EB-2007-0710

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

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

INTERROGATORIES OF THE SCHOOL ENERGY COALITION

1. Allowance for Working Capital

Ref a: Ex 2/T1/S1/pg6
Ref b: Ex 2/T1/S1/pg2, Rate Base Summary Table

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

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

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

2. OM&A – OM&A Detailed Cost Table

Ref a: Ex 4/T2/S1/pg1, "OM&A Detailed Cost Table"
Ref b: Ex 4/T1/S1/pg3

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

b. 2006 Actual Maintenance expense is shown as $1,067,636 in Ref b, $667,636 in Ref a.
Please confirm the correct balance and make corresponding revisions to other sections in the Evidence.

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

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

3. OM&A Expense – OM&A Variance Analysis
Ref a: Ex 4/T2/S2/pg1-3
Ref b: Ex 4/T1/S1/pg3

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

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

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

4. OM&A Expenses – Regulatory Expenses
Ref: Ex 4/T2/S2/pg5

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

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

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

5. OM&A Expenses – Variance Analysis

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

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

6. OM&A Expenses
Ref. Exhibit 4/ Tab 1/Schedule 1, pg. 3

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

7. OM&A Expenses

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

8. OM&A Expenses
Ref. Exhibit 4\Tab 2\Schedule 2 pg. 6

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

9. PILS
Ref. Exhibit 4/Tab 1/Schedule 1

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

10. Deferral and Variance Accounts

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

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

11. Deferral and Variance Accounts
Ref a: Ex 5/T1/S3/pg2-4
Ref b: Ex 5/T1/S2, “Calculation of Balances by Account”

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

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

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

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

12. Cost of Capital
Ref: Ex 6/T1/S1

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

13. Calculation of Revenue Deficiency
Ref a: Ex 7/T1/S1/pg2, “Calculation of Net Utility Income and Revenue Deficiency”
Ref b: Ex 6/T1/S2, “Capital Structure” Table

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

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

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

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

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

14. Proposed Rate Schedule
Ref a: Ex 9/T1/S7
Ref b: Ex 8/T1/S1/pg2

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

b. Ref b of the Evidence shows that the revenue to cost ratios for GS<50, Intermediate Use, Large Use rate classes vary from 130% to 333%. These rate classes are overcontributing. Ref a of the Evidence shows that OPUCN has applied the same 14% fixed and variable rate increase to all rate classes. Please explain why this was done in view of the fact that some rate classes appear to be above the acceptable range for revenue to cost ratios.

15. LRAM & SSM
Ref a: Ex 10/T1/S1/pg1 of 1
Ref b: Ex 10/T1/S3/pg1

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

b. In Ref a, the LRAM amount to be recovered is shown as $4**9**,788. In Ref b, column "LRAM to Dec 31 06", the LRAM amount shown is $4**7**,788. Please confirm the correct amount and make necessary adjustment to all the calculations in the Evidence.

c. SSM
Ref. Exhibit 10/Tab 1/Schedule 1

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

Please:

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

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

> The Decision which touches most directly on this issue is that referenced above on the Pollution Probe Motion (RP-2004-0203).
>
> As noted, the Board in that case adopted the Pollution Probe "plan" for SSM. *That plan very clearly did not contemplate that the relevant amounts would be grossed up to account for PILS*, and this is clear from the record in that case, and the transcript of the Technical Conference in this case.
>
> As part of the Pollution Probe Motion, it filed an Affidavit outlining its plan for the SSM. There is no reasonable construction of the plan described in that affidavit that would lead to a conclusion that it contemplated a grossing up for PILS.
>
> During the Technical Conference, Pollution Probe (the author of the SSM plan adopted by the Board) reacted strongly and negatively to the suggestion by Toronto Hydro that it understood that it provided for the grossing up applied by the utility.[2]
>
> To be fair, in submissions made later in the proceeding Pollution Probe attempted to soften its approach on the issue, suggesting that grossing up may not be inappropriate.

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

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

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

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

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

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

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