

January 15, 2016

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
P.O. Box 2319
Toronto, Ontario
M4P 1E4

Dear Ms. Walli:

RE: EB-2015-0003 –PowerStream Inc. - Custom Rate Application – 2016-2020 – Final Argument of the Consumers Council of Canada

Please find, attached, the Final Argument of the Consumers Council of Canada in the above-referenced proceeding.

Yours truly,

Julie E. Girvan

Julie E. Girvan

CC: PowerStream, Regulatory Affairs
Jamie Sidlofsky, BLG
All Parties
Ken Whitehurst, Consumers Council of Canada

FINAL ARGUMENT OF THE CONSUMERS COUNCIL OF CANADA

RE: DISTRIBUTION RATES FOR POWERSTREAM INC. 2016-2020

EB-2015-0003

January 15, 2015

I. INTRODUCTION:

On May 22, 2015, PowerStream Inc. (“PowerStream”) applied to the Ontario Energy Board (“OEB” or “Board”) for approval of rates for a five-year period commencing January 1, 2015. The Application was made pursuant to the *Report of the Board: Renewed Regulatory Framework for Electricity Distributors: A Performance Based Approach*, dated October 18, 2012 (“RRFE Report”). PowerStream is applying for approval of the Custom Incentive Regulation (“Custom IR”) option as set out in the RRFE Report.

The filing of PowerStream’s Application was preceded by an advanced settlement process initiated in December, 2014, between PowerStream and the intervenors of record from its last rebasing application. That process did not result in a settlement between the parties.

On August 21, 2015, PowerStream filed an update to its application and the responses to interrogatories from Board Staff and the intervenors. A Technical Conference was held on September 9, 2015. On September 18, 2015, the Board determined that it would consider whether the announced merger between PowerStream, Enersource Hydro Mississauga Inc. (“Enersource”), Horizon Utilities Inc. (“Horizon”) and Hydro One Brampton Networks Inc. (“HON Brampton”) should be considered as part of the Board’s review of the Application. On September 18, 2015, the Board determined that the cost impacts and potential cost savings due to the merger are outside of the scope of the proceeding.

This is the Final Argument of the Consumers Council of Canada (“Council”) regarding PowerStream’s Application. The Council has worked throughout this process with other intervenors. We have exchanged views and had extensive discussions regarding final positions on the issues. The Council has benefited from these discussions. In some cases, we will be adopting the submissions of others on certain key issues.

These submissions will first set out the context in which the Council believes the Board should assess the Application and the underlying proposals. That context has, in large measure, been developed over the last several years as the RRFE has

been rolled out, and decisions have been made by the Board regarding specific RRFE applications. The Council will then address issues related to the overall 5-year Custom IR rate plan proposal, and whether PowerStream's framework is both consistent with the RRFE and represents an approach to rate-setting that should be approved by the Board. The Council will then make submissions on some of the specific elements of PowerStream's plan and proposals.

II. SUBMISSIONS:

A. CONTEXT

The RRFE Report:

In the RRFE Report the Board indicated that in developing its rate-making policies it has been guided by its objectives in relation to electricity, as listed in section 1(1) of the Ontario Energy Board Act, 1998. The Board also states that the first two objectives - the protection of consumer interests with respect to pricing and the adequacy, reliability and quality of electricity service - and the promotion of economic efficiency and cost effectiveness within a financially viable industry, are the foundation of the renewed regulatory framework (RRFE Report, p. 4). In addition, the Board set out the following fundamental points about what characterizes an appropriate incentive rate-making model:

- The Board remains committed to the principles enunciated in its 3rd Generation IR report, and all three rate-setting methods are based on a multi-year IR mechanism. Each rate method will be supported by: the fundamental principles of good asset management; coordinated, longer-term optimized planning; a common set of performance expectations; and benchmarking (p. 10).
- Going into PBR, distribution rates are set based on a cost of service review. Subsequently rates are adjusted based on changes to the input price index and the productivity and stretch factors set by the Board (p. 11).
- To ensure that the benefits from greater efficiency are appropriately shared throughout the rate-setting term between the distributor/shareholder and the distributor's customers, the expected benefits will be taken into account in establishing the rate adjustment mechanisms applicable to each rate method through the X factor (p. 12).

