



**MIDLAND POWER UTILITY CORPORATION**  
16984 Highway#12 P.O. Box 820  
Midland Ontario L4R 4P4

March 11, 2009

Kirsten Walli, Board Secretary  
Ontario Energy Board  
2300 Yonge Street, 27<sup>th</sup> Floor  
P.O. Box 2319  
Toronto, ON M4P 1E4

Dear Ms. Walli,

**Midland Power Utility Corporation – License #ED-2002-0541**  
**OEB File No.: EB-2008-0236**

Enclosed please find Midland's final submission in regard to our Cost of Service Application which was filed on August 15, 2008, 1<sup>st</sup> Round Interrogatories filed December 12, 2008 and 2<sup>nd</sup> Round Interrogatories filed on January 30, 2009. Should you require any further information, please do not hesitate to contact the writer.

Yours very truly,

**MIDLAND POWER UTILITY CORPORATION**

A handwritten signature in black ink, appearing to read 'Phil Marley'.

Phil Marley, CMA  
President & CEO  
Tel: (705)526-9362 ext 204  
Fax: (705) 526-7890  
E-mail: pmarley@midlandpuc.on.ca

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**Midland Power Utility Corporation**

REPLY SUBMISSION

2009 ELECTRICITY DISTRIBUTION RATES

EB-2008-0236

Submitted March 11, 2009

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1 **OVERVIEW/INTRODUCTION**

2  
3 This is the reply submission of Midland Power Utility Corporation (Midland) in regard to  
4 its 2009 Cost of Service Application for an order approving just and reasonable rates for the  
5 distribution of electricity effective May 1, 2009 (Application). Midland's submission is  
6 filed in reply to submissions filed by Ontario Energy Board Staff ("Board Staff") February  
7 20, 2009, the School Energy Coalition ("SEC") February 26, 2009, and the Vulnerable  
8 Energy Consumers Coalition ("VECC") February 26, 2009.

9 Midland is the electricity distributor licensed by the Ontario Energy Board (OEB) to  
10 service the area known as the Town of Midland pursuant to the legal boundary limits  
11 except for the following:

12 The parcel of land surrounded by the northern Town boundary and the centerline of  
13 the roads, beginning at a point on Old Penetanguishene Road southerly to a point at  
14 Harbourview Drive (if extended), easterly along Harbourview to Fuller Street, then  
15 northerly along Fuller Street to Gawley Drive, then easterly along Gawley Drive to  
16 the shoreline of Georgian Bay.

17  
18 The parcel of land described above laying east of Fuller Street was formerly known  
19 as Sunnyside and the parcel of land described above laying west of Fuller Street was  
20 formerly known as Portage Park.

21  
22 Midland operates an electrical distribution system with a total service area of 20 square  
23 kilometers within its boundaries. In 2007, Midland delivered electricity to 6,556  
24 Residential and GS<50kW customers and 107 GS>50kW customers for a total of 6,663  
25 customers. Midland's projected customer count for the 2009 rebasing year is 6,850  
26 Residential, GS<50kW and GS>50kW customers.

27

1 Midland self-nominated for 2009 rebasing. Midland submitted its Application for 2009  
2 electricity distribution rates on August 15, 2008. The Application was based on a forward  
3 test year cost of service methodology. Midland submitted its responses to 1st first round  
4 interrogatories (1<sup>st</sup> IR's) from OEB Staff, SEC, and VECC on December 12, 2008.  
5 Responses to a second round of interrogatories (2<sup>nd</sup> IR's) from OEB Staff, SEC and VECC  
6 were filed on January 30, 2009.

7 In Midland's original Application, Midland provided evidence supporting a service revenue  
8 requirement of \$3,813,852 with revenue offsets of \$231,131 which, once applied would  
9 result in a base revenue requirement to be recovered from rates of \$3,582,721. This  
10 revenue requirement reflects a revenue deficiency for 2009 of \$897,322 based on existing  
11 approved rates. The following Table #1 provides a breakdown of the components of the  
12 Base Revenue Requirement:

13 **Table #1 – Calculation of Base Revenue Requirement**

14	OM&A Expense	\$2,093,100
15	Amortization Expense	<u>\$ 735,424</u>
16	Total Distribution Expenses	\$2,828,524
17	Regulated Return on Capital	\$ 780,334
18	PILS (with gross-up)	<u>\$ 204,993</u>
19	Service Revenue Requirement	\$3,813,852
20	Less: Revenue Offsets	<u>(\$ 231,131)</u>
21	Base Revenue Requirement	<u><u>\$3,582,721</u></u>

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25

1 The main contributors to the revenue deficiency are:

- 2 • Projected increases in OM&A costs including amortization expense for the 2009  
3 Test Year from the 2006 EDR Application relate to issues such as inflation, staffing,  
4 regulatory costs and amortization on capital expenditures since 2004. (i.e. the basis  
5 for the test year in 2006 EDR). Further detail is outlined in Exhibit 4, Tab 1,  
6 Schedule 1 and Tab 2, Schedule 2 of the Application and is further outlined in  
7 Midland's Response to Board Staff 1<sup>st</sup> IR's #18; and
- 8 • Projected increases in investments in gross assets due to infrastructure replacement.  
9 This results in an increase in the 2009 rate base on which the rate of return is based  
10 and is discussed further in the Application at Exhibit 2, Tab 1 (Rate Base  
11 Overview), Tab 2 and Tab 3 (Fixed Assets) and is further outlined in Midland's  
12 Response to Board Staff 1<sup>st</sup> IRs #38, Midland's Response to VECC 1<sup>st</sup> IRs #18, 19,  
13 20, 21, 22 and 23.

