

February 8<sup>th</sup>, 2008

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

Dear Ms. Walli:

**Re: 2008 Incentive Regulation (2008 IRM) Rate Application - EB-2007-0850**

---

In accordance with Procedural Order No. 1, dated December 20<sup>th</sup>, 2007, PowerStream Inc. ("PowerStream") submits its response to the Board staff's submission for the above noted proceeding.

Yours truly,

*Original signed by Paula Conboy*

Paula Conboy  
Director of Regulatory Affairs and Government Relations

## PowerStream Response to Board Staff Submission

Board Staff have raised several items for consideration and invited PowerStream Inc. ("PowerStream") to comment and provide further information to clarify matters, under the option in point 4 of Procedural Order No. 1.

PowerStream is pleased to take this opportunity to provide comments and information to clarify these items for the Board. Our responses are given below.

We have provided excerpts from the Board staff document in ***bold italics***, with page number, to identify the issue being addressed.

### Issue: SMART METER

***PowerStream's current \$0.73 rate adder was based on planned capital expenditures and operating expenses for 2007. The proposed \$1.41 is based on a return on and of capital for the 2007 installations, and on planned capital expenditures and operating expenses for 2008, including an estimate of \$500,000 for IESO/MDMR fees. Board staff notes that the fees associated with IESO/MDMR have not been approved yet. In response to a Board staff interrogatory, PowerStream calculated that its proposed smart meter adder would be \$1.21 per metered customer per month if the estimated \$500,000 associated with the estimated 2008 IESO/MDMR fees was excluded from the calculation. Board staff notes that any differences between the actual IESO/MDMR fees and those estimated by PowerStream for the purpose of the calculation of its proposed smart meter rate adder will be captured through the smart meter variance accounts already in place. Parties are asked to comment on whether the inclusion in rates of the \$500,000 for IESO/MDMR fees and the establishment of the associated variance account are premature given that no submission to approve the MDMR fees has been filed. (page 2)***

PowerStream has been working with the IESO to prepare for the interface with the MDM/R and anticipates a start up date of April 1, 2008. In order to assure the Company of sufficient funding through the rate adder, PowerStream estimated a cost of \$500,000 or \$0.40 per customer per month in 2007.

PowerStream agrees that any differences between the actual IESO/MDMR fees and those estimated by PowerStream for the purpose of the calculation of its proposed smart meter rate adder will be captured through the smart meter variance accounts already in place. The estimated amount has been included to more accurately reflect the actual costs that are likely to occur in 2007. PowerStream is not requesting that the \$500,000 for IESO/MDMR fees be included in rates but rather that the rate rider be increased to allow for the appropriate funding of such costs. The Company understands that such an amount will ultimately be reviewed for prudence when PowerStream rebases in 2009. The cost of \$500,000 has been used to ensure appropriate funding of this provincially mandated program.

As part of its preparation and testing program, PowerStream has contracted other parties to provide temporary MDM/R services. Knowledge of these costs has played a part in forming the estimate of \$0.40 per customer per month.

The Company believes that these are a significant and integral cost of meeting minimum functionality of the smart metering program and it is appropriate that this be funded through the rate adder.

**Issue: REGULATORY ASSET RECOVERY**

***Parties are asked to comment on whether the Board should consider the disposition of forecast variance account balances. (page 5)***

PowerStream Inc. has based the regulatory asset recovery on actual December 31, 2006 balances, since the most recent audited financial statements are for the year ended December 31, 2006. These financial statements have been filed with the Board as part of PowerStream's April 30, 2007 distributor quarterly filing under the Board's Reporting and Record Keeping Requirements.

The methodology used by PowerStream in its calculations is consistent with the methodology used in the 2006 filings approved by the Board.

This method starts with the December 31, 2006 balances and accrues interest to April 30, 2008. From this amount, actual recoveries and estimated recoveries at the current rate riders to April 30, 2008 along with accrued interest are netted to arrive at the net amount recoverable from or to be refunded to customers.

***Also, given that one of the intents of the Incentive Regulation Mechanism was to provide a streamlined process for setting rates, parties are also asked to comment on whether the Board should consider waiting for the review of the disposition deferral and variance accounts until such time that PowerStream applies for its distribution rates to be rebased, which is scheduled to occur in 2009. (page 5)***

Current regulatory asset recovery rate riders expire on April 30, 2008. Since December 31, 2004, new amounts have accumulated in the following deferral and variance accounts:

1508 Other Regulatory Assets, Sub-account OEB Cost Assessment  
1508 Other Regulatory Assets, Sub-account Pension Contributions  
1518 RCVA<sub>Retail</sub>  
1525 Miscellaneous Deferred Debits  
1550 LV Variance Account  
1580 RSVA<sub>WMS</sub>  
1582 RSVA<sub>ONE-TIME</sub>  
1584 RSVA<sub>NW</sub>  
1586 RSVA<sub>CN</sub>  
1588 RSVA<sub>POWER</sub>  
1588 RSVA<sub>POWER</sub>, Sub-account Global Adjustment

In the Board letter dated October 29, 2007 re Ontario Uniform Transmission Rate Order, EB-2007-0759: effect on Distributor Retail Transmission Rates, the Board states:

*The Board directs each distributor to propose an adjustment to their retail transmission rates and disposition of the associated variance account balances in its 2008 Cost of Service or Incentive Rate Mechanism application, as applicable.*

Accordingly, PowerStream felt that it was appropriate to file for updated regulatory asset recovery rate riders to minimize any over-recovery rather than waiting until its 2009 rebasing rate application.

