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Ontario

BY EMAIL

January 30, 2008

Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4

Dear Ms. Walli:

Re: PUC Distribution Inc.
2008 Electricity Distribution Rates Application
Board File No. EB-2007-0931

Dear Ms. Walli:

Please see attached Board Staff Interrogatories for the above proceeding. Please forward the attached to PUC Distribution Inc. and all intervenors in this proceeding.

Yours truly,

Original signed by

Judith Fernandes
Case Manager

2008 Electricity Distribution Rates
PUC Distribution Inc.
EB-2007-0931

OM&A EXPENSES

1. General – Accounting policies

Please confirm that PUC Distribution has not made changes to the company's accounting policies in respect to capitalization of operation expenses and/or has not made any significant changes to accounting estimates used in allocation of costs between operations and capital expenses post fiscal year end 2004. If any accounting policy changes or any significant changes in accounting estimates have been made post 2004 fiscal year end, please provide all supporting documentation and a discussion highlighting the impact of the changes.

2. General – Regulatory Costs

(i) Please present the breakdown for actual and forecast, where applicable, for the 2006 Board approved, 2006 actual, 2007 bridge year, and 2008 test year regulatory costs as shown in the table below.

(ii) Under "Ongoing or One-time Cost", please identify and state if any of the regulatory costs are "One-time Cost" and not expected to be incurred by the applicant during the impending two year period when the applicant is subject to 3rd Generation IRM process or it is "Ongoing Cost" and will continue throughout the 3rd Generation IRM process.

(iii) Please provide PUC Distribution's proposal on how it intends to recover the "One-time" costs as part of its 2008 rate application.

Regulatory Cost Category	Ongoing or One-time Cost?	2006 Board Approved	2006 Actual	2007 (as of Dec 07)	% Change in 2007 vs. 2006	2008 Forecast	% Change in 2008 vs. 2007
OEB Annual Assessment							
OEB Hearing Assessments (applicant initiated)							
OEB Section 30 Costs (OEB initiated)							
Expert Witness cost for regulatory matters							
Legal costs for regulatory matters							
Consultants costs for regulatory matters							
Operating expenses associated with staff resources allocated to regulatory matters							
Operating expenses associated with other resources allocated to regulatory matters (please identify the resources)							
Other regulatory agency fees or assessments							
Any other costs for regulatory matters (please define)							

3. Ref: Exhibit 4

Exhibit 4, Page 2 of PUC Distribution's application shows 2006 Board Approved Total Operations cost of $12,705,114. However, according to the 2006 EDR model worksheet "5-1 SERVICE REVENUE REQUIREMENT" cell F17, the Board approved total is $ 9,495,354, as shown below in the following Table 1 created by Board staff.

Table 1

	Per PUC $	Per Board staff	Difference
Operation	1,496,528	1,496,528	0
Maintenance	1,793,258	1,793,258	0
Total Operation & Maintenance	3,289,786	3,289,786	0
			0
Billing and Collections	959,171	959,171	0
Community Relations	400,269	375,332	24,937
Administrative and General Expenses	2,451,253	2,215,726	235,527
Total Administrative and General	3,810,693	3,550,229	260,464
			0
Total Controllable OM&A	7,100,479	6,840,015	260,464
			0
Taxes other than income	199,669	61,448	138,221
Other Operating Costs	2,830,510		2,830,510
Total Other Operating	3,030,179	61,448	2,968,731
			0
Amortization Expenses	2,574,456	2,593,891	-19,435
			0
Total Operating Costs	12,705,114	9,495,354	3,209,760

a) Please confirm that PUC Distribution agrees with the figure of $9,495,354, as found in the 2006 EDR model worksheet “5-1 SERVICE REVENUE REQUIREMENT” cell F17. If PUC Distribution does not agree, please explain why it does not agree.

b) Please reconcile and explain the differences identified in Table 1 above.

c) PUC Distribution has included an entry called “Other Operating Costs” in the amount of $2,830,510. Board staff notes that this amount includes “Interest On Debt to Associated Companies” and “Other Interest Expense”. Please provide a detailed explanation of why PUC Distribution believes that this amount should be included.

4. Ref: Exhibit 4

Table 2 below was prepared by Board staff to review PUC Distribution’s OM&A expenses. Note rounding differences may occur, but are immaterial to the questions below.

Table 2

	2006 Board Approved $	2006 Actual $	2007 Bridge $	2008 Test $
Operation	1,496,528	2,051,174	2,156,507	3,018,799
Maintenance	1,793,258	1,430,922	1,448,545	2,277,648
Total Operation & Maintenance	3,289,786	3,482,096	3,605,052	5,296,447
Billing and Collections	959,171	941,104	934,991	1,338,873
Community Relations	375,332	428,632	408,719	473,852
Administrative and General Expenses	2,215,726	1,832,913	2,361,110	1,397,298
Total Administrative and General	3,550,229	3,202,649	3,704,820	3,210,023
Total Controllable OM&A	6,840,015	6,684,745	7,309,872	8,506,470
Taxes other than income	61,448	167,942	157,151	170,151
Other Operating Costs		2,845,705	2,829,662	1,984,620
Total Other Operating	61,448	3,013,647	2,986,813	2,154,771
Amortization Expenses	2,593,891	2,764,612	3,046,595	3,310,978
Total Operating Costs	9,495,354	12,463,004	13,343,280	13,972,219

Table 3 below was created by Board staff to review PUC Distribution's OM&A forecasted expenses from the evidence provided in Exhibit 4 of the application. Note rounding differences may occur, but are immaterial to the following questions. Board staff notes that PUC Distribution are forecasting increases to 2008 Controllable OM&A Expenses by $1,821,725 or 27.3% from 2006 Actual.

