Ontario

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2008 ELECTRICITY DISTRIBUTION RATES

OSHAWA PUC NETWORKS INC.

EB-2007-0710

JANUARY 9, 2008

Oshawa PUC Networks Inc. (“OPUCN” or the “utility”) is the licensed electricity distributor serving approximately 62,000 customers within the corporate boundaries of the City of Oshawa.

OPUCN submitted an application for 2008 electricity distribution rates on October 4, 2007. The application was based on a future test year cost of service methodology. On December 14, 2007, OPUCN submitted its response to interrogatories from Board staff and the three intervenors, the School Energy Coalition (“SEC”), the Vulnerable Energy Consumers Coalition (“VECC”) and Association of Major Power Producers of Ontario (“AMPCO”).

These submissions reflect observations and concerns which arise from Board staff’s review of the pre-filed evidence and interrogatory responses made by the utility, and are intended to assist the Ontario Energy Board (the “Board”) in evaluating OPUCN’s application and setting just and reasonable rates.

THE APPLICATION

OPUCN has requested an as-filed revenue requirement of $20.4 million to be recovered in new rates effective May 1, 2008.

COST OF CAPITAL

Background

The Board has documented its Cost of Capital methodology in the Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario’s Electricity Distributors (the “Board Report”), issued December 20, 2006. While the Board Report is only a guideline, any departures from the methodology in the Board Report should be adequately supported.

OPUCN has provided its proposed Cost of Capital at Exhibit 6. The following table summarizes OPUCN’s proposed Cost of Capital:

Table 1: Summary of Capital Structure

Cost of Capital Parameter	**Oshawa PUC Networks Inc.s Proposal**
Capital Structure	53.3% debt (composed of 49.3% long-term debt and 4.0% short-term debt) and 46.7% equity
Short-Term Debt	4.77%, but to be updated in accordance with section 2.2.2 of the Board Report.
Long-Term Debt	6.70%, as a weighted average of 4.90% for third-party debt and 7.25% for a long-term debt with the municipal shareholder (affiliated debt).
Return on Equity	8.79%, but to be updated in accordance with the methodology in Appendix B of the Board Report.
Return on Preference Shares	Not applicable
Weighted Average Cost of Capital	7.60% as proposed, but subject to change as the short-term debt rate and ROE are updated per the Board Report at the time of the Board's Decision.

Board staff reviewed the details of OPUCN's approach to its capital structure, long and short-term debt rates and ROE. OPUCN's approach appears to be consistent with the methodology in the Board Report.

Discussion and Submission

Capital Structure

OPUCN's evidence in Exhibit 6 Tab 1 Schedule 1 and in the capital structure table shown in Exhibit 6 Tab 1 Schedule 2 indicates that OPUCN is complying with the Board Report. Consistent with section 4.1 – Transition to Recommended Capital Structure in the Board Report, OPUCN is proposing to use, for rate-setting purposes, a deemed capital structure of 53.3% debt and 46.7% equity. The debt component will consist of 49.3% long-term debt and 4.0% short term debt.

An updated table of OPUCN's capital structure for each of the 2006 Board-approved, 2006 actual, 2007 Bridge and 2008 Test years was provided in response to Board staff interrogatory No. 56.

Short-term Debt Rate

In its application, in Exhibit 6 Tab 1 Schedule 2, OPUCN indicates a short-term interest rate of 4.77%. In response to Board staff interrogatory No. 57, OPUCN provided the derivation of that rate. Board Staff notes that the formula used is not the same as that in Section 2.2.2 of the Board Report, in that it relies on Bank of Canada data for one day rather than for a full month. Nonetheless, in the same interrogatory response, OPUCN acknowledges that the deemed short-term debt rate will be updated in accordance with the methodology documented in the Board Report, in Section 2.2.2. Board staff notes that OPUCN's approach is consistent with the Board Report.

Long-term Debt Rate

OPUCN proposed in Exhibit 6 Tab 1 Schedule 3 that the embedded cost of long-term debt for setting 2008 its revenue requirement would be 6.70%, as a weighted average of existing third-party debt at 4.90% and an interest rate of 7.25% on the demand note to its corporate parent, OPUC (Oshawa Public Utilities Corporation). In response to Board staff interrogatory 58, OPUCN stated that the affiliated debt was a long-term demand note set on November 1, 2000 and with a fixed rate of 7.25%. With this explanation, Board staff notes that the proposed cost of long-term debt of 6.70% is consistent with the Board Report.

Return on Equity (ROE)

In Exhibit 6 Tab 1 Schedule 1, OPUCN proposed an ROE of 8.79%. A summary of the derivation was provided in Exhibit 6 Tab 1 Schedule 4, but staff is unable to replicate the number as the Bank of Canada data shown can not be identified. The applicant acknowledged in its response to Board staff interrogatory 59 that the ROE would be updated for determining OPUCN's 2008 revenue requirement and distribution rates in accordance with the methodology in Appendix B of the Board Report. Board staff notes that, with this explanation and clarification, OPUCN's approach is consistent with the Board Report.

LOAD FORECASTING

Background

Exhibit 3 of OPUCN's application discusses how the customer count and load forecast is developed. Using a simple trend growth, the historical number of customers is projected to obtain both bridge year (2007) and test year (2008) customer counts by class. The kWh forecast - and the kW forecast for appropriate classes – is presented by customer class. Variance analyses based on a number of reference points is also presented in support of the forecasts.

In response to Board staff interrogatory 15, the utility revised its as-filed load forecast. A summary of the changes by rate class are presented below:

Table 2: Load Forecast

Rate Class	**Load Forecast** **As Filed (Ex 3/T2/S6)** **(kWh)**	**As per Board Staff Interrogatory 15** **(kWh)**
Residential	497,773,555	487,192,339
General Service Less than 50 kW	143,774,408	140,097,188
Other > 50 kW > 1000 kW	358,737,446	358,858,375
Intermediate Use	80,553,156	80,956,601
Large Use	73,303,208	60,139,982
Unmetered Scattered Load	2,230,937	3,841,944
Sentinel Lighting	41,229	40,813
Street Lighting	9,987,202	10,072,853

Discussion and Submission

Customer Count Forecast

OPUCN is seeking Board approval for its test year customer count forecast. OPUCN proposes a test year forecast of 63,653 customers[1]. This represents an increase of 3.4% over the 2006 to 2008 period or an annual average growth rate of 1.69%. In order to test the appropriateness of the forecast, staff compared the test year forecasted growth to observed historical growth over the 2002 to 2006 period. The historical growth in customers from 2002 to 2006 is approximately 1.75% per year compared to the proposed average annual growth rate of 1.69%. Additionally, the test year customer forecast of 63,653 customers is approximately 5% higher than the historical average number of customers over the 2002 to 2007 period. Board staff note that the customer forecast is supported by the evidence.

