

Ontario Energy Board

IN THE MATTER OF the *Ontario Energy Board Act*, 1998, S.O. 1998, c. 15, (Schedule B);

AND IN THE MATTER OF an application by PowerStream Inc. order approving just and reasonable rates and other charges for electricity distribution to be effective January 1, 2016.

**VULNERABLE ENERGY CONSUMERS COALITION
("VECC")
CROSS-EXAMINATION COMPENDIUM**

November 23, 2015

POWER STREAM INC. (EB-2015-0003)
2016-2020 CIR APPLICATION – PANEL 1)
VECC CROSS-EXAMINATION COMPENDIUM

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TAB 1

Table 2 – Other Operating Revenue (Appendix 2-H)

USoA #	Description	2013 Board- Approved*	2013 Actuals	2014 Actuals	Bridge Year*	TEST YEAR 1	TEST YEAR 2	TEST YEAR 3	TEST YEAR 4	TEST YEAR 5
	2016	2017	2018	2019	2020					
	MIFRS	MIFRS	MIFRS	MIFRS	MIFRS	MIFRS	MIFRS	MIFRS	MIFRS	MIFRS
Special Service Charges										
4235	Service	3,385,000	3,463,771	3,478,694	3,488,043	3,471,316	3,474,784	3,475,039	3,474,966	3,476,285
Late Payment Charges										
4225	Payment	2,500,000	1,923,553	2,182,713	2,022,227	2,038,288	2,076,532	2,045,682	2,053,501	2,058,572
Other Distribution										
4078	Administrative	932,400	968,592	996,403	1,014,425	1,032,693	1,051,477	1,070,630	1,089,911	1,109,662
4082	Services	399,600	234,984	212,405	216,247	220,141	224,145	228,228	232,339	236,549
4210	Electric	700,000	744,022	757,373	746,560	748,260	749,673	748,165	748,699	748,846
4245	Int & Other Assistance	-	1,887,586	-	-	-	-	-	-	-
4245	Int & Other Assistance Credited to	-	(1,887,586)	-	-	-	-	-	-	-
Sub total		2,032,000	1,947,598	1,966,180	1,977,232	2,001,095	2,025,296	2,047,023	2,070,949	2,095,056
Other Income or Deductions										
4324	Purpose Charge	-	(449)	-	-	-	-	-	-	-
4355	Dispositio n of Utility and Other	-	75,771	46,182	-	-	-	-	-	-
4362	Retirement of Utility and Other	-	(1,462,182)	(2,078,248)	(1,500,000)	(1,300,000)	(1,300,000)	(1,300,000)	(1,300,000)	(1,300,000)
4375	from Non Rate-Regulated	32,993,598	23,653,392	27,719,176	3,641,949	3,759,090	3,850,269	3,925,633	4,027,688	4,130,311
4380	from Non Rate-Regulated	(28,500,000)	(19,955,141)	(24,140,021)	-	-	-	-	-	-
4385	Regulated Utility	-	5,677	4,909	-	-	-	-	-	-
4390	ous Non-Operating	1,020,000	2,233,238	2,673,172	1,115,667	1,078,814	1,049,431	1,081,304	1,069,850	1,066,861
4405	Dividend Income	125,000	338,792	239,331	260,000	260,000	260,000	260,000	260,000	260,000
4420	Profit or Loss of	-	313,794	307,982	300,000	300,000	300,000	300,000	300,000	300,000
4324	Special Purpose Charge	-	449	-	-	-	-	-	-	-
4355	Gain on Dispositio n of Utility	-	(75,771)	(46,182)	-	-	-	-	-	-
4362	Loss from Retirement of Utility	-	1,462,182	2,078,248	1,500,000	1,300,000	1,300,000	1,300,000	1,300,000	1,300,000
4375	Revenues from Non Rate-	(29,270,000)	(20,019,143)	(24,215,458)	(18,000)	(18,000)	(18,000)	(18,000)	(18,000)	(18,000)
4380	Expenses from Non Rate-	28,500,000	19,955,141	24,140,021	-	-	-	-	-	-
4385	Non Rate-Regulated Utility	-	(5,677)	(4,909)	-	-	-	-	-	-
4420	Share of Profit or Loss of	-	(313,794)	(307,982)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)
Sub total		4,868,598	6,206,278	6,416,221	4,999,616	5,079,905	5,141,699	5,248,937	5,339,537	5,439,173
TOTAL		12,785,598	13,541,200	14,043,807	12,487,117	12,590,603	12,718,312	12,816,681	12,938,953	13,069,086

* OEB 2013 Approved Budget is \$ 9,844,598. Difference of \$ 2,941,000 relates to Joint Services Revenue Included in Other Operating Revenue.

NOTES:

1 - For Revenue Offsets calculation, the amount in account 4245 are not included in Other Operating Revenues .

2 - For Revenue Offsets calculation, the amount in account 4105, 4110, 4230, 4305, 4324, 4355, 4362, 4375, 4380, 4385 & 4420 are not included in Other Income or Deductions .

3 - The amounts in account 4405 are net of interest on Regulatory Assets and interest on Customer Deposits

2

TAB 2

I-Energy Probe-28

REF: Ex. I, Tab 1, Table 2

a) Please explain what revenues and costs are shown in the second set of accounts 4375 and 4380 that offset part of the revenues shown in the first 4375 reference and offset the costs shown in the first 4380 reference shown in the table.

b) Please explain what is recorded in each of accounts 4355, 4362, 4385 and 4420.

c) For each account noted in part (b) above, please explain why the associated revenues (or costs) have been removed from the bottom line.

d) Please explain the decrease in account 4390 shown between 2015 and 2016 and 2017, the increase in 2018 and the subsequent decrease in 2019 and 2020.

RESPONSE:

a) There are two areas in the Other Operating Income section in Exhibit 1 tab 1 Table 2 that references account 4375 and 4380. The first set of accounts in table 2 of Exhibit 1, tab 1 is 4375 (revenues from non rate-regulated utility operation) and 4380 (expenses from non rate-regulated utility operation). These accounts show the total revenue and cost included in PowerStream's general ledger accounts. They include revenues and costs that are not part of the revenue requirement and rate setting parameters.

