



**PETERBOROUGH DISTRIBUTION INC.**

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January 5, 2010

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
2300 Yonge Street, Suite 2700  
Toronto, Ontario  
M4P 1E4

Dear Ms. Walli

**Peterborough Distribution Inc.  
2010 IRM3 Distribution Rate Application  
Response to Board Staff Interrogatories  
Board File No. EB-2009-0241**

Please find accompanying this letter two hard copies of Peterborough Distribution Inc's response to the Ontario Board Staff Interrogatories. Electronic versions of this response will be forwarded to the Board in both PDF and Excel format.

Yours truly,

*Original signed by John Stephenson*

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## **Board Staff Interrogatories**

### **2010 IRM3 Electricity Distribution Rates Peterborough Distribution Incorporated (“PDI”) EB-2009-0241**

#### **1. Ref: Manager’s Summary and EDDVAR Report**

On July 31, 2009 the Board issued its Report on Electricity Distributors’ Deferral and Variance Account Review Initiative (EDDVAR). The report requires electricity distributors to determine the outstanding consolidated value of Group One accounts as at December 31, 2008 and determine whether or not the Board defined threshold value of +- \$0.001/kwh had been exceeded. PDI chose to request exemption from filing.

- a) PDI advised in their Manager’s Summary that they intend to complete and file a Deferral Variance Account Workform. What date does PDI intend to file by?

Response:

PDI filed an application for recovery of deferral and variance account balances on December 17, 2009, in accordance with the direction given by the Board on page 16 of its 2009 Rate Decision EB-2008-0241.

- b) The Board is currently reviewing the impact of significant growth in the balance of Account 1588 – Global Adjustment during the period January 1 to September 30, 2009. Currently no concrete direction has been determined for future disposition. The Board has added the request to disclose 1588 – Global Adjustment values in the model for information purposes only. If PDI would like to consider completing the 2010 IRM Deferral Variance Account Workform, please complete and file the amended Deferral Variance Account Workform V4 as found on the Board’s website under the 2010 Electricity Distribution Rates update December 7, 2009.

Response:

PDI has completed the 2010 IRM Deferral Variance Account Workform V4. The Workform is attached to this response as appendix A.

- c) If PDI has completed a previous version of the 2010 IRM Deferral Variance Account Workform, please update to 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 any recent models and making model amendments. Please contact your case manager to assist you.

Response:

PDI had not completed a previous version of the 2010 IRM Deferral Variance Account Workform.

- d) If PDI has completed the workform please reconcile final balance for disposition to the 2008 year end account balance reported in the RRR filing. Please identify the source and reasons for variances.

Response:

There are no differences between the 2008 year end account balance reported in the RRR filing and the Workform.

- e) If PDI has completed the workform please confirm that PDI has complied with and applied correctly the Boards accounting policy and procedures for calculation of the final disposition balance. If PDI has used other practices in the calculation please explain where in the filing and why.

Response:

Yes, PDI has complied with and applied correctly the Boards accounting policy and procedures for calculation of final disposition balance

- f) If PDI has completed the workform please confirm that PDI has used the simple interest calculation as required by the Board using the Boards prescribed interest rates. If PDI has used other calculations please explain where in the filing and why.

Response:

Yes, PDI has used the simple interest calculation as required by the Board using the Boards prescribed interest rates.

- g) If PDI has completed the workform please confirm that PDI 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 PDI has not complied with this requirement please explain why not?

Response:

Yes, PDI has complied with the requirement to apply recoveries to principal first as outlined in the 2006 Regulatory Assets Transaction document issued September 4, 2009.

- h) If PDI has completed the workform please confirm whether the threshold balance of +- \$0.001 per kWh is or is not exceeded.

Response:

PDI has completed the Workform and confirms that the threshold balance of +- \$0.001 per kWh has not been exceeded.

- i) If PDI has any concerns with respect to the disposition of deferral variance account balances, please explain in detail why the Board should not consider disposal at this time?

Response:

PDI does not have any concerns with respect to the disposition of deferral variance balances. PDI's application for recovery of deferral and variance account balances filed on December 17, 2009 includes both group 1 and group 2 deferral and variance account balances.

## **2. Ref: 2010 IRM Deferral Variance Account 1588 - Power**

On October 15, 2009 the Board issued "Regulatory Audit and Accounting Bulletin 200901" which clarified the accounting rules for reporting the 1588 – Global Adjustment sub-account.

- a) Has PDI 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?

Response:

Yes, PDI confirms that account 1588 and sub-account Global Adjustment balances are in accordance with the Bulletin, with the exception of requirement #10. PDI records the net amount of interest in account 4405.

## **3. 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 modelled 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 PDI 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 PDI agree that this proposal would be fair to all customers? Why or why not?

Response:

PDI agrees that the proposal is fair to all customers as global adjustment is billed to non-RPP customers only.

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

Response:

Yes, PDI's billing system is capable of billing a separate non-RPP rate rider.

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

Response:

N/A, see response to b) above.

