



EB-2014-0101

Ex K 1.2

June 30, 2015

PUC Networks Inc.

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June 23, 2015

VIA RESS AND COURIER

Ms. Kirsten Walli
ONTARIO ENERGY BOARD
P.O. Box 2319, 2th Floor
2300 Yonge Street
Toronto, Ontario
M4P 1E4

**Re: EB-2014-0101: Oshawa PUC Networks Inc. (OPUCN) 2015-2019 Rates
OPUCN Updates – June 23, 2015**

Dear Ms. Walli:

OPUCN filed its Custom IR rate application on January 29, 2015. On May 13, 2015 OPUCN filed an updated set of rate models to incorporate actual results for 2014, in response to a number of interrogatories which requested various updates for 2014 and in advance of the Technical Conference held in respect of this application on May 21st and May 22nd, 2015.

Following the Technical Conference, and OPUCN's responses to undertakings taken during the Technical Conference, OPUCN is filing this update to the rate models underlying its application. OPUCN is also providing clarifications in respect of a number of its proposals, as identified below.

The following report provides a summary of the updates made and their impact on OPUCN's proposed revenue requirement for each of the planned rate years 2015 – 2019. Accompanying the schedule below, OPUCN is filing updated Excel spreadsheets that provide further details relating to the updates.

Yours truly,

Phil Martin, OPUCN

c. Harold Thiessen, OEB STAFF
Jennifer Lea, OEB STAFF COUNSEL
Interveners of Record

Updates - June 2015

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Rate Model Updates

Following is a table which summarises the change to the Base Revenue Requirement (dollars expressed in thousands unless noted otherwise) resulting from each update ("Updates") referenced in the discussion which follows. OPUCN is submitting updated Excel spreadsheets per the note below to accompany this report and provide further details including bill impacts.

Rate Application UPDATES - Revenue Requirement Impacts

23-Jun 2015

	2015	2016	2017	2018	2019	Total	Cum. Total
<i>Revenue Requirement As Filed Jan 29, 2015</i>	<i>21,565</i>	<i>23,548</i>	<i>24,391</i>	<i>25,605</i>	<i>26,194</i>		
<i>Revenue Requirement As Updated May 13, 2015</i>	<i>21,647</i>	<i>23,408</i>	<i>24,384</i>	<i>26,217</i>	<i>27,431</i>		1,783
Revised Working Capital Proposal (Update June 2015)	21,432	23,191	24,163	25,992	27,206		
Increase / (Decrease)	(215)	(217)	(221)	(225)	(225)	(1,103)	681
% Increase / (Decrease)	-1.0%	-0.9%	-0.9%	-0.9%	-0.8%	-0.9%	
Revised Load Forecast (Update June 2015)	21,441	23,220	24,213	26,061	27,302		
Increase / (Decrease)	9	29	50	69	96	252	933
% Increase / (Decrease)	0.0%	0.1%	0.2%	0.3%	0.4%	0.2%	
Move MS9 Land to WIP in 2015 (\$158.7k), Added back to Land 2018	21,428	23,208	24,201	26,054	27,302		
Increase / (Decrease)	(12)	(12)	(12)	(6)	0	(42)	890
% Increase / (Decrease)	-0.1%	-0.1%	-0.1%	0.0%	0.0%	0.0%	
Update Regulatory Expenses (higher rate application costs partially offset by lower forecast OEB assessment fees)	21,464	23,244	24,238	26,092	27,340		
Increase / (Decrease)	35	36	37	38	38	184	1,074
% Increase / (Decrease)	0.2%	0.2%	0.2%	0.1%	0.1%	0.2%	
Update Interest Rates for 2015 Loan (\$15m loan drawn June 2015 at 2.71%)	21,293	22,926	23,823	25,747	26,969		
Increase / (Decrease)	(171)	(318)	(415)	(345)	(371)	(1,619)	(545)
% Increase / (Decrease)	-0.8%	-1.4%	-1.7%	-1.3%	-1.4%	-1.3%	

Update to Opening Rate Base – Exhibit 2

In reference to IR 2.0-Energy Probe-12 and subsequent discussions thereon, OPUCN is proposing to subtract the cost of the land (\$158.7 thousand) related to the future site of a new substation (“MS9”) from its rate base as at December 31, 2014 and add it to rate base when MS9 is in service, which is forecast to be in 2018.

