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BY EMAIL

June 11, 2008

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: PUC Distribution Inc.
2008 Electricity Distribution Rates Application
Board File Number EB-2007- 0931**

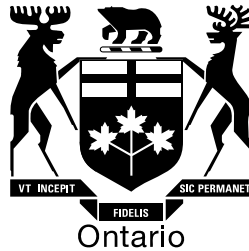
Dear Ms. Walli:

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

Yours truly,

Original Signed By

Judith Fernandes
Case Manager



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2008 ELECTRICITY DISTRIBUTION RATES

PUC DISTRIBUTION INC.

COMMENTS ON DRAFT RATE ORDER

EB-2007-0931

June 11, 2008

OVERVIEW

The Board issued its Decision on May 22, 2008. PUC Distribution Inc. ("PUC") filed its Draft Rate Order on June 2, 2008.

PUC's DRAFT RATE ORDER

The Decision required PUC "to file detailed supporting material, including all relevant calculations showing the impact of this Decision on the Company's proposed revenue requirement, the allocation of the approved revenue requirement to the classes and the determination of the final rates." It is Board staff's submission that PUC's submitted material (the "Draft Rate Order") does not provide the necessary justifications and explanations to adequately confirm that the resulting rates comply with the Board's Decision in a number of areas.

Board staff has specific submissions on the following areas:

- Operating, Maintenance & Administrative Expenses
- Rate Base – Capital Expenditures
- Rate Base – Cash Working Capital
- Smart Meters
- Cost of Capital
- Deferral and Variance Account Disposition
- PILs Calculations

In addition, Board staff makes a submission dealing with Revenue to Cost Ratios.

OPERATING, MAINTENANCE & ADMINISTRATIVE EXPENSES ("OM&A")

The Draft Rate Order states that PUC has included the controllable OM&A expense amount of \$7,810,000 that was approved in the Decision.

However, Board staff is unable to confirm its use as there does not appear to be any revenue requirement calculations included with the Draft Rate Order to indicate that this is the OM&A amount that has been used to calculate the proposed rates.

RATE BASE

In its Decision, the Board dealt with two aspects of Rate Base: Capital Expenditures and Cash Working Capital.

Capital Expenditures

The Decision directed the following three reductions from the proposed 2008 capital expenditures:

- Elimination of smart meter capital expenditures of \$6.2 million;
- Elimination of \$537,612 in capitalized overhead; and
- Adjustment of the 2008 capital expenditures to \$4.9 million.

On page 2 of the Draft Rate Order, PUC shows the recalculation of its 2008 capital expenditures with these exclusions and adjustments to an approved 2008 capital expenditure of \$4,900,000.

However, as PUC has not provided its revised revenue determination together with a detailed derivation of it, Board staff is unable to confirm whether the depreciation expenses have been correspondingly adjusted to reflect the lower approved capital expenditure of \$4.9 million.

Cash Working Capital

The Board ordered adjustments to reflect the Board's announcement on April 11, 2008 of an updated RPP commodity cost forecast of \$0.0545/KWh, effective May 1, 2008. The Board also directed that PUC update its working capital allowance to reflect the lower OM&A expense approved by the Board.

The reduced OM&A expense of \$7,810,000 is shown in the Working Capital table on page 2 of the Draft Rate Order. PUC shows a lower Power Supply Expense of \$47,585,968 (compared to \$49,044,109), but does not provide a detailed derivation of this expense (i.e. as calculated from the approved load forecast and reflecting commodity cost, transmission and other system charges). Board staff is thus unable to confirm whether the updated working capital allowance reflects the Board's decision.

SMART METERS

In its Decision, the Board concluded that the proposed smart meter costs (capital and operating expenditures) should be removed from rate base and revenue requirement. Instead, the Board approved an increased smart meter adder of \$1.00 per month per metered customer to facilitate implementation of smart meters possibly as early as late 2008, assuming authorization from the Government is forthcoming. Consistent with other Board Decisions, the Board directed that rate adder revenues and any costs incurred for smart meters should be tracked through the existing established smart meter deferral/variance accounts.

On page 2 of the Draft Rate Order, PUC provides a table where the \$4.061 million in smart meter capital expenditure is removed, in compliance with the Board's Decision. On page 3 of the Draft Rate Order, PUC provides a table where the \$365,000 in smart meter operating expenditure is removed in compliance with the Board's Decision.

