-16.9%	1.5%	2.2%	19.5%
Sentinel Lighting		16.3%	-6.2%	0.0%	0.6%	-0.2%
Unmetered Scattered Load		22.4%	5.6%	1.3%	1.8%	-0.4%

The following tables include the amounts from above plus network and transmission charges for Hydro One Transmission.

Sub-Total C - Delivery	Current Rates	Test Years at Proposed Rates				
Represents Distribution Revenue plus Rate Riders plus Transmission	**2014 Bridge Year**	**2015**	**2016**	**2017**	**2018**	**2019**
Residential (800 kWh monthly use)	$ 33.96	$ 39.32	$ 40.01	$ 40.40	$ 40.89	$ 40.86
GS < 50 kW (2,000 kWh monthly use)	$ 79.67	$ 86.05	$ 86.02	$ 86.76	$ 87.77	$ 87.75
GS 50 - 999 kW (140,000 kWh, 480 kW)	$ 4,461.39	$ 5,230.27	$ 5,394.89	$ 5,429.71	$ 5,479.10	$ 5,474.44
GS Intermediate 1,000 - 4,999 kW (417,000 kWh, 919 kW)	$ 10,318.04	$ 11,034.03	$ 11,274.93	$ 11,320.14	$ 11,384.28	$ 11,137.90
Large Use (3,662,000 kWH, 7,828 kW)	$ 75,621.77	$ 84,175.85	$ 86,001.25	$ 86,338.36	$ 86,816.65	$ 86,750.53
Street Lighting	$ 5.69	$ 6.11	$ 5.00	$ 5.06	$ 5.17	$ 6.11
Sentinel Lighting	$ 8.98	$ 10.31	$ 9.77	$ 9.77	$ 9.81	$ 9.80
Unmetered Scattered Load	$ 26.06	$ 30.47	$ 31.62	$ 31.90	$ 32.30	$ 32.22

Sub-Total C - Delivery	Current Rates	Test Years at Proposed Rates				
Represents Distribution Revenue plus Rate Riders plus Transmission	**2014 Bridge Year**	**2015**	**2016**	**2017**	**2018**	**2019**
Residential (800 kWh monthly use)		15.8%	1.8%	1.0%	1.2%	-0.1%
GS < 50 kW (2,000 kWh monthly use)		8.0%	0.0%	0.9%	1.2%	0.0%
GS 50 - 999 kW (140,000 kWh, 480 kW)		17.2%	3.1%	0.6%	0.9%	-0.1%
GS Intermediate 1,000 - 4,999 kW (417,000 kWh, 919 kW)		6.9%	2.2%	0.4%	0.6%	-2.2%
Large Use (3,662,000 kWH, 7,828 kW)		11.3%	2.2%	0.4%	0.6%	-0.1%
Street Lighting		7.3%	-18.2%	1.4%	2.0%	18.3%
Sentinel Lighting		14.7%	-5.2%	0.0%	0.5%	-0.2%
Unmetered Scattered Load		16.9%	3.8%	0.9%	1.3%	-0.3%

The OEB currently employs a policy that requires rate mitigation for any rate change that would otherwise result in a change in the total bill of more than 10%.

Rate mitigation can be defined as the shifting of revenues from one time period to another or there distribution of the revenue requirement between tariff classes to avoid unacceptable rate impacts.

The final table provides the impact of the 2015 delivery rates on the total bill. The comparison uses current rates for charges that are not included in the Application; including cost of power, GA, WMSC, etc. As these rates are issued by the OEB, calculations will be updated accordingly.

Bill Impacts on Total Bill	Current Rates	Test Year at Proposed
	2014 Bridge Year	2015
Residential (800 kWh monthly use)		4.6%
GS < 50 kW (2,000 kWh monthly use)		2.3%
GS 50 - 999 kW (140,000 kWh, 480 kW)		3.9%
GS Intermediate 1,000 - 4,999 kW (417,000 kWh, 919 kW)		1.3%
Large Use (3,662,000 kWH, 7,828 kW)		1.8%
Street Lighting		3.0%
Sentinel Lighting		5.7%
Unmetered Scattered Load		4.3%

The annual increases for the Test Years 2016 through 2019 are not as significant as 2015 and would not be the subject of rate mitigation.

Management is proposing to include as a key element to the Application, smoothing the cumulative average rate increase over the rate period. The impact of smoothing would reduce the 2015 rate increase of 4.6% of the estimated total bill to approximately 1% to 2%.

Oshawa PUC

Fiscal Year	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Discount rate at start of period	4.75%	4.00%	4.00%	4.00%	4.00%	4.00%
Discount rate at end of period	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Interest rate on assets	N/A	N/A	N/A	N/A	N/A	N/A
EARSL Period	10.90	10.90	10.90	10.90	10.90	10.90
Reconcile Obligation						
Obligation at start of year	10,512,134	10,026,533	10,196,375	10,383,816	10,596,588	10,801,206
Revaluation	0	0	0	0	0	0
Transfer	0	0	0	0	0	0
Plan amendments in year	0	0	0	0	0	0
Employer current service cost	173,623	181,845	189,119	196,684	204,551	212,733
Member contributions	0	0	0	0	0	0
Benefit payments	(413,291)	(408,531)	(405,211)	(395,292)	(419,498)	(434,118)
Interest on obligation	493,634	396,528	403,533	411,380	419,565	427,621
Obligation at end of year	10,766,100	10,196,375	10,383,816	10,596,588	10,801,206	11,007,442
Actual obligations at end of year	10,026,533	10,196,375	10,383,816	10,596,588	10,801,206	11,007,442
(Gain)/Loss recognized at end of year	(739,567)	0	0	0	0	0
Reconcile Plan Funds						
Asset at start of period	0	0	0	0	0	0
Employer contributions	413,291	408,531	405,211	395,292	419,498	434,118
Benefit payments	(413,291)	(408,531)	(405,211)	(395,292)	(419,498)	(434,118)
Fund earnings	0	0	0	0	0	0
Asset at end of period	0	0	0	0	0	0
Expense						
Current service cost	173,623	181,845	189,119	196,684	204,551	212,733
Interest on obligation	493,634	396,528	403,533	411,380	419,565	427,621
Interest on assets	0	0	0	0	0	0
Amortize transition amount	0	0	0	0	0	0
Amortize plan improvements	0	0	0	0	0	0
Amortize gains and losses	0	0	0	0	0	0
Expense	667,257	578,373	592,652	608,064	624,116	640,354
Transition obligation (asset)						
Transition amount at start of period	0	0	0	0	0	0
Amortization during period	0	0	0	0	0	0
Transition amount at end of period	0	0	0	0	0	0
Prior service costs						
Unamortized amount at start if period	0	0	0	0	0	0
Past service in period	0	0	0	0	0	0
Amortization during period	0	0	0	0	0	0
Unamortized amount at end of period	0	0	0	0	0	0
Actuarial (gains) & losses						
Unamortized amount at start	(1,136,869)	0	0	0	0	0
10% Window						
Amount subject to amortization	(1,136,869)	0	0	0	0	0
(Gain) or Loss in period	(739,567)	0	0	0	0	0
Transfer to balance sheet on conversion	*1,136,869*					
Gain/Loss recognized in Balance Sheet	739,567	0	0	0	0	0
Amortization during period	0	0	0	0	0	0
Unamortized (gain)/loss at end	0	0	0	0	0	0
Balance sheet asset (liability)						
Amount at start of period	(11,649,003)	(10,026,533)	(10,196,375)	(10,383,816)	(10,596,588)	(10,801,206)
Transfer from gains & losses on conversion	*1,136,869*					
Gain/Loss recognized in Balance Sheet	739,567	0	0	0	0	0
Expense in period	(667,257)	(578,373)	(592,652)	(608,064)	(624,116)	(640,354)
Employer contribution	413,291	408,531	405,211	395,292	419,498	434,118
Amount at end of period	(10,026,533)	(10,196,375)	(10,383,816)	(10,596,588)	(10,801,206)	(11,007,442)
Reconcile funded status						
Benefit obligation at end of period	10,026,533	10,196,375	10,383,816	10,596,588	10,801,206	11,007,442
Asset value at end of period	0	0	0	0	0	0
Funded status - surplus (deficit)	(10,026,533)	(10,196,375)	(10,383,816)	(10,596,588)	(10,801,206)	(11,007,442)
Unamortized transition obligation (asset)	0	0	0	0	0	0
Unamortized prior service costs	0	0	0	0	0	0
Unamortized (gains) & losses	0	0	0	0	0	0
Balance sheet asset (liability)	(10,026,533)	(10,196,375)	(10,383,816)	(10,596,588)	(10,801,206)	(11,007,442)

OSHAWA PUC NETWORKS INC.

Response to School Energy Coalition (SEC)
Interrogatory 1.0-SEC-4

Does the Applicant have a corporate scorecard? If so, please provide the 2014 and 2015 version.

Response:

OPUCN does not maintain a corporate scorecard separate from the Distributor Scorecard filed with the Board. A link to OPUCN's 2014 Distributor Scorecard is provided below.

http://www.ontarioenergyboard.ca/documents/scorecard/2013/Scorecard%20-%20Oshawa%20PUC%20Networks%20Inc..pdf

OSHAWA PUC NETWORKS INC.

Response to School Energy Coalition (SEC) Interrogatory 1.0-SEC-5

Please explain why the Applicant filed its application late and why it is appropriate for rates to be effective January 1, 2015.

