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By Email and RESS - signed original to follow by mail

January 15, 2016

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Re: PowerStream Inc 2016-2020 Distribution Rates (EB-2015-0003) - SIA Final Argument

Dear Ms. Walli,

Please find attached the Final Argument of the Sustainable Infrastructure Alliance of Ontario (the "SIA") in the above noted proceeding.

Sincerely,

[original signed by]

Dionisio Rivera

EB-2015-0003

PowerStream Inc.
Application for electricity distribution rates for the period from January 1, 2016 to December 31, 2020.

Final Argument on behalf of the Sustainable Infrastructure Alliance of Ontario

1.0 General

1.1 Proceeding Overview

On May 22, 2015, PowerStream Inc. ("PowerStream") filed an application with the Ontario Energy Board (the “Board” or "OEB") for an order approving distribution rates for a five year period, commencing January 1, 2016. The proceeding included a pre-hearing presentation, extensive interrogatories, a technical conference, an issues conference, an ADR, and an oral hearing.

These are the submissions of the Sustainable Infrastructure Alliance of Ontario (the “SIA”). The SIA has not commented on all aspects of PowerStream's application, constraining its submissions to the major areas of focus, as well as several specific issues on which it believes its views could be of assistance to the Board. The SIA has also had the opportunity to review OEB Staff submissions in this proceeding, and where generally aligned, has simply referenced details contained in those submissions in order to avoid unnecessary duplication. For ease of reference, the submissions address the issues before the Board under main topic headings, rather than by individual issue.

1.2 Application Administration

The SIA observes that the application brought forward by PowerStream was relatively uniquely organized, with various thematically linked information oftentimes grouped under entirely different sections. This was undoubtedly partly a result of certain information first being presented less formally as part of an unofficial pre-proceeding settlement conference. As part of this formal proceeding, PowerStream simply resubmitted that information in one package rather than attempting to re-file it in a re-ordered and reorganized manner.[1]

The SIA has greatly benefitted from other utilities' administrative compliance with the OEB's Filing Guidelines[2] in other proceedings (i.e. in the areas of nomenclature, evidence ordering,

[1] Transcript Volume 2, page 18
[2] Filing Requirements For Electricity Distribution Rate Applications, Chapter 2

identification, etc), and finds that a structural consistency in presenting application information as between utilities is very helpful in ensuring an efficient evidence review process. To the extent possible, and recognizing that "Custom" IR applications may have custom elements, the SIA encourages the OEB to pursue and enforce common organizational requirements on utility rate applicants.

2.0 Rate Framework & Policy Compliance

2.1 CIR Framework and Rate Setting Approach

The SIA submits that the threshold question in this proceeding is whether or not, or the extent to which, PowerStream's application has complied with the directives and requirements of the Renewed Regulatory Framework for Electricity Distributors ("RRFE").[3] Any decision the OEB may render with regard to appropriate forecasts of capital and operational cost levels will ultimately need to reflect a corresponding regulatory rate framework that is compliant with existing policies and guidelines. To the extent the rate framework and rate mechanics put forward by PowerStream are deficient in reflecting the principles of the RRFE, the OEB would need to consider mandating a differing approach.

In general, the SIA shares the concerns of Board Staff and other intervenors that the application put forward by PowerStream does not adequately reflect the principles of the RRFE, particularly in its lack of productivity and savings incentives within the rate framework. The SIA notes that the OEB has already provided considerable guidance concerning the central objectives of Custom IR applications as part of its decision in Hydro One's EB-2013-0416 rate proceeding:

> "Custom IR proceedings are intended to be framed more like performance inquiries resulting in multi-year outcome commitments and measures that facilitate year-over-year performance assessment. The productivity and efficiency elements allow the OEB to move away from detailed input cost assessment and focus more on utility performance."[4]

In that Decision, the OEB also explicitly noted that multi-year cost of service type applications do not comply with the RRFE requirements for distributors filing Custom IR applications:

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[3] Report of the Board Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach
[4] EB-2013-0416, pages 14-15

> "...despite having applied under the Custom IR framework, Hydro One characterized its application as a “Custom Cost of Service” application. The company indicated that cost savings from productivity improvements were embedded in cost forecasts, and that the company would bear the risk of failing to achieve these savings. The OEB does not consider Hydro One’s “Custom Cost of Service” application to be sufficiently aligned with the objectives of the RRFE policy to approve the application as presented."[5]

> "Hydro One chose to interpret the OEB’s Custom IR option, referred to in the RRFE Report as custom index”, to include “custom cost of service”. The OEB does not accept this interpretation. All three rate-setting methods are described in the Report as incentive rate-setting, not cost of service."[6]

Despite the availability of this guidance, PowerStream appears to not have seriously considered the findings in the Hydro One proceeding in filing and advancing its own evidence. At its core, PowerStream's application remains fundamentally a multi-year cost of service application:

> "MR. SHEPHERD: So every year you're asking for your cost of service, yes?
> MR. MACDONALD: Yes."[7]

When questioned on the issue of comparability and applicability of the Hydro One Decision, PowerStream dismissed suggestions that the conclusions from the Hydro One proceeding concerning the form of application may apply in its circumstances, or that its application was not compliant with the RRFE.[8] The SIA disagrees. While it is generally true that OEB rulings in one case are not automatically binding on parties to another proceeding, PowerStream has not offered any explanation as to why its circumstances and the evidence it presents should be considered compliant with RRFE requirements, when a very comparable level of evidence, and a nearly identical cost-of-service approach to rate setting put forward by Hydro One in its distribution rate proceeding was deemed by the OEB to be "insufficient as a Custom IR application under RRFE".[9]

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[5] EB-2013-0416 Decision, page 8.
[6] EB-2013-0416 Decision, page 13.
[7] Transcript Volume 1, page 52.
[8] Transcript Volume 1, page 54.
[9] EB-2013-0416 - Decision, page 13.

2.2 Alignment with the RRFE

In identifying several shortcomings of the Hydro One application, the OEB implicitly identified several elements of importance to CIR applications, among them consistency with outcome based regulation, the presence of externally imposed incentives, demonstrating continuous improvement, and demonstrating value to customers. The SIA believes that these areas, to varying degrees, are also shortcomings in the application put forward by PowerStream.

In the SIA's submissions, the most critical issue is the lack of any externally imposed incentives in PowerStream's proposed rates, which in turn is not consistent with outcome based regulation and does not demonstrate continuous improvement nor value to customers.

PowerStream's approach to efficiency is premised on a quantification of savings stemming from past and current initiatives, and comparing these savings to the savings that would have been expected to be achieved were PowerStream subject to a productivity and stretch factor requirement under standard IRM.[10]

The SIA submits that this demonstration of savings is flawed in several aspects. First, the savings calculations are simply an internally derived and fairly subjective estimate of avoided costs, embedded in PowerStream's cost forecasts. They cannot be accepted with the same level of confidence as would real savings derived through the up-front application of a stretch factor. Additionally, the OEB already expressly rejected this approach to projecting cost savings in the Hydro One Decision:

> "It is not sufficient to embed savings in cost forecasts. As already noted, the OEB's Custom IR is an incentive rate-setting approach designed to drive efficiencies. Benefits from explicit, objectively determined productivity and efficiency adjustments such as stretch factors include mimicking competitive market conditions, sharing anticipated savings with ratepayers "up front", and facilitating a more outcome-based approach to regulation."[11]

Second, the savings have for the most part already been achieved, with identified benefits that will simply carry forward. While no doubt positive, these savings do not speak to future savings

[10] Exhibit F, Tab 1, page 3
[11] EB-2013-0416 Decision, page 14-15.

from future initiatives that PowerStream may undertake during the term of the plan.[12] This fails to adequately address the RRFE objectives of continuous improvement: while some savings will carry forward from the present, there is little incentive for PowerStream to look for savings in the future. Even if found, there is also no requirement in PowerStream's rate proposal to share any of these saving with ratepayers until PowerStream's next rebasing application. This again is in conflict with the existing RRFE requirements.