Table 3

	2006 Board Approved $	Variance 2006/2006	2006 Actual $	Variance 2007/2006	2007 Bridge $	Variance 2008/2007	2008 Test $	Variance 2008/2006
Operation	1,496,528	554,646	2,051,174	105,333	2,156,507	862,292	3,018,799	967,625
		8.1%		1.6%		11.8%		14.5%
Maintenance	1,793,258	-362,336	1,430,922	17,623	1,448,545	829,103	2,277,648	846,726
		-5.3%		0.3%		11.3%		12.7%
Total Operation & Maintenance	3,289,786	192,310	3,482,096	122,956	3,605,052	1,691,395	5,296,447	1,814,351
		2.8%		1.8%		23.1%		27.1%
Billing and Collections	959,171	-18,067	941,104	-6,113	934,991	403,882	1,338,873	397,769
		-0.3%		-0.1%		5.5%		6.0%
Community Relations	375,332	53,300	428,632	-19,913	408,719	65,133	473,852	45,220
		0.8%		-0.3%		0.9%		0.7%
Administrative and General Expenses	2,215,726	-382,813	1,832,913	528,197	2,361,110	-963,812	1,397,298	-435,615
		-5.6%		7.9%		-13.2%		-6.5%
Total Administrative and General	3,550,229	-347,580	3,202,649	502,171	3,704,820	-494,797	3,210,023	7,374
		-5.1%		7.5%		-6.8%		0.1%
Total Controllable OM&A	6,840,015	-155,270	6,684,745	625,127	7,309,872	1,196,598	8,506,470	1,821,725
		-2.3%		9.4%		16.4%		27.3%

Board staff created Table 4 below to review PUC's OM&A actual and forecasted expenses from the evidence provided in OM&A Cost Table in Exhibit 4. Note rounding differences may occur, but are immaterial to the following questions.

Table 4

Cost Drivers	2006	2007	2008
Opening Balance (previous year)	6,840,015	6,684,745	7,309,872
Additional Engineering Staff			155,656
PCB Removal Program			141,227
Increased Fees Railroad Crossings			117,868
Unexplained Difference	-155,270	625,127	781,847
Closing Balance (current year)	6,684,745	7,309,872	8,506,470

a) Please confirm that PUC Distribution agrees with the four tables presented above. If PUC Distribution does not agree with any table please explain why it does not agree. If PUC Distribution determines that the tables require modification owing to the reconciliation of the difference resulting from Table 1, please provide amended tables with a full explanation of changes made.

b) Please complete Table 4 identifying the key cost drivers that are contributing to the overall increase of 27.3%. Please clearly identify and explain the key cost drivers in groupings of common costs such as labour increases for current staff, labour costs for new hires, unique projects (e.g. incremental value of implementation of full absorption cost allocation, impact of Capex/OM review which includes tree trimming charge). Additionally, for each key driver, please provide a detailed explanation discussing the driver and include in the discussion any assumptions made in calculating the value. The objective is to reduce the line item "Unexplained Difference" for all three years to within a margin of materiality.

c) Please prepare a comprehensive listing of all operational costs by work unit for smart meter costs included in the 2008 budget. Please include in this listing the work unit where the smart meter cost is accounted for in the budget, description of activity, and amount budgeted. In particular, please identify for each of the reported budget amounts whether PUC Distribution considers the cost to be a component of minimum functionality, or if the amount is incidental/incremental to minimum functionality.

PURCHASE OF SERVICES OR PRODUCTS

5. Ref: Exhibit 4/ Page 52

i. Please provide a detailed description of the specific methodology used in determining the price, i.e., purchasing methods.

ii. Please explain how each purchasing method is chosen for a specific purchase of services/products.

SHARED SERVICES

6. Ref: Exhibit 2/ PUC's Long Term Capital and O&M Needs Report
Ref: Exhibit 2/ Page 46 and Page 47

PUC Distribution makes use of PUC Services Inc. for maintenance and presumably capital projects to some extent.

i. How does PUC Distribution ensure that the work done by PUC Services Inc. is done at a competitive rate as compared to alternative service providers who are not affiliated with PUC Distribution?
ii. What is the end date of the 10 year contract with PUC Services?

7. Ref: Exhibit 4/ Page 18

It is stated that "KPMG reviewed PUC Services' method for allocating shared services in the fall of 2001." Please provide a copy of this report.

8. Ref: Exhibit 4/ Page 20

Shared costs allocated to PUC Distribution are shown as increasing from $2,480,758 in 2007 to $3,248,899 in 2008, an increase of 31%.

(i) Please confirm whether the effect of implementing the changes discussed in the evidence arising out of the RDI report is an overall 31% increase in costs in this area to PUC Distribution. If not, please provide the relevant offsets of the new arrangements for the overall costs of PUC Distribution and a breakdown of the factors that are causing the overall increase/decrease. If PUC Distribution is experiencing a 31% increase in its costs as a result of the new arrangements, please explain why this is justified.

(ii) For the Table entitled "Shared Costs Allocated to PUC Distribution", please provide a line by line explanation of the changes resulting in the increase in costs from $2,480,758 in 2007 to $3,248,899 in 2008 (e.g. "Fixed Assets" has increased from zero in 2007 to $960,431 in 2008.) Please explain the reason for this increase and similarly, for the increase in each of the other line items.

9. Ref: Exhibit 4/ Page 32

The "Full Absorption Cost Allocation Report" prepared by RDI Consulting Inc. discusses rate of return and it is stated that: "Currently only depreciation related to PUC Services owned assets is recovered from the users of these assets. The cost of capital (COC) used to finance the purchase of these assets is not reflected in the recovery by Services….RDI recommends that Services recover a cost of capital charge from all the users of the assets that it owns using the LDC deemed weighted average pre-tax cost of capital."

Please provide RDI's justification of the use of the LDC deemed weighted average pre-tax cost of capital for the Services company. Please state what capital costs PUC Services would incur on behalf of PUC Distribution.

10. Ref: Exhibit 4/ Page 50

Appendix M is entitled "Summary of Costing Changes." In Exhibit 4/Page 33 of the Application, this appendix is described as providing "The impacts of all the recommendations for all the PUC businesses using 2006 data." For PUC Distribution, the appendix shows an increase in overall costs by $111,824 and $110,392 under Options 1 and 2, respectively. These increases arise from decreases in OM&A expenses allocated, offset by increases in capital expenses allocated. Please provide an explanation of the overall increase, including why the capital expense allocation is increasing to a greater extent than the OM&A allocation is decreasing.

EMPLOYEE COMPENSATION

11. Ref: Exhibit 4

On Page 53, PUC Distribution provides a comparison of the number of employees by employee type.

(a) Please provide the rationale and justification for the increase from 35 to 40 unionized positions, between the 2006 Board approved amount and the 2006 actual amount.

(b) Please provide the rationale and justification for the increase from 40 to 47 unionized positions, from 2006 to 2008.

12. Ref: Exhibit 4

On Page 53, PUC Distribution provides a comparison of total employee salary and wages from 2006 to 2008. Please provide a breakdown of total salary and wages by employee type: Executive and Unionized, for the 2006 Board approved year, 2006 actual year, 2007 bridge, and 2008 test year.

13. Ref: Exhibit 4

On Page 53, PUC Distribution provides a comparison of total salary and wages from 2006 to 2008. Controlling for the increase in number of employees, this table indicates that there is a 16% differential between the 2006 Board approved amount and the 2006 actual amount. Please provide the rationale and justification for this increase.