Response:

OPUCN filed a letter on December 23, 2014 to notify the Board of its intention to deliver its rate application prior to the end of January 2015 and to request that its current rates be declared interim as of January 1, 2015, pending disposition of its application to determine rates for the period 2015 through 2019.

In the letter OPUCN indicated that despite its best efforts, a delay in their intended filing resulted from the "scale and scope of an application involving 5 test years and a comprehensive Distribution System Plan prepared in accord with Chapter 5 of the Board's *Filing Requirements for Transmission and Distribution Applications* (March 28, 2013), inclusive of a number of supporting external review/reports commissioned at the end of 2013 and through 2014."

The Custom IR cost of service rate application is a significant undertaking for a utility like OPUCN. As per Exhibit 1, Tab C and OPUCN's presentation filed with the Board on April 1, 2015, OPUCN is a relatively "lean" organization with generally very low distribution rates resulting primarily from managing resources in an efficient manner and maintaining OM&A costs at levels required to sustain day to day operations. Therefore, OPUCN does not have permanent staff dedicated to preparing rate applications.

In order to meet the complex requirements of the Custom IR application, it was necessary for OPUCN to source and acquire the necessary expertise to assist them in preparing a complete, sufficient and appropriate application that would be acceptable to the Board. In addition, there is an expanding expectation imposed on utilities to utilize independent experts to provide reports attached to the application as evidence. For example, the Asset Condition Assessment and Lead/Lag Study. Additionally, for a Custom IR, there are further expectations related to Benchmarking.

Also, the Custom IR rate-setting mechanism is new and there is limited direction on the requirements necessary to obtain the Board's acceptance. As a result, OPUCN found it necessary and in the end useful, to follow the progress of other applicants who filed ahead of them; Enbridge, Horizon and Hydro One in particular. In some cases, Decisions for these applicants were only recently rendered.

Addressing the "regulatory" complexities noted above were exacerbated by the challenges OPUCN faced in completing its Distribution System Plan ("Plan"). Much of the Plan was influenced by outside demands from the City of Oshawa, Region of Durham, Hydro One and developers active in OPUCN's service territory. As a result, the Plan was dynamic and OPUCN had to continually update the Plan over the course finalizing.

Finally, due to the risks associated with a five year plan and the Board's interest in incentive-based rate-setting, OPUCN had to carefully, migrate through the various inputs and outcomes influencing its application and determine which risk factors were reasonable for OPUCN and its rate payers to accept, and risks that OPUCN felt should be tempered by adjustment mechanisms. Also, OPUCN believes it addressed incentive mechanisms in response to the Board's expectations.

The outcome of OPUCN's risk assessment, was a set of adjustment and incentive mechanisms that OPUCN developed in response to its risk assessment.

Unfortunately, OPUCN was unable to file its Custom IR rate application in a time frame that allowed for a Decision on January 1, 2015 rates as a result of the conditions outlined above.

However, OPUCN believes the completed rate application meets the requirements of the Board and provides sufficient and appropriate evidence to support its proposals. On February 18, 2015, the Board issued its Notice of Application and Hearing relating to OPUCN's 2015 – 2019 Custom IR distribution rates application in its Letter of Direction in support of the application.

As per Exhibit 1, Tab C, page 4 and Exhibit 3, page 12, OPUCN has identified the reasons and provided it's evidence for filing a Custom IR rate application and for filing its cost of service one year earlier than scheduled.

The primary driver for early cost of service is the erosion to OPUCN's earnings resulting from the level of capital expenditures required since the Company's last cost of service for 2012 rates. As per Exhibit 3, starting on page 12, OPUCN triggered an off-ramp on earnings beginning with 2013 and continuing each year until rates are rebased.

Based upon its latest results, OPUCN was over 3% short of the Board's ROE in 2013 and exceeded 4% in 2014. Forecast for 2015 earnings reflects a shortfall on ROE in excess of 8%.

OPUCN believes that although it was late in filing the rate application despite its best efforts, it would be unreasonable to expose earnings results to the levels expected.

It is important to note that OPUCN has proposed a rate smoothing mechanism that captures revenue requirement otherwise earned from January 1, 2015 until the effective date of new rates and collects the amount over the remaining Test Years.

In accepting rates effective January 1, 2015 and the rate smoothing proposal, the Board provides for reasonable and fair earnings for OPUCN and mitigates the impact of a shortened Test Year in 2015 on rate payers.

OSHAWA PUC NETWORKS INC.

Response to School Energy Coalition (SEC) Interrogatory 1.0-SEC-6

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

Response:

OPUCN is committed to building sustainable and reliable infrastructure assets to service the needs of its community, and to comply with regulatory obligations and license conditions. OPUCN is also committed to improving business operations and has implemented processes, system reviews and enhancements to gain further productivity and efficiencies in its work place.

The budget process for OPUCN requires input from all areas of the Company. It is the responsibility of each department to identify their operating budgets and capital expenditure requirements, if required, through careful analysis of their specific needs, and with the assistance of the Finance department, prepare their respective budgets.

The Finance department has carriage over coordinating the process which includes: (1) consolidating the departmental results for OM&A expenses and capital expenditures; (2) componentizing capital investments; (3) calculating amortization and depreciation expenses; (4) identifying financing requirements if needed, and calculating interest; (5) calculating PILs; and (6) presenting preliminary budgets to the Company's Executive Committee. There are a number of iterations that typically involve input from and updates by the department managers before the final draft budget is agreed upon by the Executive Committee.

The final draft budget is presented to the Company's Board of Directors for approval. After Board of Directors approval the budget amounts do not change. This approved budget provides a plan for all departments against which actual results are evaluated.

The Distribution System Plan ("Plan") follows the same process, but takes into account outside inputs including the Asset Condition Assessment, City and Region input, Hydro One and other inputs considered relevant in developing the Plan.

The Board of Directors has appointed a Capital Committee who reviews OPUCN's capital expenditure plans and provides a recommendation to the Board.

The budget information related to OPUCN's rate application is provided in response to 1.0-SEC-3.

OSHAWA PUC NETWORKS INC.

Response to School Energy Coalition (SEC) Interrogatory 1.0-SEC-7

[Ex.1-D]

Has the Applicant previously undertaken customer surveys? If so, please provide all copies of surveys conducted since 2012?

Response:

OPUCN obtained a Customer Service Survey which was included in its last of cost of service application for rates beginning on January 1, 2012.

Since that time, there were no additional surveys acquired.

OSHAWA PUC NETWORKS INC.

Response to School Energy Coalition (SEC)
Interrogatory 1.0-SEC-8

[Ex.1-D]

Did the Applicant do any customer engagement specific to this Custom IR application? If so, please provide details. Did any of those activities result in a change in the application?

Response:

Customer Focus with its sub-categories of Service Quality and Customer satisfaction is a major component of the scorecard. As such, OPUCN participated in the 16th Annual Customer Satisfaction survey conducted by UtilityPULSE. OPUCN has participated from time to time in the UP Annual survey since 2005; the last time in 2011.

The UP survey is a comprehensive survey covering multiple aspects of what it means to have Customer Focus. While the scorecard values a hard metric on items such as “Billing Accuracy”, the UP survey does ask responds about “Accurate billing”. It is a way of showing that a “hard metric” may not translate into the same “customer perception” rating.

For this rate application, OPUCN worked with UP to assist in designing some of the supplemental questions that were asked in the 16th Annual Survey. In addition OPUCN worked with UP, and commissioned them, to conduct a GS>50 customer survey.

OPUCN believed the Survey reinforced its Distribution System Plan (“Plan”) to the extent the Plan addressed issues of interest to customers. OPUCN’s Plan includes discretionary System Renewal activities the forecast amount of which is between $4 million and $5 million annually. The majority of the remaining planned expenditures are in response to City and Regional expansion plans, and Hydro One’s regional activities which are mostly non-discretionary and therefore difficult to measure against customer’s survey responses.

OSHAWA PUC NETWORKS INC.

Response to School Energy Coalition (SEC) Interrogatory 1.0-SEC-9

[Ex.1-E]

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

Response:

A copy of 2014 Audited Financial Statements are attached.

Financial Statements

Oshawa PUC Networks Inc.

December 31, 2014

INDEPENDENT AUDITORS' REPORT

To the Shareholder of
Oshawa PUC Networks Inc.

We have audited the accompanying financial statements of **Oshawa PUC Networks Inc.**, which comprise the balance sheet as at December 31, 2014, the statements of income and retained earnings, comprehensive income and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Oshawa PUC Networks Inc.** as at December 31, 2014 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,
xxx xx, 2015.

Oshawa PUC Networks Inc.

