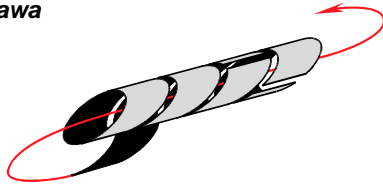


Oshawa



## *PUC Networks Inc.*

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100 Simcoe Street South, Oshawa, Ontario L1H 7M7 • Tel. (905) 723-4623 • Fax (905) 723-7947 • E-mail [contactus@opuc.on.ca](mailto:contactus@opuc.on.ca)

December 15, 2007

Board Secretary  
Ontario Energy Board  
P.O. Box 2319  
27<sup>th</sup> Floor 2300 Yonge Street  
Toronto, Ontario  
M4P 1E4

Dear Ms. Walli:

Re: Oshawa PUC Networks Inc. (ED 2002-0560)  
Board File Number EB-2007-0710

Please find attached Oshawa PUC Networks Inc.'s response to the Interrogatories posed by SEC in the above noted proceeding. Oshawa PUC Networks Inc. has forwarded a copy of this response to SEC.

Yours truly,

*Original signed by*

Michael Chase  
Corporate Controller

**IN THE MATTER OF the Ontario Energy Board Act  
1998, S.O. 1998, c. 15, (Schedule B);**

**AND IN THE MATTER OF an Application by  
Oshawa PUC Networks Inc. for an Order or Orders  
approving or fixing just and reasonable rates and  
other charges for the distribution of electricity  
commencing May 1, 2008.**

**INTERROGATORIES  
OF THE  
SCHOOL ENERGY COALITION**

**1. Allowance for Working Capital**

**Ref a: Ex 2/T1/S1/pg6**

**Ref b: Ex 2/T1/S1/pg2, Rate Base Summary Table**

In Ref a, OPUCN stated that its proposed working capital allowance for the 2008 test year is \$15.23 million.

In Ref b, under “2008 test” column, working capital allowance is \$15.248 million.

Please confirm the correct working capital allowance amount for 2008 test year.

The working capital allowance should total \$15,247,548 as reflected in table below.

**Oshawa PUC Network Inc.**  
EB-2007-0710

	2008 Application Amount		
<b>Applicants Rate Base</b>			
Beg. Net Fixed Assets	\$ 46,211,762	A.	
End Net Fixed Assets	\$ 52,809,618	B.	
Average Net Fixed Assets			\$49,510,690
Working Capital Allowance Base	\$ 101,650,320	D.	
Working Capital Allowance	15%	E.	\$15,247,548
<b>Rate Base</b>			

\$64,758,238

## 2. OM&A – OM&A Detailed Cost Table

Ref a: Ex 4/T2/S1/pg1, “OM&A Detailed Cost Table”

Ref b: Ex 4/T1/S1/pg3

a. 2006 Actual Operation expense is shown as \$341,422 in Ref b, \$(58,578) in Ref a. Please confirm the correct balance and make corresponding revisions to other sections in the Evidence.

Exhibit 4-1-1-3 appears to contain an error in one digit figure. The total Expenses are unaffected. However, line item adjustment is reflected below. Adjusted Exhibit 4-1-1-3 is all so reflected below.

### Exhibit 4-1-1-3

#### Incorrect

<u>ELIGIBLE DISTRIBUTION EXPENSES:</u>	<u>2006 Board Approved</u>	<u>2006 Actual</u>	
3500-Distribution Expenses - Operation Total	1,609,132	341,422	(1,267,710)
3550-Distribution Expenses - Maintenance Total	212,721	667,636	454,915
Total	1,821,853	1,009,058	(812,795)

#### Corrected

<u>ELIGIBLE DISTRIBUTION EXPENSES:</u>	<u>2006 Board Approved</u>	<u>2006 Actual</u>		
3500-Distribution Expenses - Operation Total	1,609,132	(58,578)	(1,667,710)	reconciles to Exhibit 4-2-1-1
3550-Distribution Expenses - Maintenance Total	212,721	1,067,636	854,915	
Total	1,821,853	1,009,058	(812,795)	

Appears that an amount of \$400,000 was applied to Maintenance when should have applied to Operations.