The second set of account 4375 and 4380 in table 2 of Exhibit 1, tab 1 are revenues and cost adjustments that are excluded from the revenue requirement or rate setting parameters.

The net of these four rows in the table is the revenue from non-rate regulated activities that should be considered for rate setting purposes.

The breakdown of what is included in 4375 and 4380 is set out below. The revenues in these accounts are mainly attributable to CDM related activity which is funded from the IESO. The amounts in these accounts are not part of the distribution business; they are funded from other sources and therefore are removed from the other revenue account. The difference between 4375 and its related offset is joint service revenue which is now being included in other operating revenue.

Account 4375	Y2013 Actual	Y2014 Actual
CDM Related	20,001,187.90	24,197,602.40
Fibre Revenue	17,857.20	17,857.20
Solar Micro-FIT & Others	98.14	1.72

4

Total 4375	23,653,392.08	27,719,175.53
Total 4375 offset	20,019,143.24	24,215,457.88
Difference between 4375 and 4375 offset is joint services	-3,634,248.84	-3,503,717.65
Account 4380 - CDM related	19,955,141.00	24,140,021.00

- b) Account 4355 "Gain on disposition of utility and other property" includes gains or losses on asset disposal; this is mainly made up of the sale of vehicles and meters. Account 4362 "Loss on disposition of utility and other property" includes the loss on disposals/derecognition from hydro poles, underground transformer, overhead transformer, switches and switchgears. Account 4385 "Non rate-regulated utility rental income" includes sentinel light rental charges. Account 4420 "Share of Profit and loss from joint venture" includes 50% of the profit of PowerStream Collus Inc. PowerStream owns a 50% share of PowerStream Collus Inc.
- c) The accounts in b) are removed from other operating revenue for two reasons. Amounts recorded in these accounts are either reclassified or restated in other areas, or activities recorded in the revenue accounts are not related to distribution services. Amounts recorded in account 4362 have been moved and restated for rate setting purposes as depreciation expense. Revenues recorded in accounts 4385 and 4420 are not related to distribution services. Revenues in account 4420 represent 50% of PowerStream's share in PowerStream Collus Inc., and 4385 is the rental income from PowerStream Solar. Revenues in account 4355 should be part of other operating revenues considered in the rate setting process and it was a clerical error to exclude it in Exhibit I, Tab 1 Table 2.
- d) In account 4390 "Miscellaneous non-operating income", the 2015 budget was based on the historic average of 2012, 2013 actuals and 2014 forecast. The 2016 budget was based on the average of 2013, 2014 and 2015 actual, forecast or budget amounts; the same assumption goes for every year for the rest of the years 2017 to 2020, which is why there is a small fluctuation in each year. Please see the chart below for values used to forecast these amounts. The historic average was adjusted for one time revenues in 2012, 2013 and 2014. Examples of these one-time amounts in 2014 include a \$600,000 surplus in health and dental benefits which was a direct result of changing carriers, and the insurance claim received for \$767,000 as a result of an assessment conducted in relation to a loss of assets.

Account 4390	(\$M)		(\$M)
Y2012 actual exclude one time	1.227	Y2016 forecast	1.079

5

Y2013 actual exclude one time	1.170	Y2017 forecast	1.049
Y2014 forecast at budget time	0.951	Y2018 forecast	1.081
Y2014 actual	1.114	Y2019 forecast	1.069
Y2015 forecast	1.116	Y2020 forecast	1.037

I-Energy Probe-29

REF: Ex. I, Tab 1

a) Which account shown in Table 2 includes revenues from microfit and fit customers?

b) Please provide the actual and forecasted revenues from these customers in 2013 through 2020, along with the average number of customers in each year.

c) If the number of customers shown in the response to part (b) above differ from the numbers in the Distribution System Plan, please explain.

6

TAB 3

III-VECC-26

Ref: SECTION III/TAB 1/SCHEDULE 1, I-EP #28 d) and G-VECC #19 c)

a) Do Revenue Offsets as currently proposed by PowerStream include either the correction noted in EP #28 d) or the additional potential revenue identified in VECC #19 c)?

RESPONSE:

a) In relation to the correction noted in Energy Probe - 8, yes the Revenue Offsets as currently proposed by PowerStream in the May rate application include the correction noted, which is the inclusion of account "4355 Gain on Disposition of Utility and Other Property" in revenue offsets.

The additional potential revenue identified in VECC #19 c) regarding the potential leasing options at the Barrie location has not been incorporated as a revenue offset. The Barrie office renovation is still ongoing. No firm plans have been made to lease out this facility. The response to VECC #19c) was based on preliminary advice from an external consultant as to the average lease rates in this area. Once the renovation is complete and PowerStream has determined that the space is not required to support its business operations, the matter will be reassessed at this time. It is not expected that lease options, if applicable, would be acted upon prior to 2017.

TAB 4

As a result of the interrogatory process, there were a few items that required correction and updating of the revenue requirement and associated rates. These are summarized below in the response to Technical Conference Question #4. The resulting proposed rates are located in Section V, Tab 2. The bill impacts (App. 2-W) are located in Section V, Tab 3. The updated Revenue Requirement Workforms are located in Section VI, Tab 25.

4. B-EP-3: Provide updated Revenue Requirement and associated schedules reflecting corrections noted in interrogatory responses.

Response:

In the responding to the interrogatories, PowerStream discovered a number of items that needed to be corrected or adjusted:

Affecting Revenue Requirement:

- The cost of the new CIS system going into service in 2015 was understated by \$3,206,000 (B-CCC-15)
- The estimated accumulated depreciation on dispositions was overstated (G-EP-13)
- Taxes:
 - Update for changes affecting target net income
 - Correct CEC additions for 2017 to 2020 (J-EP-42)
 - CCA additions for additional CIS cost and correct adjustments re RCGRP (J-EP-43)
 - Correct additions to taxable income for depreciation to gross amount before re-allocation to OM&A (J-EP-42).

Affecting Cost Allocation:

- Remove suite metered customers from Residential Secondary customer base (L-VECC-37)
- Corrections to suite meter capital costs and meter reads (L-VECC-35).