14. Ref: Exhibit 4

On Page 53, PUC Distribution provides a comparison of total salary and wages from 2006 to 2008. This table indicates that total salary and wages have increased from $2,929,244 in 2006 to $3,761,527 in 2008. Please provide the rationale and justification for this two-year increase of 28%.

15. Ref: Exhibit 4

On Page 53, PUC Distribution provides a comparison of total employee compensation from 2006 to 2008. Please confirm whether or not PUC Distribution has overtime compensation. If so, please provide a breakdown of overtime amounts for 2006, including Historical Board Approved and Historical Actual, 2007 and 2008.

16. Ref: Exhibit 4

On Page 54, PUC Distribution provides a comparison of total employee benefits from 2006 to 2008. Please provide a breakdown of employee benefits by employee type: Executive and Unionized, for the 2006 Board approved year, 2006 actual year, 2007 bridge, and 2008 test year.

17. Ref: Exhibit 4

On Page 54, PUC Distribution provides a comparison of total benefits from 2006 to 2008. Controlling for the increase in number of employees, this table indicates that there is a 14% differential between the 2006 Board approved amount and the 2006 actual amount. Please provide the rationale and justification for this increase.

18. Ref: Exhibit 4

On Page 54, PUC Distribution provides a breakdown of “Total Costs charged to O&M” from 2006 to 2008. On average, PUC Distribution has only charged 58%, 50%, 47%, and 53% of its total employee compensation costs to O&M for the 2006 Board approved year, 2006 actual year, 2007 bridge, and 2008 test year respectively. Please explain where the remaining amount of total compensation costs was charged in 2006, 2007 and 2008.

CORPORATE COST ALLOCATION

19. Ref: Exhibit 4

i. Please confirm that there are no shared services between the Corporation of the City of Sault Ste. Marie and PUC Distribution Inc.
ii. Please confirm that there are no shared services between PUC Inc. and PUC Distribution Inc.
iii. If shared services do exist, please provide the information required under Section 2.5 (Exhibit 4 Part D) of the Filing Requirements for Transmission and Distribution Applications. Applicants are required to file: (a) a detailed description of the assumptions underlying the corporate cost allocation and (b) documentation of the overall methodology and policy.

RATE BASE - CAPITAL EXPENDITURES

20. Ref: General

a) For the years 2002 to 2008 inclusive, please provide a table listing the following information (actual dollars where available, or expected, planned or projected dollars, or % where indicated):

    i Net income;
    ii Actual Return on the Equity portion of the regulated rate base (%);
    iii Allowed Return on the Equity portion of the regulated rate base (%);
    iv. Retained Earnings;
    v. Dividends to Shareholders;
    vi. Sustainment Capital Expenditures excluding smart meters;
    vii. Development Capital Expenditures excluding smart meters;
    viii. Operations Capital Expenditures;
    ix. Smart meters Capital Expenditures;
    x. Other Capital Expenditures (identify);
    xi. Total Capital Expenditures including and excluding smart meters;
    xii. Depreciation;
    xiii Construction Work in Progress
    xiv Number of customer additions by class.
    xv Rate Base

b) Please identify the type of construction work-in-progress projects and the expected completion date.

21. Ref: Exhibit 2/ Rate Base Summary Table/ Page 3

    Asset Value at Cost and Accumulated Depreciation Year 2006: Both Asset Value at Cost and Accumulated Appreciation were approximately $3.5 million above the Board approved amounts. Please provide the reasons for this.

22. Ref: Exhibit 2/Gross Asset Table and Continuity Statements

    a) Account 1850, Transformers, Page 17: The Board approved 2006 Gross Assets were $13,009,995 versus actuals of 13,714,424, an over-expenditure of $704,429. Please provide the reasons for this.

    b) Account 1850, Transformers, Page 10: The 2006 capital additions for transformers of $920,913 are followed by additions of $596,408 for 2007 and $653,590 projected for 2008. Please identify the drivers for continuing this quantum of capital expenditures on transformers.

    c) Account 1855, Services, Page 17: The Board-approved 2006 Gross Assets were $877,246 versus actuals of $1,496,938, an over-expenditure of $619,692. Please provide the reasons for this.

    d) Account 1855, Services, Page 10: The 2006 capital additions for services of $344,182 are followed by additions of $96,583 for 2007 and $154,550 projected for 2008. Please identify the drivers for continuing this quantum of capital expenditures on services.

    e) For the years 2002 to 2006 inclusive, please complete the following table showing actual dollars and % where indicated. Please identify the cost drivers, as indicated in the table. Examples of cost drivers are: building new transformer station, replacement of obsolete poles, replacement of aging underground cables, etc. Please identify the type and amount of any one-time or unusual expenditure in any particular year that caused the change outside the given threshold, as shown in the table. Please exclude the smart meters from the $ amount for the capital expenditure figures used in the table.

A	B	$ Change (A-B)	% Change (A/B)	Cost Drivers for the change (increase or decrease) if the % change is either less than zero or more than 10%
2003	2002			
2004	2003			
2005	2004			
2006 Actual	2005			
2006 Actual	2006 Board Approved			
2007 Bridge Year	2006 Actual			
2008 Test Year	2007 Bridge Year			

23. Ref: Exhibit 2/Capital Budget by Project

a) Carry Over Projects and their Costs
Please identify the carryover projects where applicable, for the 2006 actual, 2007 bridge year, and 2008 test year.

(i) For each carryover project, please provide and present the information as indicated in Table 1 below.

Table 1 – Identification of Carryover Project

Type of the Carryover Project (e.g. Underground cable replacement, smart meters, etc.)	$ Carryover from 2005 to 2006	% Carryover from 2005 to 2006 to total 2006 Capital expenditure	$ Carryover from 2006 to 2007	% Carryover from 2006 to 2007 to total 2007 Capital expenditure	$ Carryover from 2007 to 2008	% Carryover from 2007 to 2008 to total 2007 Capital expenditure
1.						
2.						
3.						
4.						
5.						
6.						

(ii) For each carryover project, please provide the reasons for the carryover in the format of Table 2 shown below. Please specify whether the project is a one-time or an ongoing project.

Table 2 – Reasons for the Carryover Projects

Type of the Carryover Project (e.g. Underground cable replacement, smart meters, etc.)	One-time or ongoing project?	Reasons for the Carry Over
a)		
b)		
c)		
d)		
e)		
f)		

b) Please provide any existing PUC Distribution asset management plan that outlines the method of prioritizing capital expenditures and work plans.

c) Please confirm that PUC Distribution has no projects for which a Leave to Construct under section 92 is required, or, if there are such projects, please provide the information about each project in the format of the above reference and any other relevant clarifying information.

d) Exhibit 2/ Page 29 (2006) and Page 30 (2007): Economic Analysis for the Installation of Services to Meet Customer Demand.

