



**Comments on
Electricity Disaster Fund: Rules of Procedure for Operation &
Administration**

Notice of Proposed Rule Making

The general comments follow the number sequence of the referenced document.

1.14.2

We recommend modification of the language to refer to the use of the sinking fund revenues on a leveraged basis to access a loan. This should be viewed as an additional channel of financing. Where sufficient funds are not available via this facility then an additional claim may be filed as part of the annual adjustment claim under the Z-factor, as per 1.14.3 (c).

1.14.2

Loan Repayment schedule. If JPS is allowed to negotiate the loan facility, then there may be administrative issues or conflicts with the financiers if the loan repayment schedule is to be approved by the OUR before payments can commence. This either requires confidence in JPS' ability and interest in negotiating the best terms or the OUR be a party to the final negotiations of the amortizing schedules etc.

1.14.4 (b)

Please confirm if the rate of recovery of 0.5% is based on the non-fuel tariff only.

This cap is unnecessarily restrictive. Given the 2006 tariff basket of \$19.4 billion (non-fuel revenues) the average tariff was \$6.53 and 0.5% of this would be 3 cents. Given sales in 2006 the maximum recoverable amount would be \$97 million per annum and \$485 million over 5 years. This is clearly too restrictive. Considering that monthly fuel rates fluctuate by as much as 5%, what is the rationale for a 0.5% cap due to a disaster? If a cap is desirable, it is our considered opinion that a range of 2-5% is more appropriate if the intent is to limit rate shock but allow a reasonable rate of recovery.

1.15 (c)

Historic information, we believe, would be more useful and relevant in demonstrating a likely cash flow problem than financial projections.

3.3

A requirement of 60 days after the event is insufficient time and use of the event as the reference point is problematic. It is our recommendation that a realistic timeframe is 60-90 days after all customers have been restored. In addition an interim physical verification process should be documented by the OUR which allows for contracted Loss Adjusters to immediately sample survey asset damage and the restoration effort (as was done for hurricane Dean).

The Administration of the Disaster Fund

Please note that throughout the document coverage is limited to T&D assets only. While this may be understandable for the self-insurance fund, it should be noted for record that the extent of the Z-factor coverage is currently a matter of dispute before the Appeals Tribunal.

The issue of taxes has not been addressed. The revenue amount set aside should be net of taxes or the tariff grossed up as of 2009 to account for taxes.

1.14

While the authority of the OUR to approve the cost recovery method is fully understood, we are however concerned that the language, *"it is within the powers of the OUR"*, could suggest some arbitrariness about the process. A greater degree of procedural consistency can be inferred from language to the effect that *"where the Fund is insufficient JPS can apply for cost recovery under the Z-factor clause"*, as per 1.14.3 (c).

1.2 (c) & (d)

Why is a 0.5% deductible being imposed on a self-insurance fund? Please provide clarity as to the purpose of a deductible in this context.

1.3 (a)

The stipulation here that funds be deposited within 14 days after the end of the month is at variance with the 30-days provision stated at 1.7.

1.6

The Bad Debt Factor we have noted has been changed to 2.5%. The current factor is 3%. Please advise as to when this change is expected to take effect.

3.4

- (b) - Remove the year 2005 to leave "pre-hurricane state"
- Our financial auditors cannot verify any pre-hurricane state;
- (c) - Our financial auditors cannot verify enhancement value

We again reiterate the need for a physical verification process involving a loss adjuster to be included. The process outlined is silent on this and what the Company regards as a most important element of the claims process.

3.4 1-3

The auditors cannot answer questions 1-3 since they will simply be reviewing third party invoices or internal documents and will not be doing physical verification or engineering services.

4. We cannot imagine how the auditors could attest to whether the costs were “avoidable” had the hurricane not occurred.
6. This would be a review more appropriate for a loss adjuster.

3.5

- (b) Replacement cost vs. enhancement cost is clearly open to wide interpretation. While the OUR points to a requirement for such categorisation, it has not provided any clear guidance on determining the appropriate cost bucket for the various asset types leaving the matter prone to significant subjectivity.
- (c) By its very nature, hurricane restoration does not align with the concept of “prudently incurred costs” and this therefore poses an impractical review question. Restoration activities are focused on returning customers to service as quickly as possible, not in the most cost effective or even efficient manner. The focus on restoring essential services first, for example, can lead to very inefficient resource allocation and deployment. If cost effectiveness and efficiency were the primary drivers, restoration would easily take twice as long as overtime and rush delivery premiums would be avoided.
- (d) We disagree with this to the extent that it excludes fixed cost recovery (lost revenues).

3.6

JPS is opposed to an incremental cost approach as defined since it ignores:

- i) the shortfall in fixed cost recovery, which would occur due to significant interruption to energy sales.
- ii) the potential impact of stranded assets in the rate base. That is, if costs are being capitalised then clearly some assets should be written off and the asset disposal cost should then be included in the disaster claim; and
- iii) the basis on which assets are actually acquired and financed under normal circumstances. The financing of existing assets is committed and cannot be

modified, such that any incremental costs incurred due to storm disaster need to be the subject of a completely new financial arrangement and the question of capital enhancement is not relevant unless substantial damage occurs to the underlying asset in the first place.

3.6 (a)

This approach ignores base incremental labour costs, and clearly presents an untenable contradiction given the disallowance of fixed cost recovery as well. If the Company is disallowed the opportunity to recover to pay the employee's base salary how can it be then pay overtime?

3.6 (b)

This theoretical basis is not practical and introduces a high degree of subjectivity into the process since it assumes all T&D assets can be discreetly identified and the age and remaining useful life similarly identified. This is not the case in reality.

PLEASE SEE OUR DETAILED RESPONSE ON ENHANCEMENT COST IN OUR DISCUSSION PAPER "RESPONSE TO Z-FACTOR ADJUSTMENT DRAFT DETERMINATION NOTICE DATED AUGUST 18, 2005"

4.4 2 & 3

To be modified for the proposed leveraging of the fund.

4.7 (d)

Suggest amending second bullet to add the word "significant" to make the sentence read, "Significant changes in the firm's organisation structure".

Appendix 2

The fear of "double dipping".

When the T&D system is taken as a whole it seems unduly complex to capitalise restoration costs which amounts to less than 3% of system value, especially considering that the T & D components cannot be discreetly identified in terms of age and remaining useful life.

Also, consideration of how assets are actually financed will convey an appreciation of the importance of preserving the original financing terms in relation to the particular class of assets that were acquired. Treatment of minor damages - of say less than 3-5% of the asset value - as incremental costs, needs to be addressed separately to ensure the class of assets are not impaired. This will ensure that the original financing can be serviced as agreed and any quality of earnings questions addressed, while also ensuring that there is a

separate but specific recovery mechanism for additional unforeseen costs incurred. This ensures that there is no "double dipping".