Undertaking TCQ # 33, regarding cost allocation input sheets, I7.1 Meter Capital and I7.2 Meter Readings, questioning why the are suite meters reads for GS>50 kW customers on I7.2 but no Suite meters on I7.1. This was a misunderstanding on our part and these reads have been moved from suite meter reads to the normal manual reads.

10

TAB 5

1 **II-VECC-2**

2
3 **Ref: Exhibit J/Tab 1/pg.3 / Section I/T1/S1/pg.4**

- 4
5
6 a) Please provide the updated capital costs of the CIS system.
7
8 b) Are all capital costs of this project now completed and in-service?
9
10 c) What was the capital and maintenance cost of the CIS system when this project
11 was originally budgeted?
12
13 d) Please detail the \$1,392,000 in training costs including the period over which this
14 spending is to take place.
15
16 e) Is the new billing system shared for the use of water billing or used by any other
17 party?
18
19 f) If yes please provide a description of the billing functions that were purchased or
20 developed for the purpose of shared billing.
21
22 g) If water billing undertaken by PowerStream is not renewed what is the Utility's
23 proposal for recouping its investments for shared billing.
24
25

26 **RESPONSE:**

- 27
28 a) The updated capital cost of the CIS system is \$42.8M.
29
30 b) All capital costs are not yet in-service. The \$42.8M noted above includes \$39.7M that
31 was capitalized in July 2015, and an estimated \$3.1M of remaining project costs relating
32 to costs incurred but not yet billed by vendors which will also be capitalized in 2015;
33 when paid, these costs will be added to the in-service capital cost of the project for an
34 overall total project capital cost of \$42.8M.
35
36 c) When the project was originally budgeted in 2011, the capital budget was \$34.5M and
37 the OM&A budget was \$1.2M (see Section III, Tab 2, B-CCC-15, Appendix A, pg.3).
38
39 d) The \$1,392K in CIS training relates to training the customer service staff within the
40 Customer Service Department on the new CC&B system. The training includes
41 consultant costs to prepare and set up training tools, develop training material, train the

1 trainer sessions, and delivery of comprehensive training. The training took place
2 primarily in 2014 (\$1,350K) and the remaining expenditures will take place over the
3 2015-2017 period (see Section III, Tab 1, Schedule 1, pg 36 B-CCC-15 Table B-CCC-
4 15-2).

- 5
- 6 e) The new customer care and billing system also provides water billing for legacy
7 agreements with the City of Markham and the City of Vaughan.
- 8
- 9 f) The need for the new customer care and billing system was driven by the requirement
10 for updated electricity billing functionality. There was no additional functionality
11 purchased for water billing and water billing leverages off the core electricity billing
12 functionality. As such, there are no incremental costs related solely to water billing.
- 13
- 14 g) If water billing is not renewed, PowerStream does not intend to seek recovery of the lost
15 revenue.

TAB 6

1 Within PowerStream's Asset Condition Assessment ("ACA") models, failure curves have been
2 developed to depict the correlation between asset condition/age and failures, and the likely
3 expected number of failed units over time. If proactive replacement of the worst performing
4 assets can be attained, the level of anticipated failures can be held to a steady state.

5 If the levels of proactive system replacement, when combined with the reactive system
6 replacements, fall within the anticipated annual failure rates within various asset classes, a
7 steady state can be achieved. This approach results in levels of capital spending that are
8 acceptable with the risk mitigated; that provide level, paced capital spending; and that do not
9 increase the reactive maintenance capital costs.

10 There is an expectation that the projects and programs will lead to a modest improvement in
11 reliability to customers as the controllable portion of the System Average Interruption Duration
12 Index ("SAIDI") will decrease as the capital projects/programs and the appropriate Operations &
13 Maintenance spending practices are implemented.

14 The investments included in the DS Plan for the remediation programs stated above are \$148
15 million for 2016-2020.

16 Storm Hardening and Rear Lot Conversion

17 There are investments included in the DS Plan for Storm Hardening and Rear Lot Conversion,
18 as a result of recommendations from the review of the 2013 ice storm, in a total amount of \$37.5
19 million for 2016-2020.

20 **General Plant**

21 Customer Information System

22 In 2015, PowerStream will begin using a new Oracle-based Customer Information System
23 ("CIS") to replace the existing T&W Info-Systems Ltd. CIS system ("T&W") that dates back to
24 the 1970s. In November of 2011, PowerStream's Board of Directors approved a purchase
25 agreement for the Oracle Customer Care and Billing CIS ("CC&B") solution. In February of 2012
26 PowerStream purchased Oracle's CIS Custom Components for the Ontario Market ("CCOM").

1 Implementing a new CIS is essential given the age of the existing system and the resulting risk
2 of failure of this critical system.

3 The CIS is a critical and comprehensive business system for PowerStream. The CIS provides
4 the full meter-to-cash applications required to meet one of the core business mandates of
5 providing account management, billing, collections, payments, and meter management/meter
6 reading functionality for over 370,000 electricity customers within PowerStream's service
7 territory. It also is a hub system providing inbound and outbound information to approximately
8 twenty other interface systems both internal and external to PowerStream.

9 The major cost components of the new CIS system are the system hardware and software,
10 internal resources, consulting and legal costs and the cost for integration of the CIS with
11 PowerStream's existing processes and systems.