Updated Working Capital Allowance – Exhibit 2

In reference to the following technical conference transcript undertakings, OPUCN is updating its proposed working capital allowance: TC1.7; TC1.8; TC1.9; and TC1.10.

The following table lists the updates made and the impact of each update on the Working Capital Allowance (“WCA”):

Observation	Reference	Update
Should unadjusted WCA be 13.0%, the average result for 2012 and 2013 which is 12.7% or the result for 2013 – 12.4%.	IR 2.0-Energy Probe-13; IR 2.0-SEC-16	OPUCN is updating the WCA to reflect the most recent year used to prepare its Lead/Lag Report (2013) – unadjusted WCA is 12.4%.
Adjust the service lag for 4 days double counted; 21.44 days should be reduced to 17.44 days.	TC1.8	Change to service lag from 21.44 to 17.44 for 2013 – WCA is 11.2% (decrease of 1.2%).
Lead days for pension (OMERS) & WSIB adjustment from 10.42 to 10.63.	IR 2.0-Energy Probe-23	Update for OMERS & WSIB from 10.42 to 10.63 – WCA is 11.2% (decrease of 0.0%).
Collection lag – adjust for actual days in the month. Collection lag days from 22.3 down to 21.83.	TC1.7	Update for number of days in month. Collection lag adjusted from 22.3 to 21.83 – WCA is 11.1% (decrease of 0.1%).
OM&A for municipal taxes – adjust from 25 days down to 16.5 days based on actual payment dates.	IR 2.0-Energy Probe-25	Change to OM&A for municipal taxes from 25 days to 16.5 days – WCA is 11.1% (decrease of 0.0%).
Adjust lead on LTD interest from 6 days to 12.4 days.	IR 2.0-Energy Probe-29	Update lead days on LTD interest from 6 to 12.4 days – WCA is 11.0% (decrease of 0.1%).
Collection lag – adjust for weighted average to reflect cash flow results. Collection lag days from 21.83 days to 21.46 days.	TC1.7	Update collection lag from 21.83 days (based on arithmetic average) to 21.46 (based on weighted average) – WCA is 10.9% (decrease of 0.2%).
Adjustment		WCA adjusted from 13.0% to 10.9% (decrease of 2.1%).

Updated Load Forecast – Exhibit 3

In reference to the following undertakings, OPUCN is updating its proposed load forecast: TC1.13; TC2.5; TC2.7; and TC2.8.

The load forecast update includes the following items:

- 1) Updated average customer connections for 2015 reflecting a trend of additions base on year-to-date results from January 1st to May 31st;

- 2) Updated unemployment data from the Conference Board of Canada as of June 16, 2015 and applied forecast throughout Test period;
- 3) Revised CDM results for change in timing (i.e. delay) in City of Oshawa's plans to retrofit streetlights with LED bulbs; and
- 4) Corrected CDM for 2019 savings from programs implemented in 2013.

