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December 15, 2023

Nancy Marconi
Registrar
Ontario Energy Board
2300 Yonge Street, P.O. Box 2319
Toronto ON, M4P 1E4

Dear Ms. Marconi,

RE: EB-2023-0055 Wasaga Distribution Inc. Application for electricity distribution rates beginning May 1, 2024 - Interrogatories of Energy Probe

Attached are the interrogatories of Energy Probe Research Foundation (Energy Probe) to the applicant in the EB-2023-0055 proceeding dealing with the application by Wasaga Distribution Inc. for OEB approval of electricity distribution rates beginning May 1, 2024.

Respectfully submitted on behalf of Energy Probe.

Tom Ladanyi
TL Energy Regulatory Consultants Inc.

cc. Patricia Adams (Energy Probe)
Michael Buonaguro (Counsel WDI)
Tyler Davids (OEB Staff)
Ashly Karamatic (Wasaga Distribution Inc.)
Ian Richler (OEB Staff)
Parties to the Proceeding

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EB-2023-0055 Wasaga Distribution Inc. Application for electricity distribution rates beginning May 1, 2024

Energy Probe Interrogatories

December 15, 2023

1.EP.1

Reference: Exhibit 1, Page 7

Preamble: “Since 2020, WDI has experienced a significant turnover in senior management, working through the transition of two President/CEO’s, Vice President (VP) of Engineering, Director of Finance, and Director of Energy Services. Creating the strategic plan “Growing Together” 2021-2026, implementing an Enterprise Risk Management (ERM) Framework, creating Audit & Finance and Governance & Human Resources Committees, and undergoing a governance review has all helped maneuver the loss in knowledge base and keep the organization running smoothly and efficiently. The organizational changes and governance enhancements implemented at WDI have had a profound impact on the utility’s operations.”

Questions:

- a) Which individuals mentioned in the quoted paragraph were employees of WDI and which were employees of WRSI?
- b) Did any of the employees mentioned leave or were terminated as a result of “the organizational changes and governance enhancements”?
- c) What were governance issues that required enhancing?
- d) Did any of the individuals mentioned receive severance payments from WDI or any of its affiliates? If the answer is yes, what was the total aggregate amount paid to all of the individuals mentioned and to what account was it booked?

1.EP.2

Reference: Exhibit 1, Executive Summary, Page 8

Preamble: “WDI utilizes a very lean team of capable employees, keeping the budget tight to focus on keeping costs low for customers, while also enhancing services to better serve their needs.”

Question:

Considering that WDI is a virtual utility with no employees, please confirm that the quoted sentence refers to employees of WRSI who are performing work for WDI.

1.EP.3

Reference: Exhibit 1, page 12, Section 2.1.2.7

Preamble: “WDI and its affiliate Wasaga Resource Services inc. (WRSI) underwent a consultation review in 2019 to ensure that the Master Services Agreement (MSA) between WRSI and WDI was compliant with the Affiliate Relationship Code (ARC) and address concerns about the pricing provision limitations. This resulted in a revised MSA and a change in pricing provisions from a base consideration amount, adjust annually for inflation and growth to a fully allocated costing methodology.”

Questions:

- a) Please provide the list of concerns about pricing provision limitations.
- b) Please identify the source and the date of the concerns.

1.EP.4

Reference: Exhibit 1, page 15

Preamble: “The Board of Directors of Geosands Inc, Wasaga Resource Services Inc, and Wasaga Distribution Inc. each have five directors, and a minimum of three of which are independent board members (meaning that they are not an employee or officer of the utility or Shareholder). This conforms to the ARC whereby at least one-third of its directors must remain independent from Affiliate Boards. The Mayor of the Town of Wasaga Beach (or the Mayor’s delegate) that sits on the WDI Board of Directors. ...Once per year, WDI holds its Annual General Meeting at Town council. Town Council is updated on the years’ activities by the Utility and the required corporate resolutions are passed. These meetings are open to the public.”

Questions:

- a) Please provide lists of the members of the Board of Directors for Geosands Inc., WRSI and WDI with titles and affiliation of each individual.
- b) Please file the minutes of the most recent Annual General Meeting of WDI including any documents or presentation that were provided to the WDI Board of Directors and Town Council members prior to or at the meeting.