Approved Custom IR Plans:

Since the RRFE Report was issued the Board has made Decisions regarding five Custom IR applications: Horizon Utilities Corporation ("Horizon"), Hydro One Networks Inc. ("HON"), Oshawa PUC Networks Inc. ("Oshawa"), Hydro Ottawa

Limited (“Hydro Ottawa”) and Toronto Hydro-Electric System Limited (“Toronto Hydro”). The Council has set out below many of the key points and decisions made by the Board in its consideration of each of the specific applications noted above. Through these Decisions the Board has established its expectations regarding how these rate plans should be structured. The Council submits that these points provide the appropriate context within which to assess the reasonableness of PowerStream’s proposals, and whether the overall plan complies with they Board’s expectations regarding the RRFE.

Horizon:

On December 11, 2014, the OEB approved a comprehensive Settlement Agreement arising out of Horizon’s application for a five-year Custom IR for the period 2015-2019. In that Decision the Board noted:

- The Board finds that there are several features in the Settlement Agreement which satisfy the RRFE’s objective that benefits and efficiency improvements would be shared with customers. The proposed earnings sharing mechanism and the Capital Expenditure Variance Account are examples of such features. The “efficiency adjustment” concept and the proposed reduction on Horizon’s submitted Operating, Maintenance and Administration (OM&A) also provide incentives for Horizon to maintain or improve its operational effectiveness and to seek further productivity improvements (EB-2014-0002, Decision and Order, p. 3).

Hydro One:

In the HON Decision, the Board concluded that HON’s application was insufficient as a Custom IR application under the RRFE and accordingly denied approval of the proposed 5-year plan. The Board instead approved rates for a three-year period (EB-2013-0416/EB-2014-0247, Decision, dated March 12, 2015, p. 13). In addition, the Board made the following findings:

- HON 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 (p. 13)
- Cost of service has an important role in performance-based regulation regimes to periodically examine in detail the costs and activities underpinning rates. However, the OEB continues to believe that multi-year incentive rate-setting, with its emphasis on results, is the most effective way to incent behavior similar to that seen in commercially-oriented, consumer market-driven companies. Incentive rate-setting differs from cost of service rate-setting in that it relies less on a utility’s internal cost, output, and service

quality to establish rates, and more on benchmarks of cost, output and service quality that are external to the utility revealing superior performance and encouraging best practice.

- The OEB finds that Hydro One's proposed plan is deficient in this regard, as it includes limited prospects for continuous improvement, lacks any externally imposed improvement incentives, includes limited cost and productivity benchmarking support, and fails to demonstrate value to customers commensurate with the forecasted spending (p. 14).

Oshawa:

- The OEB finds that Oshawa PUC's application does not meet all of the expectations of the RRFE for a Custom IR. The deficiencies include the number and extent of the proposed annual adjustments and the absence of defined productivity targets and outcomes during the five-year term of the plan (EB-2014-0101, Decision, p. 1).
- The OEB finds that the measurement of outcomes proposed by Oshawa PUC is insufficient. For example, there are no proposed outcomes for efficiency metrics related to OM&A to demonstrate continuous improvement, other than outages (p. 11).
- The OEB approves the System Renewal Capital Variance account as proposed as it allows the rate impact of projects approved, yet not implemented, to be refunded to customers. The OEB recognizes that five years is a long planning term, and specific system renewal projects, in particular, may change based on ongoing assessments of need and scheduling (p. 12).
- The OEB agrees that PEG's analysis, while informative, cannot be viewed as an external benchmark, as it simply compared Oshawa PUC's year-over-year performance against its expected future performance. Oshawa PUC's budgets were not compared to those of other distributors which is the primary purpose of external benchmarking (p. 15).

Hydro Ottawa:

Hydro Ottawa applied for a five-year Custom IR on April 30, 2015. A Settlement Agreement was reached between Hydro Ottawa and the intervenors that was subsequently approved by the Board. That Settlement Agreement included an earnings sharing mechanism with no deadband, an asymmetrical capital variance account for certain capital investments and an efficiency adjustment that is intended to operate as a proxy stretch factor if Hydro Ottawa's efficiency rating declines during the Custom IR term. In addition, the Settlement Agreement established an

OM&A escalator of 1.9% using the same inflation inputs in the OEB's 4th Generation IRM price escalator adjusted by weights and values specific to Hydro Ottawa.