BALANCE SHEET

[in thousands of dollars]

As at December 31

	2014 $	2013 $
ASSETS		
Current		
Cash [including customer deposits in 2014 - $2,422, 2013 - $2,574]	**—**	3,427
Accounts receivable *[note 12]*	**10,231**	9,972
Payments in lieu of corporate income taxes	**323**	451
Unbilled revenue	**12,313**	13,081
Inventory	**87**	51
Prepaid expenses and other	**154**	97
Current portion of regulatory assets *[note 4]*	**572**	586
Total current assets	**23,680**	27,665
Property, plant and equipment *[note 3]*	**85,320**	77,504
Deferred IRU leases *[note 17]*	**414**	444
Future income tax assets *[note 6]*	**7,102**	7,935
Other assets	**484**	175
Total non-current assets	**93,320**	86,058
Total assets	**117,000**	113,723
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current		
Accounts payable for power - IESO *[note 16]*	**11,889**	11,728
Accounts payable and accrued liabilities	**7,710**	6,526
Due to affiliates *[note 12]*	**4,993**	2,554
Bank overdraft *[note 10]*	**836**	—
Customer advance payments	**1,942**	2,511
Current portion of long-term liabilities *[note 5]*	**2,927**	2,899
Total current liabilities	**30,297**	26,218
Note payable to shareholder *[note 9]*	**23,064**	23,064
Long-term debt *[note 10]*	**7,000**	7,000
Unrealized loss on interest rate swaps *[note 15]*	**295**	66
Customer advance deposits	**1,512**	1,664
Post-employment non-pension retirement benefits *[note 8]*	**11,895**	11,678
Regulatory liabilities *[note 4]*	**2,812**	5,135
Total non-current liabilities	**46,578**	48,607
Total liabilities	**76,875**	74,825
Shareholder's equity		
Capital stock *[note 11]*	**23,064**	23,064
Retained earnings	**17,278**	15,882
Accumulated comprehensive loss on interest rate swaps	**(217)**	(48)
Total shareholder's equity	**40,125**	38,898
Total liabilities and shareholder's equity	**117,000**	113,723
Commitments and contingencies *[notes 13 and 14]*		

See accompanying notes

On behalf of the Board:

Director Director

Oshawa PUC Networks Inc.

STATEMENT OF INCOME AND RETAINED EARNINGS

[in thousands of dollars]

Year ended December 31

	2014	2013
	$	$
REVENUE		
Sale of electrical energy	**121,736**	120,085
Cost of electrical energy	**103,266**	102,012
Net revenue from sale of electrical energy	**18,470**	18,073
Other revenue		
Regulated service	**1,306**	1,476
Service	**232**	236
Other	**216**	130
Total other revenue	**1,754**	1,842
Net revenue	**20,224**	19,915
EXPENSES		
Operations, maintenance and administrative	**14,940**	15,206
Allocated to property, plant and equipment and billable jobs	**(3,729)**	(4,001)
Net operations, maintenance and administrative expenses	**11,211**	11,205
Income before the following:	**9,013**	8,710
Depreciation - property, plant and equipment	**(3,723)**	(3,653)
Amortization - deferred IRU leases	**(30)**	(30)
Loss on disposal of property, plant and equipment	**(187)**	(208)
Interest income	**44**	48
Interest expense *[note 10]*	**(1,836)**	(1,802)
Income before payments in lieu of corporate income taxes	**3,281**	3,065
Provision for payments in lieu of corporate income taxes *[note 6]*	**185**	162
Net income for the year	**3,096**	2,903
Retained earnings, beginning of year	**15,882**	14,679
Dividends paid	**(1,700)**	(1,700)
Retained earnings, end of year	**17,278**	15,882

See accompanying notes

Oshawa PUC Networks Inc.

STATEMENT OF CASH FLOWS

[in thousands of dollars]

Year ended December 31

	2014 $	2013 $
OPERATING ACTIVITIES		
Net income for the year	**3,096**	2,903
Add (deduct) items not involving cash		
Depreciation	**3,723**	3,653
Future income taxes	**833**	1,024
Unrealized loss (gain) on interest rate swapss	**229**	(266)
Accumulated other comprehensive income	**(169)**	196
Loss on disposal of property, plant and equipment	**187**	208
Amortization - deferred IRU leases	**30**	30
Post-employment non-pension retirement benefits, net of cash payments	**217**	272
	8,146	8,020
Changes in non-cash working capital balances related to operations		
Increase in accounts receivable	**(259)**	(2,357)
Decrease (increase) in payments in lieu of corporate income taxes	**128**	(306)
Decrease (increase) in unbilled revenue	**768**	(724)
Decrease in due from affiliates	**—**	408
(Increase) decrease in inventory	**(36)**	188
(Increase) decrease) in prepaid expenses and other	**(57)**	39
(Increase) decrease in other assets	**(309)**	73
Increase in accounts payable for power - IESO and accounts payable and accrued liabilities	**1,345**	4,928
Increase in due to affiliates	**2,439**	2,554
Decrease in regulatory liabilities, net of regulatory assets	**(2,309)**	(2,828)
Decrease in customer advance payments	**(569)**	(301)
Cash provided by operating activities	**9,287**	9,694
INVESTING ACTIVITIES		
Additions to property, plant and equipment	**(14,066)**	(12,339)
Developer contributions in aid of construction	**2,340**	1,683
Increase (decrease) in upstream capital improvement liability	**28**	(77)
Cash used in investing activities	**(11,698)**	(10,733)
FINANCING ACTIVITIES		
Dividends paid	**(1,700)**	(1,700)
Decrease in customer advance deposits	**(152)**	(38)
Cash used in financing activities	**(1,852)**	(1,738)
Net decrease in cash during the year	**(4,263)**	(2,777)
Cash, beginning of year	**3,427**	6,204
Cash, end of year	**(836)**	3,427
Supplemental cash flow information		
Interest paid [prior to capitalization of interest]	**1,928**	1,909
Payments in lieu of corporate income taxes	**59**	240

See accompanying notes

Oshawa PUC Networks Inc.

STATEMENT OF COMPREHENSIVE INCOME

[in thousands of dollars]

Year ended December 31

	2014	2013
	$	$
Net income for the year	**3,096**	2,903
Unrealized gain (loss) in fair value of derivatives designated as cash flow hedges, net of income taxes	**(240)**	123
Gain in fair value of derivatives designated as cash flow hedges, transferred to net income for the year, net of income taxes	**72**	73
Comprehensive income	**2,928**	3,099

See accompanying notes

Oshawa PUC Networks Inc.

SCHEDULE OF SUMMARY OF NET INCOME

[in thousands of dollars]

Year ended December 31

	2014	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**
	$	$	$	$	$	$	$	$	$	$
REVENUE										
Sale of electrical energy	**121,736**	120,085	114,136	114,440	110,135	104,201	101,087	102,206	99,044	99,903
Cost of electrical energy	**103,266**	102,012	96,182	94,230	91,168	85,808	83,068	84,573	81,724	83,185
Net revenue from sale of electrical energy	**18,470**	18,073	17,954	20,210	18,967	18,393	18,019	17,633	17,320	16,718
Other revenue										
Regulated service	**1,306**	1,476	1,585	1,335	1,578	1,457	1,428	1,245	823	395
Service	**232**	236	210	187	135	234	493	456	360	296
Other	**216**	130	8	23	156	15	39	67	57	21
Total other revenue	**1,754**	1,842	1,803	1,545	1,869	1,706	1,960	1,768	1,240	712
Net revenue	**20,224**	19,915	19,757	21,755	20,836	20,099	19,979	19,401	18,560	17,430
EXPENSES										
Operations, maintenance and administrative	**14,940**	15,206	14,915	14,224	13,335	13,361	14,046	13,886	13,024	12,718
Allocated to property, plant and equipment and billable jobs	**(3,729)**	(4,001)	(3,681)	(3,903)	(4,227)	(4,217)	(4,738)	(4,547)	(4,464)	(4,182)
Net operations, maintenance and administrative expenses	**11,211**	11,205	11,234	10,321	9,108	9,144	9,308	9,339	8,560	8,536
Income before the following	**9,013**	8,710	8,523	11,434	11,728	10,955	10,671	10,062	10,000	8,894
Depreciation - property, plant and equipment	**(3,723)**	(3,653)	(3,036)	(5,076)	(4,574)	(4,400)	(4,258)	(3,908)	(3,659)	(3,545)
Amortization - deferred IRU leases	**(30)**	(30)	(31)	(30)	(30)	(30)	(11)	—	—	—
(Loss) gain on disposal of property, plant and equipment	**(187)**	(208)	(75)	141	—	4	—	37	48	35
Non-recurring provision for deferred PILs	**—**	—	—	1,208	—	—	—	—	—	—
Interest income	**44**	48	102	144	96	151	531	762	830	632
Interest expense	**(1,836)**	(1,802)	(1,920)	(1,768)	(1,928)	(1,840)	(1,819)	(1,824)	(1,943)	(1,534)
Income before provision for payments in lieu of corporate income taxes	**3,281**	3,065	3,563	6,053	5,292	4,840	5,114	5,129	5,276	4,482
Provision for payments in lieu of corporate income taxes	**185**	162	47	1,637	1,885	1,924	1,666	1,968	1,888	2,007
Net income for the year	**3,096**	2,903	3,516	4,416	3,407	2,916	3,448	3,161	3,388	2,475

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2014

1. INCORPORATION

Oshawa PUC Networks Inc. [the "Corporation"] was incorporated under the *Business Corporations Act* (Ontario) on October 18, 2000. The incorporation was required in accordance with the provincial government's *Electricity Act*, 1998. The Corporation is a local distribution company ["LDC"] that provides electricity distribution services to businesses and residences in the service area of Oshawa, Ontario.

The Corporation is a wholly owned subsidiary of Oshawa Power and Utilities Corporation, which is wholly owned by the Corporation of the City of Oshawa [the "City"].

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The Corporation's financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ["GAAP"], including accounting principles prescribed by the Ontario Energy Board ["OEB"] in the *Accounting Procedures Handbook for Electric Distribution Utilities* ["AP Handbook"], and reflects the significant accounting policies summarized below.

Rate setting and regulation

The OEB has regulatory oversight of electricity matters in the Province of Ontario. The *Ontario Energy Board Act*, 1998 sets out the OEB's powers, including the issuance of distribution licenses that must be obtained by any person owning or operating a distribution system under the *Ontario Energy Board Act,* 1998. The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and for ensuring that LDCs fulfill obligations to connect and service customers.