OM&A Summary  
(Corrected Schedule  
Exhibit 4 Tab 1  
Schedule 1 Pg 3 )

	2006 Board Approved	2006 Actual	2007 Bridge	2008 Test
<b>OM&amp;A expenses</b>				
<b>Operation (Working Capital)</b>	1,609,132	(58,578)	40,972	442,737
<b>Maintenance (Working Capital)</b>	212,721	1,067,636	998,410	1,028,671
<b>Billing and Collections</b>	1,218,533	2,053,343	2,182,604	2,248,345
<b>Community Relations</b>	1,526,323	1,010,108	884,166	1,000,216
<b>Administrative and General Expenses</b>	4,135,697	4,164,507	5,086,043	5,726,644
<b>Total OM&amp;A</b>	<u>8,702,406</u>	<u>8,237,016</u>	<u>9,192,195</u>	<u>10,446,613</u>

b. 2006 Actual Maintenance expense is shown as \$1,067,636 in Ref b, \$667,636 in Ref a.

Please confirm the correct balance and make corresponding revisions to other sections in the Evidence.

Please see Question a. for the corrected amount.

c. 2006 Board Approved Administrative and General Expenses appears to be \$4,142,151 (Subtotal \$4,287,870 minus Taxes other than Income Taxes of \$145,719) in Ref b. It is shown as \$4,135,697 in Ref a.

Please confirm the correct balance and make corresponding revisions to other sections in the Evidence.

The difference between these two balances reflects a Donations figure that is isolated from inclusion in Administration and General Expenses in the OEB EDR 2006 Model. The item is reflected in the adjusted Exhibit 4 Tab 2 Schedule 1 Page 3 below.

<b>Administrative and General Expenses</b>				
5605	Executive Salaries and Expenses	470,000	1,446,113	976,113
5610	Management Salaries and Expenses	809,979	637,673	(172,306)
5615	General Administrative Salaries and Expenses	833,217	670,497	(162,720)
5620	Office Supplies and Expenses	186,300	167,356	(18,944)
5625	Administrative Expense Transferred Credit	(380,562)	(722,844)	(342,282)
5630	Outside Services Employed	532,925	412,248	(120,677)
5635	Property Insurance	37,680	62,251	24,571
5640	Injuries and Damages	108,423	100,859	(7,564)
5645	Employee Pensions and Benefits	452,328	439,811	(12,518)

5650	Franchise Requirements	-	-	-
5655	Regulatory Expenses	138,944	130,298	(8,646)
5660	General Advertising Expenses	13,815	1,300	(12,514)
5665	Miscellaneous General Expenses	53,198	63,026	9,828
5670	Rent	264,000	264,000	-
5675	Maintenance of General Plant	621,904	491,918	(129,985)
5680	Electrical Safety Authority Fees	-	-	-
5685	Independent Market Operator Fees and Penalties	-	-	-
6105	Taxes Other Than Income Taxes	145,719	387,704	241,985
Sub-Total		4,287,870	4,552,211	264,340
6205	Charitable Donations	(6,454)		
		145,719	387,704	241,985
		4,281,416	4,552,211	264,340
6105	Taxes Other Than Income Taxes	145,719	387,704	241,985
		<u>4,135,697</u>		

### 3. OM&A Expense – OM&A Variance Analysis

Ref a: Ex 4/T2/S2/pg1-3

Ref b: Ex 4/T1/S1/pg3

		2006 Approved	2006 Actual
Operations & Maintenance	Ref a	\$1,981,951	\$1,618,056
	Ref b	\$1,821,853	\$1,009,058
Billing & Collections	Ref a	\$1,918,935	\$2,198,794
	Ref b	\$1,218,533	\$2,053,343
Admin & General	Ref a	\$1,981,951	\$1,618,056
	Ref b	\$4,135,697	\$4,164,507

- a. For both 2006 Approved and 2006 Actual Operations & Maintenance, Billing & Collections, and General & Admin expenses shown from the above two sources, please confirm the correct balances and/or explain the variation between the amounts shown in Ref a and the amount shown in Ref b.