Methodology and Model

OPUCN's evidence indicates that its load forecast was developed using a consumption estimate multiplied by a customer forecast. It first developed the normalized average consumption ("NAC") by customer class. The NAC value by class was based on 2004 consumption data that had been weather-normalized using Hydro One weather normalization factors. OPUCN assumed the NAC value for each class remained constant over time and thus used the 2004 NAC value for the 2008 Test Year load forecast.

[1] Board staff interrogatory 15

In response to Board Staff Interrogatory 15, OPUCN updated its load forecast using 2006 normalized kWh usage per customer. The approach was similar to that used to develop the earlier 2004-based forecast. Staff notes that OPUCN did not consider averaging the results of the two methods. Again, 2006 Hydro One weather normalization factors were utilized.

Staff was unable to replicate and verify OPUCN's updated load forecast as presented in Board staff interrogatory 15. Board staff invites OPUCN to address in its reply submissions the reasons for updating the as-filed 2008 forecast, including the methodology, verification of the arithmetic used in preparing the forecast and an identification of the impact of the revised load forecast on the overall revenue deficiency.

Weather Normalization

OPUCN relied on Hydro One weather normalization factors for the years 2004 and 2006 for the updated forecast. Since the details of Hydro One's weather normalization process were not presented, no assessment of its appropriateness is possible.

DEFERRAL AND VARIANCE ACCOUNTS

Background

OPUCN is requesting that the accounts and balances listed below be cleared for disposition as of April 30, 2008.

1508 Other Regulatory Assets ($21,501)
1562 Deferred Payments in Lieu of Taxes $812,655
1580 RSVA – Wholesale Market Service Charge ($719,903)
1582 RSVA – One-time Wholesale Market Service $67,041
1584 RSVA – Retail Transmission Network Charge $3,175,027
1586 RSVA – Retail Transmission Connection Charge ($1,703,767)
1588 RSVA Power $128,602
1590 Recovery of Regulatory Asset Balances $59,208
1592 PILs and Tax Variance for 2006 and Subsequent Years $144,447

The total of the accounts is $1,941,809.

In Exhibit 5 Tab 1 Schedule 3 OPUCN proposes to collect these amounts from rate payers via rate riders over a two year period "for rapid recovery" that "does not overburden ratepayers"[2]. A

[2] Board Staff Interrogatory No. 52

revised rate rider schedule for the three years covered by the incentive regulation period was submitted in response to Board Staff interrogatory 52.

Discussion and Submission

Comparison of Balances Claimed for Disposition

There are several inconsistencies between the balances being requested for disposition in the application (found at Exhibit 5 Tab 1, Schedules 2 and 3) and the responses provided to Board staff interrogatories 52, 53 and 48. Board staff invites OPUCN to clarify the following inconsistencies in its reply:

- In the response to Board staff interrogatory 48, OPUCN states that it is requesting disposition of ($21,501) in account 1525 Miscellaneous Deferred Debits. However, in its pre-filed evidence and in response to Board staff interrogatories 52 and 53, OPUCN is requesting disposition of ($21,501) in account 1508 Other Regulatory Assets. Board staff interrogatory 48 may have the wrong account listed (1525 instead of 1508) with a balance of ($21,501) being requested for disposition.
- In Board staff interrogatory 48, OPUCN's total claim includes forecasting principal balances beyond December 31, 2006 in accounts 1580, 1584, and 1586. However, in the pre-filed evidence (Exhibit 5 Tab 1 Schedules 2 and 3) and in Board staff interrogatories 52 and 53 there are no forecasts of principal balances.
- OPUCN appears to be seeking disposition of account 1588 (Exhibit 5 Tab 1 Schedule 3) and in responses to Board Staff Interrogatory 52 and Board Staff Interrogatory 53, however, in response to Board staff interrogatory 48, it appears that the applicant is not requesting disposition of these balances.
- There are also different balances in 1590 and 1592 stated in Exhibit 5, Tab 1, Schedule 2, Exhibit 5, Tab 1, Schedule 3, and Board Staff Interrogatory No. 48, No. 52, and No. 53 responses.

OPUCN may wish to explain these inconsistencies and any other irregularities expressed in the deferral and variance accounts section in its reply submissions.

Treatment of RSVAs

OPUCN is applying for disposition of 1588 RSVA Power. This account is reviewed quarterly for disposition by the Board as part of the Bill 23 process and the Board may wish to consider how ordering the disposition of this account would impact upon the Bill 23 process.

Treatment of Account 1590 – "Recovery of Regulatory Asset Balances"

OPUCN is requesting that the projected April 30th, 2008 balance in 1590 (including forecasted principal transactions) be rolled into the current disposition of regulatory deferral and variance accounts. The rate riders are constructed using this balance. Staff is unable to accurately verify the balances since OPUCN has reported different balances in different interrogatory responses. In the pre-filed evidence (Exhibit 5 Tab 1 Schedule 3) and in response to Board staff interrogatories 52 and 53, OPUCN identifies the balance in 1590 as $59,208. In response to Board staff interrogatory 48, OPUCN identifies the balance for the same account as $658,403. While in Exhibit 5 Tab 1 Schedule 2, the balance is $645,168. Board staff invites the applicant to review its pre-filed evidence, its responses to interrogatories 48, 52, and 53, and confirm which of the numbers accurately reflects the balance in the account.

It is also unclear from OPUCN's response to SEC interrogatory 11 (a) whether OPUCN is seeking approval in this application of the carrying charges associated with December 31, 2004 balances.

In the Phase 2 decision for the Review and Recovery of Regulatory Assets for the five large distributors (RP-2004-0117, RP-2004-0118, RP-2004-0100, RP-2004-0069, RP-2004-0064), the Board stated:

> Also as of April 30, 2005, all four Applicants shall debit the Regulatory Asset Recovery Account (1590, Recovery of Regulatory Asset Balance) by the approved total recovery amounts. Starting May 1, 2005, revenue from the monthly rate riders shall be credited to the Regulatory Asset Recovery Account (1590). Interest shall continue to apply to this account. (Section 9.018)
>
> At the end of the three year period, at April 30, 2008, as there will be a residual (positive or negative) balance in the Regulatory Asset Recovery Account (1590), this balance shall be disposed of to rate classes in proportion to the recovery share as established when rate riders were implemented. (Section 9.019)

The Phase 2 decision quoted above suggests that the rate rider associated with 1590 be removed as of May 1, 2008. Once the residual balance in account 1590 is finalized, the residual balance is to be disposed of at a future hearing. The final balance in account 1590 cannot be confirmed until after the current recovery period has expired, i.e. April 30, 2008. As residual balances will not be finalized until after April 30th, 2008, electricity sector standard practise would be to defer disposition of account 1590 until the balance has been finalized and verified.