As part of its regulation of LDCs, the OEB established a multi-year electricity distribution rate setting plan, 3rd Generation Incentive Rate-setting ("3rd Generation IR"), which indicated that, commencing with 2008 rates, a limited number of LDCs would be identified each year to file a future test year cost of service application. The plan would run for four years, enabling each LDC in the province to rebase its rates once during the four-year plan. For any of the other LDCs seeking approval to change their distribution rates, LDCs would file a mechanistic update to their current rates prescribed under the OEB's incentive regulation mechanism.

In June 2011, the Corporation filed its cost of service application with the OEB to rebase its rates for the four-year period commencing January 1, 2012. On January 10, 2012, the OEB approved the cost of service application filed by the Corporation and issued its Decision and Order for rates effective January 1, 2012.

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2014

On October 18, 2012, the Ontario Energy Board released its Report, Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach (RRFE). This renewed regulatory approach is intended to evolve the focus from costs and cost recovery to focusing on long-term value for money for consumers.

The OEB has established three rate-setting methods under RRFE. Each LDC will select the method that best meets its needs and circumstances, and apply to the OEB to have its rates set on that basis. 4th Generation Incentive Rate-setting (“4th Generation IR”), which builds on 3rd Generation IR, is most appropriate for distributors that anticipate some incremental investment needs will arise during the plan term. The OEB expects that this method will be appropriate for most LDCs. LDCs with relatively steady state investment needs (i.e., primarily sustainment), may opt for the Annual Incentive Rate-setting Index (“Annual IR Index”). The Custom Incentive Rate-setting (“Custom IR”) method may be appropriate for LDCs with significantly large multi-year or highly variable investment commitments with relatively certain timing and level of associated expenditures.

In January 2015, the Corporation filed its Custom IR application with the OEB to rebase its rates for the five-year period commencing January 1, 2015.

The OEB has the general authority to include or exclude costs and revenues in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have applied in an unregulated company under Canadian GAAP.

The following regulatory practices relating to regulatory assets and liabilities, and payments in lieu of corporate income taxes, have resulted in accounting treatments which differ from Canadian GAAP for enterprises operating in a non-regulated environment.

Regulatory assets and liabilities
Regulatory assets primarily represent costs that have been deferred because it is probable that they will be recovered in future rates. Similarly, regulatory liabilities can arise from differences in amounts billed to customers for electricity services and the costs that the Corporation incurs to purchase and deliver these services. Certain costs and variance account balances are deemed to be "regulatory assets" or "regulatory liabilities" and are reflected in the LDC's balance sheet until the manner and timing of disposition is determined by the OEB.

Payments in lieu of income taxes ["PILs"]
The Corporation provides for PILs using the future income taxes method for its regulated activities as permitted by The Chartered Professional Accountants of Canada ["CPA Canada"] and the OEB.

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2014

Inventory

Inventory, which consists of parts and supplies acquired for internal maintenance or construction, is valued at the lower of cost and net realizable value, with cost being determined on a weighted average basis.

Property, plant and equipment

Property, plant and equipment purchased or constructed by the Corporation are stated at historic costs and include contracted services, material, labour, engineering and overhead costs. Furthermore, constructed property, plant and equipment include ascribed interest during the period of construction.

Property, plant and equipment also include the cost of certain capital assets partially funded by developers as a contribution in aid of construction to the Corporation. The OEB requires that such contributions, whether in cash or in-kind, be offset against the related asset cost.

When identifiable capital assets are retired or otherwise disposed of, their original cost and accumulated depreciation are removed from the accounts and the related gain or loss is included in the determination of income for the year. Repairs and maintenance expenditures are charged to operations as incurred.

Depreciation is provided on a straight-line basis over the estimated service lives of the property, plant and equipment as follows:

Buildings	1.61% - 2.38%
Transmission, distribution system and meters	1.67% - 10%
Equipment and furniture	5% - 20%
Computer hardware	25%
Vehicle fleet	8.33% - 12.50%

Construction-in-progress comprises capital assets under construction, capital assets not yet placed into service and pre-construction activities related to specific projects expected to be constructed. These assets are not depreciated until placed into service.

In the absence of rate regulation, overhead costs which are not directly attributable to construction activity are not capitalized.

Customer advance deposits

Customer advance deposits represent cash collections from customers that are available to offset the payment of energy bills or other services. Customers may be required to post security to obtain electricity or other services. Where the security posted is in the form of securities, these amounts are recorded in the accounts as securities held in respect of customer deposits. Interest is paid on customer balances at rates established by the Corporation in accordance with OEB guidelines.

Pension and other post-employment benefits

The Corporation provides pension benefits for its employees through the Ontario Municipal Employees' Retirement System ["OMERS"] Fund [the "OMERS Fund"], a multi-employer public sector pension fund. The OMERS Fund is a defined benefit pension plan which is financed by equal contributions from participating employers and employees and by the investment earnings of the OMERS Fund. Although the plan is a defined benefit plan, sufficient information is not available to the Corporation to account for it as such because it is not possible to attribute the fund assets and liabilities between the various employers who contribute to the fund. Accordingly, contributions payable as a result of employee service are expensed when incurred as part of operating costs.

Employee future benefits, other than pensions provided by the Corporation, include supplemental health, dental and life insurance. These plans provide benefits to retired employees, their spouses and surviving spouses when the employees are no longer providing active service. Retiree benefits expense is recognized in the period during which the employees render services.

The liability for employee future benefits other than pensions is recorded on an accrual basis. The Corporation actuarially determines the cost of post-employment benefits offered to employees and retirees, including their spouses and surviving spouses, using the projected benefit method, pro-rated on service and based on management's best estimates. Under this method, the projected post-retirement benefits are deemed to be earned on a pro-rata basis over the employee's years of service in the attribution period commencing at date of hire, and ending at the earliest age the employee could retire and qualify for benefits.

The current service cost for a period is equal to the actuarial present value of benefits attributed to employees' services rendered during the period. Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment. The excess of the net actuarial gains or losses over 10% of the accrued benefit obligation is amortized as an expense or income on a straight-line basis over the average remaining service period of active employees to full eligibility. As at December 31, 2014, there was a net unamortized actuarial gain of $1,868 [2013 - $1,137] not reflected in the post-employment non-pension benefits liability.

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2014

Financial instruments

Financial instruments are measured at fair value on initial recognition. After initial recognition, financial instruments are measured at fair value, except for financial assets classified as held-to-maturity, or loans and receivables, and other financial liabilities, which are measured at cost or amortized cost using the effective interest rate method. The Corporation has made the following classifications:

Accounts receivable and unbilled revenue

Accounts receivable and unbilled revenue are classified as loans and receivables and are recorded at amortized cost, which upon their initial measurement is equal to fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Accounts payable and accrued liabilities, customer advance deposits and long-term debt

Accounts payable and accrued liabilities, customer advance deposits and long-term debt are classified as other financial liabilities and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Derivative financial instruments and hedge accounting

Derivative financial instruments in the form of interest rate swap contracts are used to manage exposure to fluctuations in interest rates on the Corporation's long-term debt. The Corporation does not enter into derivative agreements for speculative purposes.

These contracts are designated as hedges, and therefore any gain or loss is included in other comprehensive income. Any gain or loss would not be expected to affect net income as management intends to hold the interest rate swap contracts to maturity.

Derivative financial instruments are measured at their fair value upon initial recognition and on each subsequent reporting date. The Corporation has elected to apply hedge accounting for its interest rate swap contract and it is designated as a cash flow hedge. For cash flow hedges, fair value changes of the effective portion of the hedging instrument are recognized in accumulated other comprehensive income, net of income taxes. The ineffective portion of the fair value changes is recognized in net income for the year. Amounts charged to accumulated other comprehensive income are reclassified in the statement of income and retained earnings when the hedged transaction affects the financial instrument.

All hedging relationships are formally documented, including the risk management objective and strategy. On an ongoing basis, an assessment is made as to whether the designated derivative financial instruments continue to be effective in offsetting changes in cash flows of the hedged transaction.

Investments

An Irrevocable Standby Letter of Credit in the amount of $7,000 was issued in October 2012, and renewed in October 2014, in favour of the Independent Electricity System Operator ["IESO"] as collateral support for energy amounts as determined by and payable to the IESO.

Deferred indefeasible right of use ["IRU"] leases

Deferred IRU leases are lump-sum payments made by the Corporation to lease the IRU of the dark fibre optics networks from its affiliate, Oshawa PUC Services Inc. These payments are amortized over the contracted term of 20 years.

Customer advance payments

Customer advance payments consist of both the Equal Payment Plan and customer advance payments.

Revenue recognition

Revenue from the sale of electricity represents actual revenue attributable to its sale and delivery. Revenue includes an estimate of unbilled revenue, which represents electricity delivered and consumed by customers since the date of each customer's last billing.

Regulated service revenue represents charges to energy customers for services such as late payments, collection fees, account set-up fees, pole attachment charges, and reconnect and disconnect charges. Regulated service revenue is recognized as services are rendered.

Service revenue primarily includes duct rental revenue and is recognized as services are rendered.

Other revenue and interest are recognized as services are rendered, projects completed or when interest is earned.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Certain estimates are necessary since the regulatory environment in which the Corporation operates requires amounts to be recorded at estimated values until finalization and adjustment pursuant to subsequent regulatory decisions or other regulatory proceedings. Due to inherent uncertainty involved in making such estimates, actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the Ministry of Energy and Infrastructure or the Ministry of Finance.