The totals in Tables Exhibit 4, Tab 2, Schedule 1, Page 1 and Exhibit 4, Tab 2, Schedule 2, Page 1 differ because Exhibit 4, Tab 2, Schedule 2, Page 1 only includes in account grouping those accounts over 1% threshold (of total distribution expenses) while Exhibit 4, Tab 2, Schedule 1, Page 1 contains all

Operations accounts. A further source of difference is that Exhibit 4, Tab 2, Schedule 2, Page 1 also records Maintenance grouping accounts.

Please see OEB IR Response Question 28 b through d for table analysis.

- b. OPUCN has stated in the Evidence that a large part of the Operations & Maintenance, Billing & Collections, and Admin & General expense variances were “due to the fact that Approved costs were filed based on historic results of 2004, with some costs items having been averaged over three years”. Please explain why the 2004 historic budget for Operations and Maintenance and Administration and General Expenses were 18.4% higher than the actual 2006 expenses.

Please see response in Question 3 a. The table in Exhibit 4, Tab 2, Schedule 2, Page 1 reflects only items over 1% threshold as instructed by OEB Minimum Filing Requirements. The actual increase in OM&A costs EDR 2006 Approved and Actual 2006 is 6.1%.

#### **4. OM&A Expenses – Regulatory Expenses**

**Ref: Ex 4/T2/S2/pg5**

OPUCN states that the 3% (or \$300K) increase of 2007 regulatory expenses was due to the introduction of a new sub-account to comply with the OEB requirement to record CDM operating expenditures.

- a. Please recalculate the variance. It appears that the 2007 vs. 2006 variance should be 229% rather than 3%.

Please see response for Question 3. Calculation for this account would be:

		2006 Actual	2007 Bridge	Variance	
5655	Regulatory Expenses	130,298	429,818	299,520	3%
		$\$299,520 / \$8,624,719 = 3\%$			

The \$8,624,719 is the Total Eligible Distribution Expenses.

- b. Has OPUCN hired any additional staff to handle the work? If not, why would the introduction of a sub-account lead to such an increase?

OPUCN is required to record this expense in 2007 to comply with CDM Program requirements, in the amount of \$297,000. This is from funding in the third tranche MARR that was offset from our operating revenues and required

to be spent before October 1, 2007. This same situation does not occur in 2008 Test Year.

**5. OM&A Expenses – Variance Analysis**

**Ref: Ex 4/T2/S2/pg1-8**

- a. Please recalculate the variances of all OM&A components as it appears the percentage variation for each component is different than the stated amounts. For example, Management Salaries and Expenses (pg. 6) is \$726,591 in 2007 and \$1,002,599 in 2008, which is a 38% increase. The evidence, however, states it as a 3% variation. Similar errors appear in other categories.

Please see response in Question #3.

- b. Please provide a more detailed explanation of the variances.

Please see response in Question #3.

**6. OM&A Expenses**

**Ref. Exhibit 4/ Tab 1/Schedule 1, pg. 3**

- a. The evidence states that the budget is presented to Executive and “adjusted if necessary.” Please provide a copy of the budget provided to Executive and detail any adjustments made by Executive.

The Budget for 2008 is yet to be reviewed by OPUCN’s Board of Directors. Executive review and adjustments are on-going. A draft budget from the Executive will be available later this month. However, the assumption is that the basis of this year’s Budget will be the proposed 2008 Rate Application.

**7. OM&A Expenses**

- a. Page 8 of Ex. 4/2/2 missing from the electronic version of the evidence. Please provide it.

The following information appears on page 8 of Exhibit 4, Tab 2, Schedule 2. The electronic copy which OPUCN has includes the page so we are not sure why it is not in the copy sent to the Board. Please accept our apologies.

“as an interim Director has been hired to undertake special projects which will not need to be ongoing in nature and to mentor human resources staff to develop expertise in the department. The contractor in the Information Technology department is being hired, to expedite the implementation of projects such as disaster recovery planning for key IT data.”

## **8. OM&A Expenses**

Ref. Exhibit 4\Tab 2\Schedule 2 pg. 6

- a. Management Salaries and expenses- the \$276,008 increase in 2008 over 2007 is explained as resulting from a 3% general increase (\$21,797) and the addition of a Project Engineer, which has been included as a 0.5 FTE. The evidence, therefore, does not fully explain the \$276,008 increase in 2008, as the 3% general increase (\$21,797) and the addition of a 0.5FTE Project Engineer (amount unknown) would not add up to \$276,008. Please explain the balance of the increase.

