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BY E-MAIL

April 25, 2008

Board Secretary
Ontario Energy Board
2300 Yonge Street
Toronto ON M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: Oshawa PUC Networks Inc.
Board File Number EB-2007-0710

Please see attached Board staff's submission for the above proceeding. Please forward the following to Oshawa PUC Networks Inc. and all intervenors in this proceeding.

Yours truly,

Original Signed by

Rudra Mukherji
Case Manager

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

Board Staff comments on the draft Rate Order, April 17, 2008

Oshawa filed its draft Rate Order on April 2, 2008. Board staff and VECC filed comments regarding the draft rate order on April 11, 2008. On April 17, 2008 Oshawa refiled its draft rate order incorporating the comments received from VECC and Board staff. Board staff has reviewed Oshawa’s revised draft Rate Order and submits that further clarification is required in the following areas:

- Payments in Lieu of Taxes (PILs)
- Deferral and Variance Accounts
- Smart Meters

Payments in Lieu of Taxes (PILs)

Inconsistency of Calculation of Taxable Income and PILs expense

The OEB’s 2008 rate Decision for Oshawa did not reference the method by which interest expense was to be calculated for the purpose of determining taxable income and therefore the PILs expense. That technique was determined in the 2006 Electricity Rate Handbook. That technique allowed for the subtraction of a deemed interest expense in the determination of the net income, subject to PILs. The Handbook also stated that if there was additional interest expense beyond the deemed amount, distributors could deduct that amount as well. This would reduce the amount of PILs that would be collected in rates. In a 2007 rates Decision for PUC Sault Ste. Marie (EB-2007-0723) the Board further noted that this ability to reduce net income by the additional interest expense (above the deemed interest expense) was no longer allowed.

Oshawa’s calculated PILs expense did include a net income calculation that deducted the deemed interest expense. However, they went on to increase their taxable income by adding the difference between that deemed interest expense and their actual interest expense.

This is inconsistent with the 2006 Electricity Rate Handbook because the 2006 guidelines do not allow for adding the difference between deemed interest expense and actual interest expense to arrive at the taxable income. Further, the 2007 PUC Sault Ste. Marie decision reinforces that only the reduction for the deemed interest expense is allowed.

In Oshawa’s case, the adjustment to increase taxable income and therefore increase PILs expense is not supported by its rate decision, board guidelines or other rate decisions.

As a result, Oshawa's approach of increasing taxable income by the difference between deemed and actual interest expense will result in approximately $100,000 more PILs expense recovery in rates than would be calculated using the Board guideline.

If Oshawa's calculation of increased taxable income were allowed, there would remain an error in the adjustment for the interest expense differential calculation. Oshawa only used the long term deemed interest expense and excluded the short term deemed interest expense.

Deferral and Variance Accounts

In its Draft Rate Order filed on April 2, 2008, OPUCN submitted rate riders reflecting the recovery of balances of approximately $800,000 related to the disposition of regulatory asset and retail settlement variance accounts ("RSVA)" 1508, 1580, 1582, 1584, 1586 and 1588.

On April 11, 2008, Board staff provided comments on the Draft Rate Order filed on April 2, 2008. In its comments, staff submitted 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. Similarly, VECC submitted that the approved 2008 rates should only include the clearance of Account 1508. OPUCN calculated the final balances in Account 1508 to be $25,208 (credit to customers).

Based on the comments received from VECC and Board staff, OPUCN revised its Draft Rate Order to reflect only the disposition of balances in Account 1508 and requested recovery of this amount through class specific rate riders over a one year period beginning May 1, 2008. Accordingly, OPUCN has calculated class specific Regulatory Asset Recovery rate riders and has included these in its proposed Tariff of Rates and Charges.

It is the Board's standard practice to calculate volumetric rates to four decimal places. The resultant rate riders proposed in Oshawa's draft Tariff of Rates and Charges extend beyond four decimal places for most rate classes. Should this recovery be maintained as a small fraction of rates to customers or refunded by way of a one-time credit to customers?

Smart Meters

In its proposed Tariff of Rates and Charges OPUCN has identified the smart meter adder as a separate charge. Board staff notes that the Board's standard practice with respect to the smart meter adder is to embed the adder as part of the Fixed Service Charge.

All of which is respectfully submitted