

**July 28, 2008**

**Further Clarification on the  
Public Utilities Commission Final Decision ARP 2008**

This paper is in two Sections. Section 1: Items that address typing error/s in the Final Decision document, but which had no impact on the computations that determined the rates to be charged to Consumers. Section 2: Items that address errors that would have had a direct impact on the computations that determined the rates to be charged to Consumers.

**Note:** Where relevant, the Items are discussed under the numbered headings as given in the Final Decision.

**Section 1**      **(Items with no impact on rates)**

**Decision 2**      **Regulated Asset Value**

The approved Working RAV (RAV) for the year 2007 is \$231,594,000 and not the \$231,954,000 in the Final Decision document. The number used in the computations is \$231,594,000 and thus there was no impact on the rates.

The approved RAV for the year 2009 is \$269,668,000 and not the \$281,819,000 in the Final Decision document. The number used in the computations is \$269,668,000 and thus there was no impact on the rates.

Table 1 through Table 5 below show RAV calculated for the calendar years (c/y) 2005, 2006, 2007, 2008 and 2009. These tables reflect the actual RAV values that were used in computing the rates.

The following table was first issued as Table 1 in Annex # 1 in the Final Decision of ARP 2008:

Table 1: Calculation of RAV for c/y 2005

<i>RAV Adjustments 2005</i>	\$000
Assets	261,234
Less Mollejon Tx Line	27,942
Less Street Lights	0
Less 50% newly commissioned facilities	12,601
Less Work in progress	21,949
Less Capital Contribution # 1	4,620
Less Capital Contribution # 2	0
Less GEC capital	0
Working RAV 2005	194,122

The following table was first issued as Table 2 in Annex # 1 in the Final Decision of ARP 2008

Table 2: Calculation of RAV for c/y 2006

<i>RAV Adjustments 2006</i>	\$000
Assets	301,245
Mollejon Tx Line	27,054
Street Lights	0
Less 50% newly commissioned facilities	6,037
Work in progress	40,358
Capital Contribution # 1	0
Capital Contribution # 2	19,912
GEC capital	0
Working RAV 2006	207,885

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The following table was first issued as Table 3 in Annex # 1 in the Final Decision for ARP 2008

Table 3: Calculation of RAV for c/y 2007

<i>RAV Adjustments 2007</i>	\$000
Assets	336,011
Mollejon Tx Line	26,166
Street Lights	0
Less 50% newly commissioned facilities	26,805
Work in progress	31,513
Capital Contribution # 1	0
Capital Contribution # 2	19,933
GEC capital	0
<u>Working RAV 2007</u>	<u>231,594</u>

This is the first issue of Table 4 relating to ARP 2008

Table 4: Calculation of RAV for c/y 2008

RAV Adjustments 2008	\$000
Assets	347,244
Mollejon Tx Line	25,278
Street Lights	5,941
Less 50% newly commissioned facilities	15,757
Work in progress	25,000
Capital Contribution # 2	22,473
GEC capital	4,416
<u>Estimated working RAV 2008</u>	<u>248,379</u>

This is the first issue of Table 5 relating to ARP 2008:

Table 5: Calculation of RAV for c/y 2009

RAV Adjustments 2009

Assets	358,016
Mollejon Tx Line	24,390
Street Lights	6,497
Less 50% newly commissioned facilities	14,500
Work in progress	21,000
Capital Contribution # 2	21,962
GEC capital	0
Estimated working RAV 2009	269,668

**Decision 5**      **Value Added of Delivery**

*The following information was omitted from the Final Decision document:*

The initial target values for Opex, included in the Value Added of Delivery (VAD) were developed at FTRP 2005; these values in \$000 are shown below. Also shown are actual Opex for the years 2005 to 2007 and the revised/approved Target Opex for the years 2008 and 2009.

Target and Actual Opex for years 2005 to 2009 (given in \$000)

Target year	2005	2006	2007	2008	2009
Target Opex	18,343	18,544	18,748	18,955	19,163
Actual Opex	17,700	18,883	20,838		
Revised target Opex at ARP 2008 .....				19,341	19,922

As indicated in the Final Decision for ARP 2008 under Comments relating to Decision (5), the Utility exceeded target Opex in the years 2006 and 2007. The Commission has increased the target Opex for calendar year (c/y) 2008 and c/y 2009 and requires that the Utility stay within the increased Targets.

**Decision 6**            **Mean Electricity Rate**

Under *Comments relating to Decision (6a)*, the forecast sales of electricity of 420,333,335 kilowatt-hours, stated to be for the period July 2008 to December 2008, is for the Annual Tariff Period (ATP) July 2008 to June 2009.

**Decision 7**            **CPRSA (Cost of Power Rate Stabilization Account)**

Under *Comments relating to Decision (7)*, the opening sentence reads “Bylaw 145 of 2005 requires that the CPRSA account be paid down to zero by the end of the FTP, and the Commission has set the CPRSA recovery rate to achieve such requirement.”

This sentence should read “Bylaw 28 paragraph (2) of the Electricity (Tariffs, Charges and Quality of Service Standards) Byelaws 2005, requires that any amounts in the cost of power rate stabilization account as of the commencement of the ATP shall be reduced to zero as of the termination of the FTP, and the Commission has set the CPRSA recovery rate to achieve such requirement.”