Please provide the economic analysis for 2006 and 2007 for this revenue-producing capital investment costing $776,639 and $748,705 respectively and the resulting profitability indexes (PI's).

e) Exhibit 2/ Page 33 : Overhead included in Capital Budget.

Please indicate the total dollar overhead allocation included within the $12,160,383 capital budget for 2008. Please provide the overhead allocation in each of the amounts $3,356,044 (for 2006) and $3,831,237 (for 2007).

24. Ref: Exhibit 2/ BDR, Metsco Report

a) Reliability Statistics, Pages 138 & 139: Please quote the reference sources for the data in figures 2.4 and 2.5 on the expectations of failure rates of relevant cable type.

b) Exhibit 2/ Page 25/ Capital Budget by Project: Please provide the reliability statistics for the years 2002 through 2007 that show the dramatic decrease in system reliability mentioned in the fourth paragraph of this sub-reference.

c) Please provide PUC Distribution's reliability improvement targets, if any, for the SAIDI, SAIFI and CAIDI. If PUC Distribution has established service reliability improvement targets, please advise on the programs that PUC Distribution will implement to achieve these targets.

d) Substation Circuit Breakers, Page 154: Please confirm whether the capital cost of $1,415,000 is included in the 2008 capex estimate for calculation of rates. If not, please indicate how much of this amount is allocated for 2008 capital projects.

e) Manhole Modifications, Page 157: Please advise whether the modification of manholes to larger dimensions is mandated by any safety codes, standards or regulations. Please provide the underlying justification for the recommendation of the Report that manhole modifications expected to cost $800,000 over the next few years be done.

f) Two additional Positions, Page 164: Please confirm whether a decision has been made to fill these positions. If these positions are to be filled, please provide the annual total cost, including overhead and burden for these two positions. Please advise if PUC Distribution has included the cost of these two positions in the cost estimates of the projects to be undertaken in 2008. If so, please indicate the percentage of time that the individuals occupying these positions will spend on capital projects and maintenance, respectively.

25. Ref: Exhibit 2/ Working Capital/Page 167

a) Electricity Supply Expense and 15% thereof for Working Capital, 2007 bridge year to 2008 projected: Please advise how much of the rise in Power Purchased cost (from $40,314,676 to $49,044,109) is due to increased purchased electricity unit price cost and how much is due to increased customer usage.

b) Please confirm whether the projected Power Purchased for 2008 at $49,044,109 includes the total Power Supply expenses for accounts 4705 through 4750. If not, please explain what that figure represents.

COST OF CAPITAL

26. Ref: Exhibit 6 – Short-term Debt

In the table shown under "Capital Structure", PUC Distribution has used a short-term debt rate (under "Cost Rate") of 4.77% for the 2008 Test Year.

The Board Report on Cost of Capital and 2nd Generation Incentive Regulation Mechanism for Ontario Electricity Distributors, issued December 20, 2006 (the "Board Report") states the following in section 2.2.2:

"**The Board has determined that the deemed short-term debt rate will be calculated as the average of the 3-month bankers' acceptance rate plus a fixed spread of 25 basis points**." This is consistent with the Board's method for accounting interest rates (i.e. short-term carrying cost treatment) for variance and deferral accounts. The Board will use the 3-month bankers' acceptance rate as published on the Bank of Canada's website, for all business days of the same month as used for determining the deemed long-term debt rate and the ROE.

For the purposes of distribution rate-setting, the deemed short-term debt rate will be updated whenever a cost of service rate application is filed. The deemed short-term debt rate will be applied to the deemed short-term debt component of a distributor's rate base. Further, consistent with updating of the ROE and deemed long-term rate, the deemed short-term debt rate will be updated using data available three full months in advance of the effective date of the rates." [Emphasis in original]

a) Please provide the derivation of the 4.77% short-term debt rate estimate showing the calculations, data used and identifying data sources.
b) Please confirm if PUC Distribution is proposing that the deemed short-term debt rate would be updated based on January 2008 Consensus Forecasts and Bank of Canada data, in accordance with the methodology documented in section 2.2.2 of Board Report. If PUC Distribution is not proposing that the methodology in the Board Report be followed, please provide PUC Distribution's reasons for varying from the methodology in the Board Report.

27. Ref: Exhibit 6 – Return on Equity

PUC Distribution states that it is requesting a Return on Equity ("ROE") of 8.69% per the Board's formulaic approach as documented in Appendix B of the Board Report, with the final ROE for 2008 rate-setting purposes to be established based on January 2008 Consensus Forecasts and Bank of Canada data per the methodology in the Board Report. The table "Return on Equity" shown on page 8 of Exhibit 6 provides a summary of the data upon which the 8.69% is calculated. Please provide the source data used in the calculation and identify the specific data series, data sources and the date(s) of the data used to derive that table.

28. Ref: Exhibit 6 – Long-Term Debt

PUC Distribution provides data on its cost of debt in Exhibit 6 in the table "Cost of Debt" on page 5. The following table summarizes the long-term debt instruments shown on that table:

	2006 Board-approved		**2006 Actual**		**2007 Bridge**		**2008 Test**	
	Principal	**Rate (%)**	**Principal**	**Rate (%)**		**Rate (%)**		**Rate (%)**
Note payable to PUC Inc.	$11,650,000	8.5	$11,650,000	8.5	$11,650,000	5.82	$11,650,000	5.82
Note payable to PUC Inc.	$30,290,000	5.0	$30,290,000	5.0	$14,250,000	5.82	$14,250,000	5.82
Third Party Loan							$8,200,000	5.82
Total Long-term Debt	$41,940,000		$41,940,000		$25,900,000		$34,100,000	

In the Board Report, the Board states, in section 2.2.1, the following policy for setting the debt rate:

"For rate-making purposes, the Board considers it appropriate that further distinctions be made between affiliated debt and third party debt, and between new and existing debt.

The Board has determined that for embedded debt the rate approved in prior Board decisions shall be maintained for the life of each active instrument, unless a new rate is negotiated, in which case it will be treated as new debt.

The Board has determined that the rate for new debt that is held by a third party will be the prudently negotiated contracted rate. This would include recognition of premiums and discounts.

