

**Ontario Energy
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BY EMAIL

December 20, 2011

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, Suite 2700
Toronto ON M4P 1E4

Dear Ms. Walli:

**Re: Oshawa PUC Networks Inc. Application for 2012 Rates
Board File No.: EB-2011- 0073**

In accordance with the Board's decision dated December 6, 2011, attached are Board staff's comments on Oshawa PUC Networks Inc.'s draft rate order, filed on December 13, 2011. Please forward the attached to Oshawa PUC Networks Inc. and to all other registered parties to this proceeding.

Yours truly,

Original signed by

Richard Battista,
Project Advisor, Applications and Regulatory Audit

Attachment

**Oshawa PUC Networks Inc. (“Oshawa”)
2012 Cost of Service (EB-2011-0073)**

Board Staff Comments on Draft Rate Order

On December 6, 2011, the Board rendered an oral Decision on Oshawa’s rate application.¹ The Decision accepted a complete settlement agreement and required Oshawa to submit its draft Rate Order (“DRO”) within seven days of the issuance of the Decision. Oshawa filed its DRO and supporting documentation on December 13, 2011. Board staff submits that Oshawa has appropriately reflected the Board’s findings except in regard to the establishment of the “Depreciation Study Deferral or Variance Account”. Board staff is also of the view that the draft Rate Order would be improved by way of certain other clarifications. These are presented after the matter of the variance account.

Establishment of Depreciation Study or Variance Account :

Board staff notes that the draft Rate Order includes accounting orders to establish three deferral or variance accounts. These are:

- 2012 Capital Additions Variance Account
- Post Employment Cost Deferral Account
- Depreciation Study Deferral or Variance Account (“Depreciation Study Account”)

Board staff questions the appropriateness of establishing the Depreciation Study Account in this proceeding. A reading of the Settlement Agreement² and of the transcript³ of the Board’s hearing of the Settlement Agreement does not support the issuance of an order in this proceeding to establish this account. Board staff point to the following excerpts that supports the conclusion that the intent is to allow Oshawa, if it so wishes, to file an application for an accounting order after the referenced depreciation study is completed.

The Parties have further acknowledged that OPUCN intends to obtain an independent study of the lives of its distribution assets, and have agreed that following the completion of that study, OPUCN may apply for an accounting order that would provide for the adjustment of the expected lives and of the revenue requirement associated with that adjustment, and for the reflection of those adjustments in a deferral or variance account.

¹ See EB-2011-0073 Transcript Vol. 1 pp. 29-32

² Settlement Agreement accepted by the Board on December 6, 2011.

³ EB-2011-0073 Transcript Vol. 1

The Parties note that the level of depreciation expense for the 2012 Test Year reflects changes resulting from OPUCN's transition to IFRS.⁴

MR. MARTIN:

...So I think my understanding - and I will defer to Mr. Shepherd, as well - is that in 4.3, I think it is really at Oshawa's option to do a study, in order to trigger, I guess, the deferral account.⁵

MS. CHAPLIN: So the latest you are going to be presenting that new study would be the next cost of service application?

MR. MARTIN: Correct.

MS. CHAPLIN: But the parties have agreed that you may prepare that -- you may commission that study in advance of that, and the parties have agreed that you can apply for an accounting order for some sort of adjustment within this IRM period; is that correct?

MR. MARTIN: That's correct.⁶

MS. HARE: I just want to clarify. It would be on a prospective basis? So for example, if the study is completed at the end of 2012 and you apply for an accounting order for -- it would be for 2003 [sic] onwards? It wouldn't be going to 2012?

MR. MARTIN: No. Let me just...

MS. HARE: Yes, take your time.

[Witness panel confers]

MR. MARTIN: Yes, that's correct, actually. Because of the way IFRS works, is any change in depreciation rates are dealt with from an accounting perspective, prospectively, so it would tie in with the accounting, the impact of the accounting records.⁷

Clarifications:

⁴ Ibid. p.

⁵ See EB-2011-0073 Transcript Vol.1 pp. 25

⁶ Ibid pp. 19-20

⁷ Ibid pp. 20-21

2012 Capital Additions Variance Account

Paragraph 2 on page 54 of the DRO reads: “The reduction in revenue requirement would be credited to the variance account for future distribution to ratepayers.” However, in the yellow chart with “Scenarios”, the reduced revenue requirement of \$20,000,909 shows a debit balance in the variance account, instead of a credit balance. Oshawa may wish to correct this apparent anomaly.

Also, calculating the 2012 Revenue Requirement that reflects an actual level of capital expenditures, that is less than forecast, is an integral step in determining the amount which will be recorded in the 2012 Capital Additions Variance Account. From the accounting order as proposed in the DRO, it is not entirely clear how the number will actually be calculated. The accounting order would be improved by including a short description of the calculation. For example, will the 2012 Revenue Requirement Workform be rerun, with all variables the same as the 2012 Test Year Board-approved, save that the 2012 Test Year capital expenditures will be replaced with the actuals?

Lastly, Oshawa should confirm the actual title or name of the account. In the draft Rate Order there are various versions of the name.

OPEB Deferral Account

Page 60 of the DRO reads that:

The purpose of the deferral account will be to record the cumulative actuarial gains or losses in OPUCN’s post retirement benefits in a deferral account to be specified by the Board. OPUCN is requesting the deferral account to capture the one-time adjustment of approximately \$2.6 million to the post retirement liability as a result of an election applied under IFRS 1 that would otherwise result in a charge to OPUCN’s retained earnings.

Board staff notes that the “purpose” sentence of the description refers to “...cumulative actuarial gains or losses in OPUCN’s post retirement benefits...” but does not include the qualifier that such gains or losses is the amount stemming solely from Oshawa’s election under IFRS 1 at the date of transition to IFRS. Board staff suggests the qualification be included in the purpose “sentence” so as to appropriately circumscribe the account’s applicability.

Bill Impacts

Board staff notes that the Bill Impacts enclosed with the DRO do not conform in their entirety to the template provided in Appendix 2-V of the Filing Requirements, issued on June 22, 2011.⁸ The Bill Impact is a comparison of the a customer's total bill as calculated using current rates etc. versus what the customer would experience with the rates that will be effective January 1, 2012. It appears that in some instances the Bill Impacts did not include the riders that will end in April 2012. Board staff asks that Oshawa include in its reply the Bill Impacts completed Bill Impacts based on Appendix 2-V of the Filing Requirements.

Other - Rural or Remote Rate Protection Charge:

The Board normally issues a decision at this time of the year to set the Rural or Remote Rate Protection Charge. Currently the Charge is set at \$0.0013kWh.

In the event that the Board issues a decision in this regard before Oshawa files its reply to the comments it has received, Board staff asks that Oshawa update its draft of the 2012 Tariff of Rates and Charges accordingly.

- All of which is respectfully submitted -

⁸ This may be due to the fact that Oshawa filed its 2012 application before the referenced 2012 Filing Requirements were issued.