Responses to VECC Interrogatories
2009 Incentive Regulation Mechanism Rate Application
PUC Distribution Inc.
EB-2008-0208

Question #1

Reference: PUC Manager's Summary

a) With to page 2, please explain more fully how the 32.2623% and the 15.6385% adjustment factors for the Streetlights and Sentinel Lights classes were determined.
b) Please explain how the adjustment factors for the GS classes were determined.
c) Please explain why the adjustment percentages for the GS<50 and GS>50 classes are different when the Board (on its EB-2007-0931 Decision, page 16) directed that the increased revenues be "pro-rated" over these two customer classes.

Responses

a) PUC Distribution based the calculation on the methodology used in the cost allocation study submitted to the Board which was also used in the approved 2008 Cost of Service Rate Application. The spreadsheet on page 3 of the Managers Summary is a summary and calculation of the cost ratio adjustments. The following is a further detailed discussion of the calculation:
   Streetlights
   In the original cost allocation study submitted to the OEB the cost ratio for streetlights was 17. In the 2008 rate decision the OEB ordered that the ratio be adjusted to 44 and for there to be 2 more moves 50% toward the bottom of the Board's target ranges in equal increments in 2009 and 2010. The bottom of the Boards target range is 70 for streetlights. Therefore since the ratio was moved in 2008 to 44 the remaining move to 70 is 26 (70-44) to be done in two equal increments of 13 (26/2) in 2009 and 2010. The adjustment applied for in 2009 is to have the ratio moved to 57 (44+13).
   On page 3 of the Managers Summary PUC adjusted the distribution revenue in the spreadsheet by rate class to arrive at the 57% revenue to cost ratio with offsets to other classes. Refer to the bottom of the spreadsheet to a row labeled "Adjustment to class revenue for 2009 IRM Application". In the streetlight column an adjustment of $100,000 to revenue is proposed and added to the distribution revenue requirement at the top of the spreadsheet to arrive at $409,959. To determine that the revenue to cost ratio is now at 57% PUC took the total revenue in streetlights of $437,369 and divided it by the total expenses and allocated income to that class of $765,682. The resulting revenue to cost ratio is

57% (437,369 / 765,369). To determine the percentage increase required to the streetlight rate class PUC took the proposed revenue increase of $100,000 and divided it by the distribution revenue in that class before the proposed adjustment totaling $309,959 (409,959-100,000). The increase to the streetlight rate class is 32.2623% (100,000 / 309,959) to have the cost to revenue ratio at 57%.

<u>Sentinel Lights</u>
In the informational filing cost allocation study submitted to the OEB the cost ratio for sentinel lights was determined to be 38. In the 2008 rate decision the OEB ordered that the ratio be adjusted to 54 and for there to be 2 more moves 50% toward the bottom of the Board's target ranges in equal increments in 2009 and 2010. The bottom of the Boards target range is 70 for sentinel lights. Therefore since the ratio was moved in 2008 to 54 the remaining move to 70 is 16 (70-54) to be done in two equal increments of 8 (16 / 2) in 2009 and 2010. The adjustment applied for in 2009 is to have the ratio moved to 62 (8+54).
On page 3 of the Managers Summary PUC adjusted the distribution revenue in the spreadsheet by rate class to arrive at the 62% revenue to cost ratio with offsets to other classes. Refer to the bottom of the spreadsheet to a row labeled "Adjustment to class revenue for 2009 IRM Application". In the sentinel light column an adjustment of $3,250 to revenue is proposed and added to the distribution revenue requirement at the top of the spreadsheet to arrive at $24,032. To determine that the revenue to cost ratio is now at 62% PUC took the total revenue in sentinel lights of $25,501 and divided it by the total expenses and allocated income to that class of $41,096. The resulting revenue to cost ratio is 62% (25,501 / 41,096). To determine the percentage increase required to the sentinel rate class PUC took the proposed revenue increase of $3,250 and divided it by the distribution revenue in that class before the proposed adjustment totaling $20,782 (24,032 – 3,250). The increase to the sentinel lights rate class is 15.6385% (3,250 / 20,782) to have the cost to revenue ratio at 62%.

b) & c)
In the OEB 2008 rate decision on page 16 the Board states *" As a result of these findings (approved revenue to cost ratios), there will be a lower net revenue requirement that needs to be recovered from the other classes. Of these classes, the two General Service rate classes will be over-contributing based on the Company's proposal. The Board finds that the additional revenue from the street lights and sentinel light rate classes shall be allocated to the General Service Classes so that the over-contribution will be reduced. The allocation shall be prorated on the basis of forecast revenue for the two classes. The Board expects the Company to apply this allocation method when it applies for rate adjustments in 2009 and 2010."*
In the 2008 rate order the general service revenue to cost ratios were adjusted to 117% for general service < 50kW and 125% for general service >50kW based on forecast revenues. In 2009 PUC prorated the adjustment based on the approved 2008 ratios prorating 48% of the adjustment to general service <50kW and 52% to general service >50kW. Page 3 of the Managers Summary outlines the

calculation using the same methodology as for street lights and sentinel lights above resulting in a 2.5954% decrease for general service <50kW customers and a 1.7674% decrease for general service >50kW customers. Refer to PUC's response to Board Staff Interrogatories (PUCDistribution _IRR_BoardStaff _AppendixA_20090112) for an Excel version of the cost ratio calculation submitted as page 3 of the Manager Summary.