<u>Treatment of Account 1592 – "PILs and Tax Variance for 2006 and Subsequent Years"</u>

OPUCN is requesting disposition of account 1592. In the response to Board staff interrogatory 47, OPUCN stated that 1592 is "interest improvement remaining from RARA account". However, the RARA (Regulatory Asset Recovery Account) account involves account 1590 and not 1592, as per the Accounting Procedures Handbook.

For the reasons noted above, it appears that OPUCN may not be correctly following the Board's Accounting Procedures Handbook with respect to the treatment of account 1592.

<u>Treatment of Account 1508 – "Other Regulatory Assets"</u>

OPUCN is seeking to return $21,501 to customers for over collection from the rate rider provided in RP-2004-0080/EB-2004-0236 to recover lost revenue due to a closure of its largest customer. OPUCN did not provide supporting calculations for this balance as requested in Board staff interrogatory 42. OPUCN may wish to respond to these inconsistencies and any other irregularities expressed in the deferral and variance accounts section in its reply submission.

CONSERVATION AND DEMAND MANAGEMENT ("CDM")

<u>Determination of Lost Revenue Adjustment Mechanism ("LRAM") and Shared Savings Mechanism ("SSM")</u>

Background

OPUCN is seeking to recover an LRAM amount of $49,788, and an SSM amount of $97,237.01. In its December 10, 2004 decision in proceeding RP-2004-0203, the Board concluded that an LRAM and an SSM were appropriate for electricity distributors, and that the mechanisms should apply to CDM expenditures relating to the third installment of distributors' market adjustment rate of return ("the third tranche").

As set out in the Board's Filing Requirements for Transmission and Distribution Applications ("Filing Requirements"), issued November 14, 2006, LRAM is determined by calculating the energy savings by customer class, and valuing those energy savings using the Board approved variable distribution charge appropriate to the class. SSM is determined as 5% of the net benefits of an approved CDM portfolio.

Discussion and Submission

Inputs and Assumptions

Given the impact on consumers of rate adjustments resulting from LRAM and SSM claims, it is important that the Board ensure that amounts claimed are calculated using appropriate assumptions and data.

It is not clear to staff how OPUCN determined the energy savings, net benefits or the proposed rate rider. Board staff interrogatories 72 and 73 requested that OPUCN provide the calculations, inputs and assumptions that were used to determine the LRAM and SSM amounts respectively. In its response to these interrogatories, OPUCN advised that the details of the calculations were in the EnerSpectrum Group Report (Exhibit 11 App. F).

Staff has reviewed the EnerSpectrum Group Report. It does not contain the information requested. As a result, staff is unable to determine if the LRAM and SSM claims are calculated using appropriate assumptions and data. Staff submits that the following information is needed to determine whether the amounts claimed are just and reasonable:

- kW or kWh impacts, both net and gross of free riders, for each program and each class;
- Free rider rates for each program;
- TRC costs and TRC benefits for each program;
- Detailed explanation of how the proposed rate riders were determined;
- Duration of program delivery. OPUCN appears to have provided the equipment life in its response to the Board staff interrogatories, but not the duration of program delivery.

Board staff invites OPUCN to respond to the concerns expressed above including the impact of a disallowance of the claims requested.

Variable Distribution Rate

OPUCN calculated energy savings using a rate of $0.0119/kWh. A review of OPUCN's 2006 Board approved tariff indicates that the volumetric rate for residential customers is $0.0107/kWh. It appears that the rate used by OPUCN to calculate the LRAM amount includes the Board approved rate rider for Regulatory Asset Recovery of $0.0012/kWh.

The Filing Requirements state in part:

> Lost revenue will be calculated using the variable distribution rate (kW or kWh) for each affected class and would not include any Regulatory Asset Recovery rate riders, as these funds have their own independent true-up process in place…

Therefore staff submits that OPUCN did not calculate the energy savings in a manner consistent with the Board approved methodology, as set out in the Filing Requirements. Board staff invites OPUCN to respond to all of the concerns expressed above including the impact if the claims requested were disallowed.

OM&A

Background

OPUCN presented its Summary of Operating Costs at Exhibit 4 Tab 1 Schedule 1 Page 3 of its application ("Summary"). The as-filed test year Total Controllable OM&A Expenses forecast is $10,446,613. This results in a 30% (or $2.43 million) increase compared to the 2006 Board approved OM&A forecast[3].

Using the Summary as its base, Board staff created three different tables and asked interrogatories concerning each table. The table for Board staff interrogatory 28 compared 2006 Board approved OM&A expenses with 2006 actual expenses; the table for Board staff interrogatory 32 compared 2006 actual expenses with the 2007 bridge year; and the table for Board staff interrogatory 34. In response to these interrogatories, OPUCN confirmed the accuracy of each of the tables. The information found in all three tables is found in Table 3 and Table 4 below.

Table 3: Operations, Maintenance and Administration Expenses

OM&A Expenses	**2006 Board Approved**	**2006 Actual**	**2007 Bridge**	**2008 Test**
Operation (Working Capital)	$1,609,132	-$58,578	$40,972	$442,737
Maintenance (Working Capital)	$212,721	$1,067,636	$998,410	$1,028,671
Operations and Maintenance	$1,821,853	$1,009,058	$1,039,382	$1,471,408
Billing and Collections	$1,218,533	$2,053,343	$2,182,604	$2,248,345
Community Relations *(note 1)*	$1,526,323	$787,789	$884,166	$1,000,216
Administrative and General Expenses	$4,135,697	$4,164,507	$5,086,043	$5,726,644
Total Controllable OM&A Expenses	$8,702,406	$8,014,697	$9,192,195	$10,446,613
CDM - Energy Conservation *(note 1)*	$0	$222,319	$0	$0
Taxes Other than Income Taxes	$145,719	$387,704	$393,000	$345,450
Total Distribution Expenses	**$8,848,125**	**$8,624,720**	**$9,585,195**	**$10,792,063**

Note 1 : The CDM amount of $222,319 was removed from Community Relations

[3] Board Staff Interrogatory 28

Discussion and Submission

OPUCN's application proposes to increase controllable operations expenses in the amount of $2.431 million or 30% over the two year period from 2006 Board approved costs to 2008 test year expenses. For reasons set out below, Board staff questions whether OPUCN has provided sufficient evidence to support the spending requested. In particular, there was a lack of supporting documentation for the cost drivers and cost increases. To justify such a deviation from its pattern of historical OM&A spending, Board staff suggests that OPUCN provide further explanations of both the cost drivers and the cost increases in its reply submission. Board staff invites OPUCN to respond to all of the concerns expressed below, and particularly the impact of a possible disallowance of the increases sought, in its reply submission.