- d) If PDI were to establish a separate rate rider to dispose of the balance of the 1588 – Global adjustment sub-account, does PDI believe that the rider be applied to customers in the MUSH sector? If not, would PDI 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:

PDI believes in principle that the disposal of the 1588 – Global adjustment sub-account should not be applied to customers in the MUSH sector, however, PDI's billing system does not have the capacity to exclude customers in the MUSH sector to bill a separate rate rider.

**4. Ref: 2010 IRM Deferral Variance Account 2006 EDR LV**

In the 2006 EDR application PDI included \$567,952 in LV Allocation as a Rate Adder. In 2007 and 2008 the price cap adjustment (GDP-IPI – X) was 0.9% and 1.1% respectively. This would have increased the 2007 and 2008 LV Allocation to \$573,063 and \$579,367 respectively. PDI has not submitted a Deferral Variance Account Workform to address the issue of deferral and variance accounts.

Transactions (additions) during 2006/7/8, excluding interest and adjustments	Transactions (reductions) during 2006/7/8, excluding interest and adjustments	7-2 ALLOCATION - LV-WheelingCell L120	(GDP-IPI) - X
2006 \$ -	\$ -	\$ 567,952	0.0%
2007 \$ -	\$ -	\$ 573,063	0.9%
2008 \$ -	\$ -	\$ 579,367	1.1%

- a) Please confirm that PDI has applied the 2006 EDR LV Allocation against Hydro One LV costs and that the balances that will be shown in the Deferral Variance Account Workform are net of the LV allocation and correct.

Response:

Yes, PDI applied the 2006 EDR LV Allocation against Hydro One LV costs and that the balances shown in the Deferral Variance Workform are net of the LV allocation.

- b) If LV Allocation not applied or Account 1550 not correct please provide an explanation in respect to the accounting for the LV

Response:

N/A, see the response to a) above

**5. Ref: 2010 IRM3Rate Generator – LV and 2010 IRM Deferral Variance Account**

The LV rates from Sheet “C3.1 Curr Low Voltage Vol Rt” of the 2010 IRM3Rate Generator are shown as below.

**Rate Generator**

	Rebased LV
Residential	\$ 0.00050
General Service Less Than 50 kW	\$ 0.00050
General Service 50 to 4,999 kW	\$ 0.19300
Large Use > 5000 kW	\$ 0.23640
Unmetered Scattered Load	\$ 0.00050
Sentinel Lighting	\$ 0.15320
Street Lighting	\$ 0.14970

- a) Please provide reference to the 2009 Cost of Service application that identifies the rate adders as shown under the Rate Generator.

Response:

The rate adders shown above can be found in PDI's 2009 Electricity Distribution Rate Application, Submission of a Draft Rate Order in Response to the Board's Decision with reasons dated June 1, 2009 and filed on June 15, 2009, Page 17 of 23, under paragraph entitled Low Voltage Allocation and Rates.

### 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 \$941,917 while the 2009 RRWF sheet "3.Taxes\_PILs" shows Grossed-Up Income Taxes as \$1,391,858.

- a) Please review and advise of the correct amount.

Response:

Sheet "F1.1 Z-Factor Tax Changes" of the supplemental module should reflect a Grossed-Up tax amount of \$1,391,858.

### 7. Ref: Supplemental Module - Revenue Offsets Allocation

Sheet "C1.2 Revenue Offsets Allocation" of the supplemental module shows Informational Filing Revenue Offsets

Rate Class	Informational Filing Revenue Offsets A
Residential	1,112,282
General Service Less Than 50 kW	288,906
General Service 50 to 4,999 kW	170,410
Large Use > 5000 kW	12,277
Unmetered Scattered Load	11,294
Sentinel Lighting	1,950
Street Lighting	21,731
	<u>1,618,850</u>

- a) Please provide reference to the 2009 Cost of Service application that identifies the above Informational Filing Revenue Offsets.

Response:

The revenue offsets are allocated to the various classes as determined by Exhibit 8 – Cost Allocation from PDI's 2009 Electricity Distribution Rate Application.

The amounts are also provided in response to Vulnerable Energy Consumers Coalition ("VECC") question 8 a) which is found in PDI's 2009 responses to VECC Interrogatories filed on January 30, 2009.

## HST Interrogatory

### 8. 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 PDI agree to capture in a variance account the reductions in OM&A and capital expenditures?

Response:

PDI does not believe that it can effectively capture the OM&A and capital expenditure reductions in a variance account. Staff would have to examine every invoice paid after July 1, 2010 to determine if the transaction was previously taxable or exempt from PST and record the amount in an OM&A or Capital variance account. PDI is uncertain of how it would retain the rationale of such decisions as evidence that is assumed would be required by the Board and intervenors in support of the variance amounts.

Although PDI has not fully examined the impact of the harmonization of the PST and GST, PDI notes that there is no certainty that vendors prices will be reduced by the corresponding 8% and that there is a multi-year transitional period in which an amount equivalent to PST will not be eligible for the Input Tax Credit for certain supplies and services. PDI has not yet determined the cost or cash flow impacts associated with the harmonization of taxes, however, the change will increase accounts receivable and reduce available working capital.

- 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:

PDI has not explored potential alternatives but submits that the Board shouldn't focus their attention on one cost element and that if there are cost savings that can be directly attributed to the PST harmonization that it could be addressed in the next cost of service application.