**Other Item with no Impact on Rates**

**Depreciation Correction**            **As Related to Mollejon Transmission Facility**

In Decision (3d) of the Final Decision for ARP 2008, the Commission approved an Interest Charge Correction of \$10.34 million to provide for the recovery of interest charges, by Consumers, from c/y 2001 to c/y 2004 related to the Mollejon Transmission Facility Loan that was paid out of rates levied on Consumers.

It is the assessment of the Commission that the non-cash expense depreciation for c/y 2001 to c/y 2004 on the Mollejon Transmission Facility was also covered by rates levied on Consumers.

However, the Commission did not make any further correction for the depreciation as it does not represent a direct cash outflow; therefore, the Commission was unable to conclude that the benefits derived from the

rates charged to Consumers in the amount to cover such depreciation did not accrue directly to BEL.

The Commission recognizes that BEL did pay the principal for the 'Mollejon Transmission Facility Loan', but is satisfied that this has been adequately dealt with via the RAV.

## **Section 2** ***(Items that would have had an impact on rates)***

### **Decision 5** **Value Added of Delivery**

#### **Part 1**

In Tables 1, 2 and 3 above for years 2005, 2006 and 2007, Street Lights and GEC capital were set to zero and did not contribute to any reduction of the RAV.

In Table 4 for c/y 2008, Street Lights and GEC Capital were not set to zero, and in Table 5 for c/y 2009, Street Lights were not set to zero; hence, these items contributed to a reduction in the RAV.

Street Lights and GEC capital were to be set to zero for all years shown, because it was not intended for them to contribute to any reduction in the RAV.

The recalculated RAV for c/y 2008 is \$258,736,000 and the recalculated RAV for c/y 2009 is \$276,165,000. The Return allowed to the Utility is 10% of RAV, and therefore the Return that has been included in VAD is understated by \$1,035,718 for c/y 2008 and by \$649,635 for c/y 2009. This for a total of \$1,685,352 combined.

As a result, the VAD for the ATP is understated by \$842,676.

#### **Part 2**

Tables 6 and 7 below show the process of estimating the depreciation for c/y 2008 and 2009 that was employed in the development of VAD. Street

Lights and GEC capital are included in the adjustments effected to arrive at the end value for depreciation.

In the discourse under Part 1 above, it was stated that Street Lights and GEC capital were to be set to zero in developing the RAV for years 2008 and 2009. Equally then, Street Lights and GEC capital adjustments to depreciation must be set to zero, thus impacting the depreciation included in VAD.

The recalculated depreciation for c/y 2008 is \$12,052,000 and the recalculated depreciation for c/y 2009 is \$12,620,000. Depreciation is a component of VAD, and VAD is therefore understated by \$345,000 in c/y 2008 and by \$248,000 in c/y 2009. This for a total of \$593,000 combined.

As a result, the VAD for the ATP is understated by \$297,000.

### Part 3

In the process of building VAD (Tables 8 and 9 below) the Commission provided \$925,000 for c/y 2008 and \$1,075,000 for c/y 2009 for Licensing fees. As a result, \$1,000,000 was provided for in VAD for the ATP.

The Commission has since become aware that License Fees are accounted for in Opex by the Utility.

As a result, the VAD for the ATP is overstated by \$1,000,000.

Table 6

This is the first issue of Table 6 relating to ARP 2008:

Depreciation Adjustment for 2008	\$000
starting value of depreciation	13,767
Less Mollejon Line	885
Less Street lights	198
Less related GEC	147
Less capital contribution # 2	830
Estimated depreciation for 2008	11,707

Table 7

This is the first issue of Table 7 relating to ARP 2008:

Depreciation Adjustment for 2009	\$000
Starting value of depreciation	14,228
Less Mollejon Line	885
Less Street lights	248
Less related GEC	0
Less capital contribution # 2	723
Estimated depreciation for 2009	12,372

Table 8

This is the first issue of Table 8 relating to ARP 2008

RAV (\$000)	248,379	for c/y 2008	
Sales (Kwh)	403,067,961	\$000	
Opex		19,341	
Depreciation		11,707	
Depreciation (New Investments)		0	ROR
Returns		24,838	0.100
Taxes and License Fees		4,044	
VAD 2008 (before deducting other revenue from Returns)		59,930	
Other revenue (excluding gt)		4,940	
VAD 2008 (after deducting other income from Returns)		54,990	
VAD component of MER		\$/Kwh	0.136

Table 9

This is the first issue of Table 9 relating to ARP 2008

RAV (\$000)	269,668	for 2009
Sales (Kwh)	436,759,945	\$000
Opex		19922
Depreciation (RAV <sub>0</sub> )		12,372
Depreciation (New Investments)		0
Returns		26,967
Taxes and License Fees		4,492
VAD 2009 (before deducting other revenue from Returns)		63,752
Other revenue (excluding gt)		5,039
VAD 2009 (after deducting other income from Returns)		58,714
VAD component of MER	\$/kwh	0.134

**Conclusion:**

The net effect of the overstatement and the understatements is a combined shortfall in revenue of \$139,268 for the ATP July 2008 to June 2009. This will be addressed as an Annual Correction for FTRP 2009.

In the interim, the PUC will defer the collection of an equal amount of license fees during the ATP, and until the correction is made.

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