Toronto Hydro:

On July 31, 2014, Toronto Hydro applied for a five-year Custom IR Plan. The OEB approved Toronto Hydro's approach and acknowledged that the rate framework is structured so as to support the achievement of the RRFE objectives. The OEB, however, made adjustments to the plan noting that Toronto Hydro's proposals are not necessarily aligned with the interests of its customers. The following findings are also relevant to the Board's consideration of the PowerStream Application:

- The OEB expects the benefits of the Toronto Hydro's IRM from 2011 to 2014 will persist for ratepayers into the next rate cycle. Toronto's request for an OM&A budget for 2015 of \$269.5 million is an 11.7% increase over its actual spending in 2014. Given Toronto Hydro's evident ability to operate over the last 4 years with very modest increases, the OEB finds that a base 2015 OM&A increase should be 2.1%, approximately the rate of inflation over the 2014 actual spending (EB-2014-0149, Decision p. 10).
- 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. This would essentially result in a five-year cost of service application rather than an incentive ratemaking scheme (p. 12).

In addition, the Board reduced Toronto Hydro's capital budgets by 10% in large measure to address its concerns regarding the asset replacement rates and the need to rely more on asset condition assessments rather than asset age. The Board also stated that with respect to its capital program Toronto Hydro must place more emphasis on productivity gains and efficiencies during the five-year plan (p. 26).

Decision Summary:

The Council submits that the Board's decisions in each of these cases build on the fundamentals it established in the RRFE Report. The Council supports the continued emphasis on maintaining an incentive based approach to rate-making, one that encourages productivity and continuous improvement, as set out in each of these Decisions. To ensure an effective incentive approach the Council submits that a Custom IR plan should have the following elements:

1. Five-year budgets should not be based on a Cost of Service approach. A five-year Cost of Service approach is not conducive to creating efficiencies and producing cost savings;

2. The utility must clearly demonstrate that it has built productivity and cost savings into its plan and its budgets;
3. External benchmarking is critical in terms of assessing the overall rate levels, and assessing budgets relative to other utilities;
4. Value to customers must be clearly demonstrated;
5. Customer engagement must be meaningful;
6. Meaningful performance metrics need to be established with rigorous reporting throughout the plan period to assess whether a utility is meeting the objective of continuous improvement;
7. An Asymmetrical Capital Variance is an important tool to ensure ratepayer protection throughout a plan;
8. An earnings sharing mechanism is an important ratepayer protection mechanism that allows savings to be shared with ratepayers during the plan term;
9. An efficiency adjustment mechanism provides an important incentive for efficiencies; and
10. An indexed approach to OM&A levels is appropriate;

As set out below, the Council does not believe that PowerStream has presented a Custom IR plan that is compliant with the Board's expectations as defined in the RRFE and articulated through its recent Decisions.

To the extent the Board accepts that PowerStream's rates should be based on a five-year Custom IR plan, the Council submits that it is essential that each of the above elements be incorporated into that plan. We will be making specific suggestions regarding how that plan should be structured as well.

The Proposed Merger:

On October 6, 2015, the Board released its Decision on the threshold issue concerning the announced merger between PowerStream, Enersource, Horizon and HON Brampton. The Board determined that cost impacts of a potential merger are not relevant to its determination in this proceeding. In making its determination the OEB made the following findings:

- The OEB recognizes that its MADDs policy (regarding merger, amalgamation, acquisition and divestiture transactions dated March 25, 2015), is not binding and must be taken into account as appropriate in light of the facts of

this specific case. In making a determination on relevance in the context of its application, the OEB is not persuaded that there is any reason not to take into account its MADDs policy as written (Decision on Threshold Question, dated October 6, 2015, p. 6).

