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VIA COURIER AND E-MAIL

December 7, 2005

Mr. John Zych
Board Secretary
Ontario Energy Board
2300 Yonge Street
26th Floor, Box 2319
Toronto, Ontario, M4P 1E4

Dear Mr. Zych:

Re: PowerStream Inc.;
2006 Electricity Distribution Rates Application; Generic Issues Proceeding
Board File Nos.: RP-2005-0020/EB-2005-0529/EB-2005-0409

I am writing on behalf of PowerStream Inc. to file its responses to the interrogatories of VECC and Board Staff in connection with the EB-2005-0529 proceeding.

Yours very truly,

(signed) H. T. Newland

H.T. Newland

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Encls.
cc: All Intervenors in RP-2005-0020
All LDC Distributors

VECC INTERROGATORY #1.1

Generic Issue #1: Smart Meters

Interrogatory:

a) Please provide complete details of the type of costs to be recorded in the proposed Smart Meter Deferral Account including:
- period for which costs are to be tracked
- capital costs:
- operating costs (distinguish direct costs and indirect for example back office costs),

b) Is interest to be charged on the accounts and if so provide details of rates etc?

c) Does the applicant have estimates of the unit capital and operating costs for residential meters? If so please provide capital and annual operating costs.

d) When will the Applicant request that the balance of each account, including carrying charges, be examined and disposed of by the Board?

e) How will the Board judge prudence and how will the prudently incurred costs be allocated to rate classes?

Response:

a) PowerStream intends to develop and implement a smart meter program in accordance with the parameters that are expected to be established by the Ministry of Energy. As these parameters are not known at this time, the type and quantum of PowerStream's smart meter spending are also unknown at this time. PowerStream is, accordingly, seeking two deferral accounts - one for capital costs and one for operating costs - in connection with potential spending associated with the procurement, ownership, installation, maintenance and operation of a smart meter program in 2006 and thereafter.

b) PowerStream expects that the interest rate to be charged on any deferral accounts will be determined by the Board and be applicable to all LDCs in Ontario.

c) No.

d) PowerStream expects that the examination and disposition of the deferral accounts will be determined by the Board in accordance with the provisions of Section 78 (6.2) of the *Ontario Energy Board Act*. Depending on the timing and nature of the costs recorded, however, PowerStream may apply to the Board for an examination and disposition of the balance recorded in the deferral accounts rather than waiting for the Board to initiate a proceeding.

e) The method and process by which the Board will judge prudence and allocation to rate classes is ultimately an issue to be determined by the Board in accordance with applicable legal standards and tests.

VECC INTERROGATORY #2.1.1

Generic Issue #2.1: Deferral Accounts – Regulatory Costs

Interrogatory:

a) Please complete the following table with respect to the costs included in Regulatory Expenses (Account 5655)

Expense Item	2006 Application	2004 Actual	2003 Actual	2003 Actual
Regulators' Fees/Charges				
OEB Base Levy				
Other OEB Charges				
Other Energy Regulatory Fees (specify)				
Subtotal (1)				
In House Costs				
Staff .Compensation				
Other Costs				
Subtotal (2)				
Outsourced Services				
Legal Services				
Consultants				
Other Costs (Specify)				
Subtotal (3)				
TOTAL Reg. Expense				
Total Customers				
Total Energy Distributed				
Reg. Costs/Customer				
Reg. Costs/kWh Distributed				

b) Please provide Explanatory Notes for all material increases/decreases from 2002-2006.

c) Provide a list of 2004 positions involved in regulatory matters regarding the OEB and other Energy Regulators.

d) Provide the number of FTEs for 2004 associated with the reported staff compensation (i.e., salaries and benefits) in the table.

e) Please indicate whether the reported in-house costs in Table 1 include any allocated overheads or staff-related costs other than direct compensation. If so, please explain how the amounts to be included were determined.

f) If the OEB were to establish a deferral account for Regulatory Costs and permit utilities to record their costs of consultants, legal counsel and direct incremental disbursements, does the Applicant record costs in any other USoA accounts that it considers would qualify. If so, please indicate the nature of such costs, where they would be reported, and the amounts the Applicant incurred in 2002-2004.

Response:

a) Schedule VECC 2.1(a) provides the information that PowerStream has been able to assemble. For 2004, all charges and costs are presented on a consolidated basis (i.e., for all three predecessor utilities). The 2004 OEB Base Levy amount includes only the portion of the assessment that was included in rates and does not include amounts recorded in Account 1508 for recovery as a regulatory asset (see PowerStream's 2006 EDR Application, Tab "Application Summary," pp. 10-11). For 2002 and 2003, only the OEB Base Levy comprises a consolidated amount. All other charges in 2002 and 2003 are the amounts recorded in Account 5655 for the former Markham Hydro only.

