

**F-Energy Probe-6**

**REF: Ex. F, Tab 1, Table 5**

- a) Please provide the source of the inflation factors shown in Table 5.
- b) Please provide the source of the customer growth factors shown in Table 5 and show how they relate the customer numbers used in Exhibit H.
- c) What does PowerStream mean by the line in Table 5 called Customer Growth effect on OM&A and please explain fully how the 11.45% figure is derived, including any calculations used.

**RESPONSE:**

- a) The inflation factors shown for 2014 and 2015 are the inflation factors (IPI) issued by the Board to be used in the price cap formula in IRM rate applications for each of those years.

The inflation factors shown for 2016 to 2020 are estimated based on a simple average of the annual wage increase in PowerStream's current union labour contract of 2.75%, which is in effect until March 31, 2016, and the average OEB inflation factor of 1.65%. The 1.65% was derived by averaging the 2014 and 2015 OEB IPI rates of 1.7% and 1.6% respectively.

- b) The customer growth percentages from 2016 to 2020 (i.e. 1.69% in 2016, 1.72% in 2017 1.70% in 2018, 1.70% in 2019 and 1.72% in 2020) are taken from Exhibit H, Tab 4, "Table 7: Billing Determinants – Customers and Connections". The percentages represent the change in customer count for each year compared to the prior year.

- c) The 11.45% figure is based on a methodology developed to determine the impact on OM&A as a result of customer growth. The methodology incorporates 2013 actual OM&A costs as a base. The OM&A costs were then separated out by business units and a correlation was made whether an increase in customers would increase that business unit's OM&A. Each business unit was then given a percentage rating of high (40%), medium (20%) and low (5%) based on the likelihood that the OM&A costs would increase if customers increased. A high correlation was determined for work programs such as Customer Billing and Customer Relations and Credit based on activities, supplies and materials directly needed to address an increase in customers. A medium correlation was determined for Lines and Engineering Management through the assessment of

1 work programs that will be impacted by the growth in plant needed to service an  
2 increase in customers. A low correlation included back office work activities that  
3 are not externally customer orientated, (e.g. Finance and Corporate Services).

4 The high, medium and low percentages were applied to the 2013 OM&A costs  
5 and 11.45% was determined to be the growth effect on OM&A. 11.45% was then  
6 multiplied by the average customer growth of 1.71% (simple average of the  
7 percentages from 2016 – 2020 discussed in b) above), which resulted in a 0.20%  
8 customer growth effect on OM&A. Therefore, OM&A costs will increase by 0.2%  
9 when the average customer growth of 1.71% is experienced. F-Energy Probe-6  
10 Appendix A provides the details for the calculation of the 11.45% and 0.20%  
11 factors respectively.

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Total OM&A					Bridge Year	F-Energy App Per 2015-2016 Budget	Test Years			
In \$'000	2012 Actual	2013 OEB Approved	2013 Actual	2014 Actual	2015 Budget	2016 Budget	2017 Budget	2018 Budget	2019 Budget	2020 Budget
Total	82,792	82,941	80,849	85,454	92,558	96,216	98,112	99,920	102,195	104,193

Average Customer Growth p.a. (2016 - 2020)

1.71% Customer Growth

BUs Impact from Customer Growth			High 40%	Medium 20%	Low 5%
	\$'000	% Proportion			
<b>Asset Management</b>	<b>32,270</b>	<b>39.9%</b>			
Asset Investment Planning	2,718	3.4%			0.17%
Engineering Design Distribution	3,758	4.6%		0.93%	
Engineering and Operations Strategy	2,356	2.9%			0.15%
Smart Grid	-				0.00%
System Control	3,408	4.2%			0.21%
Protection and Control	1,327	1.6%			0.08%
Stations	1,795	2.2%			0.11%
Metering	2,988	3.7%		0.74%	
Lines					
- Cable Faults: Primary	1,726	2.1%			0.11%
- Cable Faults: Secondary	969	1.2%		0.24%	
- Vegetation Management	1,461	1.8%			0.09%
- Inspections, Patrol and Testing	748	0.9%		0.19%	
- Switchgear and Insulator Cleaning and Maintenance	805	1.0%		0.20%	
- Poles and Lines Hardware	567	0.7%			0.04%
- Customer Service Activities	678	0.8%		0.17%	
- Accidents and Vandalism	355	0.4%		0.09%	
- Storm Damage	2,130	2.6%			0.13%
- Switching/Control Room/Cable Testing	330	0.4%			0.02%
- Operational Support, Training and Other Admin	4,150	5.1%			0.26%
<b>Finance</b>	<b>21,129</b>	<b>26.1%</b>			
Rates & Regulatory	2,363	2.9%			0.15%
Corporate Finance and Reporting					
- General Accounting	2,566	3.2%			0.16%
- Corporate Finance	2,559	3.2%			0.16%
Customer Service					
- Billing	6,162	7.6%	3.05%		
- Customer Relations	2,047	2.5%	1.01%		
- Customer Credit	5,433	6.7%	1.34%		
<b>Corporate Services</b>	<b>18,826</b>	<b>23.3%</b>			
Supply Chain Services					
- Inventory Management	47	0.1%			0.00%
- Fleet	473	0.6%			0.03%
- Strategic Sourcing	421	0.5%			0.03%
- Facilities	4,573	5.7%			0.28%
Information Systems	6,458	8.0%			0.40%
Corporate Communications	1,431	1.8%			0.09%
Legal	385	0.5%			0.02%
HR & Organizational Effectiveness					
- HR	2,337	2.9%			0.14%
- Health & Safety	1,717	2.1%			0.11%
- Organizational Effectiveness	754	0.9%			0.05%
- Enterprise Risk and Internal Audit	229	0.3%			0.01%
<b>Corporate Costs</b>	<b>8,624</b>	<b>10.7%</b>			
Corporate	4,968	6.1%			0.31%
Strategic Direction	3,655	4.5%			0.23%
	<b>80,849</b>	<b>100%</b>	<b>5.40%</b>	<b>2.54%</b>	<b>3.51%</b>
					<b>11.45%</b>

% increase of OM&A due to Customer Growth

0.20%