

OSHAWA PUC NETWORKS INC.

Response to Board Staff Interrogatory 9.0-Staff-38

Ref: Exhibit 9, page 2

OPUCN indicates that it will not be requesting disposition of its DVA accounts and indicates that “ A large portion of this balance is driven by unusual movements in commodity and global adjustment costs in the latter part of 2013 and early 2014, which in turn led to larger than normal swings in some DVA balances.” Please explain the cause of these unusual movements in the DVA accounts.

Response:

The largest movements, and major causes, are:

- RSVA Power account which captures the difference between amounts collected from customers and the amount paid to the IESO. Amounts collected are underpinned by fixed rates for most customers while the cost of power fluctuates based upon an open market whereby the IESO purchases power from multiple sources.
- RSVA Power, Global Adjustment account which captures the difference between amounts collected from customers and the amount paid to the IESO. The amounts billed to customers are based upon a preliminary estimate received from the IESO. The actual amount charged is based upon final pricing determined approximately 6 weeks after the preliminary estimate. Recently, there have been significant differences between the two causing the amount of the “swing” in the regulatory account.

The EDA held a special Finance Council meeting in March 2015 and invited the IESO to explain the situation – basically, they indicated extreme weather and renewable generation have contributed to the differences between their estimates and final pricing. Improvements to the estimation process are being explored.

These larger than usual movements in RSVA balances are not unique to OPUCN. Several other LDC's have been experiencing similar issues, as evidenced by the requested appearance by the IESO at the EDA.

OSHAWA PUC NETWORKS INC.

Response to Board Staff Interrogatory 9.0-Staff-39

Ref: Exhibit 9, page 7

OPUCN indicates that it intends to request a new variance account, to capture Deferred Rate Impact Amounts. Please provide a rationale for the creation of this account under the Board's 3 criteria: Causality, Prudence and Materiality and provide a draft Accounting Order applicable to this account.

Response:

The rationale for the creation of the new variance account, using the Board's 3 criteria: Causality, Prudence and Materiality, is as follows:

- **Materiality:** Using the Board-defined materiality threshold for a Z-factor claim of 0.5% of distribution revenue requirements greater than \$10 million and less than or equal to \$200 million, OPUCN's materiality threshold is therefore approximately \$108,000 in 2015. The proposed rate mitigation amount in 2015 is \$1,974,434, significantly above the threshold.
- **Prudence:** OPUCN submits that the amounts have been prudently incurred. The objective behind the proposed variance account amounts is to meet the Board's requirement of LDCs to consider mitigation costs. OPUCN believes the mitigation plan proposed is suitable.
- **Causality:** All amounts to be included in the proposed variance account are directly related to the rate mitigation proposal.

Draft Accounting Order

Oshawa PUC Networks Inc. shall establish the following variance account to record the amount of revenue credited to or collected from Oshawa PUC Networks Inc.'s customers in each of the affected rate classes from January 1, 2015 to December 31, 2019. For added clarity, this Accounting Order is intended to reflect the Board's Decision and Order in EB-2014-0101 dated MMM DD, 2015. Carrying charges will be

determined by applying the Board approved rate to the opening monthly balances record in the sub-accounts (exclusive of accumulated interest) from January 1, 2015 to the month prior to the disposition of the balances in rates. Any amounts remaining in this account on expiration of the rate rider shall be brought forward for disposition in Oshawa PUC Networks Inc.'s next IR rate application.

Account: Deferred Rate Impact Amounts – 1574

Accounting entry:

Debit/Credit Account 4080, Distribution Services Revenue

Credit/Debit Deferred Rate Impact Amounts – 1574

Purpose: To record the actual amount of revenue credited to or collected from customers through the rate mitigation rate rider.

OSHAWA PUC NETWORKS INC.