The following tables compare the load forecast as originally filed with the rate application, the May 13th update and the June update:

Description	2015			2016			2017		
	Application	May Update	June Update	Application	May Update	June Update	Application	May Update	June Update
Normalized Billed Energy (kWh)									
Residential	483,663,532	493,678,887	488,310,442	486,758,735	500,952,805	498,776,280	485,640,571	507,022,311	507,323,389
GS<50 kW	137,144,452	135,921,669	134,064,266	139,823,685	137,880,663	136,882,505	141,342,094	139,515,326	139,185,344
GS 50 to 999 kW	365,803,341	343,210,809	337,307,809	383,057,156	349,687,183	345,773,098	397,878,346	355,548,440	353,105,417
Large User	44,988,087	42,358,654	42,639,586	46,339,336	42,350,394	42,660,606	47,612,969	42,459,078	42,752,494
GS>1,000 kW	66,360,781	82,899,250	92,882,892	61,520,302	85,065,953	95,588,035	56,063,419	86,298,203	97,937,461
Streetlight	6,898,975	7,025,571	8,545,613	4,602,545	4,854,985	5,251,754	4,729,452	4,998,270	4,917,091
Sentinel Light	33,730	34,071	34,297	32,705	32,670	32,910	31,633	31,413	31,630
USL	2,688,072	2,668,837	2,686,537	2,654,071	2,647,799	2,667,193	2,614,011	2,634,181	2,652,385
Total	1,107,580,970	1,107,797,748	1,106,471,443	1,124,788,537	1,123,472,451	1,127,632,379	1,135,912,494	1,138,507,221	1,147,905,212

Description	2018			2019		
	Application	May Update	June Update	Application	May Update	June Update
Normalized Billed Energy (kWh)						
Residential	485,086,336	513,467,071	514,621,120	483,951,299	518,224,215	522,614,242
GS<50 kW	143,067,915	141,275,034	141,163,781	144,664,011	142,599,441	143,365,516
GS 50 to 999 kW	413,841,565	361,769,158	359,809,880	430,008,488	366,943,421	367,053,276
Large User	48,880,609	42,467,031	42,718,997	50,156,999	42,310,838	42,532,142
GS>1,000 kW	51,546,101	88,267,801	100,041,056	47,307,974	89,922,581	102,232,671
Streetlight	4,858,993	5,144,843	5,064,598	4,991,186	5,294,733	5,216,519
Sentinel Light	30,570	30,133	30,312	29,529	28,793	28,944
USL	2,572,397	2,614,415	2,629,927	2,530,185	2,584,770	2,598,290
Total	1,149,884,488	1,155,035,486	1,166,079,671	1,163,639,671	1,167,908,792	1,185,641,599

Description	2015			2016			2017		
	Application	May Update	June Update	Application	May Update	June Update	Application	May Update	June Update
Normalized Billed Energy (kW)									
GS 50 to 999 kW	925,860	866,864	851,954	969,530	883,221	873,335	1,007,043	898,025	891,855
Large User	102,200	95,815	96,450	105,270	95,796	96,498	108,164	96,042	96,706
GS>1,000 kW	146,299	183,136	205,191	135,628	187,923	211,167	123,598	190,645	216,358
Streetlight	18,602	18,990	23,819	12,410	13,123	14,638	12,752	13,510	13,705
Sentinel Light	99	99	100	96	95	96	93	92	92
Total	1,193,061	1,164,904	1,177,515	1,222,934	1,180,158	1,195,735	1,251,649	1,198,314	1,218,716

Description	2018			2019		
	Application	May Update	June Update	Application	May Update	June Update
Normalized Billed Energy (kW)						
GS 50 to 999 kW	1,047,447	913,737	908,789	1,088,366	926,806	927,084
Large User	111,043	96,060	96,630	113,943	95,707	96,207
GS>1,000 kW	113,639	194,996	221,005	104,295	198,652	225,846
Streetlight	13,101	13,906	14,116	13,458	14,311	14,540
Sentinel Light	90	88	89	87	84	85
Total	1,285,320	1,218,787	1,240,628	1,320,148	1,235,560	1,263,762

Updated Regulatory Costs – Exhibit 4

OPUCN is updating its estimates for the cost of the rate application from \$973.7 thousand to \$1,248.7 thousand (\$55.0 thousand per Test year). The increase is driven in part because OPUCN’s original estimate assumed three interveners of record compared to five approved by the Board and increases related to OPUCN not obtaining a Settlement Agreement. In addition, OPUCN is proposing to reduce its forecast Board annual assessment expense by \$20.0 thousand per Test year before inflationary adjustment.