Thirdly, the savings are presented without considering the overall proposed increase in spending, nor the total magnitude of proposed spending. [13] Essentially, the savings only demonstrate the cost efficiency of certain select projects (i.e. "it was worth undertaking this initiative because it resulted in savings of $x"), rather than proving that total proposed spending is efficient. PowerStream, in its approach to demonstrating productivity, is claiming a savings in a set dollar amount stemming from a number of select initiatives, but ignoring a material overall increase in spending (e.g. asking for an increase in spending from $200 to $250, but arguing it is a good deal for ratepayers because, absent the savings, spending would have been $255). The SIA submits that this is not meaningful from a customer perspective; customers will mostly be concerned about the total level of spending and its rate of increase relative to current rates, rather than a quantification of partial offsetting savings that have been achieved.

2.3 Summary of Rate Framework Recommendations

The SIA submits that the application put forward by PowerStream is not compliant with the rate framework nor the underlying objectives of the RRFE.

The RRFE does not contemplate the setting of rates on a multi-year cost of service basis.[14] As noted earlier , the OEB has consistently emphasized that its rate setting approach under the RRFE is intended to move away from detailed cost input assessment, and more towards incentive ratemaking. This guidance has been explicitly confirmed in a number of recent CIR decisions.[15]

[12] Exhibit F, Tab 1, pages 7-10
[13] II-SIA-5
[14] EB-2013-0416 Decision, page 8.
[15] EB-2013-0416 Decision, page 13.

The RRFE framework also emphasizes productivity and continuous improvements, and the sharing of these benefits with customers, concepts that have similarly been confirmed through recent CIR decisions: "The OEB has specifically stated that custom applications require that applicants demonstrate productivity improvements."[16]

Given the deficiencies in these areas, the SIA respectfully submits that the PowerStream application cannot be accepted as complaint under RRFE and CIR requirements. The Board has, however, already ruled upon applications presented in a similar manner, format, and level of evidence as that brought forward by PowerStream, most directly during the EB-2013-0416 Hydro One proceeding. Given the similarity in RRFE compliance issues as between these two applications, the SIA submits that the OEB should consider a similar solution as part of its decision in this proceeding.

Specifically, the SIA respectfully submits that the OEB should only approve rates for the first three years of PowerStream's proposed plan (2016-2018), applying any needed reductions to the proposed OM&A and capital budgets (the SIA's comments on these issues are outlined in the sections that follow). The three year approval would allow for regulatory efficiency in deriving a prudent outcome from the efforts of all parties in this proceeding, and granting PowerStream approval for rates within which it could operate in the short to medium term, but without committing ratepayers to a rate framework that, in the SIA's submissions, is not complaint with RRFE objectives. The three year timeframe would also, as in the Hydro One case, provide PowerStream sufficient time to consider and address any identified shortcomings of its current application that may need to be addressed in a future rate application or supplementary filing.

2.4 Comments on Pending Merger

A complicating factor in this proceeding, and one dealt with by the OEB as a Threshold Issue, was the pending merger of PowerStream, Enersource, Hydro One Mississauga Inc., Horizon Utilities Inc., and Hydro One Brampton Networks Inc. The intervening parties collectively argued that the impacts of a potential merger should be considered in scope as part of the current

[16] EB-2014-0116 Decision, page 25.

application. Ultimately, the Board "determined that cost impacts of a potential merger are not relevant to its determination in this proceeding".[17]

The SIA does not intend to in any way reargue the OEB's October 6, 2015 Decision on this issue, but only highlights that while issues of efficiency, and "cost impacts", due to the merger were deemed out of scope in this proceeding, the Decision also notably did not require that rates be set for the full 5 year duration requested by PowerStream.