12 The investments included for the CIS Replacement project are \$19.9 million for 2016-2020.

TAB 7

1 **Table 1: Net Incremental New Costs for Changing Requirements and Extraordinary items**

Total OM&A (\$000's)	2013 Actual	2014 Actual	2015 Bridge Year	2016 Test Year	2017 Test Year	2018 Test Year	2019 Test Year	2020 Test Year	2013 Actuals to 2015 Bridge Year	2016 to 2020 Test Years
Opening Balance *	82,941	80,849	85,454	92,558	96,216	98,112	99,920	102,195	82,941	92,558
Compensation	(204)	538	2,508	1,136	267	745	787	801	2,842	3,837
Asset Management	(922)	1,949	579	472	578	364	416	369	1,605	2,199
Risk Management	(109)	330	757	518	485	(36)	138	(103)	978	1,002
Growth	(73)	59	144	389	140	232	87	106	131	935
Customer Expectation	95	754	(248)	58	25	25	25	25	602	158
Compliance	(361)	262	185	132	18	18	18	19	86	205
Other	(2,390)	929	1,464	482	15	110	265	139	4	1,011
Closing Balance- Business as usual	78,977	85,670	90,844	95,724	97,745	99,571	101,657	103,650	89,188	101,904
Year over year (\$)		6,693	5,173	4,881	2,021	1,826	2,086	1,993	Note 1	Note 2
Year over year (%)		8.5%	6.0%	5.4%	2.1%	1.9%	2.1%	2.0%		
Extra-ordinary items										
Vegetation Management	1,872	(1,565)	403	614	526	531	536	542	710	2,749
CIS Implementation	-	1,349	1,310	(122)	(158)	(182)	1	1	2,659	(460)
Closing Balance- Business with Extra- ordinary items	80,849	85,454	92,558	96,216	98,112	99,920	102,195	104,193	92,558	104,193
Year over year (\$)		4,605	7,104	3,659	1,896	1,808	2,275	1,999		
Year over year (%)		5.7%	8.3%	4.0%	2.0%	1.8%	2.3%	2.0%		

2

3 * The opening balance for the 2013 actual is 2013 OEB approved amount of \$80,000,000 plus the inclusion of
4 the joint services expenses of \$2,941,000 that were not included in the 2013 OEB approved OM&A. In 2013
5 the net of joint services revenues and expenses were reported as Revenue Offsets. In this application the
6 expenses are reported in OM&A and the full revenue in Revenue Offsets. Accordingly the 2013 Approved
7 revenue offsets have also increased by \$2,941,000.

8 Note 1: The change from 2013 to 2015 is 2% per year.

9 Note 2: The change from 2016 to 2020 is 1.6% per year.

10 Background information on the extraordinary incremental costs is set out below:

11

18

1 New Customer Information System ("CIS")

2 A new CIS was implemented in 2015 by CGI Inc. CGI was also chosen to provide the maintenance
3 on the new CIS based on the results of due diligence process including a pricing proposal;
4 discussions with other out of province utilities who had used CGI for maintenance; and discussions
5 with other LDCs.

6 There are \$2,000,000 in incremental costs related to the maintenance agreement to support the new
7 CIS and \$1,392,000 in training costs. The maintenance costs are initially higher than the cost to
8 support and maintain the former T&W Billing System however there is some reduction in cost over
9 the term of the Custom IR plan.

10 Vegetation Management

11 In December 2013 there was a major ice storm that damaged a number of trees and increased
12 OM&A expenses in 2013 by \$1,809,000. As a result of the ice storm PowerStream changed its
13 vegetation management policies for rear yards and heavily treed front yards from a 5 year tree
14 trimming cycle to a 2 year cycle. Further, rural areas now have a 4 year tree trimming cycle where
15 previously they were not part of the tree trimming cycle.

16 In addition to the change in policy after the ice storm, PowerStream changed its annual tree trimming
17 cycle from 5 years to 3 years for urban areas in December 2012.

18 With the implementation of these changes, incremental costs for vegetation management have
19 correspondingly been higher.

20 Below is some background information on other incremental costs:

21

TAB 8

J-Energy Probe-39

REF: Ex. J, Tab 3

- a) Over what period is the CIS system being depreciated?
- b) Please provide a schedule that shows the addition to rate base of the CIS system and the calculation of the depreciation expense from the time the capital expenditures were closed to rate base through 2020.
- c) Please indicate where in Appendix G-2a-1 the CIS addition to rate base and the calculation of the depreciation, accumulated depreciation and net book value is shown.

RESPONSE:

- a) The new CIS software is being amortized over 10 years.
- b) Table J-EP-39-1 below shows the addition of the new CIS to rate base.

Table J-EP-39-1: CIS System Addition to Rate Base and Depreciation Expense

	2015	2016	2017	2018	2019	2020
Opening NFA	\$ -	\$ 40.7	\$ 36.4	\$ 32.1	\$ 27.8	\$ 23.5
Addition	\$ 42.8					
Depreciation	-\$ 2.1	-\$ 4.3	-\$ 4.3	-\$ 4.3	-\$ 4.3	-\$ 4.3
Closing NFA	\$ 40.7	\$ 36.4	\$ 32.1	\$ 27.8	\$ 23.5	\$ 19.3
Rate Base amount	\$ 20.3	\$ 38.5	\$ 34.2	\$ 30.0	\$ 25.7	\$ 21.4

- c) The CIS additions and other software expenditures are included in the line for account 1611, "Computer Software".

J-Energy Probe-40

REF: Ex. J, Tab 3

TAB 9

JTC 1.2: To provide the study requested.

RESPONSE:

In 2011 and 2012 the costs associated with the water billing services provided to our shareholders was internally produced. There was no formal study undertaken, rather an internal analysis was conducted. This analysis looked at all the costs associated with providing the service and the related mark-up that is charged to the shareholders. The results of the analysis conducted are shown on the next page in Table JTC 1.2.

1

Table JTC 1.2

Water Metering and Billing services		
Attributable Costs to Water		
Divisions of Customer Service	2011 Estimate	2012 Estimate
245 Business Solutions	189,255	194,933
225 Billing Services	388,548	400,204
235 Customer Relations	302,830	311,915
255 Payments	229,975	236,874
256 Collections	405,223	417,380
Total Cost Attributable to Water - Note 1	1,515,832	1,561,307
Overhead Allocation		
Accounts	2011 Estimate	2012 Estimate
Building Depreciation Attributable to Cust. Svc.	67,873	67,873
IT & CIS Attributable to Cust. Svc.	1,173,517	1,197,694
Facility Maintenance Attributable to Cust. Svc.	112,905	116,292
Corporate Overhead Attributable to Cust. Svc.	172,204	177,370
Total Overhead Allocated to Cust. Svc. - Note 2	1,526,499	1,559,229
Overhead Adjusted for Water Service - Note 3	368,138	374,732
Meter Reading Costs - Note 4	674,519	688,893
Postage & TOM cashier - Note 5	468,904	482,612
Total Cost of Providing Water Service - Note 6	3,027,394	3,107,545
Target Revenue (Return=WACC=7.3%) - Note 7	3,248,394	3,334,395
Income Analysis		
Accounts	2011 Estimate	2012 Estimate
Total Revenue	3,248,394	3,334,395
Less Total Cost of Providing Water Service	3,027,394	3,107,545
Earnings	221,000	226,851
Return	7.30%	7.30%
Note 1 - Costs were determined based on time each employee spent on water billing		
Note 2 - Overhead costs were allocated based on time spent or sq footage of space used on water billing		
Note 3 - Overhead is adjusted for customers in the areas that water billing is provided		
Note 4 - Meter reading costs attributable to water billing		
Note 5 - Postage and cashier services attributed to water billing		
Note 6 - Total water billing costs		
Note 7 - Total water billing costs marked up by 7.3% or WACC as at 2011.		

