

Responses to Board Staff Interrogatories

PUC Distribution Inc. ("PUC") 2010 IRM3 Electricity Distribution Rates EB-2009-0247

Question #1

Ref: 2010 IRM Deferral Variance Account 1588 -Power

The 2008 ending balances reported in the 2010 IRM Deferral Variance Account worksheet prepared by PUC shows the split for account 1588 – Power and Global Adjustment. On October 15, 2009 the Board issued "Regulatory Audit and Accounting Bulletin 200901" which clarified the accounting rules for reporting the 1558 – Global Adjustment sub-account.

Account Description	Account Number	Total Claim
RSVA - Power (Excluding Global Adjustment)	1588	(36,614)
RSVA - Power (Global Adjustment Sub-account)		595,004

- a) Has PUC reviewed the Regulatory Audit & Accounting Bulletin 200901 dated October 15, 2009, and ensured that it has accounted for its account 1588 and sub-account Global Adjustment in accordance with this Bulletin?
- b) Has PUC made adjustments subsequent to filing the 2010 IRM3 application and need to re-file an updated 2010 IRM Deferral Variance Account worksheet?

Response

- a) PUC has reviewed the Regulatory Audit & Accounting Bulletin 200901 dated October 15, 2009 and is accounting for 1588 and sub-account Global Adjustment in accordance with that bulletin.
- b) PUC has not made any adjustments subsequent to filing the 2010 IRM application.

Question # 2

Ref: 2010 IRM Deferral Variance Account 1588 – Global Adjustment

On November 13, 2009 Board Staff prepared a submission in the Enersource EB-2009-0193 2010 IRM3 Application. The following is an excerpt from the submission in respect to Board staff concerns with the current proposal for handling the disposition of the USoA 1588 – Global Adjustment.

The EDDVAR Report as well as the Board's Decision in EB-2009-0113 adopted an allocation of the GA sub-account balance based on kWh for non RPP customers by rate class. Traditionally this allocation would then be combined with all other allocated variance account balances by rate class. The combined balance by rate class would then be divided by the volumetric billing determinants (kWh or kW) from the most recent audited year end or Board approved forecast, if available. This process hence spreads the recovery or refund of allocated account balances to all customers in the affected rate class.

This method was factored on two premises; a) that the recovery/refund of a variance unique to a subset of customers within a rate class would not be unfair to the rate class as a whole and b) that the distributors' billing systems would not be able to bill a subset of customers within a rate class, without placing a significant burden to the distributor.

For these reason the Board's original Deferral Variance Account workform was modeled on this basis. However based on Enersource's evidence, there could be material unfairness to RPP customers within the affected rate classes.

Therefore Board staff suggests that a separate rate rider be established to clear the GA sub-account balance to Non-RPP customers within rate classes.

What remains unclear to Board staff is whether Enersource's billing system could accommodate that change within a reasonable timeframe."

Board staff would like to poll PUC on the above issue.

a) Board staff is proposing that a separate disposition rate rider be applied prospectively to Non-RPP customers for 1588 – Global Adjustment. Does PUC agree that this proposal would be fair to all customers? Why or why not?

b) If the Board were to order PUC to provide such a rate rider, would PUC's billing system be capable of billing non-RPP the separate rate rider? What complications, if any, would PUC see with this rate rider?

c) If PUC were to be unable to bill in this fashion what would PUC consider proposing in the alternative?

Response

- a) PUC agrees that a separate disposition rate rider that would be applied prospectively to Non-RPP customers for 1588 - Global Adjustment would be fair and it is appropriate to clear a variance balance only with customers that contributed to the balance.
- b) At this time PUC's billing system would not be capable of billing Non-RPP customers a separate rate rider. PUC's billing system could be modified to include a separate non-RPP rate rider but further analysis of the alternatives would need to be completed by PUC.
- c) The IR process does not provide sufficient time to fully consider the issue and put forth practical alternatives.

Question #3**Ref: 2010 IRM Deferral Variance Billing Determinants**

Below are the billing determinants identified on Sheet "B1.3 Rate Class And Bill Det" of the workform.

Rate Class	Billed Customers or Connections	Billed kWh	Billed kW
	A	B	C
Residential	28,915	347,363,230	
General Service Less Than 50 kW	3,381	94,322,483	
General Service 50 to 4,999 kW	438	261,123,945	650,699
Unmetered Scattered Load	26	755,305	
Sentinel Lighting	430	268,763	744
Street Lighting	8,759	7,620,205	21,317

a) Please identify if these values are from the PUC 2008 Cost of Service Application or 2008 RRR reported values.

b) If the above are from the 2008 CoS values, please explain why PUC has not used the 2008 RRR reported values.

Response

a) The billing determinants identified on Sheet "B1.3 Rate Class and Bill Det." are the 2008 RRR reported values.

b) Refer to answer to a) above.