Response to Board Staff Interrogatory 9.0-Staff-40

Ref: Exhibit 9, page 7

On this page under New Variance Accounts, OPUCN does not indicate that it is requesting the:

- a) Net New Connection Cost Variance Account as mentioned at Exhibit 10/Tab D/page 7.
- b) 2015 Revenue Variance Account as mentioned at Exhibit 1/Tab B/page 1.
- c) Rate Smoothing Deferral Account as mentioned at Exhibit 1/Tab B/page 2
- d) Distribution Plant Relocation Cost Variance Account as mentioned at Exhibit 1/Tab B/page 3.
- e) Unbudgeted Regional Planning Investment Cost Variance Account as mentioned at Exhibit 1/Tab B/page 3
- f) Controllable Capital Investment Efficiency Incentive Mechanism (CCIEIM) Deferral Account as mentioned at Exhibit 1/Tab B/page 3.
- g) Total Cost Efficiency Carryover Mechanism (TCECM) as mentioned at Exhibit 1/Tab B/page 3.

Please provide a rationale for the creation of these accounts under the Board's 3 criteria: Causality, Prudence and Materiality and provide a draft Accounting Order applicable to each of these accounts.

Response:

- a) Net New Connection Cost Variance Account

The rationale for the creation of the new variance account, using the Board's 3 criteria: Causality, Prudence and Materiality, is as follows:

- **Materiality:** As noted in the response to Board Staff interrogatory reference 9.0–STAFF-39, OPUCN’s materiality threshold is approximately \$108,000 in 2015. The forecast annual average growth in customer connections of 3% represents approximately 1,800 additional customers per year, or \$450,000 in incremental distribution revenue per year. Net new connections of 450 greater than or less than forecast would result in a variance in excess of the materiality threshold.
- **Prudence:** It is difficult to predict with assurance the pace of new customer connections up to 5 years forward, particularly a period with forecast growth considerably higher than recent history. OPUCN submits that the actual pace of growth is outside of its control and any resulting variances in actual revenue to approved revenue requirement should not be included in the income statement, but collected in a variance account.
- **Causality:** All amounts to be included in the proposed variance account are directly related to the variance in net new connections.

Draft Accounting Order

Oshawa PUC Networks Inc. shall establish the following variance account to record the amount of revenue over/under collected from Oshawa PUC Networks Inc.’s customers in each of the affected rate classes from January 1, 2015 to December 31, 2019 resulting from variances in actual versus forecast net new customer connections. For added clarity, this Accounting Order is intended to reflect the Board’s Decision and Order in EB-2014-0101 dated MMM DD, 2015. Carrying charges will be determined by applying the Board approved rate to the opening monthly balances record in the sub-accounts (exclusive of accumulated interest) from January 1, 2015 to the month prior to the disposition of the balances in rates. Any amounts remaining in this account on expiration of the rate rider shall be brought forward for disposition in Oshawa PUC Networks Inc.’s next IR rate application.

Account: Net New Connection Cost Variance Account (NNCCVA)

Accounting entry:

Debit/Credit Account 4080, Distribution Services Revenue

Credit/Debit Net New Connection Cost Variance Account

Purpose: To record the actual amount of revenue under/over-collected from customers resulting from variances in actual versus forecast net new customer connections.

b) 2015 Revenue Variance Account

The rationale for the creation of the new variance account, using the Board's 3 criteria: Causality, Prudence and Materiality, is as follows:

- **Materiality:** As noted in the response to Board Staff interrogatory reference 9.0–STAFF-39, OPUCN's materiality threshold is approximately \$108,000 in 2015. The forecast revenue deficiency for 2015, which will drive the 2015 Revenue Variance amount, of \$2,241,006 is significantly in excess of the materiality threshold.
- **Prudence:** Driving the need for a Custom IR plan for OPUCN are the prolonged, elevated investments which OPUCN is required to make in order to continue to provide reliable and efficient electricity distribution service to the fast growing City of Oshawa. OPUCN submits it is prudent to collect the rates required to meet its obligations in as timely a fashion as possible.
- **Causality:** All amounts to be included in the proposed variance account are directly related to 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 and through the actual date of implementation of final 2015 rates.