1.EP.5

Reference: Exhibit 1, page 17

Preamble: “WRSI has 23 full-time employees that provide services to WDI.”

Questions:

- a) Does WRSI have any employees who do not provide services to WDI? If the answer is yes, please explain the services provided to other entities such as the Town of Wasaga Beach and the number of employees involved. If the answer is no, please explain why not.

- b) Do some employees of WRSI provide services to entities other than WDI on a part time basis? If the answer is yes, what is the approximate annual percentage of employee time that is used in providing services to these entities and the costs charged to these entities?
- c) How does WDI request service from WRSI? Please file examples of documents where WDI has requested services from WRSI.
- d) Please file the WDI Organizational Structure in the similar format to the WRSI Organizational Structure shown in Figure 1.2.

1.EP.6

Reference: Exhibit 1, Appendix 1 (B) 2021-2026 Strategic Plan, Page 17:

Preamble: “Geosands will shortly undergo a large transformation. Of the 19 employees it is expected that seven will be eligible to retire or have indicated that they may retire within a five-year window.”

Questions:

Does Geosands provide any services to WDI? If the answer is yes, please list the services and provide the approximate cost that Geosands charges WDI for them. If the answer is no, please explain the relevance of the information in the quoted sentence to the issues in this case.

1.EP.7

Reference: Exhibit 1, page 23, Figure 1.4 Strategic Priorities

Questions:

Please provide more information on the following Strategic Priorities:

- Build an action-oriented workplace culture and support change management,
 - Maintain strong shareholder working relationship.
- a) For each of the above priorities, please explain why they are necessary and how WDI plans to pursue them, including specific activities.
 - b) Does WRSI have Strategic Priorities? If the answer is yes, please file its list of strategic priorities. If the answer is no, please explain why not.

2.EP.8

Reference: Exhibit 2, page 26, Table 2.12 and Exhibit 1, Appendix 1(B), page 4

Questions:

- a) Please confirm that vehicles, tools, billing systems, and administrative equipment are not included in the Gross Assets of WDI because they are owned by WRSI.

- b) Please confirm that Account 1611 Computer Software does not include billing systems software.

2.EP.9

Reference: Exhibit 2, page 26

Questions:

- a) Which entity purchases poles, WDI or WRSI? If it is WRSI how much does WRSI charge WDI per purchased pole and does that charge include markup?
- b) Which entity installs poles, WDI or WRSI? If it is WRSI how much does WRSI charge WDI per pole for installation and does that charge include markup?

2.EP.10

Reference: Exhibit 2, page 49

Preamble: “

- WDI contracts Wasaga Resource Services (WRSI) and/or other third-party contractors for work needed to construct assets based on WDI’s approved budget and capital plan.
- Work conducted with developers for new subdivisions and other non-discretionary work is subject to economic evaluations. A developer will submit a request for bid from WRSI and as a result, WRSI will perform a formal review of the total costs required to complete the project. Prior to the start of the project, WRSI will establish a line of credit with the developer in order to fund the work being conducted. At project completion, the project is fully funded by the developer plus a mark-up charged by WRSI. WDI will then conduct an economic evaluation on the project.”

Questions:

- a) The quoted evidence indicates that WDI awards contracts for some of its capital projects work to its affiliate WRSI and some to un-affiliated contractors. How does WDI decide which work should be contracted to WRSI and which to un-affiliated contractors?
- b) Does WRSI bid for work on WDI capital projects against contractors that are not affiliates of WDI? If the answer is no, please explain why not. If the answer is yes, do employees of WRSI evaluate the bids and how does WDI prevent conflict of interest?
- c) How does WDI ensure that it is obtaining the lowest market cost for its capital construction work?
- d) What is the mark-up charged by WRSI and how is it calculated?
- e) Does an employee of WRSI conduct the economic evaluation on behalf of WDI? If the answer is yes, how does WDI ensure that there is no conflict of interest?

f) Please file a copy of a recent WDI economic evaluation of a capital project.