There was an error in the explanation provided in the rate application with OPUCN regrets. The Project Engineer should have been added as 1.0 FTE rather than 0.5. OPUCN expects to hire the Project Engineer by January 2008. The salary included in the total reflects a full FTE. All other positions referred to as being the equivalent of 0.5 FTE are correctly identified.

New Proposed Project Engineer	\$75k
Benefits on Project Engineer	\$28
Regulatory Filing Costs	151
3% Inflationary Increase	22
Total	\$276k

## **9. PILS**

Ref. Exhibit 4/Tab 1/Schedule 1

- a. Please explain how OPUCN intends to incorporate the effects of the recently-announced changes to the federal corporate income tax rate into its PILS calculations for 2008.

OPUCN proposes that the new rate of 19.5% as announced by the Federal Government on October 30th, 2007 be used in final rate order.



## 10. Deferral and Variance Accounts

- a. Ref: Ex 5/T1/S2, “Calculation of Balances by Account”: Please recalculate the total ending balances of deferral accounts. It appears that the total ending balances should be \$2,377,146 rather than \$2,383,321. The difference of \$6,175 stems from account 1555 Smart Meter Capital Variance Account carrying charges. Please confirm.

SEC is correct. The copy submitted was not our cleared copy which takes out the figure for carrying charges on smart Meter. OPUCN is not seeking to apply this account as a rate rider (as directed by OEB). Therefore the correct amount is \$2,382,728. Please see the response to OEB IR Question #53 for full schedule presentations.

- b. What are the interest rates used to calculate the carrying charges in various deferral accounts listed in Ex 5/T1/S2? Is it the interest rate prescribed by the Board?

The interest rates are as prescribed by the OEB. They are:

Applies up to end	Rate
1Q2006	7.25%
2Q2006	4.14%
3Q2006	4.59%
4Q2006	4.59%
1Q2007	4.59%
2Q2007	4.59%
3Q2007	4.59%

\* The rate for 4Q2007 was not available at time of rate application compilation, however OPUCN does use these rates for monthly calculations for financial and RRR reporting.

## 11. Deferral and Variance Accounts

Ref a: Ex 5/T1/S3/pg2-4

**Ref b: Ex 5/T1/S2, “Calculation of Balances by Account”**

- a. April 30/08 ending balance of deferral account #1590 in Ref a (\$59,208) does not correspond to what’s shown in Ref b (\$645,168). Please explain.

The amount in Ref b reflects the projected remaining balance in the Recovery of Regulatory Asset Account (RARA) at the end of April 30, 2008. The amount, \$59,208, is associated with the 1590 account as well. However, this is the amount of carrying charges for the RARA from May 1, 2006 up to December 31, 2006. This carrying charge was not included in the amount for RARA at the time of the EDR 2006. The OEB did not provide LDCs allowance to include these charges in RARA account at that time. However, once these carrying charges are approved they are allowed to be and will be booked to RARA account.

- b. Ref a includes \$144,447 of deferred PILS (account #1592) as of April 30, 2008, while this is not reflected in Ref b. Please explain.

The account should not be identified as Deferred PILs 1592. OPUCN apologizes for this mis-identification. This in fact is Interest Improvement Remaining from RARA Account. Interest improvement is the difference between EDR 2006 projected for up to April 30, 2006, and the actual resulting figure.

- c. In Ref a, total deferral accounts balance allocated to Residential, GS, Intermediate and Large Users equals to \$2,352,675 (total of line “Total to Dispose at May 1/08). In Ex 5/T1/S3/pg1, the Evidence states that “final total for disposal in this rate application in the amount of \$2,383,321”. In SEC IR #6, the total appears to be \$2,377,146. Please confirm the correct total amount to be disposed as of May 1, 2008 in this rate application.

The difference of \$30,054 (2,382,728 disposal and 2,352,675) is the total of three customer classes that are missing in your copy of the rate application. Please see the reply to OEB Interrogatory number 63 for the entire table.