Using Table 3: OM&A Expenses, Board staff reviewed the controllable OM&A expense increases by work categories. Board staff expanded Table 3 to show the percentage increases in various categories of OM&A expense and the corresponding variances of 2008 test year expenses versus 2006 Board approved costs.

Table 4: Variance Analysis Operations, Maintenance and Administration Expenses

OM&A Expenses	2006 Board Approved	Variance 2006/2006	2006 Actual	Variance 2007/2006	2007 Bridge	Variance 2008/2007	2008 Test	Variance 2008/2006
Operation (Working Capital)	$1,609,132	-$1,667,710	-$58,578	$99,550	$40,972	$401,765	$442,737	$501,315
		-104%		-170%		981%		6%
Maintenance (Working Capital)	$212,721	$854,915	$1,067,636	-$69,226	$998,410	$30,261	$1,028,671	-$38,965
		402%		-6%		3%		0%
Operations and Maintenance	$1,821,853	-$812,795	$1,009,058	$30,324	$1,039,382	$432,026	$1,471,408	$462,350
		-45%		3%		42%		6%
Billing and Collections	$1,218,533	$834,810	$2,053,343	$129,261	$2,182,604	$65,741	$2,248,345	$195,002
		69%		6%		3%		2%
Community Relations *(note 1)*	$1,526,323	-$738,534	$787,789	$96,377	$884,166	$116,050	$1,000,216	$212,427
		-48%		12%		13%		3%
Administrative and General Expenses	$4,135,697	$28,810	$4,164,507	$921,536	$5,086,043	$640,601	$5,726,644	$1,562,137
		1%		22%		13%		19%
Total Controllable OM&A Expenses	$8,702,406	-$687,709	$8,014,697	$1,177,498	$9,192,195	$1,254,418	$10,446,613	$2,431,916
	-	-8%	-	15%	-	14%	-	30%

Drivers for 2008 Cost Increases (as compared to 2006 Board approved)

To assist in understanding OPUCN's increases in total controllable OM&A expenses, Board staff prepared Table 5: Cost Driver Review table. Board staff reviewed the application and the interrogatory responses and had limited success in identifying specific cost drivers. There are significant cost increases that remain unexplained ("Unexplained Difference") in each year, as shown at the bottom of Table 5. Board staff invites OPUCN to address these differences in its reply submissions.

Table 5: Cost Driver Review Table

	Cost Driver Review Table			
UsoA	**Description**	**2006**	**2007**	**2008**
	Opening Balance	$8,848,125	$8,624,720	$9,585,195
5085	New Pole Testing Program		$79,400	
	Recovery of DRC on Bad Debt W/O	$70,000		
5605	Accrual For Future Benefits		$173,000	
5605	Management Incentive Program		$65,000	$125,000
5605	New Conservation Services Dept		$154,000	
5610	Regulatory Filing costs			$151,000
	Two Large Capital Projects	-$312,370		
	One-time rebate in health insurance	-$232,000		
5640	Directors and Officers insurance coverage		$74,331	
5655	CDM Operating Expenses		$297,000	
	Unexplained Difference	$250,965	$117,744	$930,868
	Closing Balance	$8,624,720	$9,585,195	$10,792,063

A. Increase in Compensation and Staffing

Exhibit 4 Tab 2 Schedule 6 of the application contains information concerning employee compensation and incentive plan, pension and post-retirement expenses. Based upon information contained in the application, Board staff prepared Table 6: Compensation and Benefits. In order to accurately assess the impact of total compensation costs on OM&A and to assess the proportion of labour used between capital and operations, staff utilized the table: Total of Costs charged to O&M ($) provided at Exhibit 4 Tab 2 Schedule 6 page 9. Unfortunately the table reported total compensation and did not report compensation costs charge to O&M as identified in the evidence. Therefore staff was unable to accurately determine the actual impact of total compensation on OM&A.

Table 6: Total Compensation and Benefits

	2006 Board Approved	2006 Actual	2007 Bridge	2008 Test
Compensation	$ 5,372,694	$ 5,656,134	$ 6,004,784	$ 6,547,964
Pension and Benefits	$ 1,910,680	$ 1,860,741	$ 2,447,743	$ 2,698,058
Incentive Pay	$ -	$ -	$ 65,000	$ 125,000
Total Compensation	$ 7,283,374	$ 7,516,875	$ 8,517,527	$ 9,371,022
Capitalized	$ -	$ -	$ -	$ -
OM&A	$ 7,283,374	$ 7,516,875	$ 8,517,527	$ 9,371,022
Total Compensation	$ 7,283,374	$ 7,516,875	$ 8,517,527	$ 9,371,022
Capitalized	0%	0%	0%	0%
OM&A	100%	100%	100%	100%

Board staff reviewed the information provided by the utility and prepared the following tables for the purpose of cost driver analysis. Table 7: Total Compensation as a percentage of total OM&A indicates that total compensation costs are a large part of total OM&A. Table 8: Year over Year Change in Total Compensation indicates the year over year change in total compensation.

Table 7: Total Compensation as a percentage of total OM&A

		2006 Board Approved	2006 Actual	2007 Bridge	2008 Test
OM&A Labour	A	$ 7,283,374	$ 7,516,875	$ 8,577,527	$ 9,371,022
Total Controllable OM&A Expenses	B	$ 8,702,406	$ 8,014,697	$ 9,192,195	$ 10,446,613
Labour as a percent of OM&A	C = A / B	83.7%	93.8%	93.3%	89.7%

Table 8: Year over Year Change in Total Compensation

	2006 Board Approved	2006 Actual	2007 Bridge	2008 Test
OM&A	$ 7,283,374	$ 7,516,875	$ 8,577,527	$ 9,371,022
Annual Labour Changes		$ 233,501	$ 1,060,652	$ 793,495
% Change		3.2%	14.1%	9.3%

Board staff notes that total compensation, including incentives and benefits to employees, are forecasted to increase. Total test year 2008 compensation costs are forecast to be $9.3 million. This represents an increase of approximately $2.0 million or 29% compared to 2006 Board approved costs.