For new affiliated debt, the Board has determined that the allowed rate will be the lower of the contracted rate and the deemed long-term debt rate. This deemed long-term debt rate will be calculated as the Long Canada Bond Forecast plus an average spread with "A/BBB" rate corporate bond yields. The Long Canada Bond Forecast is comprised of the 10-year Government of Canada bond yield forecast (Consensus Forecast) plus the actual spread between 10-year and 30-year bond yields observed in Bank of Canada data. The average spread with "A/BBB" rate corporate bond yields is calculated from the observed spread between Government of Canada Bonds and "A/BBB" corporate bond yield data of the same term from Scotia Capital Inc., both available from the Bank of Canada.

For all variable-rate debt and for all affiliate debt that is callable on demand the Board will use the current deemed long-term debt rate. When setting distribution rates at rebasing these debt rates will be adjusted regardless of whether the applicant makes a request for the change." [Emphasis in original]

a) For the long-term Note payable to PUC Inc. with a principal of $11,650,000, please provide the following:

i) Provide a copy of the Note Payable;
ii) Please explain why and when the interest rate (or "Calculated Cost Rate") changed from 8.5% in 2006 to 5.82% in 2007. Please provide the basis for the 5.82%;
iii) Please confirm whether the Note payable has a fixed rate and term or is variable; and

b) For the long-term Note payable to PUC Inc. with a principal of $30,290,000 in 2006, please provide the following:

i) Provide a copy of the Note Payable;
ii) Please explain why and when the interest rate (or "Calculated Cost Rate") changed from 5.0% in 2006 to 5.82% in 2007. Please provide the basis for the 5.82%;
iii) Please explain when and why the principal changed from $30,290,000 in 2006 to $14,250,000 in 2007. Was the note payable renegotiated at this time?
iv) Please confirm whether the Note payable has a fixed rate and term or is variable; and

c) With respect to the third party loan in 2008 with a principal of $8,200,000, please provide the following:
i) Please explain the purpose of this new debt;
ii) Please explain if this debt has been negotiated;
iii) Please confirm if the 5.82% is a pre-negotiated rate. If so please explain;

d) With respect to the long-term debt rate of 5.82%, please provide the derivation of this rate. Please provide the calculations and identify data used, including the data sources as applicable. ; and

e) If necessary, please update the tables labelled “Capital Structure” and “Cost of Debt” in Exhibit 6 based on PUC Distribution’s responses to the above.

REVENUE OFFSETS

29. Ref: Exhibit 3, Page 15

OTHER DISTRIBUTION REVENUE

	2006 Board Approved	2006 Actual	Variance form 2006 Board Approved	2006 Actual	2007 Bridge	Variance form 2006 Actual	2007 Bridge	2008 Test	Variance form 2007 Actual
	($'s)	($'s)	($'s)	($'s)	($'s)	($'s)	($'s)	($'s)	($'s)
Other Distribution Revenue									
Distribution Services Revenue	112,488	111,483	(1,005)	111,483	104,000	(7,483)	104,000	104,000	-
Retail Services Revenues	32,487	53,782	21,295	53,782	58,500	4,718	58,500	58,520	20
Service Transaction Requests (STR) Revenues	127	1,668	1,541	1,668	1,200	(468)	1,200	250	(950)
Electric Services Incidental to Energy Sales									
Transmission Charges Revenue									
Revenue from Merchandise, Jobbing, Etc.	77,541	29,047	(48,494)	29,047	30,000	953	30,000	30,000	-
Miscellaneous Non-Operating Income	12,070	12,154	84	12,154	10,000	(2,154)	10,000	10,000	-
Rent from Electric Property	90,578	19,456	(71,122)	19,456	303,459	284,003	303,459	304,080	621
Other Utility Operating Income									
Other Electric Revenues									
Late Payment Charges	158,171	190,058	31,887	190,058	195,000	4,942	195,000	195,000	-
Sales of Water and Water Power									
Miscellaneous Service Revenues	219,407	229,364	9,957	229,364	140,300	(89,064)	140,300	172,900	32,600
Interest and Dividend Income	68,534	217,338	148,804	217,338	150,200	(67,138)	150,200	97,972	(52,228)
TOTAL	771,403	864,350	92,947	864,350	992,659	128,309	992,659	972,722	(19,937)

<u>Revenue Offsets</u>

a) Please explain why the number for Total Revenue Offsets for 2006 Board Approved ($771,403) is different from the approved 2006 EDR Model, Sheet 5-5, Cell F25 ($1,100,386).

b) Please explain why the number for Miscellaneous Service Revenues for 2006 Board Approved ($219,407) is different from the approved 2006 EDR Model, Sheet 5-2, Cell N64 ($384,124).

c) Please explain why the number for “Interest and Dividend Income” for 2006 Board Approved ($68,534) is different from the approved 2006 EDR Model, Sheet 5-5, Cell D22 ($412,989).

d) Please provide an explanation of each variance from 2006 Board Approved versus 2006 Actual, 2006 Actual versus 2007 Bridge and 2007 Bridge versus 2008 Test, respectively.

30. Exhibit 7, Page 2

The value used in the 2008 Test Year Other Operating Revenue (net) is reported as $992,659. According to Exhibit 3, Page 15 of the Application, this value is the 2007 Bridge value. Please confirm that the number presented is correct or provide a corrected amended schedule.

FORECASTING

31. Exhibit 3/ Page 5

The Applicant states that the weather-normalization that was generated was performed by Hydro One.

Please provide the Hydro One report and any spreadsheets containing data supporting the calculations of the normalized historical load.

32. Ref: Exhibit 3/ Pages 5 to 10

In pages 5 to 10, the Applicant explains how it developed its 2008 load forecast. While some details are missing, the essential approach used appears to be that the Applicant:

- determined the 2008 forecasted customer count for each customer class,
- determined the weather-normalized retail energy for each customer class for 2004,
- determined the 2004 retail normalized average use per customer ("retail NAC") for each class by dividing each of the weather-normalized retail energy values by the corresponding number of customers/connections in each class existing in 2004,
- applied the 2004 retail NAC for each class to the 2008 Test Year without modification, and
- determined the 2008 Test Year energy forecast for each customer class by multiplying the applicable 2004 retail NAC value for each class by the 2008 forecasted customer count in that class.

Please:
a) Verify that the above is the essence of the Applicant's load forecasting methodology,
b) Differentiate the approach used for weather sensitive loads from that used for non-weather sensitive loads, and
c) Correct any errors in the above explanation.

33. Ref: Exhibit 3/ Page 9

The Applicant outlines the method used for determining the class loss factor.

Please provide:

a) A detailed description of this process, and
b) Supporting values and calculations.

34. Ref: Exhibit 3/ Page 10

The Applicant outlines the method used for determining kW billing.

Please provide:

a) A detailed description of this process, and
b) Supporting values and calculations.