2

24

TAB 10



ONTARIO ENERGY BOARD

FILE NO.: **EB-2015-0003** **PowerStream**

VOLUME: **Technical Conference**

DATE: **September 9, 2015**

1 look yet.

2 MR. GARNER: Okay, fair enough. Now I want to pursue
3 the issue of the water billing matter, and if you go to IV
4 VEXC 30, which I believe is page 337 of the application --
5 no, I am sorry. Actually, if you go to II VEC 2, page 263,
6 that's the one I want to look at, PDF page 263.

7 In this question, what we were asking, among other
8 things, was the incremental cost of the water billing as a
9 component of the new billing system. And as I understand
10 the answer, and what you said this morning -- and correct
11 me if I am wrong, you said there were no incremental costs
12 to the water billing component of the system. Is that
13 right?

14 MS. CLARKE: That's right.

15 MR. GARNER: Now, I am trying to put that response
16 together with the response that you then went on to say
17 that if you were going to do monthly billing, your vendor
18 said that would cost you \$3 million for things such as a
19 different interface.

20 Now, doesn't the water billing system have an
21 interface aspect to it? Doesn't it show up somewhere? I
22 mean, it seems to me it must, if someone has to look at it.

23 MS. CLARKE: There is an interface aspect, yes.

24 MR. GARNER: Would it be fair to say this, that it's
25 not that the water billing component doesn't have an
26 incremental cost. Would it be more correct to say that you
27 never asked your vendor to give you a cost for a utility
28 billing system, and then a billing system to incorporate

1 water billing in addition to that?

2 MS. CLARKE: No, I don't think that's completely
3 correct. So the water billing aspect of the system is not
4 a specific component of the new CIS system. It's an extra
5 line on the bill, not specifically integrated to what you
6 are suggesting.

7 MR. GARNER: It's an extra line on the bill. So isn't
8 there a data component for the billing of water? Doesn't
9 the system track data for water?

10 MS. CLARKE: So there are meter reading components
11 that are read manually and are tracked in the system, yes.

12 MR. GARNER: Right. So I am correct, though, that you
13 never asked your vendor to give you a quote for an
14 electricity billing system, and then asked your vendor to
15 then give us a quote for the incremental cost of
16 incorporating the water component -- another billing system
17 in order to create water billing services?

18 MS. CLARKE: That's correct.

19 MR. GARNER: Right. And why I ask that is because it
20 does seem that the process of creating a monthly billing
21 system has components that seem in parallel to things like
22 a water billing component. They have to go in and, as
23 you've said, create some interfaces and other aspects to
24 that billing system, right?

25 The other thing that struck me as interesting, and I
26 was trying to figure out what you -- how you were charging
27 for the water billing service, because I heard somebody on
28 the panel, it may have been Mr. Barrett, say that there was

1 a market component to the water billing service, i.e. that
2 you charged because you had to be aware of the water bill,
3 or the municipality's sensitivity to price and their
4 ability to get their billing done some place else.

5 Can you explain to me how you come up with how to
6 charge the municipality? Is it through a market concept,
7 or is it through simply an allocation of costs?

8 MR. BARRETT: Before we answer that, I would like to
9 clarify my earlier remark, which was not a well-informed
10 remark before Ms. Clark gives you more of the details.

11 But my comment was really that I believed the old
12 allocated price was a better indicator of market price.
13 That was an opinion, that was not a fact. I would just
14 like to clarify that, and Ms. Clark can --

15 MR. GARNER: Thank you.

16 MS. CLARKE: So the water billing, we did it -- as I
17 mentioned previously, we did a study that undertook the
18 costs associated with performing water billing. That cost,
19 we took a 7.2 per cent mark-up, which is our over and above
20 piece that you will see in our other revenue component, and
21 those costs are representative of the current staff levels
22 and costs associated with today.

23 MR. GARNER: Okay, so it's a cost-based --

24 MS. CLARKE: It is cost-based.

25 MR. GARNER: It is a cost-based concept; it's not a
26 market-based concept.

27 MS. CLARKE: Correct.

28 MR. GARNER: Now, as you are going forward and you are

1 renegotiating a contract currently with the people that you
2 provide that service, your view is -- as I think we heard
3 earlier is that there were no incremental costs in this new
4 billing system for them to acquire as part of this -- and
5 you intend to -- you are negotiating your new contract on
6 the basis of cost, again not on a market-based concept.

7 MS. CLARKE: That's right.

8 MR. GARNER: Do you have any idea yourselves as to
9 what a replacement cost for billing for water would be for
10 the municipalities?

11 MR. MACDONALD: We don't know that, Mr. Garner, and
12 this isn't terribly scientific, but in the last two years
13 one of our shareholders, the City of Barrie, decided to
14 leave us and do their own water billing, and so did the
15 Town of Bradford, which is not a shareholder of one of
16 these communities that we serve, so there is evidence that
17 there is a market there for the service and they are doing
18 the comparison. So we have to balance all of that.

19 It's very beneficial to have this service and have it
20 as a revenue offset, but we do have to keep in mind that
21 the shareholders have other options as well.

22 MR. GARNER: But you don't know -- you don't have any
23 idea right now as to what that threshold is for the people
24 you provide billing, because you have undertaken no study
25 yourself as to what they could replace your service with
26 and how much it would cost them.