Draft Accounting Order

Oshawa PUC Networks Inc. shall establish the following variance account to record 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 and through the actual date of implementation of final 2015 rates. For added clarity, this Accounting Order is intended to reflect the Board's Decision and Order in EB-2014-0101 dated MMM DD, 2015. Carrying charges will be determined by applying the Board approved rate to the opening monthly balances recorded in the sub-accounts (exclusive of accumulated interest) from January 1, 2015 to the month prior to the disposition of the balances in rates. Any amounts remaining in this account on expiration of the rate rider shall be brought forward for disposition in Oshawa PUC Networks Inc.'s next IR rate application.

Account: 2015 Revenue Variance Account

Accounting entry:

Credit Account 4080, Distribution Services Revenue

Debit 2015 Revenue Variance Account

Purpose: To record the actual amount of revenue under-collected from customers resulting from 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 and through the actual date of implementation of final 2015 rates.

c) 2015 Rate Smoothing Deferral Account

Please see response to interrogatory reference 9.0 –STAFF-39.

d) Distribution Plant Relocation Cost Variance Account

The rationale for the creation of the new variance account, using the Board's 3 criteria: Causality, Prudence and Materiality, is as follows:

- Materiality: As noted in the response to Board Staff interrogatory reference 9.0–STAFF-39, OPUCN's materiality threshold is approximately \$108,000 in 2015. The forecast investment for distribution plant relocations required by 3rd parties over the rate period is \$7,700,000, with an approximate revenue requirement of \$1,140,000 over the rate period. A variance in this amount of 10% would exceed the materiality threshold.
- Prudence: Driving the need for a Custom IR plan for OPUCN are the prolonged, elevated investments which OPUCN is required to make in order to continue to provide reliable and efficient electricity distribution service to the fast growing City of Oshawa. OPUCN submits it is prudent to collect the rates required to meet its obligations in as timely a fashion as possible. Similarly, OPUCN does not believe it appropriate for customers to pay for costs forecast but which fail to materialize within the time frames currently anticipated.
- Causality: All amounts to be included in the proposed variance account are directly related to the revenue requirement impact of the difference between forecast and actual costs of OPUCN distribution plant relocations required by 3rd parties.

Draft Accounting Order

Oshawa PUC Networks Inc. shall establish the following variance account to record the revenue requirement impact of the difference between forecast and actual costs of OPUCN distribution plant relocations required by 3rd parties. For added clarity, this Accounting Order is intended to reflect the Board's Decision and Order in EB-2014-0101 dated MMM DD, 2015. Carrying charges will be determined by applying the Board approved rate to the opening monthly balances recorded in the sub-accounts (exclusive

of accumulated interest) from January 1, 2015 to the month prior to the disposition of the balances in rates. Any amounts remaining in this account on expiration of the rate rider shall be brought forward for disposition in Oshawa PUC Networks Inc.'s next IR rate application.

Account: Distribution Plant Relocation Cost Variance Account

Accounting entry:

Debit/Credit Account 4080, Distribution Services Revenue

Credit/Debit Distribution Plant Relocation Cost Variance Account

Purpose: To record the actual amount of revenue under or over-collected from customers resulting from the revenue requirement impact of the difference between forecast and actual costs of OPUCN distribution plant relocations required by 3rd parties.

e) Unbudgeted Regional Planning Investment Cost Variance Account

The rationale for the creation of the new variance account, using the Board's 3 criteria: Causality, Prudence and Materiality, is as follows:

- **Materiality:** As noted in the response to Board Staff interrogatory reference 9.0–STAFF-39, OPUCN's materiality threshold is approximately \$108,000 in 2015. The forecast investment for distribution plant relocations required by 3rd parties over the rate period is \$7,700,000, with an approximate revenue requirement of \$1,140,000 over the rate period. A variance in this amount of 10% would exceed the materiality threshold.
- **Prudence:** Driving the need for a Custom IR plan for OPUCN are the prolonged, elevated investments which OPUCN is required to make in order to continue to provide reliable and efficient electricity distribution service to the fast growing City of Oshawa. OPUCN submits it is prudent to collect the rates required to meet its obligations in as timely a fashion as possible. Similarly, OPUCN does not believe it appropriate for customers to pay for costs forecast but which fail to materialize within the time frames currently anticipated.
- **Causality:** All amounts to be included in the proposed variance account are directly related to the revenue requirement impact of the difference between forecast and actual costs of OPUCN distribution plant relocations required by 3rd parties.