In response to Board staff interrogatory 23, OPUCN explained that the increases in labour costs were due to annual inflationary salary and wage increases of 3%, the promotions of several employees, the change in responsibilities for some managers and a management incentive program. OPUCN forecasts an Incentive Pay expense of $65,000 in 2007 and $125,000 in test year 2008.

At Exhibit 4 Tab 2 Schedule 6 page 6, OPUCN provides a comparison of total benefits for management, non-management and unionized employees from 2006 to 2008. OPUCN proposes to increase test year total benefits for management employees by 86% from the 2006 Board approved level of $211,416 to $366,677. In response to interrogatory 24, OPUCN further explained that the increase in total benefits was attributable to annual inflationary increases of 5% for health insurance, annual inflationary increases of 3% for remaining items included in the benefits package and a new long term disability insurance program for management and non-union staff, which was introduced in 2007. OPUCN further noted that the bulk of the increase in employee benefits is attributable to Future Benefits accrual. The utility claims that due to CICA 3461 requirements, an amount of $198,000 was accrued for 2007 and 2008 for all employee types. However in response to VECC interrogatory 16 (page 34) under USoA account no. 5605, OPUCN identifies the amount as $173,000. Board staff invites OPUCN to respond to all of the concerns expressed above in its reply submission, including the impact if the claims were disallowed.

OPUCN indicates that a one-time rebate in health insurance in the amount of $232,000[4] for the years 2002, 2003 and 2004, was applied to the health insurance expenses account in 2006. The utility states that if this amount is applied proportionally, then the two-year increases in management and unionized employee benefits would be reduced from 68.5% to 32% and from 32% to 19% respectively. From the responses to Board staff interrogatory 24, it is not clear to staff if OPUCN is updating its estimate of total benefit costs. It is also not clear to staff how OPUCN proposes to record the one-time health insurance rebate. Staff invites OPUCN to explain its proposal and to provide the Board with an updated forecast of OM&A expenses if OPUCN is proposing to revise its as-filed forecast.

USoA No. 5640 Injuries and Damages is forecast to increase from $100,859 in 2006 to $175,190 in 2008 as indicated at Exhibit 4 Tab 2 Schedule 1. This represents a 73% increase over the 2006 to 2008 period. In response to Board staff interrogatory No. 22, OPUCN states that this amount is the cost for premiums paid for liability insurances. OPUCN further explained that in 2006 the utility hired Marsh Canada to undertake an independent review of its insurance policy. Based on the results of this review, OPUCN obtained a new Directors and Officers insurance policy. This policy came into effect on March 1, 2007. The utility explains that the variance results from a full year's impact of the new Directors and Officers insurance policy premium and an inflationary factor of 3%.

B. Operational Cost Drivers

The Board staff Table 5: Cost Driver Review Table (found on page 13) identifies other drivers for the increases, in addition to compensation. Board staff found it difficult to determine the key causes of cost drivers identified in the Cost Driver Review table. For example in response to SEC Interrogatory No. 8, OPUCN identified a cost increase of $151,000 for Regulatory Filing Costs, but did not discuss in any detail the reasons for the increase.

Similarly, in response to VECC interrogatory 16, OPUCN did not adequately explain the reasons for a $79, 400 increase in “New pole testing program” in 2007, USoA No. 5085.

[4] Board staff interrogatory 24

The Board may wish to consider whether such answers provide sufficient explanation or justification for the cost increases. Board staff invites OPUCN to provide a comprehensive explanation in its reply submission.

C. Regulatory Expenses and CDM

Board staff has noted that the treatment of regulatory costs, especially in respect of costs incurred for the preparation and filing of 2008 Cost of Service applications, has varied among distributors. Board staff is concerned about the inclusion of the full cost of these filings in the 2008 expenses when the costs are likely one-time costs.

The utility's actual 2006 costs for USoA No. 5655 Regulatory Costs[5] were $130,298. OPUCN forecasts these costs to be $429,818 in 2007 and $442,713 in 2008. This translates into a 230% increase in 2007 costs compared to 2006 costs and an increase of 3% in 2008 compared to 2007 bridge year Costs. Board staff also notes that the 2007 forecast includes a one-time amount of $297,000 for CDM operating expenditure. This is discussed in a subsequent section.

OPUCN is also requesting approval for $151,000 for Regulatory Filing Costs in USoA account 5610, Management Salaries[6] in 2008. Staff notes in the response to VECC interrogatory 16 page 35 OPUCN again references "Reg costs for 2008 Filing" under USoA No. 5630 Outside Services employed.

It is not clear from the information provided if OPUCN has included any one-time costs for filing in its 2008 Cost of Service application. Board staff invites OPUCN to respond to all concerns in its reply submission, including the impact if the claims were disallowed.

As noted earlier, OPUCN included a CDM operating expense of $297,000 in 2007 in USoA No. 5655. In response to Board staff interrogatory 32 (d), OPUCN stated:

> This is a new account set up to record CDM Operating expenditure of $297,000 mandated by the OEB. This amount was recorded as an offset to revenue in 2007. This is a one time occurrence and will not be repeated in 2008.

OPUCN explained that the $297,000 is part of third tranche Market Adjusted Rate of Return ("MARR") spending for 2007 and that an additional $70,000 will be required in 2008. As discussed above, USoA No. 5655 Regulatory Costs are forecasted to be $442,713 in 2008 and therefore appears to be overstated by an amount of $227,000 ($297,000 less $70,000). Board

[5] VECC interrogatory 16 page 36
[6] SEC interrogatory response 8

staff invites OPUCN to clarify the total amount for the 2008 CDM expenditure and specify the nature of its regulatory costs in the proposed 2008 revenue requirement, in its reply submission.

OPUCN is forecasting an additional $154,000 for Conservation Services Dept. in account No. 5605 Executive Salaries[7]. Board staff is unable to determine the nature and intent of this expenditure and if this amount should be classified as an OEB approved CDM expenditure. Board staff also note that OPUCN has not applied for funding through distribution rates for CDM programs in 2008, and as such, staff are unable to determine the purpose of funding sought for the Conservation Services Dept. Board staff invites OPUCN to respond to staff's concerns including the impact of a possible disallowance of these costs, in its reply submission.

D. Meter Reading and Smart Meter Costs

In response to Board staff interrogatory 40, OPUCN confirmed that no smart meter costs have been included in 2008 O M & A budget. OPUCN is not requesting any change to its current smart meter rate adder of $0.27 per metered customer per month.