Tax Updates – Exhibit 4

OPUCN is updating its forecast PILs resulting from the changes noted above.

Updates to Interest Rates – Exhibit 5

On June 17th, OPUCN completed a Term Loan Agreement for \$15 million; seven years; and interest at 2.71%. OPUCN is updating Exhibit 5 accordingly.

Updated Models

To accompany this summary, OPUCN is filing the following updated models:

- 1) Revenue Requirement Work Form (RRWF) model for each year 2015 to 2019
- 2) Chapter 2 Appendices workbook covering years 2015 to 2019
- 3) Load Forecast Model
- 4) PILs Work Form model for each year 2015 through 2019

Clarifications

Effective Date of Rates – January 1, 2015

As per Exhibit 1, Tab C; OPUCN’s presentation filed with the Board on April 1, 2015; and its response to IR 1.0-SEC-5, 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. 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 it 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 in support of an application. For example, the Asset Condition Assessment and Lead/Lag Study. Additionally, for a Custom IR, there are further expectations related to benchmarking evidence.

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 it.

Due to the risks associated with a five year plan and the Board’s interest in incentive-based rate-setting, OPUCN had to carefully assess various inputs and potential outcomes which could influence its application and determine which risk factors were reasonable for OPUCN and its rate payers to accept, and which risks OPUCN felt should be tempered by adjustment mechanisms.

Finally, in response to the Board’s RRFE expectations regarding the importance of incentives for continuous improvement, OPUCN investigated and developed/confirmed for its own use .

The outcome of OPUCN’s risk assessment was development of a set of adjustment and incentive mechanisms. This work was not completed in a time frame which allowed for a Decision on January 1, 2015.

However, OPUCN believes that its thoughtful and comprehensive rate application meets the requirements of the Board and includes sufficient and appropriate evidence to support its proposals.

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 3% short of the Board’s ROE in 2013 and 2014. Forecast for 2015 earnings reflects a shortfall on ROE 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.

OPUCN is providing the following analysis summarizing the financial impact of setting rates assuming a September 1, 2015 effective date for 2015 rates, rather than January 1, 2015 effective date for 2015 rates as proposed by OPUCN.

Description	2015
Average fixed assets	87,284
Working capital allowance	14,516
Rate Base	101,799
Interest	2,505
Deemed Return on Equity (After Tax NI)	3,787
Corporate Income Taxes Payable	220
Deemed Distribution Revenue	21,294
Actual Distribution Revenue	(19,890)
Revenue (Sufficiency)/Deficiency After Tax	1,404
Revenue (Sufficiency)/Deficiency Before Tax	1,793
Return on deemed equity	5.85%
Expected return	9.30%
Difference	(3.45%)

The table illustrates that setting rates effective September 1, 2015 would; i) be expected to trigger an off-ramp as a result of its 2015 earnings; and ii) would be tantamount to setting, on a forecast basis, a return on deemed equity below the legal “fair return standard” determined by the Board.

Total Cost Efficiency Carryover Mechanism (“TCECM”)

In response to questions received and discussions had with parties, OPUCN is refining its TCECM proposal to include the following: i) weather normalizing actual earnings for the purposes of calculating the ROE; and ii) accepting responsibility for demonstrating efficiencies which are sustainable beyond the current rate term (2015 – 2019) in order to be eligible for the incentive payment in 2020 and 2021.

Controllable Capital Investment Efficiency Incentive Mechanism (“CCIEIM”)

In its May 13, 2015 update, OPUCN included a revised forecast for the cost of MS9 from \$9 million to \$16 million. OPUCN is clarifying that the revised forecast for MS9 is based upon

controllable expenditures and will be included in the calculation for OPUCN's proposed CCIEIM.