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2014

PILs

Under the *Electricity Act*, 1998, and effective October 1, 2001, the Corporation incurred PILs that are remitted to the Ministry of Finance. These payments are calculated in accordance with the rules for computing income and taxable capital, and other relevant amounts contained in the *Income Tax Act* (Canada) and the *Corporations Tax Act* (Ontario) as modified by the *Electricity Act*, 1998 and related regulations. Payments remitted to Ontario Electricity Financial Corporation are designated to be applied against the stranded debt of Ontario Power Generation, formerly Ontario Hydro.

The regulated electricity distribution business of the Corporation provides for PILs using the future income taxes method. Under the future income taxes method, provisions are made for future income taxes as a result of temporary differences between the tax bases of assets and liabilities and their carrying amounts for accounting purposes. When future income taxes become payable, it is expected that they will be included in the rates approved by the OEB and recovered from the customers of the Corporation at that time.

The OEB's Electricity Distribution Rate Handbook provides for the recovery of PILs by LDCs through annual distribution rate adjustments as permitted by the OEB.

The method that has been used to set the PILs portion of the Corporation's rates for 2014 is consistent with the approach used in past periods.

Upstream capital improvement liability

The provision for an upstream capital improvement liability levied under the *Development Charges Act*, 1997, and/or predecessor legislation, is earmarked for specific property, plant and equipment related to estimated growth that may occur in the future. Upstream capital improvement liability balances are reduced as expenditures occur.

Asset retirement obligations

The Corporation follows the CPA Canada Handbook which requires the recording of the fair value of the future expenditures required to settle legal obligations associated with asset retirements. As at December 31, 2014, the Corporation has determined that there are no material asset retirement obligations associated with transmission, distribution and generation systems.

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2014

Future accounting policies

Transition to new Canadian financial reporting standards

Effective January 1, 2011, publicly accountable enterprises in Canada were required to apply International Financial Reporting Standards ["IFRS"], with the exception of qualifying entities with rate-regulated activities ["RRA"].

On the amendment of the CPA Canada Handbook, the effective mandatory date for qualifying entities with RRA to adopt IFRS will be January 1, 2015. The Corporation qualifies for the deferral options and has elected to defer the adoption of IFRS and will, therefore, continue to prepare its financial statements in accordance with existing Canadian GAAP [i.e., Part V of the CPA Canada Handbook] for all interim and annual periods ending on or before December 31, 2014.

With the amendment, effective January 1, 2015, the Corporation will no longer be permitted to use Part V of the CPA Canada Handbook in the presentation of its financial statements, at which time the transition to a new set of accounting standards will be required. The Corporation, as an organization part of the public sector and defined as a government business enterprise, will be adopting IFRS. The Corporation is currently assessing the impact of adopting IFRS on the Corporation's future financial position and results of operations, the full impact of which cannot be reasonably determined at this time.

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2014

3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	2014			2013		
	Cost $	Accumulated depreciation $	Net book value $	Cost $	Accumulated depreciation $	Net book value $
Transmission and distribution						
Underground distribution	**42,583**	**17,998**	**24,585**	40,814	17,675	23,139
Overhead distribution	**20,173**	**8,061**	**12,112**	19,701	9,056	10,645
Poles, towers and fixtures	**37,067**	**13,764**	**23,303**	34,766	14,168	20,598
Transformers	**54,804**	**30,017**	**24,787**	52,112	29,019	23,093
Station equipment	**20,223**	**7,244**	**12,979**	18,413	7,084	11,329
Meters	**10,994**	**4,699**	**6,295**	10,406	3,915	6,491
Total transmission and distribution	**185,844**	**81,783**	**104,061**	176,212	80,917	95,295
Total construction-in-progress	**2,591**	**—**	**2,591**	1,296	—	1,296
Other property, plant and equipment						
Vehicle fleet	**4,188**	**2,448**	**1,740**	4,135	2,181	1,954
Equipment and furniture	**6,594**	**5,315**	**1,279**	6,504	4,982	1,522
Computer hardware and software	**4,237**	**3,649**	**588**	4,092	3,175	917
Buildings	**757**	**403**	**354**	709	388	321
Land	**294**	**—**	**294**	294	—	294
	16,070	**11,815**	**4,255**	15,734	10,726	5,008
Property, plant and equipment before contributions in aid of construction	**204,505**	**93,598**	**110,907**	193,242	91,643	101,599
Contributions in aid of construction	**(34,543)**	**(8,956)**	**(25,587)**	(32,314)	(8,219)	(24,095)
Property, plant and equipment	**169,962**	**84,642**	**85,320**	160,928	83,424	77,504

For the year ended December 31, 2014, ascribed interest capitalized to property, plant and equipment as prescribed by the OEB amounted to $92 [2013 - $107]. In the absence of rate regulation, additions to property, plant and equipment would have been $92 lower [2013 - $107 lower] and interest expense would have been $92 higher [2013 - $107 higher].

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2014

The Company's rate application was approved with an effective date of January 1, 2012. The OEB authorized the Company to adjust the cost of the property, plant and equipment for changes to capitalized overhead costs and depreciation rates effective January 1, 2012. An amount of $1,250 was credited to the regulatory account approved by the OEB to record this adjustment.

4. REGULATORY ASSETS AND LIABILITIES

Regulatory assets and liabilities consist of the following*:*

	2014 $	2013 $
Regulatory liabilities (assets)		
Retail settlement variance – power	**(1,590)**	(1,853)
Retail settlement variance – global adjustment	**(2,050)**	(1,070)
Retail settlement variances – other	**(544)**	722
Smart meter variance	**(533)**	(1,075)
Regulatory Asset Recovery Account ["RARA"]	**(656)**	(883)
Future income taxes *[note 6]*	**7,025**	7,918
IFRS-CGAAP transitional PP&E account	**595**	814
Regulatory asset – other	**(7)**	(24)
Net regulatory liabilities	**2,240**	4,549
Add current portion	**572**	586
Net regulatory long-term liabilities	**2,812**	5,135

The smart meter variance account includes $501 [2013 - $964] to be recovered through rates for meters stranded upon being replaced with smart meters.

On January 10, 2012, the Corporation received approval from the OEB for the disposition of certain regulatory account balances, excluding future income taxes to be paid to customers. The disposition is to be adjusted through customer rates effective January 1, 2012. As future income tax assets are realized, the liability for future income taxes to be paid to customers will be settled.

Retail settlement variances

The retail settlement variances relate to charges the Corporation has incurred for transmission services, generation and wholesale market operations from the IESO that were not settled with customers during the period through approved rates. The nature of the settlement variances is such that the balance can fluctuate between assets and liabilities over time and are reported at period-end dates in accordance with rules prescribed by the OEB. Under rate regulation, the variances which would be recorded as revenue or expense when incurred under Canadian GAAP are deferred until collected or repaid through future rates. The Corporation has accrued interest on the regulatory asset and liability balances, as directed by the OEB.

Retail settlement variance – power

The retail settlement variance – power account is established for the purpose of recording the net difference in energy cost only. Net difference refers to the difference between the amount charged by the IESO on the settlement invoice for the energy cost and the amount billed to customers for the energy cost.

Retail settlement variance – global adjustment

The global adjustment variance account is established for the purpose of recording the net difference in the global adjustment attributable to customers. Net difference refers to the difference between the amount charged or credited by the IESO for the global adjustment and the amount billed to customers for the global adjustment.

The global adjustment arises mainly due to a difference between the spot price charged by the IESO to market participants and the blended price paid by the IESO under the various contracts with electricity generators and suppliers.

Retail settlement variances – other

This item refers to a set of accounts that will separately capture information relating to wholesale market service charges, non-recurring wholesale market service charges, retail transmission network service charges and retail transmission connection service charges. Retail settlement variances – other is used to record the net difference between the amount paid in the month to the IESO for the services listed above and the amount billed to customers and retailers in the month based on OEB approved rates.

Smart meter variance

The provincial government mandated the installation of smart meters for all residential and small business customers in Ontario by December 31, 2010. The smart meter variance account is used to record expenditures made by the Corporation under the smart meter program; the carrying value of meters replaced and stranded by the installation of smart meters; and amounts received from customers under approved OEB rates, for advances used to fund the installation of smart meters.

On January 10, 2012, the Corporation received approval of the costs incurred under the program and was granted a rate rider to recover the balance in the smart meter variance account which is the excess of costs incurred [including the carrying value of stranded meters] less amounts received from customers.

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2014

RARA

Effective May 2006, the RARA was approved by the OEB. This account is used to record the disposition of deferral and variance account balances, by means of a rate rider, for which approval to recover (or refund) has been granted by the OEB as part of the regulatory process. The balance remaining as at December 31, 2014 represents the difference between the opening balance approved for recovery and the amount collected.

Future income taxes to be paid to customers

An offset to future income tax assets relating to the regulated business has been recorded in the accounts as a regulatory liability. As future income tax assets are realized, the liability for future income taxes to be paid to customers will be settled through lower OEB approved rates.

IFRS-CGAAP Transitional PP&E Account

The Company's rate application was approved with an effective date of January 1, 2012. The rate application included adjustments to the cost of the property, plant and equipment which was to approximate the adjustments otherwise required to account for costs in accordance with IFRS standards. The increase in the costs of the property, plant and equipment in the amount of $1,250 was recorded effective January 1, 2012, and expected to be amortized over four years. The regulatory liability ″IFRS-CGAAP Transitional PP&E account″ was authorized under the AP Handbook to record these differences.