Question #4**Ref: 2010 IRM Deferral Variance Billing Determinants**

Below are the Billed kWh for Non-RPP customers identified on Sheet “B1.3 Rate Class And Bill Det” of the workform.

Rate Class	Billed kWh for Non-RPP customers
	D
Residential	58,930,297
General Service Less Than 50 kW	14,836,198
General Service 50 to 4,999 kW	40,239,930
Unmetered Scattered Load	
Sentinel Lighting	
Street Lighting	

a) Please identify if these values are estimated or actual values and specify the applicable period.

b) If the above values are estimated please explain why PUC is unable to determine actual.

c) As discussed in one of the questions above Board staff have proposed a non-RPP customer rate rider for disposition of the 1588 – Global adjustment. If accepted would PUC support using the numbers above as the most reasonable denominator to be used for rate determination.

d) If PUC were to establish a separate rate rider to dispose of the balance of the 1588 – Global adjustment sub-account, does PUC believe that the rider be applied to customers in the MUSH sector? If not, would PUC have the billing capability to exclude customers in the MUSH sector if a separate rate rider were to apply for the disposition of the 1588 – Global adjustment sub-account?

Response

a) The values above are estimated kWh's for 2008 year.

b) At the time of filing the 2010 IRM application PUC used estimates that were readily

available. PUC is able to determine actual figures with the exception of estimates used at month end as meter reads for all customers can not be done exactly on the last day of the month.

- c) PUC would not support the numbers above as being a reasonable denominator if Board Staff proposed a non-RPP customer rate rider for disposition of 1588 – Global Adjustment. As PUC stated above the numbers are estimates and upon further analysis the number below although still estimates would be a more reasonable denominator.

Rate Class	Billed kWh for Non-RPP customers
	D
Residential	56,885,148
General Service Less Than 50 kW	14,573,556
General Service 50 to 4,999 kW	162,319,370
Unmetered Scattered Load	
Sentinel Lighting	
Street Lighting	

- d) PUC proposes that this issue is generic to the industry and that a stakeholder consultation may be required to fully address this issue. PUC's billing system would require some modification to exclude customers in the MUSH sector if a separate rate rider were to apply for the disposition of the 1588- Global adjustment sub-account. PUC would need to further analyze different billing methods in the current billing system but the IR process does not provide sufficient time to fully consider the alternatives.

Question #5**Ref: 2010 IRM Deferral Variance Total Claim**

Below are the Total Claim values for the EDDVAR Group One Deferral Accounts.

Regulatory Assets - Continuity Schedule Final		
Account Description	Account Number	Total Claim I = C + D+ E + F + G + H
LV Variance Account	1550	-
RSVA - Wholesale Market Service Charge	1580	(1,810,328.54)
RSVA - Retail Transmission Network Charge	1584	(382,522.16)
RSVA - Retail Transmission Connection Charge	1586	-
RSVA - Power (Excluding Global Adjustment)	1588	(36,613.62)
RSVA - Power (Global Adjustment Sub- account)		595,003.97
Recovery of Regulatory Asset Balances	1590	90,587.31
Disposition and recovery of Regulatory Balances Account	1595	-
Total		(1,543,873.03)

a) Please complete the amended Deferral Variance Account Workform V4 as found on the Board's website under the 2010 Electricity Distribution Rates update December 7, 2009. Note that Board staff can assist in converting your most recent model (either the one filed with your application or a more recent version if available). Please contact your case manager to assist you if need be.

b) Please confirm if these are the final balances for disposition. If these are not the final balances please provide amended workform to support final balances for disposition.

c) Please reconcile final balance for disposition to the 2008 year end account

balance reported in the RRR filing. Please identify source and reason for variances.

d) Please confirm that PUC has complied with and applied correctly the Boards accounting policy and procedures for calculation of the final disposition balance. If PUC has used other practices in the calculation please explain where in the filing and why.

e) Please confirm that PUC has used the simple interest calculation as required by the Board using the Boards prescribed interest rates. If PUC has used other calculations please explain where in the filing and why.

f) Please confirm that PUC has complied with the requirement to apply recoveries to principal first as outlined in the 2006 Regulatory Assets Transactions document issued September 4, 2009 (included in the Updated IRM Deferral and Variance Account Work Form zip file). If PUC has not complied with this requirement please explain why not.