35. Ref: Exhibit 3/ Pages 5 to 10

In pages 5 to 10, the Applicant explains how it determined the 2004 retail normalized average use per customer ("retail NAC") for each class and apparently used this value for other years also. This does not appear to adequately weather-normalize the energy usage in historical years and does not allow for the possible change in energy usage per customer over the 2002 – 2008 period due, for example, to Conservation and Demand Management. The minimal amount of weather normalization and the constant retail energy assumption could potentially lead to forecasting errors.

a) Please file a data table for the historical years 2002 to 2006 that shows:

i. the actual retail energy (kWh) for each customer class in each year,
ii. the *weather normalized* retail energy (kWh) for each customer class in each year (where, for the customer classes that the Applicant has identified as weather sensitive, the weather normalization process should, as a minimum, involve the direct conversion of the actual load to the weather normalized load using a multiplier factor for that year and not rely on results for any other year),
iii. the values of the weather conversion factors used,
iv. the customer count for each class in each year,
v. the retail normalized average use per customer for each class in *each year* based on the *weather corrected* kWh data in item ii. above, and
vi. as a footnote to the table, the source(s) of the weather correction factors.

b) Please file a data table for the 2002 to 2008 period:

i. utilizing the retail normalized average use per customer values for each class in each year obtained in a) v. above for the historical years 2002 to 2006,
ii. including 2007 and 2008 projections for the retail normalized average use per customer values (where, for each of the weather-sensitive classes, this is based on trends in the data) for each class, and

iii. as a footnote to the table, for each of the weather-sensitive classes, describe in detail the trend analysis performed in ii. above.

c) Please file an updated version of the historical/forecast table presented in Exhibit 3, Page 10 of the Application utilizing the weather corrected data determined in b) above.

COST ALLOCATION AND RATE DESIGN

Cost Allocation

36. Informational Filing

Please file the "rolled-up" Cost Allocation Informational Filing EB-2007-0001 as an official part of the record of this Application. (The hard copy reply needs to include only the input tables (Sheet I3 – I8) and Sheets O1 and O2.)

37. Ref: Exhibit 8 / Page 10

a. Please provide the rationale for raising the Revenue to Cost Ratio to an amount of only 40% for each of the two classes, Streetlighting and Sentinel Lights.

b. Please provide a calculation of the hypothetical rates that would yield a ratio of 70% for each of the two classes, and a calculation of the total bill impact if the hypothetical distribution rates were implemented.

Rate Design

38. Ref: Exhibit 8 / Page 9

Please provide the rationale for the proposed increase in the monthly service charge for the GS < 50 kW class by 37.5%, considering that the proposal is to increase the kWh rate by 13.4%, and considering that the currently approved monthly service charge appears to be within the range of customer-related costs in the Informational Cost Allocation study.

Regulatory Asset Recovery Rate Riders

39. Ref: Exhibit 5 / Page 6 / Step 4

Please explain why the period to clear the account is set at two years rather than a single year given that the rate rider for each class is a rebate.

40. Ref: Exhibit 3 / Page 10, and Exhibit 5 / Page 5

For three classes -- GS < 50 kW, GS > 50 kW, and USL -- the volumetric units used in Exhibit 5 do not match the test year normalized forecast in the final column of Exhibit 3. Please explain this discrepancy, and if appropriate please provide the correct calculation in Exhibit 5.

<u>Retail Transmission Service Rates</u>

41. Ref: Exhibit 9 / Pages 21 – 31

In response to the decrease in the Wholesale Transmission Network rate, the proposal is to decrease the Retail Transmission Service rate by 10.2 % or 10.3% for some classes, and by 11.2% for others, as shown in the applicable line in the impact calculations. Please explain why the decrease is not a uniform percentage decrease for all classes.

<u>Loss Factors</u>

42. References:

i. Exhibit 4. Page 56 (Loss Adjustment Factor Calculation)
ii. Exhibit 4, Page 57 (Materiality Analysis On Distribution Losses)
iii. Exhibit 9, Page 16 (Existing Rate Schedule)
iv. Exhibit 9, Page 19 (Proposed Rate Schedule)

- The 1st reference provides a calculation of actual distribution loss factors (DLF) for 2004 to 2006 and an average for the 3-year period. This reference further provides proposed total loss factors (TLF) for 2008.
- The 2nd reference provides a comparison between the approved loss factor for 2007 and proposed loss factor for 2008.
- The 3rd and 4th references provide TLFs for 2007 (approved) and 2008 (proposed) respectively.

a. The loss factor calculation in rows A to H in the upper table in the 1st reference follows the framework of the 2006 EDR Handbook Schedule 10-5, wherein the factor calculated corresponds to DLF for secondary metered customer < 5,000 kW. Row H titled “Distribution Loss Adjustment Factor” confirms the calculated factors as DLF. The average DLF for the 3-year period is shown in the column titled “Total” in the upper table as 1.0454. However the same value is replicated both in the lower table with the label “Total Loss Factor” and in the 4th reference as the proposed TLF for 2008. As TLF = DLF x Supply Facilities Loss Factor (SFLF), we need to establish whether the proposed loss factor of 1.0454 refers to DLF or TLF.

Please further confirm whether kWh values shown in row A titled “Wholesale kWh (IESO)” correspond to:

- the metering installation on the secondary or low voltage side of the transformer, or
- the defined meter point on the primary or high voltage side of the transformer

If it is the former, row H refers to DLF:

- Please confirm if the label in the lower table is incorrect, as 1.0454 is DLF and not TLF.
- Please provide the correct TLF based on a DLF of 1.0454 and the corresponding SFLF.
- Please provide a correction for the proposed TLF for 2008 in the 4th reference.

If it is the latter, row H refers to TLF:

- Please confirm if the label in upper table is incorrect, as 1.0454 is TLF and not DLF.
- Please provide the correct DLF based on a TLF of 1.0454 and the corresponding SFLF.
- Please confirm that the loss factors in the lower table refer to proposed factors for 2008.

b. The 2nd reference refers to 1.0430 as the approved 2007 DLF, whereas the 3rd reference refers to 1.0430 as the approved 2007 TLF. Please confirm that the terminology in the latter is correct.
c. Please explain the rationale for proposing that the loss factor for 2008 be an average of the loss factors for the 3-year period (1.0454) rather than a lower value such as the actual loss factor in 2005 of 1.0437.
d. Please describe any steps that are contemplated to decrease PUC Distribution's loss factor during the test year (2008) and/or during a longer planning period.