Schedule VECC 2.1(a) Regulatory Expenses (Account 5655)

Expense Item	2004	2003	2002
Regulator Fees/Charges			
OEB Base Levy	190,676.71	242,947.38	277,846.29
Other OEB Charges	0.00	0.00	15,020.91
Other Energy Regulatory Fees (specify)			
- Electrical Safety Authority fees	28,839.18	0.00	0.00
- Licence fee	0.00	0.00	1,000.00
Subtotal	219,515.89	242,947.38	293,867.20
In House Costs			
Staff Compensation	136,113.23	104,172.33	68,027.98
Other Costs	7,259.22	12,771.01	-76,368.14
Subtotal	143,372.45	116,943.34	-8,340.16

Outsourced Services			
Legal	8,375.07	46,185.95	272.67
Consultants	30,951.70	29,907.50	0.00
Other Costs - specify			
Subtotal	39,326.77	76,093.45	272.67
Total Regulatory Expense	**402,215.11**	**435,984.17**	**285,799.71**
Total Customers	245,374	236,663	224,860
Total Energy kWh Distributed	6,065,283,288	5,820,961,441	5,719,266,055
Regulatory Costs/Customer	$1.64	$1.84	$1.27
Regulatory Costs (cents) /kWh Distributed	0.0066	0.0075	0.005

b) Material increases from 2002 to 2003 relate, primarily, to the following:
- increases in legal fees ($46,000) and consulting costs ($30,000) incurred by the former Markham Hydro in connection with the 2003 Service Area Amendment proceeding;
- a prior year adjustment ($84,000) in 2002 related to OEB assessment fees; and
- increases in wages ($35,000) occasioned by the increased regulatory burden.

c) PowerStream had one dedicated regulatory position in 2004. Account 5655 stipulates that the "pay of regular employees only incidentally engaged in such [regulatory] work" shall not be included in the account. Accordingly, PowerStream did not include, in Account 5655, the salary expenses of other PowerStream employees who were involved from time-to-time, but not exclusively, on OEB matters. The number of such employees varies depending on the nature and scope of the individual regulatory proceedings in which PowerStream participates.

d) There is 1 FTE associated with the reported staff compensation in Schedule 2.1(a).

e) The in-house costs include overheads ("payroll burden") on staff wages. Payroll burden is calculated as a percentage of the wages and comprises payroll taxes and benefits. The average payroll burden rate for 2002 to 2004 is 21.4%.

f) No. PowerStream records all the costs that it seeks to recover in its proposed variance account in Account 5655.

VECC INTERROGATORY #2.1.2

Interrogatory:

a) Please clarify for what years the requested Regulatory Expenses Deferral Account would apply (i.e., just 2006 or other years as well)?

b) Please provide complete details of the specific types of costs the Applicant proposes would be recorded in the proposed Deferral Account.

c) Please provide a schedule that sets out, for each type of cost the Applicant proposes as being eligible for inclusion in the Deferral Account, the expense level included in the 2006 Rate Application.

d) Explain what are the unusual costs that have not been included in the 2006 Rate Application and demonstrate the potential materiality of such costs.

e) Is interest to be charged on the accounts and if so provide details of rate that the Applicant proposes should be used?

f) What is the Applicant's proposal as to when the balance of the account, including carrying charges, should be examined and disposed of by the Board?

g) What is the Applicant's proposal as to the regulatory costs (per the 2006 Application) that should be recorded as a credit for purposes of the requested Regulatory Expense Deferral Account?

h) How should the Board judge prudence (e.g., how should the Board ensure that utilities have not simply contracted out for 2006 and included in the Deferral Account the costs of regulatory-related activities that were performed in-house in 2004)?

i) How should the recovery of prudently incurred costs be allocated to rate classes?