In the SIA's understanding, the OEB's policies concerning Rate-making Associated with Distributor Consolidation[18] allow for distributors to avoid rebasing of rates over a time when they otherwise would have been declining (due to merger efficiency) in order to incent consolidation (i.e. allowing utilities to keep rates more or less stable over a period in which they would otherwise have been declining, and allow them to retain the savings).

It does not, however, explicitly require the advance approval of rate <u>increases</u> over an extended period, especially when rates over that same period would otherwise be expected to decline. The SIA believes this to be an important distinction, because while the OEB has determined as part of the Threshold Issue Decision that it need not consider a potential merger in setting rates for PowerStream in this proceeding, it also, in the SIA's submissions, does not need to set rates for a term longer than it believes to be appropriate and necessary.

The SIA believes, as it had noted in its original submissions on the threshold issue[19] (and as reiterated earlier in these submissions as part of its concerns about a lack of RRFE compliance) that it would be appropriate to set CIR rates for PowerStream only for the early years of the rate program (2016-2018). The SIA does not believe there to be a reason to do so for the outer years (2019-2020). In the short term, PowerStream will be provided with rates to adequately cover its costs, and in the long term (post merger) will be able to continue to adjust those rates using the Price Cap mechanism.

In the case of CIR filers specifically, the OEB has already determined that once a CIR rate plan expires, the distributor "would move to having rates based on the Price Cap IR adjustment

[17] Procedural Order 5 and Threshold Decision, page 3.
[18] EB-2007-0028 - Report of the Board (July 23, 2007), as augmented by the EB-2014-0138 - Report of the Board (March 26, 2015).
[19] SIA Submissions on Threshold Issue, September 24, 2015

mechanism, during the remainder of the deferral period".[20] In light of the above, the SIA does not believe that there is any reason for the rates over the 2018-2020 period to be set on a Custom IR basis (with implicitly higher than average rate increases over those years), rather than be allowed to simply increase in line with a standard Price Cap IR adjustment.

2.5 Off-Ramps and Adjustments

In its application, PowerStream has indicated that "some unexpected or unpredictable events might be best addressed through a re-opening of the Custom IR rate plan and in other cases may require termination of the Custom IR rate plan."[21] The SIA submits that allowing for such a wide range of potential adjustments as listed by PowerStream is clearly not aligned with the objectives of the RRFE. The Board has clearly indicated that it expects utilities filing CIR applications "to demonstrate [their] ability to manage within the rates set, given that actual costs and revenues will vary from forecast".[22] This guidance was further clarified in the recent Kingston Hydro CIR Decision:

> "Under the RRFE Custom IR rate-setting method the OEB expects a distributor to establish rates for five years and to manage within those rates for the duration of the term, even though actual costs will inevitably vary from the forecasts. Distributors should endeavor to keep the number of annual adjustments during the term of the Custom IR to a minimum."[23]

To the extent an external event has a material effect on PowerStream's costs, PowerStream would always have the option of applying through a standard Z-Factor application or taking advantage of the 300 basis points earnings off-ramp.[24] The SIA respectfully submits that no additional off-ramps or potential adjustments for unexpected events should be approved.

[20] EB-2014-0138 - Report of the Board - Rate Making Associated with Distributor Consolidation (Mach 26, 2015), page 12.
[21] Exhibit A, Tab 1, page 6-7.
[22] Report of the Board Renewed Regulatory Framework for Electricity Distributors, page 19.
[23] EB-2015-0083 Decision, page 3.
[24] Report of the Board Renewed Regulatory Framework for Electricity Distributors, page 13.