- d. Is the allocation of deferral accounts balance based on 2006 or 2007 Distribution Revenue (account #1562) and/or KWh (all other deferral accounts)?

Account 1562 is only account based on 2008 Projected Distribution Revenues.

## 12. Cost of Capital

**Ref: Ex 6/T1/S1**

Please confirm that OPUCN will update its return on equity using the January 2008 data from Consensus Forecast Data and the Bank of Canada, in accordance with the methodology documented in the Report of the Board on Cost of Capital and 2<sup>nd</sup> Generation Incentive Regulation.

OPUCN is proposing recalculation of ROE, based on January 2008 Consensus Forecasts and Bank of Canada data.

## 13. Calculation of Revenue Deficiency

**Ref a: Ex 7/T1/S1/pg2, "Calculation of Net Utility Income and Revenue Deficiency"**

**Ref b: Ex 6/T1/S2, "Capital Structure" Table**

**Ref c: Ex 4/T2/S7, "Depreciation, Amortization and Depletion" Table**

- a. In Ref a, OPUCN's 2008 rate base was shown as \$64,780,648.  
In Ref b, OPUCN's 2008 rate base was shown as \$64,758,238.

Please confirm the correct amount and make corresponding revisions to other affected calculations in the Evidence.

The Rate Base would in fact be \$64,758,238. The table in Reference a had been set up with rounding of rates and calculations.

			2008 Application Amount
<b>Applicants Rate Base</b>			
	\$		
2007 Net Fixed Assets	46,211,762	A.	
	\$		
2008 Net Fixed Assets	52,809,618	B.	
Average Net Fixed Assets (2007 Plus 2008 Divided by 2)			\$ 49,510,690
Working Capital Allowance Base	\$	D.	

	101,650,320		
Working Capital Allowance	15%	E.	\$ 15,247,548
<b>Rate Base</b>			<b>\$ 64,758,238</b>

- b. In Ref a, total 2008 Amortization expense is shown as \$4,395,489.  
In Ref c, total 2008 Depreciation expense is shown as \$6,489,170.

Please confirm the correct amount and make necessary revisions to other affected calculations in the Evidence.

Exhibit 4 Tab 2 Schedule 7 Page 2 reflects what would be estimated depreciation values for accounting or management financial statement purposes. The table has been presented to allow the Board to identify that OPUCN utilizes OEB Accounting Policy Handbook and CICA accepted depreciation rates.

Exhibit 7 Tab 1 Schedule 1 Page 2 reflects the appropriate calculated Amortization and Depreciation expense (as detailed in Exhibit 4 Tab 2 Schedule 7 Page 2).

#### 14. Proposed Rate Schedule

Ref a: Ex 9/T1/S7

Ref b: Ex 8/T1/S1/pg2

- a. In Ref a, the 2008 proposed rate % change for Residential customers appears to be incorrect. Please recalculate.

Recalculated results are:

	2006 Board Approved	2008 Proposed	% change
Service Charge	7.36	8.40	-14.1%
Distribution Volumetric Rate	0.0108	0.0123	-13.9%

- b. Ref b of the Evidence shows that the revenue to cost ratios for GS<50, Intermediate Use, Large Use rate classes vary from 130% to 333%. These rate classes are overcontributing. Ref a of the Evidence shows that OPUCN has applied the same 14% fixed and variable rate increase to all rate classes. Please

explain why this was done in view of the fact that some rate classes appear to be above the acceptable range for revenue to cost ratios.

OPUCN acknowledges that significant cross subsidization exists between the customer classes. However, until direction from the OEB is communicated, we have temporarily delayed making adjustments. In IR Board Staff response Question # 62, a suggested rate design to rectify this matter has been proposed. But until OEB can give direction, OPUCN has not formally proposed the rates as included in the response.

#### **15. LRAM & SSM**

**Ref a: Ex 10/T1/S1/pg1 of 1**

**Ref b: Ex 10/T1/S3/pg1**

- a. In Ref a, OPUCN states in the Evidence that it proposes to recover the LRAM and SSM in the amount of \$147,025 over a six-month period, commencing May 1, 2008 and ending on June 30, 2008. Please confirm whether the recover period will be 6 month or 2 month.