- The OEB's MADDs policy is particularly relevant to the OEB's objectives of protecting the interests of consumers with respect to prices, promoting economic efficiency and cost effectiveness and facilitating the maintenance of a financially viable electricity industry (p. 6).
- In this instance, PowerStream could be filing a MADDs application during the next 6 months. The OEB does not consider that it should treat PowerStream's pre-consolidation rates application any differently than pre-consolidation rates applications for other utilities that occur in advance of consolidation, such as the recent Horizon Custom IR application (pp. 6-7)
- The OEB considers the outcome of its existing approach to rate making processes to be just and reasonable rates. The OEB considers the outcome of its approach to rate-making within the MADDs policy framework also to be just and reasonable rates. These respective approaches were designed with both long and short-term objectives in mind (p. 7).

Since the Board's Decision on the threshold issue was issued, the final municipal shareholders and owners of the four utilities involved in the merger have approved the proposed merger. In addition, the material provided to the relevant municipal councils describe that net capital and operating and maintenance savings are expected, and will flow to ratepayers beginning in 2017 (Ex. K1.2, p. 95, p. 112, 113). It remains unclear at this point given the Board's policy regarding mergers, established in March 2015, how those benefits and savings will flow to ratepayers.

It is now not a matter of whether an application for OEB approval of the merger will be made, but rather when.

The Council is supportive of mergers and acquisitions in the Ontario distribution sector to the extent they provide clear benefits to customers. We also accept that there should be policies in place that provide guidance as to the way in which mergers are to be considered by the Board, but maintain that these are policies and not binding. Now that the subject merger is pending it is unclear why the Board should not consider that fact in the consideration of PowerStream's rates going forward. The forecasts that PowerStream has put forward are based on an assumption that PowerStream will be a stand-alone utility for the next five years. We now know that will not be the case. The budgets do not reflect the fact that PowerStream as it stands today will not be the same utility in the future. PowerStream's evidence in this case is that savings are expected from the merger in

several areas and that it has prepared analyses of the forecast savings (Technical Conference Tr. p. 20). Those savings have not been reflected in its current forecasts.

The Board has determined in this proceeding not to consider the merger in setting rates. We believe it would be prudent for the Board to decide now, that when a merger application applicable to PowerStream comes before the Board, it review the rates arising from this application, which have been based on a stand-alone utility scenario. Those rates may be subject to change depending upon the outcome of the merger application. The Council believes that it is in the best interests of PowerStream's customers for the Board to indicate now that it will consider the impact of the merger on rates, once the merger application is before the Board.

B. POWERSTREAM'S PROPOSED RATE PLAN:

The Rate Proposal:

PowerStream is seeking to recover a base revenue requirement for 2016 of \$187.0 million. PowerStream is also seeking interim approval of the base revenue requirements for 2017-2020 of \$210.3 million, \$232.0 million and \$241.6 million respectively, subject to an annual adjustment and update process.

Relative to current rates PowerStream is seeking to recover an additional \$275 million from its customers over the proposed five-year period (Tr. Vol. 1, p. 41). For a typical residential customer in 2016 this represents a 14.8% increase over current rates (Ex. A/T1/S1/p. 13). The overall revenue requirement will be over 50% higher in 2020 over the last Board approved level in 2013 (Ex. I/T3/S1/p. 1)

PowerStream's proposed capital spending over the five-year term of the plan is \$644 million. This reflects an increase of 40% compared to the \$469.7 million that was spent during the period 2011-2015 (Ex. JTC1.5).

With respect to 2016 OM&A PowerStream is proposing a 4% increase over the 2015 projected amount. In 2014 and 2015 the increases over 2013 amount to 14%. In 2017 PowerStream is seeking a further 6% increase in OM&A. For the later two years the increase are 2% (Ex. I/T3/S1/p. 1)

The overall plan consists of the following components:

- Five years of revenue requirement forecasts and sales forecasts for the years 2016-2020;
- An annual adjustment process that would update the cost of capital parameters, the cost of power, recalculated tax amounts, recalculation of the revenue allocation percentages including those related to the move to a fully

fixed charge, updated retail transmission service and low voltage charges, and the disposition of deferral and variance accounts (Ex. J1.8);

- Z-factor treatment consistent with the Board's current policy with a materiality threshold of \$1 million (Tr. Vol. 1, p. 172); and
- On off-ramp that would be triggered if the return on equity reached +/- 300 basis points.

Compliance with the RRFE:

The Council submits that PowerStream has not presented a rate plan that qualifies as an appropriate Custom IR as defined by the RRFE. We will address each of the relevant elements below.