3.0 Capital and OM&A Costs

3.1 Capital

As an organization, the SIA is generally supportive of prudent and necessary capital infrastructure investment by utilities, provided that infrastructure investment is reasonably paced, efficiently executed, and equitably funded. The SIA, however, opposes investments it views as inefficient, unnecessary or excessive, especially in as much as such more discretionary projects would divert limited funding resources away from potentially more critical investment needs, and result in higher than necessary rate impacts for customers.

With a few exceptions, the SIA takes no issue with the capital program put forward by PowerStream, and is supportive of PowerStream's efforts to invest in infrastructure renewal and prevent a deterioration to its system and reliability. However, the SIA does takes issue with the proposed pacing of the capital spending plan. The SIA notes that capital spending has already increased 87%, from $63 million to $118 million between 2011 and 2015, and is proposed by PowerStream to further increase approximately 10-15% during the 2016-2020 period.[25] On a cumulative basis, capital spending is proposed to increase by approximately 39%, from a total of $459 million over 2011 to 2015, to a total of $641 million between 2016-2020.[26]

While some items driving the increase may be justifiable on their own merits, the SIA believes that the overall pace of capital investment is unjustifiably aggressive. This is particularly evident in the System Renewal category, in which spending is proposed to increase 94%, from $132 million over 2011-2015 to a proposed $257 million over 2016-2020.[27] While the SIA certainly agrees with PowerStream that an increase in spending in this category is warranted, it does not believe that the levels of spending increases requested by PowerStream are fully justified by the evidence provided.

The SIA has some specific concerns with several specific programs, primarily from a cost forecasting and spending level justification perspective. In the System Access category, the SIA

[25] PowerStream Argument-in-Chief, pages 9-10.
[26] Exhibit G, Tab 2, page 2, Table 1
[27] Exhibit G, Tab 2, page 2, Table 1

echoes the concerns of OEB Staff in noting that the budget forecast appears to be very aggressive, if not overstated. PowerStream has confirmed that this is a budget area that is not at its discretion and very difficult to forecast.[28] A similar observation was made by Toronto Hydro in its recent rate application concerning externally relocated plant; owing to the difficulty of forecasting, Toronto Hydro requested (and was granted) approval for a variance account for this class of expenditures.[29] The SIA respectfully submits that it would be appropriate for the Board to reduce the budget in this category, or the capital budget in aggregate, in order to address these forecasting concerns. In the alternative, the SIA submits that the Board should not approve the costs in this category without requiring that variance account treatment be applied on spending beyond the historic costs adjusted for inflation.

The SIA's other program specific concerns generally relate to the limited justification provided for the forecast level of spending in certain programs. This concern specifically applies to the Cable Replacement program and Major IT projects, both of which see sizeable increases and material levels of spending with limited justification. To a lesser extent, similar concerns apply to other programs as well. OEB Staff note inconsistencies in the number of forecast units of poles planned for replacement under the Pole Replacement Program, as well as issues with reliability projections under the Rear Lot Supply program.[30]

The SIA also observes that the findings contained in PowerStream's DSP, including the need for an accelerated pace of investment in a number of areas, has not been independently verified.[31] This lack of review and independent confirmation, the SIA submits, is cause for some concern as to the accuracy of the projections PowerStream is putting forward in this application. Generally, while the SIA does not doubt the need and prudence of the vast majority of the spending proposed by PowerStream, it submits that the level of evidence and justification behind the need for various projects could be improved upon.

In order to address these issues of pacing and magnitude, as well as the deficiencies in individual project and spending level justification (particularly in the areas noted above), the SIA would respectfully urge the OEB to apply an across-the-board reduction to the capital spending levels

[28] 2-Staff-86
[29] Eb-2014-0116 Decision, page 50.
[30] OEB Staff Argument, page 26.
[31] Transcript Volume 2, page 102.

put forward by PowerStream, similar in nature and magnitude to the 10% applied to Toronto Hydro in its recent CIR proceeding.[32]