E. General application note

Board staff was unable to reconcile the forecasted OM&A costs identified in VECC Interrogatory 16, page 36 with those provided in response to Board staff interrogatory 32. The differences are apparent in the table below. Similarly, with respect to "Administrative and General Expenses", differences exist in the budget amounts presented in Board staff interrogatory 32 (page 103) and VECC interrogatory 16 (page 34). Similarly, with respect to USoA account 5605, OPUCN presents the forecasted costs as $480,000 in the staff interrogatory and $1,446,113 in the VECC interrogatory. Board staff invites OPUCN to respond to staff's concerns in its reply submission including the impact of a disallowance of these costs, if that were to occur.

[7] VECC Interrogatory No. 16 page 36

Table 9: Comparison of Interrogatory Answers

	Response to VECC IR #16		Board Staff OM&A	
	2007 Bridge	2008 Test	2007 Bridge	2008 Test
Sub-Total Operation (Working Capital)	$ 421,767	$ 799,483	$ 40,972	$ 442,737
Sub-Total Maintenance (Working Capital)	$ 841,024	$ 866,565	$ 998,410	$ 1,028,671
Sub-Total Billing and Collections	$ 2,091,064	$ 2,154,958	$ 2,182,604	$ 2,248,345
Sub-Total Community Relations	$ 884,166	$ 1,000,215	$ 884,166	$ 1,000,216
Sub-Total Administrative and General Expenses	$ 4,509,608	$ 5,178,734	$ 5,086,043	$ 5,726,644
Total Controllable OM&A Expenses	$ 8,747,629	$ 9,999,955	$ 9,192,195	$ 10,446,613
Sub-Total Administrative and General Expenses	$ 4,902,608	$ 5,524,184		
6105 -Taxes	-$ 393,000	-$ 345,450		
*Administrative and General Expenses (adjusted)	$ 4,509,608	$ 5,178,734		

CAPITAL EXPENDITURE

Background

OPUCN is requesting Board approval for a test year capital expenditure forecast of $9,871,844. This represents an increase of approximately 124% as compared to the 2006 actual capital expenditures of $4,411,682. The proposed 2008 capital expenditures do not include any expenditure for smart meters.

Discussion and Submission

Increase in 2008 Capital Expenditures

In order to examine the investment trend in OPUCN's distribution network, staff requested the information from the utility from which it created Table 10. OPUCN was unable to provide all of the requested information for the period prior to 2005, noting that it does not keep capital expenditure information in the requested format.

Table 10: Response to Board staff interrogatory 8 (b)

In 000's

Year	2002	2003	2004	2005	2006	2007	2008
Net Income	$ 2,926	$ 3,093	$ 3,069	$ 3,103	$ 3,849	$ 2,466	$ 2,979
Actual ROE%	12.26%	11.70%	10.54%	9.85%	14.09%	8.37%	9.36%
Allowed ROE%	9.88%	9.88%	9.88%	9.88%	9.00%	9.00%	8.79%
Retained Earnings	$23,863	$26,431	$ 29,119	$ 31,502	$ 27,315	$ 29,451	$ 31,819
Dividends to Shareholder	-	$ 525	$ 1,000	$ 720	$ 8,036	$ -	$ -
Total Capital expenditures	$ -	$ -	$ -	$ 6,592	$ 4,412	$ 8,574	$ 9,872

Staff created Table 11 based on Exhibit 2 Tab 3 Schedule 2 of its application and responses provided to Board staff interrogatory 8 (b). Staff note that capital expenditures decreased from 2005 to 2006 but are projected to increase in 2007 to levels above 2005, and to again increase in 2008. The utility states that the 2006 capital expenditures are lower than the historical average due to commitments to contributed capital projects (new 401 interchange and the GM sports centre), which are not included in the capital expenditures for 2006.

Table 11: Capital expenditures 2005-2008

	2005	2006	2007	2008
Capital Expenditures	6,592,359	4,411,682	8,574,434	9,871,844
Increase (decrease)		(33%)	95%	15.1%

<u>Drivers for the increase in Capital Expenditures</u>

A. Growth in OPUCN

Board staff notes that OPUCN is experiencing growth in its service territory. In response to Board staff interrogatories, OPUCN states that growth has been constant and significant due to the low land prices and development, particularly in the northern parts of its service territory; the extension of the 407 Highway; and the new university campus in Oshawa. Growth in residential customers has averaged 750 new customers per year for the period of 2002 through 2006. OPUCN indicated that the growth during 2005 and 2006 exceeded this average.

B. Aging System and Expansion

OPUCN identifies the maintenance of its aging distribution system as a major driver of 2007 and 2008 capital expenditures. OPUCN states that in order to maintain the overall safety and reliability of its aging distribution system, a substantial investment in capital is required. OPUCN points to the recent surge in growth and development in its service area as an additional strain on its distribution system. OPUCN supports its claim with an Asset Condition Assessment Study conducted by Kinectrics in 2006.

OPUCN advises that forecasts prior to 2006 did not anticipate a record year of development in 2006, and full recovery of the increased capital investments is needed to meet the unexpected growth. Board staff notes that OPUCN did not submit any evidence on how these capital investment were selected and how the improvement programs were prioritized. OPUCN may wish to address these concerns in its reply submission.

C. SCADA upgrade and Leasehold Improvement

Special/Individual Projects, list in Exhibit 2 Tab 3 Schedule 2 on pages 2-4, appear to be increasing dramatically. In response to Board staff interrogatory 5, OPUCN explained the reasons for the increase, noting that "….The main reason for the variance between 2006 Actual and 2007 Bridge figures is that a major project, C06-817 GIS System Upgrade, budgeted for $330,000, was scheduled for completion in 2006 but due to delays will be completed in 2007. If this project had been completed as planned in 2006 the total investment for 2006 would have been $449,000 and for 2007 would be projected to be $507,000, an increase of 12.9%. This would result in smoothing of expenditures in those years". Table 12 below shows the data in the application under special/individual projects and seeks to demonstrate OPUCN's explanation in an alternate scenario:

Table 12: Capital Expenditure Alternate Scenario

		2006	**2007**	**2008**	**Row Total**
As per application	**$ budget**	119,140	837,403	1,483,425	2,439,968
	Increase		603%	77%	
Alternate scenario/ representation offered by Oshawa PUC if GIS completed in 2006	**Usual special projects**	449,000	507,000	510,425	
	Increase		13%	0.6%	
	SCADA			498,000	
	Leasehold Improvement			475,000	
Total Alternate Scenario		449,000	507,000	1,483,425	2,439,425

The two new special projects in 2008 are the SCADA upgrade and a $475,000 initiative for leasehold improvement for its administrative building that is owned by the municipal shareholder and built in 1930. OPUCN is proposing to upgrade its SCADA system at a cost of $498,000. In Exhibit 2 Tab 3 Schedule 3, page 12 of its application, OPUCN states that its SCADA system is obsolete technology and progressively failing over the years, and replacement parts are no longer available. OPUCN further states that it is at "risk of not being able to quickly identify power outages, and providing of load data without the upgrade". OPUCN's proposal is supported by the evidence.