Draft Accounting Order

Oshawa PUC Networks Inc. shall establish the following variance account to record the revenue requirement impact of the difference between forecast and actual costs incurred by OPUCN for contribution to Hydro One or for other unbudgeted distribution projects required as a result of regional planning. For added clarity, this Accounting Order is intended to reflect the Board's Decision and Order in EB-2014-0101 dated MMM DD, 2015. Carrying charges will be determined by applying the Board approved rate to the opening monthly balances recorded in the sub-accounts (exclusive of accumulated interest) from January 1, 2015 to the month prior to the disposition of the balances in rates. Any amounts remaining in this account on expiration of the rate rider shall be brought forward for disposition in Oshawa PUC Networks Inc.'s next IR rate application.

Account: Unbudgeted Regional Planning Investment Cost Variance Account

Accounting entry:

Debit/Credit Account 4080, Distribution Services Revenue

Credit/Debit Unbudgeted Regional Planning Investment Cost Variance Account

Purpose: To record the actual amount of revenue under or over-collected from customers resulting from the revenue requirement impact of the difference between forecast and actual costs incurred by OPUCN for contribution to Hydro One or for other unbudgeted distribution projects required as a result of regional planning.

f) Controllable Capital Investment Efficiency Incentive Mechanism (CCIEIM) Deferral Account

The rationale for the creation of the new deferral account, using the Board's 3 criteria: Causality, Prudence and Materiality, is as follows:

- **Materiality:** As noted in the response to Board Staff interrogatory reference 9.0–STAFF-39, OPUCN's materiality threshold is approximately \$108,000 in 2015. The forecast investment for the included controllable projects over the rate period is \$28,800,000, with an approximate revenue requirement of \$4,000,000 over the rate period. A variance as small as 7% in this amount would exceed the materiality threshold.
- **Prudence:** OPUCN submits this proposal is a prudent response to the Board's stated intention in the RRFE to develop incentives to encourage innovation and asset optimization (RRFE – page 61). The purpose of OPUCN's proposed CCIEIM is to mitigate, to some extent, the

disincentive to control capital expenditure and thus avoid rate base. The CCEIM is designed to incent OPUCN to control the costs of its controllable capital investment programs (its System Renewal Capital Investment Program and its investment in a new municipal substation and associated feeders) by allowing revenue requirement impacts of variances between forecast and actual capital investment for these programs to be shared between OPUCN and its ratepayers.

- Causality: All amounts to be included in the proposed deferral account are directly related to the revenue requirement impact of the portion of the variances in capital costs related to the proposed CCIEIM efficiency incentive mechanism.

Draft Accounting Order

Oshawa PUC Networks Inc. shall establish the following deferral account to record the portion of the variances in capital costs related to the proposed CCIEIM efficiency incentive mechanism, for disposal at the end of the Custom IR Plan period as proposed in the evidence filed herein. For added clarity, this Accounting Order is intended to reflect the Board's Decision and Order in EB-2014-0101 dated MMM DD, 2015. Carrying charges will be determined by applying the Board approved rate to the opening monthly balances recorded in the sub-accounts (exclusive of accumulated interest) from January 1, 2015 to the month prior to the disposition of the balances in rates. Any amounts remaining in this account on expiration of the rate rider shall be brought forward for disposition in Oshawa PUC Networks Inc.'s next IR rate application.

Account: Controllable Capital Investment Efficiency Incentive Mechanism (CCIEIM) Deferral Account

Accounting entry:

Debit/Credit Account 4080, Distribution Services Revenue

Credit/Debit Controllable Capital Investment Efficiency Incentive Mechanism (CCIEIM) Deferral Account

Purpose: To record the actual amount of revenue under or over-collected from customers resulting from the revenue requirement impact of the portion of the variances in capital costs related to the proposed CCIEIM efficiency incentive mechanism.

g) Total Cost Efficiency Carryover Mechanism (TCECM) Deferral Account

The rationale for the creation of the new deferral account, using the Board's 3 criteria: Causality, Prudence and Materiality, is as follows:

- **Materiality:** As noted in the response to Board Staff interrogatory reference 9.0–STAFF-39, OPUCN’s materiality threshold is approximately \$108,000 in 2015. The estimated maximum amount collectable under this mechanism is approximately \$550,000 – comfortably in excess of the materiality threshold.
- **Prudence:** OPUCN submits this proposal is a prudent response to the Board’s stated interest in efficiency carryover mechanisms in the RRFE (RRFE, page 61). The purpose of OPUCN’s proposed TCECM is to ensure continued incentive for efficiency improvements, including in particular later in the Custom IR plan period. OPUCN’s proposed mechanism will incent general efficiency initiatives throughout the Custom IR Plan period, including late in the 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.
- **Causality:** All amounts to be included in the proposed deferral account are directly related to the portion of earnings in excess of the Board approved ROE eligible for collection through a rate rider per the proposed TCECM efficiency incentive mechanism.

Draft Accounting Order

Oshawa PUC Networks Inc. shall establish the following deferral account to record the portion of the variances in ROE related to the proposed TCECM efficiency incentive mechanism, for disposal at the end of the Custom IR Plan period as proposed in the evidence filed herein. For added clarity, this Accounting Order is intended to reflect the Board’s Decision and Order in EB-2014-0101 dated MMM DD, 2015. Carrying charges will be determined by applying the Board approved rate to the opening monthly balances recorded in the sub-accounts (exclusive of accumulated interest) from January 1, 2015 to the month prior to the disposition of the balances in rates. Any amounts remaining in this account on expiration of the rate rider shall be brought forward for disposition in Oshawa PUC Networks Inc.’s next IR rate application.

Account: Total Cost Efficiency Carryover Mechanism (TCECM) Deferral Account

Accounting entry:

Debit/Credit Account 4080, Distribution Services Revenue

Credit/Debit Total Cost Efficiency Carryover Mechanism (TCECM) Deferral Account

Purpose: To record the actual amount of revenue collectable from customers in 2020 and 2021 resulting from the revenue requirement impact of the proposed TCECM efficiency incentive mechanism.

OSHAWA PUC NETWORKS INC.

**Response to Energy Probe Research Foundation (Energy Probe)
 Interrogatory 9.0-Energy Probe-64**

Ref: Exhibit 9

- a) Please update Table 9-1 to reflect balances as of the end of December, 2014.
- b) Does a negative number indicate amounts that would be refunded to customers or collected by OPUCN?
- c) Please explain why OPUCN does not propose to dispose of Group 1 and Group 2 balances at the end of 2014 as part of this application.

Response:

- a) Table 9-1 updated.

DVA Account Description	Mar-15	Dec-14	Sep 2014	Dec 2013	Dec 2012
1588 RSVA - Power (excluding Global Adjustment)	(1,573,470)	1,589,555	(648,441)	1,852,762	248,417
1589 RSVA - Global Adjustment	(67,246)	2,050,116	57,799	1,070,288	174,736
1580 RSVA - Wholesale Market Service Charge	(3,324,040)	(3,229,365)	(2,675,399)	(3,220,754)	(2,530,878)
1584 RSVA - Retail Transmission Network Charge	7,140,133	6,986,529	6,197,463	5,028,432	3,321,592
1586 RSVA - Retail Transmission Connection Charge	(3,667,068)	(3,213,270)	(3,272,288)	(2,529,909)	(1,411,989)
Regulatory Assets - Other	(4,927)	(4,904)	(4,982)	(4,887)	(4,798)
OPUCN Net Receivable / (Payable)	(1,496,617)	4,178,661	(345,848)	2,195,932	(202,920)

- b) A negative number indicates amounts that would be refunded to customers.
- c) Please refer to the response to Board Staff interrogatory reference 9.0–STAFF-38, which provides some detail on commodity cost fluctuations affecting DVA balances. Given the fluctuating balances, OPUCN does not believe it appropriate to seek disposition of the DVAs at this time.

OSHAWA PUC NETWORKS INC.