1. Cost of Service Forecasts:

PowerStream has acknowledged that its forecasts are based on a five-year cost of service approach in terms of determining the revenue requirement (Tr. Vol. 1, p. 52). This specific approach was rejected by the Board in the Hydro One Decision, on the basis that there is a clear distinction between cost of service rate-making and multi-year incentive rate-making. PowerStream attempted to differentiate its application from HON's, but from the Council's perspective the two plans are similar. First and foremost is the fact that the revenue requirements in each case were derived using a cost of service approach.

2. Productivity:

The Council fails to see how PowerStream has incorporated productivity into its 5-year rate plan. PowerStream has cited a number of ongoing initiatives and projects as "continuous productivity". One of the initiatives is its Customer Information System ("CIS") which is already in-service and has come in well above the budget that was projected by PowerStream in 2013.

Another example is its Workforce Management System. Again, that system is that is already in place. It may create benefits going forward, but to the extent those benefits are already expected, they should be reflected in the forecasts.

Other initiatives like the Enterprise Resource Planning system have costs embedded in the forecasts, but no productivity even though this system is expected to generate benefits.

As OEB Staff has noted PowerStream's stated productivity savings for the period 2014-2020 of \$2.9 million are small compared to the 5-year "ask" in terms of revenue requirement for the Custom IR period of over \$1.5 billion.

Furthermore, PowerStream's approach to forecasting does not incorporate an X-factor as required by the Board in the RRFE.

3. Benchmarking:

From PowerStream's perspective it has adhered to the Board's requirement for benchmarking by relying on the Board's own model and approach. PowerStream relied on the PEG evidence that has been used by the Board to determine efficiency cohorts and stretch factors applicable to IRM plans (Tr. Vol. 1. p. 55).

In the HON proceeding HON was criticized for not supporting its application with a total factor productivity study, no capital cost benchmarking study and no overall OM&A benchmarking study. PowerStream did not undertake any of these studies or any other form of external benchmarking (Tr. Vol. 1, p. 58).

With respect to its use of the PEG data PowerStream presented predicted costs and actual costs (which includes forecasts for 2015 and 2020) for the period 2010-20120 (J1.3). What that analysis shows is that assuming PowerStream's proposed budgets, its performance in the later years will be declining. This was the only benchmarking evidence on which it relied, and presents a picture that has PowerStream's performance eroding over time. PowerStream has clearly not met the Board's expectations regarding benchmarking.

4. Value to Customers:

When asked to consider how under its plan PowerStream was delivering value to customers it responded that that its customers have been sufficiently engaged with respect to its Distribution System Plan and those views were considered in formulating the plan. In addition, PowerStream submitted that customers were receiving value through the submitted application through the achievement of customer identified priorities as service reliability and cost (Ex. A-CCC-1).

Customer engagement was undertaken, but was not used to inform its capital plan as set out in the DSP, nor was it used to inform its overall rate application (Ex. G/T2/Appendix F, p. 1 and Tr. Vol. 1, p. 191). In addition, although PowerStream is significantly ramping up its capital program it is only resulting in modest improvements in reliability for its customers (II-Staff -8)

5. Customer Engagement:

PowerStream has made it clear throughout this proceeding that it does undertake ongoing consultation with its customers and will continue to do so in the future. What is also clear, however, that the engagement around this application and its DSP was carried out not to inform the plan, but rather seek acceptance of its

proposals (Tr. Vol. 1, pp. 188-191). The Council does not believe this is the type of customer engagement that was envisioned in the RRFE.

6. Performance Metrics:

Powerstream has proposed that it intends to report to the Board and stakeholders using the OEB scorecard. No other specific metrics were proposed. The Council is of the view the under a Custom IR plan the utilities should be required to develop meaningful metrics to assess performance during the plan. Is the utility improving the way it carries out its capital program over time? Is it doing more with less? Is it finding efficiencies within each of its work programs? Is it working to reduce unit costs? These are important areas where the utilities should be required to track and report its performance. The Board has emphasized a goal of continuous improvement in productivity and cost performance. The Board has also stressed the need for utilities to demonstrate value for money. Performance metrics are critical in terms of assessing whether these outcomes are achieved.