Regulatory accrued interest

Interest is earned or charged on regulatory assets and liabilities at OEB prescribed rates and are recorded to the related regulatory account.

[in thousands of dollars]

5. CURRENT PORTION OF LONG-TERM LIABILITIES

The current portion of long-term liabilities consists of the following:

	2014 $	2013 $
Customer advance deposits	**910**	910
Upstream capital improvement liability *[note 7]*	**2,017**	1,989
	2,927	2,899

6. PILs

The provision for PILs differs from the amount that would have been recorded using the combined Canadian federal and Ontario statutory income tax rate. The reconciliation between the statutory and effective tax rates is provided as follows:

	2014 $	2013 $
Income before PILs	**3,281**	3,065
Combined Canadian federal and Ontario statutory income tax rate	**26.50%**	26.50%
Expected provision for PILs at statutory tax rates	**870**	812
Property, plant and equipment	**(699)**	(680)
Post-employment non-pension benefits	**52**	78
Other	**(14)**	(20)
Cost allocations	**(24)**	(28)
Provision for PILs	**185**	162
Effective tax rates	**5.63%**	5.28%
Components of provision for PILs		
Current PILs	**185**	162
Future PILs	**(895)**	953
Future PILs transferred to regulatory assets	**895**	(953)
Provision for PILs	**185**	162

During the year, the Corporation recorded $7,025 in regulatory liabilities and a corresponding offset to future income tax assets [2013 - $7,918], for the amount of future income taxes expected to be paid to customers in future electricity rates.

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2014

	2014	**2013**
	$	$
Components of future income tax assets		
Property, plant and equipment	**2,749**	3,708
Employee post-employment non-pension benefits	**4,275**	4,210
Accumulated other comprehensive loss	**78**	17
Future income tax assets	**7,102**	7,935

7. UPSTREAM CAPITAL IMPROVEMENT LIABILITY

The upstream capital improvement liability account represents amounts received from developers for improvements to system capacity not yet needed to be constructed. Improvements may include capital contributions for transformer stations and construction of new municipal substations.

	2014	**2013**
	$	$
Current portion balance	**2,017**	1,989

8. EMPLOYEE BENEFITS

Pension costs

The Corporation makes contributions to OMERS, which is a multi-employer plan. The plan is a defined benefit plan which specifies the amount of retirement benefits to be received by the employees based on length of service and rates of pay. Current and future contributions are dependent upon the results of the OMERS plan as actuarially determined from time to time.

For the year ended December 31, 2014, the Corporation's OMERS current service pension costs were $690 [2013 - $674]. OMERS contribution rates were 9.0% up to the year's maximum pensionable earnings [″YMPE″] and 14.6% over the YMPE for normal retirement age [″NRA″] of 65 [2013 – 9.0% up to YMPE and 14.6% over YMPE for NRA of 65].

Post-employment non-pension benefits

The Corporation provides post-employment benefits, principally supplemental health and dental coverage, for employees who retire from active employment.

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2014

Accrued benefit obligations

The Corporation measures its accrued benefit obligations as at December 31 of each year. The latest actuarial valuation was performed as of December 31, 2014.

	2014 $	**2013** $
Accrued benefit obligations, beginning of year	**10,512**	10,714
Employer current service cost	**174**	189
Interest on obligation	**493**	426
Benefits paid	**(413)**	(346)
Actuarial gain recognized at the end of the year	**(739)**	(471)
Accrued benefit obligations, end of year	**10,027**	10,512

Reconciliation of the accrued benefit obligations to post-employment non-pension retirement benefits	**2014** $	**2013** $
Accrued benefit obligations	**10,027**	10,512
Unamortized net actuarial gains	**1,868**	1,137
Post-employment non-pension retirement benefits	**11,895**	11,649

Changes in post-employment non-pension retirement benefits	**2014** $	**2013** $
Post-employment non-pension retirement benefits, beginning of year	**11,649**	11,380
Net periodic benefits cost accrued	**659**	615
Benefits paid	**(413)**	(346)
Post-employment non-pension retirement benefits, end of year	**11,895**	11,649

Components for net periodic benefit costs	**2014** $	**2013** $
Current service cost	**174**	189
Imputed interest cost	**493**	426
Amortization of actuarial gains	**(8)**	-
Net periodic benefit cost accrual for the year	**659**	615

[in thousands of dollars]

Significant assumptions	2014 %	2013 %
Discount rate applied to the calculation of future benefits	**4.00**	4.75
Rate of compound compensation increase used in determining future costs	**3.0**	3.0

The current service cost for a period is equal to the actuarial present value of benefits attributed to employees' services rendered during the period. Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment. The excess of the net actuarial gains or losses over 10% of the accrued benefit obligations is amortized as an expense or income on a straight-line basis over the average remaining service period of active employees to full eligibility. As at December 31, 2014, there was an actuarial gain of $1,868 [2013 - $1,137 actuarial gain] not reflected in the post-employment non-pension retirement benefits liability.

The actuarial valuation as at December 31, 2014 assumed health care costs would increase 8% [2013 - 8%] in the year following the valuation, graded down to 4% after six years [2013 - 4% after 6 years], and dental costs are assumed to increase by 6% [2013 - 6%] after one year, graded down to 4% after six years [2013 - 4% after 6 years]. The dispensing fee portion of health care costs is limited to twelve dollars and ninety-nine cents; the current maximum allowed under the benefits plan.

Sensitivity analysis

Assumed interest rates have a significant effect on the amounts reported for the total accrued benefit obligations and expense. A one-percentage-point change in assumed interest rates would have the following effects for 2014:

	Increase $	Decrease $
Accrued benefit obligations, as at December 31, 2014	**(1,315)**	**1,677**
Estimated expense for fiscal 2014	**(10)**	**8**

9. NOTE PAYABLE TO SHAREHOLDER

The note payable to the shareholder of $23,064 [2013 - $23,064] has an interest rate of 7.25% per annum and is due on demand.

The Corporation does not anticipate that the note will be called upon within one year and, accordingly, the note remains classified as a long-term liability.

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2014

In 2014, the Corporation made interest payments of $1,672 [2013 - $1,672] to the shareholder.

10. DEBT

The Corporation's long-term and short-term borrowing facilities are as follows:

Long-term facilities

The Corporation incurred debt in the amount of $7,000 with The Toronto-Dominion Bank [the "Bank"] due in one repayment obligation at maturity in December 2012. In September 2011, this term was extended for seven years. This facility was drawn down in December 2005 and structured with a seven-year interest rate swap agreement with the Bank, effectively converting the Corporation's obligations to a fixed interest rate of approximately 4.9%. Subject to payment of any unwinding costs or receipt of benefits for unwinding the interest rate swap agreement, the Corporation has the flexibility of pre-paying the debt at its option.

On October 12, 2011, the Corporation entered into a new seven-year interest rate swap agreement with the Bank, effectively converting the Corporation's obligations to a fixed interest rate of approximately 3.6%. The effective start date of this agreement is December 2012, to coincide with the expiry of the existing swap agreement. Subject to payment of any unwinding costs or receipt of benefits for unwinding the interest rate swap agreement, the Corporation has the flexibility of pre-paying the debt at its option.

Short-term facilities

The Corporation has an operating line of credit for a maximum amount of $10,000 to assist with its working capital requirements. As of December 31, 2014 the outstanding balance on the line of credit was $1,000 shown net of $164 of cash, as bank overdraft.

The above borrowing facilities are subject to financial tests and other covenants. These financial covenants are to be tested quarterly. In addition, these facilities are subject to other customary covenants and events of default, including an event of cross-default [for non-payment of other debts] of amounts in excess of $5,000. Non-compliance with such covenants could result in accelerated payments of amounts due under the facilities and their termination. The Corporation was in compliance with the above-mentioned covenants at December 31, 2014.

Net of interest capitalized on construction-in-progress, interest expense charged to the statement of income and retained earnings amounted to $1,836 during the year [2013 - $1,802].

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2014

11. CAPITAL STOCK

Capital stock consists of the following:

	2014 $	2013 $
Authorized		
Unlimited common shares		
Issued		
1,000 common shares	**23,064**	23,064

12. RELATED PARTY TRANSACTIONS

[i] The Corporation transacts business with Corporation of the City of Oshawa ["City"] and its affiliates in the normal course of business at commercial rates. These transactions are summarized below:

	2014 $	2013 $
REVENUE		
City facilities	**3,223**	3,071
Streetlights	**1,913**	1,744
	5,136	4,815
Streetlight maintenance and construction services	**87**	59
EXPENSES		
Net rent - 100 Simcoe Street South	**297**	292
Property taxes	**113**	152
ACCOUNTS RECEIVABLE		
Facilities and streetlights	**374**	154
Streetlight maintenance and construction services	**51**	23

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2014

[ii] During the year ended December 31, 2014, the Corporation has undertaken transactions with related parties, which are entities under common control. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Related party transactions are summarized as follows:

	2014 $	2013 $
Oshawa PUC Energy Services Inc.		
Sale of electricity, administration and maintenance services	**97**	81
Purchase of electricity	**111**	85

	2014 $	2013 $
Oshawa PUC Services Inc.		
Sale of administration and maintenance services	**145**	146
Purchase of fibre optic services	**63**	63

	2014 $	2013 $
2252112 Ontario Inc.		
Sale of electricity, administration and maintenance services	**17**	–
Purchase of electricity	**532**	307

The Corporation receives management support from its parent, Oshawa Power and Utilities Corporation. During the year, the Corporation paid $480 [2013 - $480] to its parent.