Service Reliability Indices

Service reliability indicators identify the duration and frequency of interruption of the distribution system. It is averaged over the number of customers and is a measure of performance. In its response to Board staff interrogatory 9 OPUCN provided the following information:

Reliability Indices			
	SAIDI	SAIFI	CAIDI
2002	1.707	1.422	1.201
2003	1.505	1.221	1.233
2004	6.720	4.761	1.411
2005	1.122	1.142	0.982
2006	2.268	1.289	1.760
Recent 3 yrs Average	3.37	2.40	1.38
OPUCN Target	less than 65 min	less than 1	less than 65 min

The Board requires distribution companies to maintain performance within their 3 year historical performance. Staff notes that the reliability performance for 2004 was poor as compared to that of 2003 or 2005. Therefore, an average of 2004 to 2006 reliability indices does not offer an accurate measure of performance, in this instance.

In response to the Board staff Interrogatory 12, OPUCN refers to the baseline maintenance activities such as “substation grounding, oil containment at substations, replacement of the feeder pothead, replacement of electromechanical relays, replacement of circuit breaker at stations, major overhaul and refurbishment of the station transformer, replacement of the old underground primary cable, substation transformer tap changer replacement, and upgrade of underground vaults.” It further states that “These maintenance programs are undertaken based on performance monitoring performed by OPUCN field staff and are prioritized based on their impact on system reliability and public and employee safety.“ OPUCN further states that it continuously maintains and tracks system outages to identify major fault locations and equipment performance. However, staff submits that if continuous maintenance has been an ongoing practice for the utility, it is not clear why OPUCN has been unable to improve on its past reliability performance. Board staff invites OPUCN to address these issues in its reply submission.

In Board staff interrogatory 9, staff asked OPUCN to indicate whether there is any relationship between the performance indicators and the 2008 capital expenditure program. The response from OPUCN is not sufficient to establish an understanding of how the specific projects are prioritized and selected, and how these improvements impact the service indicators. Board staff is unclear as to how OPUCN proposes to address its performance reliability targets. In its reply submission OPUCN may wish to clarify the correlation and impact of its 2008 maintenance, replacement, and enhancement programs with the reliability performance targets.

Assessment of Asset Condition and Asset Management Plan

Board staff reviewed the Kinectrics Asset Condition Assessment study dated March 16, 2006, Exhibit 11, App. D (the "Kinectrics study"). According to the study, the utility is experiencing equipment problems common to other utilities. The study identifies work which should be pursued including replacement or reinforcement of buried underground cable, refurbishment of underground vaults and chambers, replacement of insulators, replacement of secondary cables and review of the condition of station grounding grids.

The Kinectrics report was written in March 2006. While the Kinectrics report concludes that the overall asset condition at the utility is 'very good'; that there is a 'well designed and documented maintenance plan' and 'overall spending on maintenance and replacement is in line with the best practices in the industry'; it is not clear from the evidence that the utility has acted upon the Kinectrics report to develop a well-defined and comprehensive asset management plan to proactively address its poor reliability performance and effectively manage its facilities. The utility may wish to clarify the status of its asset management plan in its reply submissions.

COST ALLOCATION

CUSTOMER CLASSIFICATION

Background

In OPUCN's previous re-basing application (RP-2005-0020/EB-2005-0402) it presented information for two classes: 50 - 200 kW versus 200 – 999 kW. The inputs to the model produced identical rates. The approved tariff did not reflect any dividing line at 200 kW, and again, in 2007, the currently approved tariff makes no distinction. This Application does not propose a distinction at 200 kW. Nevertheless, the name of the class in the Proposed Rate Schedule is "GS >50 < 1000 kW **(I1) (I4)".** (emphasis added)

Discussion and submission

Since the approved rates are the same, the issue of a boundary at 200 kW would seem to have no significance at all, except that OPUCN in its Informational Filing EB-2006-0247 presents its cost allocation results for the two classes separately[8]. Board staff submits that there is ambiguity surrounding the Applicant's intentions with respect to the GS 50 – 1000 kW class. Staff supports continuing the class boundary at 1000 kW, as proposed by OPUCN. Staff suggests that OPUCN in its reply submission should clarify its intentions, for example by explaining what additional evidence it might plan to bring in its next re-basing application to support an additional boundary within the General Service class.

[8] Board staff Interrogatory No. 61

REVENUE TO COST RATIOS

Background

OPUCN is proposing to continue with its existing allocation factors[9] and to increase each distribution rate by a constant percentage of 14.2%[10]. In its response to Board staff interrogatory 61, OPUCN filed its Informational Filing Run 2, and the revenue to cost ratios are shown in the following table, expressed as percentages and rounded to the nearest integer value. In response to staff interrogatory 62 OPUCN filed an update to the ratios. The proposed revenue to cost ratios are shown in the middle column of the following table. The values are found in the first column of the second part of the table provided by OPUCN and are expressed here as percentages.

In response to the same interrogatory, OPUCN calculated alternative class revenues and revenue to cost ratios that would be consistent with the Board Report “Cost Allocation for Electricity Distributors”, November 28, 2007. The ratios are shown in the final column of the table below.

Table 13: Revenue to Cost Ratios

<table>
<tr><th>%</th><th>Informational Filing Run 2</th><th>Ratios with Proposed Rates</th><th>Ratios within Board-approved Range</th></tr>
<tr><td>Customer Class</td><td></td><td></td><td></td></tr>
<tr><td>Residential</td><td>89</td><td>88</td><td>93</td></tr>
<tr><td>GS < 50 kW</td><td>130</td><td>134</td><td>120</td></tr>
<tr><td>GS 50-200 kW</td><td>95</td><td rowspan="2">102</td><td rowspan="2">108</td></tr>
<tr><td>GS 200 – 1000 kW</td><td>158</td></tr>
<tr><td>GS 1000 – 5000 kW</td><td>334</td><td>348</td><td>180</td></tr>
<tr><td>Large Use > 5MW</td><td>257</td><td>207</td><td>115</td></tr>
<tr><td>Streetlighting</td><td>23</td><td>33</td><td>70</td></tr>
<tr><td>Sentinel Lights</td><td>55</td><td>60</td><td>70</td></tr>
<tr><td>Unmetered Scattered Load</td><td>132</td><td>109</td><td>109</td></tr>
</table>

Discussion and submission

To derive the updated ratios, the class revenue requirements (i.e. cost) is carried forward in constant percentages from the Informational Filing. In other words each class revenue requirement is escalated by the same percentage so that the total of all class revenue requirements equals the base revenue requirement in the application. The class revenues are the outcome of two updates, the first being an adjustment for the 2008 load forecast, and the second being an escalation so that the total revenue matches the revenue requirement. The

[9] Exhibit 8 / Tab 1 / Schedule 2
[10] Exhibit 9 / Tab 1 / Schedule 12

difference in the two columns is the result primarily of the fact that revenue is updated for the load forecast whereas the cost (class revenue requirement) is not.