27 MR. MACDONALD: That's correct, and I -- like I said,
28 what's happened is not, you know, in a report, it's -- but

TAB 11



AFFILIATE RELATIONSHIPS CODE FOR ELECTRICITY DISTRIBUTORS AND TRANSMITTERS

ONTARIO ENERGY BOARD

Revised March 15, 2010

(Originally issued on April 1, 1999)

2.3.3 Where a Market Exists

- 2.3.3.1 Where a reasonably competitive market exists for a service, product, resource or use of asset, a utility shall pay no more than the market price when acquiring that service, product, resource or use of asset from an affiliate.
- 2.3.3.2 A fair and open competitive bidding process shall be used to establish the market price before a utility enters into or renews an Affiliate Contract under which the utility is acquiring a service, product, resource or use of asset from an affiliate.
- 2.3.3.3 Despite section 2.3.3.2, where satisfactory benchmarking or other evidence of market price is available, a competitive tendering or bidding process is not required to establish the market price for a contract with an annual value of less than \$100,000 or 0.1% of the utility's utility revenue, whichever is greater. Where an Affiliate Contract has a term of more than one year, the annual value of the Affiliate Contract shall be determined by dividing the total value of the Affiliate Contract by the number of years in the term.
- 2.3.3.4 Where the value of a proposed contract over its term exceeds \$500,000 or 0.5% of the utility's utility revenue, whichever is greater, a utility shall not award the contract to an affiliate before an independent evaluator retained by the utility has reported to the utility on how the competing bids meet the criteria established by the utility for the competitive bidding process.
- 2.3.3.5 The Board may, for the purposes of sections 2.3.3.3 and 2.3.3.4, consider more than one Affiliate Contract to be a single Affiliate Contract where they have been entered into for the purpose of setting the contract values at levels below the threshold level set out in section 2.3.3.3 or 2.3.3.4.
- 2.3.3.6 Where a reasonably competitive market exists for a service, product, resource or use of asset, a utility shall charge no less than the greater of (i) the market price of the service, product, resource or use of asset and (ii) the utility's fully-allocated cost to provide service, product, resource or use of asset, when selling that service, product, resource or use of asset to an affiliate.

2.3.4 Where No Market Exists

- 2.3.4.1 Where it can be established that a reasonably competitive market does not exist for a service, product, resource or use of asset that a utility acquires from an affiliate, the utility shall pay no more than the affiliate's fully-allocated cost to provide that service, product, resource or use of asset. The fully-allocated cost may include a return on the affiliate's invested capital. The return on invested capital shall be no higher than the utility's approved weighted average cost of capital.
- 2.3.4.2 Where a reasonably competitive market does not exist for a service, product, resource or use of asset that a utility sells to an affiliate, the utility shall charge no less than its fully-allocated cost to provide that service, product, resource or use of asset. The fully-allocated cost shall include a return on the utility's invested capital. The return on invested capital shall be no less than the utility's approved weighted average cost of capital.
- 2.3.4.3 Where a utility pays a cost-based price for a service, resource, product or use of asset that is obtained from an affiliate, the utility shall obtain from the affiliate, from time to time as required to keep the information current, a detailed breakdown of the affiliate's fully-allocated cost of providing the service, resource, product or use of asset.

2.3.4A *Qualifying Facilities*

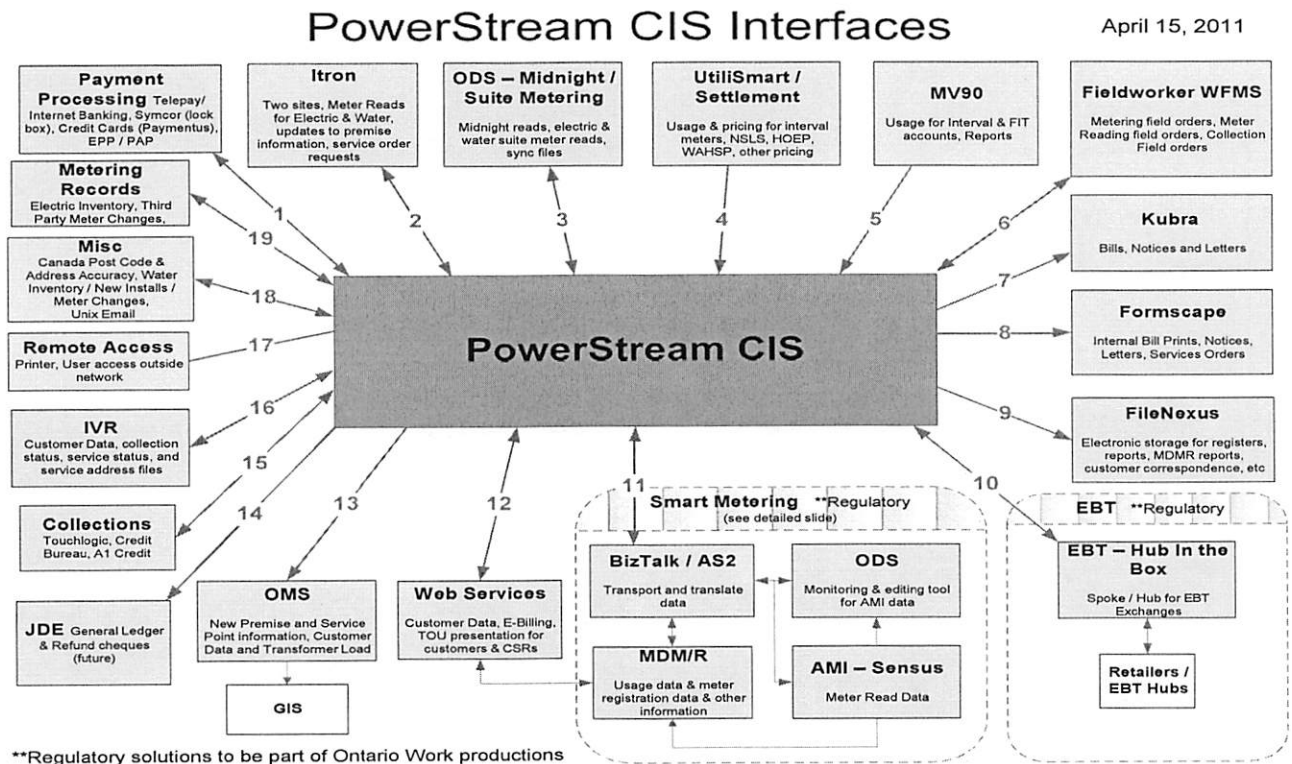
- 2.3.4A.1 For a service, product, resource or use of asset that pertains exclusively to the ownership and operation of one or more qualifying facilities, fully-allocated cost-based pricing (as calculated in accordance with sections 2.3.4.1 and 2.3.4.2) may be applied between a utility that is a distributor and an affiliate in lieu of applying the transfer pricing provisions of section 2.3.3.1 or section 2.3.3.6, provided that the distributor complies with section 2.3.4.3.