As at December 31, 2014, the amounts owed to the Corporation from affiliated companies consists of $68 from Oshawa PUC Energy Services Inc. [2013 - $43], and $389 from 2252112 Ontario Inc. [2013 - $381]. Amounts owed to affiliated companies by the Corporation consists of $972 to Oshawa PUC Services Inc. [2013 - $999], and $4,478 to Oshawa Power and Utilities Corporation [2013 - $1,979].

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2014

13. LEASE COMMITMENTS

The Corporation leases its premises under a net operating lease with the Corporation of the City of Oshawa. The Corporation entered into a new lease in 2012, which expires March 31, 2017. This lease replaced the previous agreement signed in 2007, which expired March 31, 2012. The Corporation entered into a contractual agreement to lease office equipment over a period of 66 months, expiring June 30, 2019.

	100 Simcoe Street South $	Office Equipment $	Total Lease Commitments $
2015	290	11	**301**
2016	290	11	**301**
2017	72	11	**83**
2018	-	11	**11**
2019	-	5	**5**
Thereafter	-	-	**-**
	652	49	**701**

14. CONTINGENCIES

Insurance claims

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange ["MEARIE"], which was created on January 1, 1987. A reciprocal insurance exchange is an Ontario group formed for the purpose of exchanging reciprocal contracts of indemnity of inter-insurance with each other. MEARIE provides general liability insurance to its member utilities.

Insurance premiums charged to each Municipal Electrical Utility consist of a levy per thousand dollars of service revenue subject to a credit or surcharge based on each electric utility's claims experience.

The Corporation refers any claims received to MEARIE under the provisions of this plan. No provision has been recorded in these financial statements in respect of these matters as the Corporation has not received any claim that is not adequately covered by its insurance.

[in thousands of dollars]

Income taxes

The tax returns filed by the Corporation are subject to review and reassessment by the Ministry of Finance for a period of up to five years from the date of filing. Any reassessment may result in a revision to previously determined tax obligations.

15. FAIR VALUES OF FINANCIAL INSTRUMENTS

The Corporation has designated its financial instruments as follows:

	2014		2013	
	Carrying value $	**Estimated fair value** $	**Carrying value** $	**Estimated fair value** $
Loans and receivables				
Accounts receivable	**10,231**	**10,231**	9,972	9,972
Due (to) from affiliates	**(4,993)**	**(4,993)**	(2,554)	(2,554)
Unbilled revenue	**12,313**	**12,313**	13,081	13,081
Other financial liabilities (assets)				
Accounts payable and accrued liabilities	**19,599**	**19,599**	18,254	18,254
Payments in lieu of corporate income taxes	**(323)**	**(323)**	(451)	(451)
Customer advance payments	**1,942**	**1,942**	2,511	2,511
Note payable to shareholder	**23,064**	**23,064**	23,064	23,064
Long-term debt	**7,000**	**6,713**	7,000	6,662

The Corporation has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies. Considerable judgment is required to develop these estimates. Accordingly, these estimated fair values are not necessarily indicative of the amounts the Corporation could realize in a current market exchange. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies. The methods and assumptions used to estimate the fair value of financial instruments as well as related interest rate and credit and liquidity risks are described below.

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2014

Investments, accounts receivable, unbilled revenue, accounts payable and accrued liabilities, and customer advance deposits
The carrying values of accounts receivable, unbilled revenue, accounts payable and accrued liabilities, and customer advance deposits approximate their fair values due to the short period to maturity of these financial instruments.

Note payable to shareholder
The fair value of the note payable to shareholder is indeterminable.

Long-term debt
The fair value of the Corporation's long-term debt is estimated using present value techniques based on a borrowing rate of 4.5% for debt with similar terms and maturities. Long-term debt is shown net of unamortized debt issue costs.

Credit risk
Certain of the Corporation's financial assets are exposed to credit risk.

Cash consists of deposits with major commercial banks.

The Corporation, in the normal course of business, is exposed to credit risk from its customers. These accounts receivable are subject to normal industry credit risks. The Corporation provides for an allowance for doubtful accounts to absorb its credit losses. The Corporation also has insurance against certain of the receivables.

The Corporation is also exposed to credit risk from the potential default of any of its counterparties on its interest rate swap agreements. The Corporation mitigates this credit risk by dealing with counterparties who are major financial institutions and which the Corporation anticipates will satisfy their obligations under the contracts.

Interest rate risk
Long-term debt is at fixed interest rates thereby minimizing cash flow and interest rate fluctuation exposure.

The Corporation enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its long-term debt. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The Corporation does not enter into derivatives for speculative purposes. The fair value of the interest rate swap agreements represents an approximation of the amounts the Corporation would have paid to or received from the counterparty to unwind its positions as at December 31, 2014.

The Corporation estimates that a loss of approximately $295 [2013 - loss of $66] would be realized if the contract was terminated on December 31, 2014. This contract is designated as a hedge and therefore this loss has been included in other comprehensive income. This loss is not expected to affect income as management intends to hold the interest rate swap contract to maturity.

[in thousands of dollars]

Liquidity risk

The Corporation monitors and manages its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest expense. The Corporation monitors cash balances to ensure that sufficient levels of liquidity are on hand to meet financial commitments as they come due.

16. COLLATERAL

As part of its electricity purchase agreement with the IESO, an Irrevocable Standby Letter of Credit in the amount of $7,000 was issued in October 2012, in favour of the IESO, as collateral support for energy amounts as determined by and payable to the IESO.

17. INTANGIBLE ASSETS

Intangible assets consist of deferred IRU lease charges. Amortization is charged on a straight-line basis over the term of the IRU.

	2014 $	**2013** $
Deferred IRU lease	**606**	606
Less accumulated amortization	**192**	162
Net book value	**414**	444

18. CAPITAL MANAGEMENT

The Corporation defines capital as shareholder's equity. The Corporation's objectives when managing capital are to:

- Ensure sufficient liquidity to support its financial obligations and execute its operating and strategic plans;
- Maintain financial capacity and access to capital to support future development of the business while taking into consideration current and future industry, market and economic risks and conditions; and
- Utilize short-term funding sources to manage its working capital requirements.

OSHAWA PUC NETWORKS INC.

Response to School Energy Coalition (SEC) Interrogatory 1.0-SEC-10

Please provide copies of all benchmarking studies, reports and analysis, that the Applicant has undertaken or participated in, since 2012, that are not already included in this application.

Response:

OPUCN did not acquire or participate in any benchmarking studies since 2012, other than those commissioned by the Board for all Ontario utilities which can be obtained from the Board's website.

OSHAWA PUC NETWORKS INC.

Response to School Energy Coalition (SEC) Interrogatory 1.0-SEC-11

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

Response:

Efficiency and productivity measures undertaken are detailed below:

Security: In 2013, OPUCN undertook a review of its security systems and services which determined that a system with an increased number of 24-hour monitored video cameras along with improvements to building access systems would offer more effective security to its buildings, equipment and employees. A one-time capital investment of $55,000 was made in 2013 which is projected to yield annual operating savings of $120,000 effective from July 2013.

IT Systems: OPUCN has made, and is planning to continue making investments in various IT systems related to grid modernization to enhance value provided to the customer including enhanced system reliability and resilience. This will involve distribution automation, intelligent devices and software applications to mitigate customer impact to system outages, reduce system restoration time and improve customer communication.

E Billing: In 2012, OPUCN initiated a concerted effort to migrate as many customers as possible to electronic billing with considerable success to date. As of March 2015, 20% of customers receive their bills electronically, compared to below 8% in early 2012. This represents over 6,500 customers since the campaign began, or approximately $65,000 in cost reductions on an annualised basis.

Tree Trimming: Tree trimming has historically been carried out on a four-year cycle, but to help reduce the frequency and cause of outages resulting from tree contact, OPUCN's approach to tree trimming moved towards an improved, less costly and more efficient three-year cycle starting in 2011. Further efficiencies have been realized in 2014 through contract price reductions without any diminution of service.

Underground Utility Locates: OPUCN has put a lot of effort into enhancing its' Geographic Information System (GIS) system, in particular the ability of the GIS system to deliver underground utility locating services for excavating. The improved GIS system allows OPUCN to clear a higher percentage of "dig requests" remotely using Ontario One-Call than previously, resulting in lower costs per request. The cost of remotely clearing a dig request is on average between 10 to 12 times less than dispatching a resource to the site to do a visual or physical check.

OSHAWA PUC NETWORKS INC.

Response to Vulnerable Energy Consumers Coalition (VECC) Interrogatory 1.0-VECC-1

Reference: E1/TC/pg.9

Please provide a list of the potential events outside of OPUCN's control which could delay or reduce the expected growth in the community and/or the schedule for asset relocation.

Response:

OPUCN is not aware of any specific or pending events that will delay or reduce expected growth and/or the schedule for asset relocation.

Generally, delays could occur as a result of events that include: economic downturn/recession that may impact developers, job markets, commuting costs, etc.; timing of completion for projects driving the development and growth (407 expansion and other City of Oshawa and Durham Region activities); timing of permits and other requirements that allow developers to proceed; and real growth that differs from expected growth either in the expected timing and/or the magnitude.

OSHAWA PUC NETWORKS INC.

Response to Vulnerable Energy Consumers Coalition (VECC) Interrogatory 1.0-VECC-2

Reference: E1/TC/pg.13

Please provide the cost of the rate smoothing plan.

Response:

Other than interest on carrying the deferral accounts which is estimated to total approximately $157,000 over the plan term, there is no direct cost to OPUCN’s rate smoothing plan.