Staff notes that there is only one ratio for the class GS 50 – 1000 kW, which combines the two classes in the Informational Filing (50 - 200 kW and 200 – 1000 kW). The single class definition is currently approved, and is proposed by OPUCN for the future. Board staff submits that there is not sufficient evidence to support a change in the approved classes. However, staff notes that the information in the Informational Filing, which is to the effect that larger customers within this class are contributing more than their allocated cost and smaller ones less, is exactly what cost allocation studies are designed to discover, and if confirmed in future studies it should be followed up with a consistent design of class boundaries.

Comparing the final two columns, it is evident that OPUCN's rate proposal would need to be changed substantially to accommodate the Board-approved ratios. Most notably, the Streetlight rates would need to more than double from the proposal, in order to reach a ratio of 70% instead of 33%. Residential rates would need to increase by approximately 5% above the proposal, in order to maintain the total revenue requirement while reducing revenue from two of the General Service classes and the Large Users.

A peculiar feature in the comparison of the latter two columns in the table is that, for the GS 50 – 1000 kW class, the adjusted ratio in the final column is further from 100% than the proposed ratio in the middle column. OPUCN is encouraged to comment on the impact on rates if an additional constraint were imposed on the adjustment, such that the ratio would be maintained at 102%.

The record includes impact calculations for the proposed rates. The record does not include impact calculations for the adjusted rates that would be consistent with the Board's approved revenue to cost ratios. Board staff submits that OPUCN should provide impact calculations for each class that would follow from the adjusted rates.

RATE DESIGN

FIXED CHARGES

Background

OPUCN has filed its Informational Filing of its cost allocation study. In Sheet O2 'Monthly Fixed Charge Min. & Max Worksheet', the service charges approved for 2006 are compared with low and high definitions of per-customer customer-related costs for each class. The approved rate is in the range between the low and high values for every class except for Large Use class and the Intermediate class (i.e. GS 1000 – 5000 kW). In these cases, the approved rate is above the higher calculation.

In response to Board staff interrogatory 62, OPUCN calculated base rates that would produce class revenues that would yield revenue to cost ratios within the Board's ranges. In nearly all cases, this alternative monthly fixed rate is lower than the proposed rate. However, it would still not be below the ceiling value produced by the cost allocation study in the Informational Filing.

Discussion and submission:

Board staff submits that the proposed rate structure is supported by the evidence, with respect to the relative values of fixed versus volumetric rates. Board staff submits that there is not an adequate basis to adopt the alternate base rates calculated in the final two columns of the response to the Board staff interrogatory 62, even if the class revenue requirements were to be adjusted to comply with Board policy on revenue to cost ratios.

RETAIL TRANSMISSION SERVICE RATES ("RTSR")

Background

OPUCN's approved tariff for 2007 includes separate rates for RTSR's in the GS 50 – 999 kW class, depending upon whether the customer was interval-metered or not. The distribution rates are not affected by the distinction. In the Application, the listing of existing approved rates fails to include the rate for the non-interval-metered customers in Exhibit 9 Tab 1 Schedule 5 'Existing Rate Schedules'. The application does not include a separate rate for customers without interval meters, and the proposed rate schedule includes a simple continuation of the existing (higher) rate approved for interval-metered customers.

Discussion and submission

The approved monthly Network Service Rate was approximately $0.54 per kW lower for the non-interval-metered customers, and the Line and Transformation Connection Service Rate was approximately $0.39 per kW lower. In the Application, only the higher rate is proposed for continued approval for the GS 50 – 999 kW class.

Board staff submits that the Application should be updated to reflect the decrease in transmission rates, as recently approved by the Board. This update would apply to all customer classes. The effect of this update would be to decrease the proposed Network Service Rate. The effect on the Line and Transformation Connection Service Rate might be a decrease or an increase, depending on the relative importance of the two components.

Board staff further submits that OPUCN should clarify why it has proposed to continue with only one rate where currently there are two. The clarification might include a summary of the load or cost information that supported the distinction in the first place. Particularly if there are customers currently paying the lower rates, Board staff suggests that OPUCN should provide its rationale for discontinuing the distinction in this application.

In addition, OPUCN should address why it is proposing only the higher of the currently approved Retail Transmission Service Rates for the General Service 50-999 kW class and what other proposals could be considered for addressing this concern.

OTHER ISSUES

SMART METER RATE ADDER

OPUCN proposes to maintain its Smart Meter adder at the current amount of $0.27 per month. The exhibits on its existing and proposed rate schedules (Exhibit 9 Tab 1, Schedules 5 and 6 respectively) show the monthly fixed charge for each class net of the Smart Meter rate adder. Staff submits that the Smart Meter adder should be included in the Proposed Rate Schedule and Exhibit 9 Tab 1 Schedule 6 should be modified to add $0.27 to the customer distribution rate for each class where the load is metered.

REGULATORY ASSET RATE RIDERS

OPUCN is proposing to recover its balances in Regulatory Asset accounts over a two year period (Exhibit 5 Tab 1 Schedule 3 page 1). Board staff submits that the recovery could be made over a shorter period. OPUCN is encouraged to comment on a shorter period of recovery in its reply submissions.

LINE LOSSES

Background

In response to Board staff interrogatory 36, OPUCN reaffirmed that Distribution Loss Factor (“DLF”) for 2008 is computed as a three year average (1.0440 i.e. 4.40%) of the actual DLF for 2004 to 2006. OPUCN further states that the increase in theft associated with grow house activity is the main driver of the increase in the actually observed DLF from 2005 (1.0402 i.e. 4.02%) to 2006 (1.0474 i.e. 4.74%).

Discussion and submission

Board staff is concerned with the 17.9% increase in the DLF from 2005 to 2006. Staff invites OPUCN to comment on how it plans to decrease these losses.

All of which is respectfully submitted