The recovery period requested is six months. The ending period proposed should be October 31, 2008.

- b. In Ref a, the LRAM amount to be recovered is shown as \$49,788. In Ref b, column "LRAM to Dec 31 06", the LRAM amount shown is \$47,788. Please confirm the correct amount and make necessary adjustment to all the calculations in the Evidence.

In Exhibit 10 there is a typographical error in the TOTALS line at the bottom of the 5<sup>th</sup> column from the left "LRAM to Dec 31 06". The amount should be \$49,788 as reported in the first line of the column, and in the EnerSpectrum Group assessment.

#### **c. SSM**

**Ref. Exhibit 10/Tab 1/Schedule 1**

It appears the SSM sought for recovery, \$97,237.01, has been grossed up for taxes from the actual SSM amount of \$62,115, as stated in the report by EnerSpectrum Group at Appendix F (there is no page numbering in the EnerSpectrum report).

Please:

- a. Confirm that the SSM OPUCN seeks to recover has been grossed up for taxes.

OPUCN solicited a response from EnerSpectrum regarding this question and provides it below. However, it should be mentioned that due to the rather low amount of the LRAM and SSM calculated, and their application to the large amount of kWh's projected for 2008 Residential class consumption, there is really no recovery for OPUCN. The rate rider equates to 0.0001 per kWh. This makes it difficult to include in rates. The EnerSpectrum response was:

"EnerSpectrum Group is familiar with Toronto Hydro's grossing up of SSM by a marginal tax rate of 36.12% in their application, and that the OEB subsequently ruled that the SSM amount proposed could not be grossed for tax purposes. As a consequence, the amount calculated for the OPUCN SSM by EnerSpectrum Group is \$62,115 and is not grossed up for tax purposes. Were the OEB to allow it, a significantly higher marginal tax rate than the rate used by Toronto Hydro would be required to gross up this OPUCN SSM amount to derive the \$97,237.01 that appears in their application"

- b. Explain why OPUCN is seeking to gross up its SSM for tax, contrary to the Board's Decision and Order in EB-2007-0096, where the Board rejected Toronto Hydro Electric System Ltd.'s ("THESL's) proposal to gross up the SSM amount for taxes. For ease of reference, an excerpt of the Board's decision is reproduced below:

The Decision which touches most directly on this issue is that referenced above on the Pollution Probe Motion (RP-2004-0203).

As noted, the Board in that case adopted the Pollution Probe "plan" for SSM. *That plan very clearly did not contemplate that the relevant amounts would be grossed up to account for PILS*, and this is clear from the record in that case, and the transcript of the Technical Conference in this case.

As part of the Pollution Probe Motion, it filed an Affidavit outlining its plan for the SSM. There is no reasonable construction of the plan described in that affidavit that would lead to a conclusion that it contemplated a grossing up for PILS.

During the Technical Conference, Pollution Probe (the author of the SSM plan adopted by the Board) reacted strongly and negatively to the suggestion by Toronto Hydro that it understood that it provided for the grossing up applied by the utility.<sup>2</sup>

To be fair, in submissions made later in the proceeding Pollution Probe attempted to soften its approach on the issue, suggesting that grossing up may not be inappropriate.

But this revisionism cannot change the fact that the plan the Board approved did not contemplate grossing up.

Further, the Board does not accept the argument advanced by Toronto Hydro, that the SSM should be presumed to be a post-PILS amount simply because of some presumption that it is related to return on equity and that return on equity is presumed to be a post-tax amount.

First, such a presumption cannot displace the simple fact that the Board adopted a plan that did not contemplate grossing up for PILS. Second, there is no compelling reason to align the SSM with return on equity.

The Board observes that the natural gas utilities in Ontario do not gross up their respective SSM incentive amounts for taxes and the amounts approved by the Board are pre-tax.

The Board rejects the suggestion that an SSM of 5 percent on a pre-tax basis is a retroactive change.

Accordingly, *Toronto Hydro must recast its claim to reflect this finding that the SSM is not subject to grossing up to account for PILS.*

[EB-2007-0096, Decision and Order dated September 11, 2007, pp. 3-4.

Emphasis added]

Please see Question 15 c. for response.