Response

- a) PUC has completed the amended Deferral Variance Account Workform V4 and has submitted it as part of the interrogatory responses file name "*PUC Distribution_IRR_BoardStaff_IRM Deferral and Variance Workform_20100107*".
- b) The balances in the amended Deferral and Variance Account Workform are the final balances being requested for disposition. It should be noted that PUC changed the kWh's for the 2008 billed Non-RPP customers to reflect the updated estimates on sheet "B1.3 Rate Class and Bill Det" as stated in Question #4 above.
- c) The balances for disposition are reconciled in the amended Deferral and Variance Account Workform and are in agreement with the 2007 and 2008 year end account balances reported in the RRR filing. In 2005 and 2006 there are differences in the year end balances compared to the RRR filing balances. In past practices PUC did not amend the RRR filing due January 31 which are preliminary balances as final balances are not available by January 31. The adjustments to the balances after January 31 were included as adjustments in the April filing to reconcile the year to date balances.
- d) PUC has complied with and applied correctly the Boards accounting policy and procedures except for one exception. Upon further review PUC discovered the carrying charges for account 1588 – Power Variance, 1584 Network Variance and 1580 Wholesale Market Variance had inadvertently been reversed for 2007 and 2008. The estimated impact of the potential adjustment which has not yet been audited is as follows:

	<u>2007</u>	<u>2008</u>
Power Variance -1588 Carrying Charges	\$31,250	\$22,545
Network Variance – 1584 Carrying Charges	\$4,866	\$12,057
Wholesale Market – 1580 Carrying Charges	\$15,173	\$100,823
Total	\$51,289	\$135,425

The above amounts were recorded as debits to the variance sub-account carrying charges and credited to 4405 revenue accounts. The correct entry in 2007 and 2008 would have been to credit the sub-account carrying charges and debit expense account 6035. The impact on the 2010 rate application is that the negative rate rider being applied for is underestimated at this time by \$373,428 which would be additional funds returned to customers.

Since the 2010 IRM3 deferral account variance workform agrees to the 2007 and 2008 audited financial statements and the quarterly filings, PUC has not made subsequent adjustments to the 2010 IRM workform. The estimated impact of the adjustment has not been audited and once final will be included in the 2009 audited statements. PUC proposes that for clarity and consistency with the 2007 and 2008 audited financial statements that PUC request disposal in the 2011 rate application of the audited 2009 variance balances which will include audited adjustments from prior periods.

- e) PUC has used the simple interest calculation required by the Board and the prescribed interest rates.
- f) PUC has complied with the requirement to apply recoveries to principal first as outlined in the 2006 Regulatory Assets Transactions document issued September 4, 2009.

Question #6

Ref: Supplemental Module - Z-Factor Tax Changes

Sheet "F1.1 Z-Factor Tax Changes" of the supplemental module shows Grossed-Up Tax Amount as \$1,258,120 while the 2009 IRM sheet "F1.1 Z-Factor Tax Changes" shows Grossed-Up Income Taxes as \$1,286,785.

a) Please review and advise of the correct amount.

Response

a) Upon further review and discussion with OEB staff sheet "F1.1 Z-Factor Tax Changes" does not require any adjustments and the amounts are correct as filed in the IRM application.

Question # 7
Harmonized Sales Tax

It is possible that the PST and GST may be harmonized effective July 1, 2010. Unlike the GST, the PST is included as an OM&A expense and is also included in capital expenditures. If the GST and PST are harmonized, corporations would see a reduction in OM&A expenses and capital expenditures.

In the event that PST and GST are harmonized effective July 1, 2010:

- a. Would PUC agree to capture in a variance account the reductions in OM&A and capital expenditures?
- b. Are there other alternatives that the Board might consider to reflect the reductions in OM&A and capital expenditures if this bill is enacted?

Response

- a) At this time PUC would not agree to capture in a variance account the reduction in OM&A and capital expenditures as a result of PST and GST being harmonized. The harmonization of sales taxes are said to reduce a utility's OM&A costs and capital expenditures in the long term. However, in the short term, during the IRM period a utility's OM&A costs and capital expenditures are not likely to decrease. Prices may not go down at all. Further, growth/reduction in capital expenditures is not incorporated into rates during the IRM period unless such growth/reduction exceeds the materiality threshold limit set by the OEB.
 There are numerous other elements of a utilities cost (other than PST) embedded into distribution rates such as property taxes, employment insurance rates, Canada pension plan rates, etc. and increases/decreases to all components of rates should be considered simultaneously. In addition, there would be an increased exposure to bad debts as accounts receivable increase. Addressing only the commodity tax component of rates during the IRM period amounts to "a single-issue rate adjustment" and on that basis it should be rejected.
 Furthermore, establishing a variance account during the IRM period to track reductions in OM&A and capital expenditures imposes an enormous administrative burden on a utility.
- b) PUC proposes that the issue is generic to the industry and a stakeholder consultation is required to ensure implications of this tax change are fully addressed. In the meantime, the distributors revenue requirements should be established based on the current tax regime. Due to the nature of the short IRM period (1 year), sufficient time is not available to fully consider the issue of impacts through harmonization of sales taxes in order to put forth practical alternatives to a variance account being proposed by Board staff.