OPUCN’s rate smoothing plan defers the collection of rates related to: (1) the increase in 2015 rates resulting from capital expenditures made during OPUCN’s IR period since its last cost of service for rates effective January 1, 2015; and (2) the collection of rates for revenue requirement from January 1, 2015 and the date of the Board’s Decision on OPUCN’s rates.

The proposed rate smoothing mechanism defers the collection of rates as noted above and spreads the collection of these amounts over the remaining Test Years with the objective of increasing rates over the period more equitably.

OSHAWA PUC NETWORKS INC.

Response to Vulnerable Energy Consumers Coalition (VECC) Interrogatory 1.0-VECC-3

Reference: E1/TC/pg.32, 45

a) Please provide the Statistic Canada CPI inflation rates (change from previous year) for 2012 through 2014.

b) Please identify the Conference Board of Canada report from which table 14 is drawn.

c) Please explain what other CPI forecasts have been reviewed by OPUCN.

Response:

a)

Table 326-0020 Consumer Price Index

Ontario, Products and product groups (15), All-items (16)

Period	2012	2013	2014
Jan	2.4%	0.6%	1.6%
Feb	2.9%	1.2%	1.5%
Mar	2.2%	1.0%	1.5%
Apr	2.1%	0.4%	2.4%
May	1.2%	0.5%	2.8%
Jun	1.2%	1.3%	3.0%
Jul	0.7%	1.6%	2.5%
Aug	1.0%	1.3%	2.5%
Sep	0.7%	1.2%	2.6%
Oct	1.0%	0.9%	2.8%
Nov	0.7%	1.1%	2.4%
Dec	0.8%	1.5%	1.9%

b) The information is extracted from the Conference Board of Canada database, available through subscription.

http://www.conferenceboard.ca/e-data/data/consumerpriceindex.aspx

c) OPUCN has not reviewed CPI forecasts other than those identified above.

OSHAWA PUC NETWORKS INC.

Response to Vulnerable Energy Consumers Coalition (VECC) Interrogatory 1.0-VECC-4

Reference: E1/TD/Schedule 1, page 28

a) Please provide the actual number of residential customers that had a power outage during the December 2013 ice-storm.

b) Please compare the percentage of customers under each category of length of outage with OPUCN's actual number of customers affected (e.g. survey reports 10% of affected customers stating their outage was 1-1.5 days – how many customers were actually without power for that many days).

c) Please explain why the response to the length of outage only adds to 95%.

Response:

a) From the Customer Service Survey, 382 of 405 (82%) respondents "recalled having an outage during the ice-storm".

OPUCN estimated the number of customers affected by the ice storm by counting the number of feeders that had sustained an outages/feeder lockout operation and applying an estimate of 1,000 customers/feeder. Based upon the estimation process outlined above, approximately 40,015 customer had a power outage during the December 2013 ice storm of which approximately 36,414 were residential customers.

b) Respondents to the survey who recalled an outage during the ice storm, reported the length of their outage in the following categories:

Oshawa PUC

Length of outage (during Ice Storm 2013)

Less than 2 hours	2 – 4 hours	4+ hours or ½ day	12-18 hours or ½ - ¾ day	19-24 hours or 1 day	1 to 1.5 days	1.6 to 2 days	More than 2 days
8%	14%	24%	19%	4%	10%	7%	9%

Respondents to the UP survey were asked "how long was the outage", no guidance or scaling was provided thereby relying on the respondent's memory. The UP survey was conducted 3 months after the ice-storm.

There is a correlation of length with customer affinity levels i.e., customers with a high affinity level recall the outage being shorter than customers with lower affinity levels. For example, only 4% of Secure customers affected by an ice-store outage said the length was 1 to 1.5 days, whereas 13% Indifferent & At Risk Customers said the outage was 1 to 1.5 days (overall sample was 10%).

OPUCN does not have accurate data to compare with the table above.

c) The UP survey does give respondents the opportunity to not answer this answer. In addition some respondents may have been away during the ice-storm and do not know the length of the outage.

OSHAWA PUC NETWORKS INC.

Response to Vulnerable Energy Consumers Coalition (VECC) Interrogatory 1.0-VECC-5

Reference: E1/TD/Utility Pulse Survey/p. 125

a) The evidence states that the response rate was 38%. Please explain how authors addressed selection bias. Please provide any additional evidence that the population surveyed was representative of the customer population of OPUCN.

b) What survey methods, other than telephone interviews were used?

c) What was the cost of the survey?

Response:

a) To ensure random sampling of customers, UtilityPULSE conducts residential surveys between the hours of 5:00 pm and 9:00 pm in order to ensure a broader range of participation.

In addition, UP uses a qualifier in its opening statement to a potential customer respondent and that is to speak to the person that pays or looks after the electricity bills.

b) There were no other survey methods employed.

c) $21,000 + HST for the residential small commercial survey and $13,018 + HST for the large commercial customer survey.

OSHAWA PUC NETWORKS INC.

Response to Vulnerable Energy Consumers Coalition (VECC) Interrogatory 1.0-VECC-6

Reference: E1/TD/Schedule 1, pg.24/43Utility Pulse Survey

a) Please explain how the "Priority investments" figure is to be read. For example, since the figures do not add to 100% clarify what it means to show that 62% of customers prioritized "bury overhead wires" whereas 86% prioritized "maintaining and upgrading equipment".

b) Is the reported figure of 87% of Ontario LDCs homes with access to the internet the result of a Utility Pulse survey questions or from another source? If the latter please provide that source.

c) With respect to the Satisfaction with Customer Service table shown on page 43, please explain why the columns do not add to 100%

Response:

a) Survey respondents were asked to use a priority scale (i.e., Very high priority, High priority, Neither high or low priority, Low priority, Very low priority) to multiple items. 62% of customer respondents rated "bury overhead wires" very high priority or high priority, whereas 86% rated "maintaining and upgrading equipment" a very high or high priority. This means that 14% gave a difference rating for "maintaining and upgrading equipment".

Every item surveyed was a very high priority to someone. It is possible for someone to rate "bury overhead wires" as a very high priority but when asked about "maintaining equipment" they could provide a different rating (and vice versus). In the items mentioned more customers view "maintaining and upgrading equipment" a very high or high priority.

It is intended the numbers do not add to 100%.

b) The 87% comes from the UtilityPULSE database. In the process of interviewing customers for multiple Ontario LDCs during the months of March, April and May

2014, UP asked 4,289 respondents “Do you have access to the internet.” 87% said yes.

c) Customers who had said that they had a problem and they had contacted OPUCN were asked how satisfied they were with the service received. Respondents were asked “Thinking of your most recent contact with someone from OPUC were you very satisfied, fairly satisfied, fairly dissatisfied or very dissatisfied with…[items such as helpfulness, courtesy, knowledge were inserted]. 76% of respondents said they were very or fairly satisfied with “the helpfulness of staff” whereas 68% were very or fairly satisfied with “the time it took to deal with the problem”.

While 76% were very + fairly satisfied with “helpfulness”, 24% gave a different rating.

OSHAWA PUC NETWORKS INC.

Response to Vulnerable Energy Consumers Coalition (VECC) Interrogatory 1.0-VECC-7

Reference: E1/TD/Schedule 1, pg.24/43 Utility Pulse Survey

a) Please provide all the questions asked, the OPUCN customer responses to those questions and the derivation/components of the Customer Experience Performance rating.

b) Please provide the sample size for the survey questions for this measure and the survey refusal rate if they are different from the other parts of the survey.

Response:

a) The Customer Experience Performance rating (CEPr) is a proprietary rating developed by UtilityPULSE. At the heart of the CEPr are 4 central questions:

1. Are interactions with the organization professional and productive?
2. Is the organization 'easy to deal with'?
3. Does the organization effectively meet your needs?
4. Does the organization provide high quality services?

The CEPr is an acknowledgement that customer satisfaction is affected by many factors. Specifically the CEPr recognizes the importance of professional customer care and quality of services. For example, it is important to bill people right and when there is a problem, it is important to provide professional care.

b) The sample size was 405 respondents for the questions that form the base for calculating the CEPr. The refusal rates are not different from other parts of the survey.

OSHAWA PUC NETWORKS INC.

Response to Vulnerable Energy Consumers Coalition (VECC) Interrogatory 1.0-VECC-8

Reference: E1/TD/Schedule 1, pg.76

a) Please explain the meaning of the responses shown on page 76 in the table entitled *"Important attributes which shape perceptions about customer affinity"* and explain why the results do not add to 100 (e.g. how can a response be, for example, 95% "secure" and at the same time 49% "at risk").

b) Do the rows in the referenced table represent the actual question asked? If so please provide the responses.

Response:

a) Survey respondents are asked if they agree strongly, agree somewhat, disagree somewhat or disagree strongly with each attribute in a series of statements describing their LDC. For example: 80% of respondents agree strongly or agree somewhat that the statement "Customer focused and treats customers as if they're valued" applies to the LDC. 20% gave a different rating.

The UP survey categorizes customers as Secure, Favourable, Indifferent and At Risk. Secure customers who are favourable of the LDC are more likely to agree that an attribute applies to their LDC. 95% of Secure customers agree strongly or agree somewhat that the statement "Customer focused and treats customers as if they're valued" applies. Whereas, At Risk Customers only 49% agree strongly or agree somewhat the statement applies.

b) Yes the table represents the questions asked. The responses are shown in the first column representing the percentage of respondents who "agree strongly and agree somewhat" with the attribute.