Response:

a), b) Please see PowerStream's 2006 EDR Application, Tab "Deferral/Variance Account," p. 2.

c) The following costs, that were incurred in 2004, are the type of costs that would be eligible for inclusion in the Regulatory Expense Variance Account:

  (i) regulatory cost assessment , including PowerStream's proposed Tier One adjustment ($1,059,435);

  (ii) legal fees associated with OEB proceedings ($8,375); and

  (iii) consulting fees associated with OEB proceedings ($30,952).

d) The number and complexity of the regulatory proceedings that PowerStream is currently involved in and expects to be involved in during 2006 will require PowerStream to engage external resources at levels well beyond those which are reflected in the 2004 base year expenses set out in the response to VECC 2.1.2 (c). Uncertainty about the number and extent of regulatory processes makes it difficult to forecast such costs. PowerStream's estimated expenses for 2005 (see response to Board Staff Interrogatory 1) indicate a significant increase in this regard.

e) PowerStream expects that the interest rate to be charged on any deferral accounts will be determined by the Board and be applicable to all LDCs in Ontario.

f) PowerStream expects that the examination and disposition of the variance account will be determined by the Board in accordance with the provisions of Section 78 (6.2) of the *Ontario Energy Board Act*. Depending on the timing and nature of the costs recorded, however, PowerStream may apply to the Board for an examination and disposition of the balance recorded in the variance account rather than waiting for the Board to initiate a proceeding.

g) PowerStream is proposing a variance account that would record the difference between the amount that the Board ultimately includes in rates for 2006 and the amount actually expended on regulatory matters in 2005 and 2006. This is explained in PowerStream's 2006 EDR Application at Tab "Deferral/Variance Accounts", pp. 2-3.

h) The method and process by which the Board will judge prudence is ultimately an issue to be determined by the Board in accordance with applicable legal standards and tests.

i) While the Board ultimately will decide the appropriate method to allocate regulatory costs across the rate classes, PowerStream sees no reason why these costs should be treated differently than other costs for providing distribution service.

VECC INTERROGATORY #2.2.1

Generic Issue #2.2: Deferral Accounts – Revenue Losses Attributable to Unforecasted Distributed Generation

Interrogatory:

a) Is the Applicant currently aware of any potential load displacement projects that could affect revenues for 2006?

b) How far in advance (i.e., months) of the actual installation of load displacement generation would the Applicant typically expect to become aware of such a project?

Response:

a) PowerStream has not sought approval for a deferral account for un-forecasted distributed generation. Nevertheless, PowerStream is aware of the following potential load displacement projects that may affect revenue for 2006:

Toromont Peak Shaving generation	(1MVA)	Vaughan
Honda dealership wind turbine (50kw)		Vaughan

b) The amount of advance notice that PowerStream receives in this regard varies with the size and type of project.

VECC INTERROGATORY #4.1.1

Generic Issue #4.1: Other Deferral Accounts – Rate Mitigation Revenue Shortfalls

Interrogatory:

a) Please confirm that the Applicant does not expect any short-fall in revenue for 2006 as a result of proposed Rate Impact Mitigation measures.

b) If this is not the case, please explain why and quantify the anticipated impact.

Response:

a) Not applicable. PowerStream is seeking an overall reduction in distribution rates and is therefore not proposing any mitigation measures.

b) Not applicable.

VECC INTERROGATORY #4.2.1

Generic Issue #4.2: Other Deferral Accounts: Low Voltage Charge Variations

Interrogatory:

a) Please confirm that the Applicant an Embedded Distributor – but is not a Host Distributor.

b) Please provide a schedule that indicates what the LV Wheeling charges included in the Application are as a percentage of:
   - Total Distribution Revenue Requirement (per Tab 5.1)
   - Total Rate Base

c) If the OEB were to establish deferral accounts for LV Wheeling cost incurred by Embedded Distributors, would it be appropriate to credit to the account the revenues received from customers based on the LV cost adders per Tab 8.5? If not, why not?

d) Would it be more appropriate to consider the account a variance account similar to RSVA's?

e) If the Applicant is a Host Distributor, please complete and provide Schedule 10.7

Response:

a) PowerStream has embedded connections to Hydro One Networks Inc's host facilities. PowerStream is not a host distributor.

b) PowerStream assumes that the term "LV Wheeling charges" refers to post May 1, 2006 Hydro One LV charges referred to on page 13 of the Handbook.

Schedule 4.2.1 (b) Other Deferral Accounts: Low Voltage Charge Variations	
LV Wheeling charges	$ 879,693
Total Service Revenue Requirement (tab 5.1)	$ 101,019,501
% LV Wheeling Charges over Service Revenue Requirement	0.9%
Total Rate Base	$ 414,567,899
% LV Wheeling Charges over Rate Base	0.2%

c) Yes. The corresponding LV cost would be debited from the same account.

d) Yes.

e) Not applicable.