2.EP.11

Reference: Exhibit 2, Distribution System Plan, Page 73

Preamble: “Municipal Infrastructure Alignment: The execution of municipal projects often necessitates the relocation of our power infrastructure. This adaptive measure ensures our systems harmonize seamlessly with changing urban environments and development initiatives.”

Questions:

Is there a cost sharing agreement with the municipality for relocation of power infrastructure? If the answer is yes, please file the cost sharing agreement. If the answer is no, please describe the cost sharing practice.

4.EP.12

Reference: Exhibit 4, Page 7

Preamble: “WDI is currently assessing which need is greater to sustain the growth of the organization, a Human Resources, or an Information Technology professional, therefore, the cost currently budgeted may be slightly under for the fully burdened position.”

Questions:

- a) Will the staff addition be an employee of WDI or of WRSI?
- b) Is WRSI rather than WDI actually assessing the need for this staff addition?

4.EP13

Reference: Exhibit 4, Page 38

Preamble: “The employees of all LDCs are required to participate in the OMERS retirement plan. Therefore, the pension benefits provided to the employees of WDI are consistent with the pension benefits provided to employees of other LDCs.”

Questions:

Since WDI is a virtual utility without any employees, are the employees that the quoted text mentions actually employees of WRSI? Please explain your answer.

4.EP.14

Reference: Exhibit 4, Page 39, Table 4.18: OEB Appendix 2-K – Employee Compensation

Question:

Are the FTE numbers and the compensation costs shown in the table for WDI or WRSI?

4.EP.15

Reference: Exhibit 4, Page 10, Table 4.4: Appendix 2-1 JA – Summary of Recoverable OM&A Expenses and Page 44, Table 4.22: Master Service Agreement Expenses

Questions:

- a) Are all of the costs shown in Table 4.4 actually charges from WRSI to WDI? Please explain your answer.
- b) Please reconcile 2024 costs shown in Table 4.4 with the 2024 costs shown in Table 4.22.
- c) Does WRSI bill WDI monthly for its services? If the answer is yes, please file a copy of an actual monthly bill for any month in 2023. If the answer is no, please explain and file copy of a bill from WRSI to WDI on whatever basis it issues such bills.

4.EP.16

Reference: Exhibit 4, Appendix 4 (B), Page 1

Preamble: “While the MSA contains most of the items that the ARC requires for a service contract between a utility and an affiliate, it does not appear that the manner in which WRSI’s services are priced is compliant. The costs for services provided to WDI by WRSI are charged on a fixed fee basis (referred to as the Base Financial Consideration). The amount charged is based on 2012 costs which are adjusted each year to reflect changes in customer numbers and inflation. The expectation under the ARC is that services from an affiliate to a utility should be priced based on either market costs or the affiliate’s fully allocated costs. In this case, where there is no “market” for the basket of services provided by WRSI, a fully-allocated costing approach is appropriate. This approach would require tracking of the actual time spent by WRSI employees providing services to WDI, with costs to be calculated on the total costs (fully allocated costs) for such employees, along with any other costs incurred by WRSI. That is not the same as the approach used under the MSA, where the services are provided based on a fixed overall price that is linked to a reasonable level of costs from 2012.”

Questions:

- a) The August 6, 2019, memo from David Stevens to WDI highlighted that the MSA between WDI and WRSI used a fixed pricing model instead of a fully allocated cost model. How was this concern addressed?
- b) Does WRSI track actual time spent by WRSI employees providing services to WDI? If the answer is yes, please explain how time is tracked. If the answer is no, please explain why not.
- c) Does WRSI provide a breakdown of costs to WDI that separates employee time from other costs incurred by WRSI in providing services to WDI?

4.EP.17

Reference: Exhibit 4, Appendix 4 (B), Pages 5-6

Preamble: “On the other hand, an argument may be made that the costing and reporting for “services costs” under the MSA does not meet some ARC requirements. It does not appear that the Base Financial Consideration paid by WDI represents WRSI’s fully allocated costs to provide the associated services. Moreover, if the current amounts paid by WDI to WRSI for services under the MSA are premised on 6 years of adjustments to an “approved” 2012 OEB budget that considered WRSI’s costs, it cannot be said that these costs represent WRSI’s current fully allocated costs to provide the services. Additionally, it does not appear that there is any current “detailed breakdown” of WRSI’s affiliate’s fully-allocated cost of providing the Services.