PUC states, on page 1 of the Draft Rate Order, that it has reflected the increased \$1.00 smart meter rate adder in the proposed rates for metered customer classes. However, PUC has not provided a detailed derivation of the revised revenue requirement and the allocation and derivation of distribution rates to recover that revenue requirement. Board staff is unable to confirm that the \$1.00 smart meter rate adder has been incorporated into the monthly service charge for the applicable metered customer classes.

COST OF CAPITAL

On page 7 of its Draft Rate Order, PUC provides a table summarizing the deemed capitalization and cost of capital parameters. Board staff confirms that the provided table corresponds with the Board's Decision, where the Board found that long-term debt, both new and that being re-negotiated, should attract the updated deemed rate of 6.10%. The Board found that other aspects of PUC's proposed cost of capital were consistent with the Board Report.

However, PUC has not provided its revised revenue requirement and a detailed derivation thereof, and so Board staff is unable to confirm that the revenue requirement incorporates the approved cost of capital.

DEFERRAL AND VARIANCE ACCOUNT DISPOSITION

PUC is disposing of Account 1508 as per the Board's Decision.

However, as no material is provided showing the customer count and load forecast for calculating the rate rider, Board staff is not able to replicate the balances allocated to the different rate classes.

Board staff submits that proper documentation of the customer count and kWh forecast that PUC has used in calculating the rate rider should be provided.

PAYMENTS IN LIEU OF TAXES ("PILs") Calculations

As the following information has not been provided, Board staff is unable to verify the PILs calculations:

- The calculations of the reduced accounting, or book, depreciation and amortization.
- The calculation of working capital, average assets and rate base.
- Revenue requirement and the other income offsets.

REVENUE TO COST RATIOS

Board staff agrees with the submission of the Vulnerable Energy Consumers Coalition that PUC ought to support its proposed rates with a schedule showing class revenue requirements that add up to the total revenue requirement, and that would show how the amounts applied for have been adjusted consistent with the Decision. Board staff submits that, in the absence of an updated cost allocation study, it is reasonable to assume that the proportions of the class revenue requirements would remain constant.

Board staff has undertaken the following review based on the information provided as an indirect means of verifying that the required adjustments to revenue to cost ratios have been done. The following table shows the proportion of distribution revenue that would be collected from the respective rate classes under three scenarios:

- Column 1: the existing proportions submitted by PUC responding to VECC interrogatory 24(d). Board staff has verified that the billing data is PUC's, and has added more digits compared to the interrogatory response.
- Column 2: the proportions proposed by PUC in the Application (Exhibit 9 / p. 2)
- Column 3: the proportions implied by the distribution rates in the Draft Rate Order. The proportions have been calculated by Board staff, using rates adjusted for the Smart Meter Adder, using the same billing quantities as column 1.

Rate Classification	Existing (VECC 24d) % Col 1	Application (Exh 9 / p. 2) % Col 2	Draft Rate Order (Board staff) % Col 3
Residential	53.47	55.75	55.74
GS < 50 kW	18.52	16.30	16.03
GS > 50 kW	26.88	25.25	25.65
Street Light	0.87	2.40	2.57
Sentinel Light	0.11	0.13	0.16
USL	0.14	0.17	0.16
Total	100%	100%	100%

Dealing first with Street Lights, the revenue to cost ratio in the Informational Filing was 17% and the Decision orders it to be 44%. Staff notes that the ratio in the Decision is approximately 2.5 times the existing ratio, and that the proportion of revenue from this class is being increased by a factor of nearly 3 times. Similarly for Sentinel Lighting, the existing ratio was 38% and the

Decision orders it to be 54%. Staff notes that this ratio is approximately 1.5 times the existing ratio, and that the share of revenue from this class is being increased by the same multiple. The share of the classes that the Decision indicates should benefit from the re-balancing can be seen to decrease compared to the proportions in the status quo. In summary, Board staff submits that PUC appears to have submitted a set of rates that is consistent with the Board's Decision concerning revenue to cost ratios.

SUMMARY

Board staff submits that PUC has not provided adequate supporting material by which the Board, Board staff or other parties can evaluate whether and how PUC's proposed rates comply with the Board's Decision and that PUC be required to provide the material prior to the issuance of the final Rate Order. Board staff further submits that should the Board require PUC to provide the requested additional material, the Board should consider whether the effective date of July 1, 2008 can be maintained.

~ ALL OF WHICH IS RESPECTFULLY SUBMITTED ~