7. Asymmetrical Capital Variance Account:

An asymmetrical variance account to deal with capital is a feature approved by the Board in the Horizon Decision, the Hydro Ottawa Decision, the Oshawa Decision and the Toronto Hydro Decision. This acts as a ratepayer protection mechanism to ensure that to the extent assets that are forecast, and do not go into service, the ratepayers do not have to pay for those assets. PowerStream did not propose, nor was willing to accept such a mechanism as part of its plan.

8. Earning Sharing:

Earnings Sharing Mechanisms (“ESM”) have been approved by the Board in the Horizon, Hydro Ottawa and Toronto Hydro Decisions. The Council views ESMs as a critical component of a Custom Plan to ensure that savings generated through a plan flow through to the customers during the plan, rather than at the end of a plan. They have been a longstanding component of the IR plans for the Ontario natural gas utilities for many years. PowerStream, at one point early in this process was prepared to accept a form of ESM, but during the hearing indicated that it was not part of its proposal, and was not prepared to accept an ESM.

9. Efficiency Adjustment Mechanism

The Council supports the use of an efficiency adjustment mechanism which is intended to act a stretch factor to the extent the performance of a utility declines. This has been included in the Horizon and Hydro Ottawa plans. PowerStream had not proposed one, nor was it willing to accept one as part of its Custom IR.

10. An Indexed Approach to Determining OM&A

As noted above, PowerStream proposed budgets for OM&A that were based on a Cost of Service approach to forecasting. The Board has in many cases adopted an approach that sets OM&A levels through a formula. The Council submits that this is an appropriate approach for setting OM&A during an IRM term as it embeds a level of productivity in the forecast. This method was adopted in the Hydro Ottawa and Toronto Hydro Custom IR plans

For all of these reasons the Council submits that PowerStream's application for a Custom IR should be rejected by the Board. PowerStream has not met the OEB's expectations as set out in the RRFE and in the Decisions pertaining to the Custom IR applications that have preceded PowerStream's. If the Board decides that PowerStream's Custom IR plan does not comply with the requirements of the RRFE the Council submits that the OEB has three options:

1. The Board could reject Powerstream's application and also determine that PowerStream has not justified its decision to exit its 4th Generation IRM plan and rebase. In that case, rates would be set on the basis of the current price cap formula for 2016;
2. The Board could allow for rebasing in 2016 (subject to some adjustments to the proposed revenue requirement) and thereafter determine PowerStream's rates for the period beyond 2017 on the basis of the price cap formula as per the 4th Generation IRM requirements; or
3. The Board could approve a Custom IR Plan, with modifications to PowerStream's proposals for a two-year period.

The Council submits that the most appropriate approach would be to require PowerStream to have its rates set on the basis of its existing plan. In 2013 and 2014 its actual return on equity was 9.98% and 9.49% respectively (Ex. J1.9). It has demonstrated that it can operate under a price cap, and seek incremental capital module relief if necessary. This approach would have PowerStream rebasing in 2017.

The Council submits that an alternative approach would be to establish 2016 rates (with adjustments to PowerStream's proposals and associated revenue requirement) and thereafter set PowerStream's rates on the basis of the 4th Generation IRM model. PowerStream, has not, in our view, sufficiently justified its position that it cannot operate under an IRM approach.

If the Board is of the view that it is prepared at this time to proceed with a Custom IR, the Council has proposed below a number of changes to its plan. We are not supporting this approach, but if the Board decides to accept a Custom IR plan we want to be clear that, in particular, ratepayer protection mechanisms should be a fundamental part of that plan.

C. ALTERNATIVE APPROACHES

Current IRM Plan:

As a matter of policy the Board has determined that a distributor that seeks to have its rates rebased earlier than scheduled it must justify in its cost of service application why rebasing is required and why it cannot adequately manage its resources and needs under the remainder of the 4th Generation term plan. PowerStream's evidence is that its decision to rebase early was its concern about declining returns (Tr. Vol 1, p. 23). As noted earlier, PowerStream's ROE in 2013 was 9.98% and 9.49% in 2014.

The Council submits that given PowerStream's proposals do not meet the Custom IR requirements of the RRFE, it should be required to stay within its existing IRM plan.