This envelope approach to capital spending approval would acknowledge PowerStream's expertise in its own system, and allow it to prioritize its investments and manage within a set level of spending in a way that it deems to be most effective and prudent. This approach in allowing utility control over its line-item spending would also be consistent with RRFE policy, as recently emphasized in the OEB's Toronto Hydro Decision:

> "It is important to note that it is not the OEB's role, nor the intervenors, to manage the utility or substitute their judgment in place of the applicant's management. That is the job of the utility. The OEB has established a renewed regulatory framework for electricity (RRFE) which places a greater emphasis on outcomes and less of an emphasis on a review of individual line items in an application."[33]

3.2 OM&A

As part of its application, PowerStream has presented a forecast of its OM&A spending over the term of its rate plan. PowerStream forecasts its 2016 OM&A spending to increase 4% over the 2015 bridge year forecast, from $92.5 to $96.2 million.[34] This is an increase of $13.3 million, or 16%, over the 2013 OEB approved amount, which translates into an annual increase between 2013 and 2016 of approximately 4%, roughly double the rate of inflation. In 2017, costs are forecast to increase and additional 6%, before levelling off at approximately 2% per year between 2018-2020. The SIA is generally concerned with the magnitude of the proposed increases, particularly over the first two years of the proposed plan, and especially in light of the sizeable 14% increase in spending already incurred over 2014 and 2015.

The SIA has noted its concerns regarding the lack of external productivity measures within PowerStream's OM&A forecasts earlier in these submissions. The SIA, however, is also concerned that taking a five year forecast approach to OM&A minimizes the constraining effects that a formulaic inflation-minus-productivity approach typically provides.

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[32] EB-2014-0116 Decision, page 21.
[33] EB-2013-0116 Decision, page 2.
[34] J1-3, Appendix 2-JC

In the recent Toronto Hydro Decision, the OEB explicitly noted that:

> "The OEB agrees with Toronto Hydro and some of the intervenors that Toronto Hydro is not required to prepare a forecast of five years of OM&A budgets to comply with the RRFE for a Custom IR application. <u>This would essentially result in a five year cost of service application, rather than an incentive ratemaking scheme</u>**.** The OEB will expect Toronto Hydro to manage within the OM&A envelope adjusted annually by the incentive factor for the five year period of the plan addressed later in this Decision."[35] (emphasis added)

In interrogatories, the SIA asked about what specific challenges PowerStream faced that would require a unique (i.e. "custom") approach to OM&A increases over the term of the rate plan (with relatively higher annual increases), rather than a more formulaic approach more closely aligned with inflation (i.e. I-X).[36] PowerStream identified three factors: an increase in customers (i.e. growth), workforce management (i.e. aging workforce), and extraordinary items (such as the CC&B system and increased vegetation management costs). The SIA respectfully submits that the majority of these issues affect a number of utilities and are not unique to PowerStream, and certainly not unique to the point that they could not be managed within an OM&A envelope with increases more closely aligned with inflation and expectations concerning productivity.

First is the issue of growth. In testimony, and in contrast to the interrogatory response noted above, PowerStream confirmed that growth is a relatively minor driver of its OM&A increases:

> "MR. RUBENSTEIN: So approximately -- and we can see this on the table here, approximately 0.2 percent of the year-over-year increase in OM&A is based on customer growth, correct?
> MS. CLARK: Yes.
> MR. RUBENSTEIN: So it's a relatively small amount.
> MS. CLARK: It's a small amount, yes."[37]

The SIA submits that such an increase in costs (i.e. 0.2%) could clearly be managed within an inflation based OM&A increase.