SMART METERS

43. Ref: Exhibit 1 /Draft Issues List

In the 1st paragraph of Page 33 (under "Draft Issues List"), PUC Distribution states: "In this rate application PUC has included costs related to Smart Metering. PUC's smart meter plan has been compiled by a consultant as part of the EDA's Northeast District LDCs. As part of the group's plan, PUC is scheduled to install all its smart meters in the spring of 2008. The costs included are based on the consultant's estimates which have been drawn from costs approved for other LDCs in the province."

a) PUC Distribution is not one of the thirteen licensed distributors authorized by Ontario Regulation 427/06 to conduct discretionary metering activities with respect to smart meters.
   i. In light of its "un-named" status, please explain under what authority PUC Distribution has decided to undertake smart meter activity in 2008;
   ii. Please indicate the accounts to which these costs will be applied in 2008;

iii. Has PUC Distribution undertaken any smart meter activity in 2007? If so please explain in full all smart meter activities, when they occurred, and all associated capital and OM&A costs;

iv. Please explain in full all smart meter activities planned for 2008 including all associated capital and OM&A costs.

v..Please indicate the accounts to which these costs have been applied.

44. Ref: Exhibit 2 /Smart Meter Plan Comments

In the 4th paragraph of Page 34, PUC Distribution states: "Hydro One, as well as the Coalition of Large Distributors (CLD) in conjunction with the Ministry of Energy (MOE), have undergone procurement processes resulting in qualified AMI vendors and implementation service companies for Phase One of the smart meter initiative. These qualified vendors form the "short list" of vendors available for use in Phase One deployments and any Ontario LDC's procuring in 2007. Options have been presented which include awaiting the release of the Phase Two RFPQ which may or may not qualify different vendors from that approved in Phase One. The Group SMI Planning has incorporated both processes into their planning, and members are currently waiting the Phase Two outcome to reach a decision regarding AMI and implementation vendors, which will allow contract negotiations to be finalized in early 2008."

b) Please indicate whether PUC Distribution has finalized its decision regarding AMI and implementation vendors. If so, is the chosen vendor one of the approved vendors in Phase One? If so, has PUC Distribution signed a contract with the vendor? If so, please provide a copy of the contract.

c) Please indicate whether PUC Distribution has started to install any smart meters in 2008.

In the 3rd paragraph of Page 36 of Exhibit 2, PUC Distribution states: "PUC has included approximately $215 per meter in 2008 fixed asset additions and an average additional monthly operating cost of $1.00 per meter per month. Under the current Group plan, PUC is scheduled to have all smart meters installed in 2008, commencing in April."

d) Please indicate the number of smart meters that PUC Distribution plans to install in 2008 and the associated total 2008 smart meter capital expenditure amount.

e) Please confirm whether the approximately $215 per meter amount for smart meters in 2008 will meet or exceed the "minimum functionality" criteria which formed the basis in the Board's August 8, 2007 Decision with Reasons in EB-2007-0063 to allow the recovery of smart meter capital costs. In that Decision, the Board determined that there were fourteen cost categories in relation to "minimum functionality" that were set out in Appendix "A".

Please advise if any part of this approximately $215 per meter cost is outside of these fourteen cost categories. If so, please describe these costs and why PUC Distribution is seeking to recover them. If part of PUC Distribution's proposed smart meter per unit amount is beyond the "minimum functionality" criteria, please provide, for 2008, the per unit cost breakdowns for "minimum functionality" and "beyond minimum functionality" cost categories.

f) Exhibit 4, Page 12, under Customer Billing: PUC has identified that the change of $413,390 from 2007 to 2008 is an "increase in operating costs as a result of smart meters".

   Please confirm that the entire $413,390 is due entirely to smart meters, and explain how the amount of $413,390 was calculated. If the entire amount is not all related to smart meters please provide the amount that is related to smart meters and explain fully how this amount was calculated.

g) Please confirm whether PUC Distribution will incorporate the 2008 smart meter capital expenditure amount into its rate base and recover the associated rate of return through its proposed 2008 revenue requirement.

   i. If not, please confirm whether PUC Distribution is going to maintain its current Smart Meter Rate Adder of $0.26 per month per metered customer which was approved by the Board on April 12, 2007 in EB-2007-0568.
   ii. If PUC Distribution is not intending to maintain the Smart Meter Rate Adder of $0.26, what is the amount of the new Smart Meter Rate Adder PUC Distribution is intending to collect. Please explain in detail how the new amount for Smart Meter Rate Adder was arrived at.

DEFERRAL AND VARIANCE ACCOUNTS

45. Ref: Exhibit 1/Page 31

PUC Distribution is requesting to establish a deferral/variance account for capital works during the non-rebasing years to collect the revenue requirements costs (i.e. depreciation and return) associated with the cost of construction.

a. What is the regulatory precedent for the collection of these costs in this proposed deferral account?
b. What is the justification for this account?
c. What are the types of the underlying capital expenditures to be recorded in this account?
d. What are the journal entries to be recorded?
e. When does PUC Distribution plan to ask for its disposition?
f. How does PUC Distribution plan to allocate this amount by rate class?
g. PUC Distribution has identified new capital spending for the 2008 test year. If PUC Distribution under-forecast or over-forecast the 2008 capital costs, should

PUC Distribution be required to record the difference in this deferral account? If no, please explain the rationale for not doing this?

h. Please confirm that PUC Distribution will record the amounts related to the annual cost of service associated with the new assets (i.e. depreciation, return, PILs, etc.), and not the total capital costs in this account. If the former, please provide an example showing all the relevant calculations and amounts. If the latter, please confirm that PUC Distribution is proposing to recover the total capital costs outside of rate base in the future (i.e. via a future rate rider), and therefore these amounts will not be included in rate base in the future.

46. Ref: Exhibit 1/Page 31

PUC Distribution is requesting for a new deferral and variance account - Meter Depository Management Repository Account (MDMR).

a. What is the regulatory precedent for the collection of these MDMR costs in this proposed deferral account?
b. What is the justification for this account?
c. What are the journal entries to be recorded?
d. When does PUC Distribution plan to ask for its disposition?
e. How does PUC Distribution plan to allocate this amount by rate class?
f. Since the costs or fees are not known, please explain the basis of the approval to record these amounts in a deferral account.
g. Please provide any new or additional information that would assist the Board in its decision to approve the recording of these costs or fees in a deferral account.
h. Please provide a brief description of the account.