Rebasing/4th Generation IR:

To the extent the OEB determines that PowerStream is eligible for rebasing (but not Custom IR) the Council submits that a number of adjustments should be made to the 2016 base revenue requirement:

1. OM& A levels – The Board should establish 2016 OM&A levels for 2016 based on an escalator applied to the 2014 actual OM&A, and first removing one-time training costs for the new CIS system of \$1.39 million. The Board should then apply an escalator for 2015 and 2016 that reflects inflation, customer growth and productivity.
2. With respect to capital the Council accepts the submissions made by the Association for Major Power Consumers in Ontario ("AMPCO") which support a reduction in capital of approximately 20% per year.

Custom IR:

To the extent the OEB determines that PowerStream is eligible for a five-year Custom IR plan the Council believes that it is imperative that significant amendments be made to the proposed plan:

1. OM&A levels – The Board should establish 2016 OM&A levels and those for 2017-2020 based on an escalator applied to the 2014 actual OM&A that reflects inflation, customer growth and productivity. The Council has concerns about a number of key areas driving OM&A costs up throughout the term period. This includes monthly billing, executive compensation and vegetation management. An escalator tied to inflation, customer growth and productivity would address those concerns and ensure that PowerStream was incented to find meaningful efficiencies in these areas;

2. With respect to capital the Council accepts the submissions made by AMPCO which support a reduction in capital of approximately 20% year. The reductions are justified based on the following factors: PowerStream has a history of under-spending on approved capital amounts; PowerStream's asset quantities proposed for replacement exceed the Asset Condition Assessment results; no independent assessment of the DSP was undertaken; the proposed pace of work is unreasonable given historical results; some of the general plant spending may not occur as proposed in the event of a merger; the proposed further spending on CIS is uncertain and the CIS cost overruns have not been justified; and the overall capital budget has been overestimated. The Council is particularly concerned with the level of proposed expenditures related to storm hardening, rear-lot remediation and pole replacements. In addition, the proposed capital budget lacks adjustments for productivity;
3. OEB Staff has also provided a useful analysis of PowerStream's capital plan and the need to reduce the proposed spending in a number of key areas;
4. Opening rate base should adjusted to reflect a reduction of \$3.2 million for land that will not be used or useful until 2017 when the Vaughan transformer station is expected to be in-service (Ex. G/T2/p. 4). Land should not be included until the asset that is using that land is in-service;
5. An adjustment should be made to the revenue requirement in 2016-2020 related to affiliate water-billing revenues. PowerStream's affiliates have not contributed to any increases in the new CIS system. In addition, PowerStream has not, in recent years determined if the revenues associated with these services, truly reflect the cost of providing the services;
6. In addition, the plan should include an asymmetrical capital variance account, an ESM and an efficiency adjustment mechanism to protect the interests of ratepayers;
7. The cost of debt should be updated each year, and a market-based rate should be used for new debt issuances on a go forward basis rather than the Board's deemed long-term debt rate; and
8. PowerStream should be required to meet with ratepayers to develop meaningful metrics and reporting requirements to ensure that it progress towards achieving efficiencies can be properly monitored and assessed.

D. OTHER ISSUES:

Customer Communication/Rate Mitigation:

The Council remains concerned that if PowerStream's proposals are accepted by the Board this will result in significant bill increases for many of its customers in 2016 and beyond. PowerStream should be encouraged by the OEB to be as candid as possible about the coming bill increases which are impacted not only by PowerStream's own proposals, but by the elimination of the Ontario Clean Energy Benefit and the introduction of the Ontario Electricity Support Program. To the extent some customers will be facing large increases we believe PowerStream should work with its customers to provide flexible payment options and mitigation.

Deferral of the Transition to 100% Fixed rates:

PowerStream has proposed that given the rate impacts arising from its rate plan it will defer the implementation of the 100% fixed charge until 2017. The Council supports this proposal.

Costs:

The Council requests that it be awarded 100% of its reasonably incurred costs related to this proceeding. The Council has actively worked with other intervenors throughout this proceeding to coordinate cross-examination and final submissions, in order to reduce the overall costs of its participation.

All of which is respectfully submitted,

Consumers Council of Canada