2.3.5 Shared Corporate Services

- 2.3.5.1 For shared corporate services, fully-allocated cost-based pricing (as calculated in accordance with sections 2.3.4.1 and 2.3.4.2) may be applied between a utility and an affiliate in lieu of applying the transfer pricing provisions of section 2.3.3.1 or section 2.3.3.6, provided that the utility complies with section 2.3.4.3.

TAB 12

Figure 1: CIS Interfaces



The new CIS system is planned to be in service in by the end of Q2, 2014. The capital and OM&A cash costs associated with this project are outlined in Table 1 below.

Table 1: CIS Cost

CIS Replacement Project - Cost Breakdown						
(Taxes and Staff Overhead Burdens NOT Included)						
		Capital			OM&A	
		2012	2013	2014	2012	2013
Software License& Hardware	\$5,133,160	\$4,253,160	\$605,000	\$275,000	\$578,844	\$578,844
Internal Staff & Resource Costs	\$4,166,934	\$1,491,588	\$1,726,192	\$949,155		
Legal - Consulting - Other Misc.	\$3,194,605	\$1,399,464	\$1,208,644	\$586,497		
Integration	\$22,000,000	\$5,500,000	\$12,100,000	\$4,400,000		
TOTAL PROJECT COST	\$34,494,699	\$12,644,212	\$15,639,836	\$6,210,652		

TAB 13

JTC 1.4: To provide a breakdown of the customer billing costs to move to monthly billing.

RESPONSE:

In Section A, schedule 1 of the interrogatory responses it discusses that there is a \$3,000,000 one-time capital cost in relation to moving to monthly billing. The breakdown of this internal estimate is included in Table JTC 1.4 below.

Table JTC 1.4

Cost Category	Estimate
Vendor / server capacity / 3rd party development costs	\$1,345,000
Internal IS and Customer service costs and equipment	\$1,204,200
Reporting and Miscellaneous charges	\$450,800
Total	\$3,000,000

TAB 14

B-CCC-15

REF: Ex. B/T1/p. 1

Please provide the business case for the new customer care and billing system. Please provide a schedule setting the annual expenditures (Historical and Forecast) for the new billing system, capital and OM&A.

RESPONSE:

The business case for the new customer care and billing system is attached as B-CCC-15 Appendix A. This is the evidence filed by PowerStream in its Cost of Service application EB-2012-0161 at Exhibit B1, Tab 1, Schedule 5.

Annual capital expenditures and a comparison to the initial budget from EB-2012-0161 are summarized in Table 1.

Table 1: Annual Capital Expenditures for New Billing System (\$000s)

	Budget per EB-2012-0161	Actual				Forecast	Total	Variance from EB-2012-0161
		2011	2012	2013	2014	2015		
Expenditure								
Internal Labour	4,167	20	1,143	2,055	2,584	2,060	7,862	3,695
Hardware	1,155	-	470	-	-	-	470	(685)
Software	3,978	-	2,891	231	125	11	3,258	(720)
Consulting	1,680	60	594	977	4,345	4,223	10,198	8,518
System Integrator	20,000	-	1,214	5,955	8,507	6,554	22,230	2,230
Legal	338	143	128	263	-	-	534	196
Miscellaneous	613	-	3	9	17	94	122	(491)
Capital lease	564	-	180	311	432	277	1,199	635
Contingency	2,000					-	-	(2,000)
Total	34,495	223	6,624	9,801	16,008	13,218	45,874	11,379

Total project costs of \$45.9 Million are \$11.4 million higher than the initial plan primarily due to the original project plan being aggressive and only able to absorb a limited number of change requests and schedule slippages. The project took longer than expected to complete due to challenges and complexities associated with system interfaces and testing. The variances are further explained below.

It should be noted that the current approved capital budget for this project is \$45.9 million. The rate proposal contains capital costs of \$42.8 million. PowerStream proposes to include this change in the first update.

Internal Labour (\$3,695K above plan): Costs higher than plan due to additional scope of work and system complexities beyond what was originally anticipated. This complexity resulted in project delays and the associated additional staff resource time increased project costs.

Consulting (\$8,518K above plan): Costs are higher than plan primarily due to additional system complexities and the associated consulting support required. Consulting included support from Oracle (interface design and testing), InfoTech and Util-Assist (system testing), Kaihen (project management and support) and E&Y (training and review). Consulting costs are also higher due to a \$3.0M shift in the scope of work initially within the responsibility of the System Integrator (CGI) to PowerStream. This shift included the transfer of responsibility for certain activities such as report development, Organizational Change Management, Middleware and change requests. In addition, the initial project budget did not include \$1.1M of overhead burdens associated with the project.

Systems Integrator (\$2,230K above plan): Costs are higher than planned primarily due to extension of timeline to handle the additional complexities related to system interfaces, change requests and data conversion and testing activities

The primary reason for a later in-service date than initially planned (Q2 2014 to Q2 2015) is system testing that led to the identification of missing or incomplete requirements resulting in Change Requests to all 20 interfaces. It was not possible to fully identify at the "Discovery" phase of a project all of the issues associated with converting from a 30-year old system

The annual OM&A costs for the new billing system are set out in Table B-CCC-15- 2 below.