***Effective November 1, 2007, all of PowerStream's rates were harmonized, except for the Regulatory Asset Recovery rate riders. Under PowerStream's proposal, outstanding balances of its four service areas would be aggregated to derive one common Regulatory Asset Recovery rate rider. Board staff notes that this seems to be in contradiction with the Board's Decision and Order EB-2007-0074, where the Board directed PowerStream to "maintain the Regulatory Asset accounts separately by operating area until the rate riders associated with the Regulatory Assets account are removed." Parties are asked to provide comments on this particular aspect of PowerStream's proposal. (page 5)***

PowerStream did not harmonize regulatory asset recovery rate riders in its rate harmonization application EB-2007-0074, since these riders were based on December 31, 2004 balances that arose *prior* to the formation of PowerStream Inc. and as such should remain with the original ratepayer groups. As Board staff notes, the Board in its decision agreed with this approach.

When the current regulatory asset recovery rate riders are removed on April 30, 2008, the December 31, 2004 balances that occurred prior to the formation of PowerStream will have been recovered from or repaid to the ratepayer groups in the former service areas (rate zones). There is no longer a need to collect amounts from each former rate zone separately.

The proposed regulatory asset recovery rate riders relate to on-going regulatory assets that have arisen *after* the creation of PowerStream Inc. These consist mainly of retail settlement variances. Since amalgamation, PowerStream's distribution systems and billing for power have been combined. As a result the balances at December 31, 2006 are not identifiable by former rate zone.

***PowerStream is applying for the disposition of amounts accumulated in the Regulatory Asset Accounts up to December 31, 2006. The balances provided are in accordance with those received as part of PowerStream's RRR filing, except for 2425 Other Deferred Credits. PowerStream's RRR filing shows a credit of \$8,779,912 as at December 31, 2006, in account 2425 whereas PowerStream's current application shows a credit of \$2,663,760 at the same date. It is not clear why those figures are inconsistent. PowerStream is invited to provide clarification on this discrepancy. (page 6)***

The balance in 2425 filed as part of the RRR filing includes \$6,478,023 in deferred revenue relating to 3<sup>rd</sup> tranche CDM spending that was not completed at the time of PowerStream's RRR filing. This amount has been excluded in the current application as it represents deferred revenue as part of revenue and expense matching for accounting purposes and not a deferral amount to be cleared as part of the regulatory asset recovery process.

The balance filed of \$2,663,760 credit is after removal of the \$6.5 million in deferred revenue and the addition of accrued interest. See attached schedule for details.

***Based on PowerStream's application, it appears that PowerStream has maintained the approved December 31, 2002 (sic), Regulatory Asset account balances in those accounts instead of moving these amounts into account 1590. Board staff invites PowerStream to comment on this issue. (page 6)***

At first, the Company was not aware of the requirement to move these amounts into account 1590. Subsequent discussions with Board staff revealed that PowerStream was required to transfer these amounts to account 1590. This was carried out in 2007.

It should be noted that this has no impact on the total claim amount. Interest was calculated at the same rate on both the December 31, 2004 balances in the regulatory asset and liability accounts and on the recovery account. The net interest expense is the same as if the transfer had been made as of April 30, 2006.

**PowerStream Inc.**  
**EB-2007-0850**

**Details regarding Account 2425 balance filed for Regulatory Asset Recovery:**

	DR(CR)	Notes
Dec 31/06 balance reported in the RRR Filing	\$ (8,779,912)	
Less deferred revenue re 3rd tranche CDM	<u>\$ (6,478,023)</u>	1
Net amount	\$ (2,301,889)	
Balance of account 2405 included	\$ (207,325)	
Interest May 1/06 to Dec 31/06	\$ (77,306)	
Other	<u>\$ 66</u>	
	\$ (2,586,454)	
Interest May 1/06 to Dec 31/06	<u>\$ (77,306)</u>	2
<b>Dec 31/06 balance as per filing</b>	<b><u>\$ (2,663,760)</u></b>	

**NOTES**

1. Gross balance for account 2425 includes \$6.5M in deferred revenue related to 2005 3rd tranche CDM revenue and spending.
2. Interest was not booked until 2007. This was manually added to the balance, then the model added the interest for May 1/06 to Dec 31/06 resulting in duplication. To be corrected on the next filing.