

EB-2007-0710
2008 Distribution Rates
Oshawa PUC Networks Inc. (OPUCN)

Board Staff comments on the draft Rate Order, April 2, 2008

Board staff has reviewed OPUCN's draft Rate Order as submitted on April 2, 2008. While certain information was not made readily available in the draft Rate Order, Board staff managed to reconcile many areas of the application with the Decision. From this reconciliation, Board staff determined that there are inconsistencies, errors, and omissions in the draft Rate Order. In light of the foregoing, the draft Rate Order does not fully comply with the Board's Decision.

Board staff submits that there is insufficient detailed information and in some cases errors, or omissions in the following areas of the draft Rate Order:

- Rate Base – Working Capital Allowance (WCA)
- Smart Meters
- Revenue to Cost Ratios
- Payments in Lieu of Taxes (PILs)
- Specific Customer Charges
- Deferral and Variance Accounts

Rate Base / Working Capital Allowance

The rate base approved for calculating the Working Capital Allowance is shown by OPUCN to be \$91,646,775. OPUCN should provide detailed calculations showing how this base was derived. The updated Cost of Power derivation is shown in item A of OPUCN's draft Rate Order material. Board staff is unable to verify this amount and it is not clear if it reflects the Board's decision. OPUCN should provide detailed calculation showing the derivation of this amount.

Smart Meters

The Smart Meter Rate Adder is shown for the following customer classes: Residential, GS<50 kW, GS>50 kW and < 1000 kW, GS > 1000 kW and < 5000 kW (i.e. Intermediate), Large Use, Street Lighting, and Sentinel Lighting. Staff notes that Street Lighting and Sentinel Lighting classes are considered unmetered customer classes not subject to the Smart Meter Rate Adder. OPUCN should correct this error.

In addition, the Rate Order material supplied by OPUCN is ambiguous as to whether or not the Smart Meter Rate Adder of \$0.27 has been incorporated into the proposed rates for the applicable classes. OPUCN provided a separate tariff sheet in the Board's format. It appears that the final rates do not include the Smart Meter Rate Adder.

Revenue to Cost Ratios

OPUCN submitted a total Revenue Requirement of \$18,900,315 as part of the model at Appendix E, responses to Board staff interrogatories. It is based on the 2006 Decision, and does not include Smart Meters. The revenue requirement for Unmetered Scattered Load (USL) from this model is \$55,523.

Board staff used OPUCN's "Proposed Rate Schedule", pp.21 – 23, and forecast billing quantities, to calculate the total revenue as approximately \$18,827,677. Board staff calculated the revenue forecast for USL as \$60,699. These amounts are net of the Smart Meter Adder for General Service customers up to 1000 kW.

At p. 19 of the draft Rate Order, under the heading "Adjusted Revenue to Meet Cost Allocation Req." the total revenue forecast is \$18,825,408. This total forecast is approximately equal to the calculation made by Board staff.

OPUCN's revenue calculation for USL is \$92,111. This corresponds to a revenue to cost ratio of 162%. The revenue to cost ratio based on the staff calculation is 110%. The individual class forecasts are reasonably accurate for all classes with the exception of USL. Board staff submits the revenue to cost ratio for USL is more than 50% above the calculation made by staff.

With the exception of USL, Board Staff submits that the rates and revenue to cost ratios are consistent with those listed in the Decision.

Board staff notes that the Decision did not specify a revenue to cost ratio for the USL class. This is consistent in light of the record and the policy range established by the Board. Staff submits that the calculation of revenue in the documentation submitted by OPUCN with the draft rate order is in error.

Therefore, the ratio reported there is also in error. Board staff submits that the correct ratio is within the range, and the rate in the draft tariff sheet is consistent with the Board's Decision.

Forecast revenue from the USL class in the original submission is \$65,333 (Exh 3 / Tab 3 / Schedule 3 / p. 3). The adjusted revenue (based on calculations done by Board staff with information from the response to Board staff interrogatory # 62) is \$65,416. The origin or derivation of the revenue forecast "\$92,111" is unknown to Board staff.

Payments in Lieu of Taxes (PILs)

VECC is correct in stating that OPUCN has not provided the calculations for all of the PILs amounts. Furthermore, staff estimates the revised PILs number to be approximately \$1,745,370 and not the figure of \$1,946,023 as requested by OPUCN.

OPUCN should provide detailed schedules identifying the derivation of these amounts and should provide a reconciliation of the PILs amounts.

Specific Customer Charges

The response to Board staff interrogatory #16 provided an explanation of two charges:

- Credit Reference Letter - \$15.00
- Credit Check (plus credit agency charges) - \$15.00

On the tariff sheet provided by OPUCN in the draft Rate Order, this appears as one item (Credit reference/credit check (plus credit agency costs) - \$15.00). OPUCN should provide the two charges as separate items on the tariff sheet.

Deferral and Variance Accounts

In its Draft Rate Order, OPUCN submitted rate riders reflecting the recovery of regulatory asset and retail settlement variance accounts ("RSVA") 1508, 1580, 1582, 1584, 1586 and 1588.

In reference to Account 1508, Other Regulatory Assets, the Board's Decision stated that, *"The Board accepts clearance of this deferral account."* The Board continued, *"The Board directs OPUCN to recalculate the balance for disposition by accruing interest at the appropriate rate on account 1508 to April 30, 2008."*

With regard to accounts 1580, 1582, 1584, 1586 and 1588 (the "RSVA accounts"), the Board took note of a Board initiative, announced after the completion of the argument phase, which might affect some or all RSVA accounts. The Board decided it would be appropriate to await the outcome of the initiative and decided not to approve the clearance of the RSVA accounts in this application.

Having determined whether to grant the clearance of the various accounts, the Board considered the appropriate recovery period and stated the following:

"Based on the Board's earlier findings, the balances that the Board approves for recovery at this time total approximately \$800,000, much less than OPUCN's request of \$2.38 million. The Board approves recovery of the approved balances through class specific rate riders over one year beginning May 1, 2008. The Board considers it reasonable for OPUCN to recover those balances quickly given that it is possible there might be larger rate riders required in later periods when the Board reviews and disposes of other accounts."

OPUCN relied upon the above paragraph, and specifically its reference to the balances totaling approximately \$800,000, to support its claim that the Board approved disposition of the above noted accounts.

In its submissions of April 7, 2008, VECC stated that:

“[A] careful reading of the Board’s March 19th Decision as it applies to each of the deferral accounts indicates that it did not approve the clearance of Account 1562 (page 19), Accounts 1582-1588 (page 20) or Account #1590. Indeed, the only approval for clearance received by Oshawa was with respect to the December 31, 2006 balance (plus interest) in Account #1508 (page 19).”

Board staff submits that the only account approved for clearance by the Board was Account 1508, Other Regulatory Assets, and any accrued interest on this account to April 30, 2008. The reference to balances being approved as being “approximately \$800,000” was clearly intended to be a rough calculation of the dollar value of the accounts approved for clearance, and not a reversal of the clear and specific findings made regarding the clearance of accounts. OPUCN should correct this error and submit revised rate riders reflecting the Board’s decision that only account 1508 should be recovered, with interest to April 30, 2008.