Second is the issue of an aging workforce and the need to plan for a workforce transition. This is an issue that has been raised by a number of utilities in recent years, including Toronto Hydro,

[35] Eb-2014-0116 Decision, page 12.
[36] I-SIA-1
[37] Transcript Volume 1, pages 119-120.

which as noted earlier had applied for and was recently approved for an inflation-minus-productivity based OM&A increase over the term of its rate plan.[38] The SIA submits that this issue is not unique to PowerStream, and is certainly not unique to the extent that it would require a custom rate of OM&A increase. An aging workforce driven by provincial (if not national) demographics will affect every utility in the province, but the SIA does not believe it to be necessary that each of these utilities apply for rates through a Custom IR application in order to address the issue.

Third are the extraordinary items and specific identified drivers of the increase. Of all factors noted by PowerStream, the SIA believes that these have the most merit in justifying a departure from a standard I-X approach to OM&A spending. Given its affect on major outages, the SIA is supportive of an increase in funding for the vegetation management program, and sympathetic regarding the need for cost increases to address other mandated requirements such as monthly billing. However, the SIA shares OEB Staff's observation that PowerStream's projected monthly billing costs appear overstated in relation to its total spending, and believes that its proposed spending increases on specific initiatives (where justified and necessary) should be reasonably managed within a constrained budget amount, especially in light of the sizeable increase in operational spending already undertaken by PowerStream over 2014 and 2015.

Fundamentally, the SIA does not believe that PowerStream has adequately justified its five year forecast approach for OM&A, both from a cost justification and RRFE compliance perspective. PowerStream's operational spending has been trending at roughly twice the rate of inflation at approximately 4% since its last rebasing application, and it is proposing a further 4% increase in 2016 and 6% in 2017, with costs increasing approximately 2% between 2017 and 2020. This is all on top of an already incurred 14% increase in spending in 2014 and 2015. While the SIA does not believe that the test year costs levels are particularly excessive, it does believe that, barring genuinely extraordinary circumstances, they are well beyond a reasonable range for utilities filing applications under the RRFE. For comparison purposes, the SIA notes that in its Toronto Hydro Decision the OEB approved a base OM&A increase of 2.1%, "approximately the

[38] EB-2014-0116 Decision, page 12.

rate of inflation" over the most recent bridge-year actual spending.[39] The SIA suggests a similar level of increase may also be appropriate in PowerStream's circumstances.

4.0 Other Matters

4.1 Specific Service Charges and Revenue Offsets

As part of this application, PowerStream did not initially consider updating its specific service charges and associated revenue offsets. In response to interrogatories by the SIA, PowerStream provided an updated set of service charges, calculated using the standard Board-Approved methodology (as articulated in the 2006 Distribution Rate Handbook) but adjusting for PowerStream's current costs.[40] PowerStream calculates that using the updated set of service charges would provide an additional $1.6 million in revenue offsets per year.[41] While PowerStream has not formally proposed to update its service charges as part of its initial pre-filed application, it has noted that it does not have any objections or concerns if it were directed to implement the new specific service charges rates during the term of the rate plan: "PowerStream believes that it would be reasonable to update these rates".[42]

Given the need for additional utility revenues to fund capital renewal and ongoing operations, the issue of updated service charges reflecting actual utility cost levels is one that the SIA has consistently raised in several recent rate applications. In the case of PowerStream, the SIA believes that the revenue derived from the updated service charges would be material; the additional $1.6 million would be enough to offset nearly 40% of PowerStream's proposed OM&A increase in 2016.

For reasons of cost causality, and to manage rate and bill impacts, the SIA respectfully submits that the service charges should be updated to reflect the updated cost based values, as calculated by PowerStream. The SIA observes that the increases to each of the specific charges are

[39] EB-2014-0116 Decision, page 2.
[40] II-SIA-3a
[41] II-SIA-3b
[42] II-1-Staff-22 and II-SIA-3c

generally aligned, if not on the lower end, when compared to those of other utilities who have already undertaken similar updates or provided comparable values.[43]

All of which is respectfully submitted.

[43] EB-2014-0116 (Toronto Hydro) Exhibit 8, Tab 2, Schedule 1 and EB-2013-0416 (Hydro One); IR 6.6-SIA-54