Questions:

- a) Did WRSI provide services to WDI at fixed costs based on the 6 years of adjustments to the approved 2012 OEB budget?
- b) If so, how did those fixed costs compare to the actual costs incurred by WRSI in providing those services to WDI?
- c) If the costs varied from the fixed costs based on the 6 years of adjustments to the approved 2012 OEB budget, on what basis did the costs vary?

4.EP.18

Reference: Exhibit 4, Appendix 4 (B), Page 2

Preamble: “It is not surprising that the current form of MSA limits WRSI’s willingness to add resources to provide services to WDI. Because the pricing for base (existing) services is fixed, the costs for such extra resources would not be recoverable from WDI and would have to be absorbed by WRSI’s shareholder. One way to avoid this concern is to classify enhanced services as “new” services – if that is the case, then the MSA allows for the parties to agree on extra costs to be paid. Alternately, if the MSA was amended to provide for cost-based pricing (fully allocated costs), then costs of additional services or costs would be passed along to WDI.”

Questions:

- a) Have WRSI and WDI agreed to classify any services as “new” services as set out in the context of the memo of Appendix 4 (B)?
- b) If so, please list any services that are “new” services and how the costs for any such services were determined?

4.EP.19

Reference: Exhibit 4, Appendix 4 (B), Page 6

Preamble: “Further, so long as WDI is not overpaying for the services received from WRSI, then there would not be any cross-subsidization. It should be noted though, that proving there is

no cross-subsidization would require knowledge of WRSI’s actual fully-allocated costs to provide services.”

Questions:

Has WRSI provided to WDI sufficient information of WRSI’s actual fully-allocated costs for services provided by WRSI to WDI for WDI to verify that it has not overpaid for those services? If not, why not? If yes, what actions has WDI taken, if any, based on receipt of that information?

4.EP.20

Reference: Exhibit 4, Appendix 4 (B), Page 1

Preamble: “There are also potential concerns about sharing of information and employees between WRSI and WDI. Because WRSI is considered an “energy service provider,” it is not supposed to receive system planning information from WDI, and employees who work for WRSI’s energy services business are not supposed to also provide service to WDI. If the MSA continues in place, it may be appropriate to seek an exemption from the information sharing restrictions in the ARC.”

Questions:

- a) Does Wasaga Distribution Inc. share any employees with Wasaga Resource Services Inc.? If yes, what tasks do those shared employees perform for WDI and what tasks do those shared employees perform for WRSI?
- b) Do any WRSI employees receive system planning information from WDI either from a WDI employee or by virtue of being a shared employee between WDI and WRSI?
- c) Has either WRSI or WDI sought an exemption from the information sharing restrictions in the ARC?

4.EP.21

Reference: Exhibit 4, Appendix 4 (B), Page 7

Preamble: “Section 4.02 of the MSA indicates that the parties will ensure that there is accounting and financial separation between WDI and WRSI. While no details are provided about how this is accomplished, presumably that commitment continues to be met. The MSA does not specifically address whether WRSI employees who provide energy services are restricted from also providing services to WDI. Steps should be taken to make sure this occurs.”

Question:

What steps were taken by either WDI or WRSI to ensure that WRSI employees who provide energy services do not also provide services to WDI?

5.EP.22

Reference: Exhibit 5, Page 5, Table 5.4: 2016 to 2024 Debt Instruments

Questions:

How does WDI ensure that debt instruments obtained from its affiliate, the Town of Wasaga Beach, are competitively priced compared to debt instruments obtained from third parties?

6.EP.23

Reference: Exhibit 6, Page 18

Questions:

Please provide supporting information on the balances in the following accounts including explanation of major transactions and entries:

- 4355 Gain on Disposition of Utility and Other Property
- 4357 Gain from Retirement of Utility and Other Property
- 4360 Loss on Disposition of Utility and Other Property
- 4375 Revenues from Non Rate-Regulated Utility Operations
- 4380 Expenses of Non Rate-Regulated Utility Operations
- 4390 Miscellaneous Non-Operating Income
- 4395 Rate-Payer Benefit Including Interest