VECC INTERROGATORY #4.3.1

Generic Issue #4.3: Other Deferral Accounts – Material Bad Debt

Interrogatory:

a) Over the three years (2002-2004), how many individual bad debt occurrences did the Applicant experience that met the materiality threshold as defined by the Rate Handbook (page 46)?

b) With respect to the response to part (a), please provide a schedule that for each of the three years lists the individual occurrences of material bad debt, the rate class the customer belonged to, the value of the bad debt and the total for the year. (Note: The actual name of the customer is not required)

Response:

a) In 2003, one of PowerStream's predecessor companies experienced an individual bad debt write-off of $154,793.66, exceeding the materiality threshold during the specified period.

b)

Schedule VECC 4.3.1 Material Bad Debt Occurrences

Year	Residential Rate Class	General Service	Annual Total
2002	0	0	0
2003	0	$154,793.66	$154,793.66
2004	0	0	0

VECC INTERROGATORY #4.3.2

Interrogatory:

a) Does the Applicant have an approved "Bad Debt Policy" that defines when overdue accounts are turned over to 3rd parties for collection, when overdue accounts are written off as bad debt, how are security deposits used to reduce the bad debt expense, the treatment of any subsequent recoveries, etc.? If so, please provide.

b) If not, please outline what the Applicant's practice is.

c) What was the Applicant's experience over 2002-2004 with actually recovering all/portion of a bad debt after it had been written off?

Response:

a) PowerStream does not have a formal bad debt policy but does have a consistent practice it follows as explained in part (b).

b) Customers who do not remit payment in a timely fashion receive a reminder notice and, if necessary, a telephone follow-up. Accounts over 90 days are normally turned over to a third party collector. Aged final billed accounts are written-off to bad debt on an annual basis. Write-offs typically occur if the account holder has gone bankrupt or if the account is over 90 days. Security deposits (if any) and interest are netted against the final bill. Subsequent recoveries are applied to Bad Debt Recovery.

c) On average, the collection agency recoveries ranged from 15% to 20% of the amounts written off during 2002-2004. For customers that experienced bankruptcy, the recovery is poor and estimated to be less than 5%.

VECC INTERROGATORY #4.3.3

Interrogatory:

a) Does the Applicant agree that if the OEB were to create a deferral account for material bad debt and allow for recovery in future rates this would reduce the Applicant's business risk? If not, why not?

b) Based on the data in the Applicant's filing, please provide a schedule setting out the impact that a individual material bad debt (per the Handbook Definition) would have on the Applicant's after-tax Return on Equity?

Response:

a) Partially. If the OEB were to create a deferral account for material bad debt and allow for recovery in future rates, this would only mitigate against the risk of material write offs and would not reduce the Applicant's entire business risk related to bad debt. PowerStream's exposure to bad debt expense for non-material occurrences would be unaffected by the deferral account, depending on the number of such occurrences and the underlying factors leading to any increase in their frequency or size. The change in the security deposit policy places more risk on the LDC which would tend to increase PowerStream's business risk associated with bad debt. Also, the current deposit policy may potentially place an additional burden on PowerStream's customers as a result of the increasing expense that may materialize from these bad debts. Moreover, the fact that the Board allows for the potential recovery of material bad debts in future rates via a deferral account does not mean that recovery of any particular material bad debt is guaranteed.

b) The following calculation shows a 0.5% impact on PowerStream's after-tax ROE for a single bad debt occurrence equal to PowerStream's materiality threshold of $122,000.

Schedule 4.3.3(b): Other Deferral Accounts: Material Bad Debt	
Distribution Revenue other than PILs	89,746,902
Distribution Expense per EDR Application	59,497,395
Individual Material Bad Debt	77,934
Total Distribution Expense	59,575,329
Interest Expense	15,325,063
Net Income adjusted for Individual Material Bad Debt	14,846,511
Net Income per EDR model	14,924,444
Reduction to ROE	-0.5%
After tax impact of Individual Material Bad Debt	(77,934)
Individual Material Bad Debt	122,000
Tax rate	36.12%
PILs Impact of Material Bad Debt Expense after rates are set	44,066

BOARD STAFF INTERROGATORY #1.1

Generic Issue #1: Smart Meters

Interrogatory:

A proposal is made that the Board establish a variance account for PowerStream's incremental regulatory expenses during calendar 2005 and calendar 2006. Please provide a breakdown of the Applicant's regulatory expense for the years 2002 to 2004 and an estimate as to what they will be for 2005.

Response:

For 2002 to 2004 regulatory expenses, please see the response to VECC IR 2.1.1 (a). PowerStream estimates its 2005 regulatory expenses to be approximately $1,755,000 including the full 2005 OEB Assessment of $968,754.