**Response to Greater Oshawa Chamber of Commerce (GOCC)
Interrogatory 9.0-GOCC-17**

Table 9-1 provides balances as of September 2014. Accounts 1584 and 1588 balances are increasing year over year.

- a) Please provide balances as at December 31, 2014.
 - b) Are these balances audited?
 - c) Does Oshawa intend to dispose of the deferral and variance accounts? If not why not?
 - d) Please explain the reason for the increase in the balances for Accounts 1584 and 1588.
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Response:

- a) Please refer to response to interrogatory reference 9.0-ENERGY PROBE-64.
- b) Yes.
- c) No. Please refer to the response to Board Staff interrogatory reference 9.0-STAFF-38, which provides some detail on commodity cost fluctuations affecting DVA balances. Given the fluctuating balances, OPUCN does not believe it appropriate to seek disposition of the DVAs at this time.
- d) See c) above.

OSHAWA PUC NETWORKS INC.

**Response to Vulnerable Energy Consumers Coalition (VECC)
 Interrogatory 9.0-VECC-52**

Reference: E9/pg. 2/9.0-Energy Probe-64

Please calculate the applicable rate rider for Group 1 deferral and variance accounts using the 2014 year-end balances as requested in 9.0-ENERGY PROBE-64.

Response:

Rate Rider Calculation for Deferral / Variance Accounts Balances (excluding Global Adj.)

Rate Class (Enter Rate Classes in cells below)	Units	kW / kWh / # of Customers	Allocated Balance (excluding 1589)	Rate Rider for Deferral/Variance Accounts	
Residential	kWh	477,226,163	\$ 937,931	0.0004	\$/kWh
GS < 50 kW	kWh	132,507,210	\$ 260,530	0.0004	\$/kWh
GS 50 to 999 kW (I1 & I4)	kW	843,160	\$ 666,430	0.1581	\$/kW
GS 1,000 to 4,999 kW (I2)	kW	184,241	\$ 156,560	0.1700	\$/kW
Large Use (I3)	kW	92,753	\$ 83,708	0.1805	\$/kW
Street Lighting	kW	25,261	\$ 17,733	0.1404	\$/kW
USL	kWh	2,794,202	\$ 5,506	0.0004	\$/kWh
Sentinel Lights	kW	115	\$ 75	0.1298	\$/kW
Total			\$ 2,128,473		

Rate Rider Calculation for RSVA - Power - Global Adjustment

Rate Class (Enter Rate Classes in cells below)	Units	Non-RPP kW / kWh / # of Customers	Balance of RSVA - Power - Global Adjustment	Rate Rider for RSVA - Power - Global Adjustment	
Residential	kWh	44,766,974	\$ 493,616	0.0022	\$/kWh
GS < 50 kW	kWh	22,215,524	\$ 244,956	0.0022	\$/kWh
GS 50 to 999 kW (I1 & I4)	kW	181,832	\$ 804,907	0.8853	\$/kW
GS 1,000 to 4,999 kW (I2)	kW	8,341	\$ 39,686	0.9516	\$/kW
Large Use (I3)	kW	92,377	\$ 466,704	1.0104	\$/kW
Street Lighting	kW	23	\$ 93	0.7928	\$/kW
USL	kWh	13,908	\$ 153	0.0022	\$/kWh
Total			\$ 2,050,116		

OSHAWA PUC NETWORKS INC.

**Response to Vulnerable Energy Consumers Coalition (VECC)
Interrogatory 9.0-VECC-53**

Reference: E9/pg.8

- a) Please provide a description and cost for all costs incurred and booked into account 1508 after the Board's approval to dispose of \$170,428. Specifically address the costs of \$37,588 incurred in 2013, a year after implementation of IFRS.
 - b) Please If OPUCN is required to dispose of Group 1 accounts will it still seek to defer disposition of the remaining balance of 1508?
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Response:

- a) The Board's approval to dispose of \$170,428 related to audited balances as at end December 2010.

The balance of \$121,897 was made up of \$44,467 for 3rd party IT support in adapting accounting system and process to handle componentisation required under IFRS and \$77,431 in subcontractor costs associated with componentisation of the asset base.

OPUCN did not complete this process until early 2013.

- b) No.