47. Ref: Exhibit 1/Page 31

PUC Distribution is requesting approval to establish a new variance account to collect the difference between the return on smart meter assets and smart meter depreciation expense for the full years in 2009 and 2010 (as the amount included in the 2008 rates for the return on smart meter assets and smart meter depreciation expenses only included one half of smart meter expenditures due to the use of the average opening and closing capital asset balances).

a. What is PUC Distribution’s proposed account name and number for this new deferral and variance account?
b. How does this new account differ from the use of 1555 and 1556?
c. How does the use of this account tie to the EB-2007-0063 Smart Meter Decision, particularly Appendix E?
d. Has PUC Distribution received permission from the Board to record smart meter-related costs in any deferral account? If yes, please quote the Decision number and provide the details of the instruction received,

including which accounts are affected. If no, please state the rationale for recording such smart meter-related costs in deferral accounts.

e. Please provide the calculation of the difference between the return on smart meter assets and smart meter depreciation expense.
f. What is the regulatory precedent for the collection of this difference in the proposed deferral and variance account?
g. What is the justification for this account?
h. What are the journal entries to be recorded?
i. When does PUC Distribution plan to ask for its disposition?
j. How does PUC Distribution plan to allocate this amount by rate class?
k. Since the costs or fees are not known, please explain the basis for approving the recording of these amounts in a deferral account?
l. Please provide any new or additional information that would assist the Board in its decision to approve the recording of these costs or fees in a deferral account.

48. Ref: Exhibit Exhibit 5/ Pages 4 & 5

a) Please explain the composition of the balance in Account 1508.
b) Is there a balance in Account 1508 sub-account OMERS that represents costs paid to OMERS by an affiliate of the LDC?
   i. If yes, what is the balance?
   ii. If yes, have the billings by the affiliate to the LDC reflected an increase in OMERS pension costs beginning in the period that costs were collected in 1508? If so, what has been the increase in burden beginning in this period? What is the period?

49. Ref: Exhibit 2/Page 39

a. Is PUC Distribution using the Board-prescribed interest rate, as per the Board's letter to LDCs dated November 28, 2006, for construction work in progress (CWIP) since May 1, 2006?
b. If not, what interest rate has PUC Distribution been using for CWIP?
c. If PUC Distribution was not using the Board-prescribed interest rates, what would the impact on ratebase, revenue requirement, and CWIP be if PUC Distribution did use the prescribed interest rates?

50. Ref: Exhibit 5/ Pages 4 & 5

PUC Distribution is requesting for the disposition of regulatory variance accounts in Exhibit 5/ Page 5. The totals in the exhibit do not agree with the totals reported to the Board as per 2.1.1 of the Reporting and Record Keeping Requirements for the period ending December 31, 2006.

Please provide the information as shown in the attached continuity schedule for regulatory assets and provide a further schedule reconciling the continuity schedule with the amounts requested for disposition on Exhibit 5/ Page 5. Please note that forecasting principal transactions beyond December 31, 2006 and the accrued interest on these forecasted balances and including them in the attached continuity schedule is optional.

51. Ref: Exhibit 1/Page 143 & Exhibit 5/Page 4

a. Please explain why there are no forecasts for the deferral and variance accounts in the 2008 pro forma balance sheet.
b. Please state why net loss has increased from $329,739 in 2006 to a pro forma loss of $517,419 in 2007 and to a pro forma net income of $1,571,858 in 2008.

52. Ref: Exhibit 5/Pages 2 &3, Exhibit 1/Pages 31 & 32

a. Please describe the deferral and variance accounts in these exhibits.
b. On Exhibit 5/Page 2 Account 1589 is listed and this is not an APH account. Please provide the correct account number.

53. Ref: Exhibit 5/Page 5

a) Please provide allocations and rate riders for recovery of regulatory deferral and variance accounts balances comprised of the December 31, 2006 balances with interest forecast to April 30, 2008 for the period after December 31st, 2006.

b) Are principal balances on 1590 being forecasted beyond December 31, 2006 and included in the amount for disposition in the schedule?

PILs

1) For the 2006 tax year, please provide the following:

i. Actual federal T2 tax return and supporting schedules – signed original and any returns that were subsequently amended and re-filed;
ii. Actual Ontario CT23 tax return and supporting schedules – signed original and any returns that were subsequently amended and re-filed;
iii. Financial statements that were submitted with the tax returns to the Ministry of Finance;
iv. Notices of Assessment, and any Notice(s) of Re-assessment, including Statement of Adjustments, received from the Ministry of Finance for the 2006 tax year; and
v. Any correspondence between the Ministry of Finance and PUC regarding any tax items, or tax filing positions that may be in dispute, or under

consideration or review, that may affect the tax situation of the utility for 2006 or future years.

2) Ref: Exhibit 4/ Pages 62-65 2008 Taxable Income

a) This exhibit shows an income tax rate of 34.5%. Will PUC use the federal income tax rate of 19.5% for 2008, introduced by the federal government on October 30, 2007, to prepare its final rate order? The combined income tax rate should be 33.5%.

b) Under the regulatory framework, the distributor is allowed to recover an amount for interest on rate base. This amount may be the deemed amount or a lower amount based on projected actual interest to be incurred. The equity return on rate base occurs after the deduction of interest. Only excess interest is included as a penalty, or a deduction, in the PILs calculations. Please refer to schedule 7-3 in the 2006 EDR Handbook.

Please explain why the Applicant feels it is appropriate.
that the proposed interest add-back and deduction in the PILs calculation is supported by the Board's PILs/ tax methodology.

c) If the distributor intends to pay more interest to its shareholder than allowed by the Ministry of Finance in completing the annual tax returns, why does the distributor expect the ratepayers to fund the PILs/ tax excess cost?

d) Please provide a revised calculation of the 2008 PILs expense, excluding the interest additions and deductions, and using the new tax rate of 33.5%.

e) PUC received a Decision from the Board on January 8, 2008 regarding an application for a 2007 PILs adjustment. Is there anything in that Decision which might affect the current 2008 Test Year rate application for PILs?

3) Ref: Exhibit 4/ Pages 58-61 2007 Taxable Income

a) Please provide the calculations of the 2007 CCA deduction of $2,178,193 that appears on Page 59. Please use the format that appears on Page 67 for the 2008 CCA Schedule.

b) Will PUC fully utilize the tax loss carry-forward in the 2007 tax year?

4) Ref: Exhibit1/Page 148 2008 Pro Forma Financial Statements

a) Please explain why the net income shown of $1,571,858 is not the regulatory net income of $2,003,745 that is derived from 2008 rate base.

b) Please explain why the income tax expense amount shown of $1,687,136 includes capital tax of $98,059. Please refer to Exhibit 4/ Page 64.

c) Please explain why the income tax expense shown is grossed-up rather than the expense of $1,040,845 shown in Exhibit 4/ Page 64.