Table B-CCC-15-2: Annual OM&A Expenditures for New Billing System (\$000s)

Expenditure	2012	2013	2014	2015	2016	2017	2018	2019	2020
Information Services:									
Application Managed Services Fee (AMS)				\$2,016	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000
Oracle CC&B Software Maintenance Fee	\$577	\$535	\$535	\$530	\$535	\$541	\$546	\$551	\$557
Training				\$11	\$15				
Other Software Purchase				\$47	\$64	\$66	\$67	\$68	\$69
Additional Consulting				\$30	\$40	\$40			

Website Hosting Services				\$35	\$47	\$12			
Customer Service:									
Training			\$1,350	\$19	\$30	\$7			
Outsourced Call Centre				\$375	\$200	\$125			
Miscellaneous				\$124	\$141	\$130	\$130	\$130	\$130
Total	\$577	\$535	\$1,885	\$3,187	\$3,072	\$2,921	\$2,743	\$2,749	\$2,756

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6

TAB 15



ONTARIO ENERGY BOARD

FILE NO.: EB-2015-0003 **PowerStream**

VOLUME: Technical Conference

DATE: September 9, 2015

1 at in terms of timing.

2 So we will break now until ten past 11, thank you.

3 --- Recess taken at 10:50 a.m..

4 --- On resuming at 11:13 a.m.

5 MS. HELT: Welcome back, everyone. We will continue
6 with the questions for panel 1, but before that, there were
7 a couple of matters that PowerStream was going to look into
8 and provide answers after the break. So Mr. Macdonald, I
9 will turn it over to you.

10 MR. MACDONALD: Thanks, Ms. Helt.

11 So the first question related to our revenue for water
12 billing, which is already on the record, but Ms. Clark can
13 read out the number.

14 MS. CLARKE: It's I Energy Probe 27 from the IRs that
15 related into April. And the amounts -- I will read the
16 amounts. It was 3,148,000 for 2016, 3,243,000 for 2017,
17 3,340,000 for 2018, 3,440,000 for 2019, and 3,544,000 for
18 2020.

19 MS. GIRVAN: Sorry, you gave me a schedule with
20 different numbers.

21 MS. CLARKE: That was 2016 to 2020 which I read. I
22 gave you from 2013 all the way to 2020. So 20 --

23 MS. GIRVAN: The numbers are different.

24 MS. CLARKE: 2020 should be 3065.

25 MS. GIRVAN: This says 30 -- 3303.

26 MS. CLARKE: 3303.

27 MS. GIRVAN: I think this is total joint service
28 revenue.

1 **I-CCC-52**

2 **REF: Ex. I/T1/p. 1**

3 Please provide a detailed breakdown of "Other Distribution Revenues" for each year
4 2013-2020.

5 **RESPONSE:**

6 The components of "Other Distribution Revenue" are as follows:

7
8 Account 4078 is Standard Supply Service ("SSS") Administration charges; these
9 revenues are attributable to an administrative charge of \$0.25 per customer per month.

10
11 Account 4082 is Retail Services Revenue, this account relates to billing services that
12 PowerStream provides to its retailers.

13
14 Account 4210 is rent from Electric Property; this account relates to fees that
15 PowerStream charges third parties to install apparatus onto poles. The fee is based on
16 the Board's standard rate of \$22.35/pole/year.

17
18 Account 4245 relates to the amortization of Contributed Capital. This amount is
19 removed from other distribution revenue (as this is considered part of the amortization
20 of fixed assets) and is captured here for rate modelling.

21
22 A detailed breakdown of "Other Distribution Revenue" is outlined in the table below:

23

USoA #	USoA Description	2013 Board-Approved*	2013 Actuals	2014 Actuals	Bridge Year ²	TEST YEAR 1	TEST YEAR 2	TEST YEAR 3	TEST YEAR 4	TEST YEAR 5
Other Distribution Revenue (000's)										
4078	SSS Administration Charge	932	968	996	1,014	1,033	1,051	1,070	1,090	1,110
4082	Retail Services Revenues	400	235	212	216	220	224	228	232	236
4210	Rent from Electric Property	700	744	757	746	748	750	748	749	749
4245	Government & Other Assistance Directly Credited to Income	-	1,887	-	-	-	-	-	-	-
4245	Government & Other Assistance Directly Credited to Income	-	(1,887)	-	-	-	-	-	-	-
Sub total		2,032	1,947	1,965	1,976	2,001	2,025	2,046	2,071	2,095

24

25 **I-Energy Probe-27**

26 **REF: Ex. I, Tab 1**

27

28 The evidence states that the inclusion of joint service revenue is not consistent with

46

the approach taken in PowerStream's 2013 cost of service application because in 2013 only margin earned on joint services provided was included in other income and that going forward PowerStream is including all of the joint service revenue in other operating revenue and all joint services costs in OM&A.

a) Please show where in Table 2 this change and the revenues and costs associated with the joint service revenue is located.

b) For each of 2013 Board approved through to 2020, please provide a table that shows total joint service revenues and the costs associated with these revenues.

RESPONSE:

a) Before 2013 the revenues and expenses associated with the joint services revenue were recorded in account 4375 and 4380 respectively. Account 4375 is revenues from non-rate-regulated utility operations and account 4380 is expenses from non rate-regulated utility operations. In the 2013 rate application the net amount of joint services revenue and costs was added to Other Operating Revenue. After 2013, joint service revenue was still booked in account 4375, but the joint services costs were included in a number of OM&A accounts and no longer reallocated to account 4380. Netting of the revenues and costs is not allowed under IFRS and therefore only joint services revenue has been included in Other Operating Revenue.

b) Table 1 below separates out joint service revenue and costs for the 2013 Board approved to the 2020 test year.

Table 1: Summary of Joint Service Revenues and Costs

	Board Approved	Actual		Bridge Year	TEST YEAR 1	TEST YEAR 2	TEST YEAR 3	TEST YEAR 4	TEST YEAR 5
	2013	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	(3,201)	(3,065)	(2,945)	(3,057)	(3,148)	(3,243)	(3,340)	(3,440)	(3,544)
Cost	2,941	2,856	2,728	2,849	2,934	3,022	3,113	3,206	3,303

48