14 Midland's forecasts include increases in OM&A Expenses which reflect increases in  
15 employees, regulatory costs and other expenses. As indicated in the Application filed on  
16 August 15, 2008, OM&A Expenses are expected to increase \$384,405 or 22.5% in the 2009  
17 Test Year over 2006 EDR. Excluding the increase in staffing levels and 2009 Rate  
18 Application costs, this increase would be \$244,405 or 14.3% over 2006 EDR.. As the 2006  
19 EDR is based on 2004 OM&A Expenses, this increase of 14.3% represents an increase of  
20 2.9% per year. A complete analysis of this increase is set out in Exhibit 1, Tab 1, Schedule  
21 7 and 9; and Exhibit 4, Tab 2, Schedule 2.

22

23 Projected increases in investments in gross assets and, as a result, rate base on which the  
24 rate of return is based is discussed further in Exhibit 2 of the Application. Midland will be  
25 undergoing substantial increases in its fixed assets due to the enhancement and/or  
26 replacement of system infrastructure and system expansions to meet the demand of new  
27 and existing customers. This increase is attributed to some growth, but is primarily a  
28 replacement of existing aging infrastructure in order to maintain safe and reliable delivery

1 of electricity to our customers. In 2006, Midland completed a substation assessment study  
2 which provided an analysis of existing infrastructure and a plan for the replacement taking  
3 into consideration future growth in our territory. This study provided the asset  
4 management specifications for the substation upgrades.

5 To be of assistance to the Board, Midland has reconciled the Base Revenue Requirement  
6 referred to above with the Revenue Requirement of \$4,472,579 mentioned in the Board  
7 Staff's submission. Board Staff have calculated the Revenue Requirement in Table #2, as  
8 follows:

9 **Table #2 – Calculation of Board Staff Revenue Requirement**

10	Base Revenue Req. - Midland	\$3,582,721
11	Revenue Offsets	\$ 231,131
12	Low Voltage Charges	\$ 339,515
13	Transformer Allowance	\$ 151,200
14	Smart Meter Rate Adder	\$ 82,200
15	Deferral Account Rate Adder	<u>\$ 85,812</u>
16	Revenue Req. – Board Staff	<u>\$4,472,579</u>

17

18 During the interrogatory process, Midland made revisions to the Application which were  
19 discussed and presented in a Summary of Proposed Changes included in Midland's  
20 Response to Board Staff 1<sup>st</sup> IR's on December 12, 2008. This Summary provided for a  
21 service revenue requirement of \$3,692,751 with revenue offsets of \$231,131 which, once  
22 applied would result in a base revenue requirement to be recovered from rates of  
23 \$3,461,620. This revenue requirement reflects a revenue deficiency for 2009 of \$776,221  
24 based on existing approved rates. The revised Base Revenue Requirement is summarized  
25 in Table #3 as follows:

26

**Table #3 – Revised Calculation of Base Revenue Requirement**

1		
2	OM&A Expense	\$2,111,850
3	Amortization Expense	<u>\$ 725,027</u>
4	Total Distribution Expenses	\$2,836,877
5	Regulated Return on Capital	\$ 772,976
6	PILS (with gross-up)	<u>\$ 82,898</u>
7	Service Revenue Requirement	\$3,692,751
8	Less: Revenue Offsets	<u>(\$ 231,131)</u>
9	Base Revenue Requirement	<u>\$3,461,620</u>

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With this revised Base Revenue Requirement the revised Revenue Requirement in Board staff's submission would therefore be \$4,351,478 as at December 12, 2008.

Recommendations of further changes made by Board Staff, SEC and VECC in their submissions have been considered and are discussed throughout this document. These changes are summarized in the Summary of Final Submission Changes Table #13 at the end of this document. This Summary includes all changes to the Application since the August 15, 2008 filing. Also at the end of this document is a Summary of Specific Approvals Requested including any applicable impacts resulting from the changes referred to above.

Midland's detailed reply to the applicable submissions is presented within each topic as set out in the Index on page 2. References will be made to the Exhibits contained in the original Application filed on August 15, 2008 which will be set out using the following condensed format:

Example: Exhibit 1, Tab 3, Schedule 2, Page 25 will be referred to as E1, T3, S2, Pg. 25

1 **RATE BASE**

2 **Capital Expenditures**

3 The Board Staff submission (pg. 4) invited parties to comment on whether Midland's  
 4 proposed capital expenditures for 2009, including an increase of \$121,860 to the original  
 5 estimate are appropriate.

6 Midland submits the following Table #4 sets out the comparison of 2007, 2008 and 2009  
 7 capital spending:

8 **Table #4 – Comparison of Capital Spending**

<b>Description</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Capital per Application – Aug 15/08	\$1,450,000	\$2,550,000	\$2,698,000
Capital Jan 30/09 – Adjustments		(\$ 341,000)	\$ 122,000
<b>Revised Capital</b>	<b>\$1,450,000</b>	<b>\$ 2,209,000</b>	<b>\$2,820,000</b>
<b>Revised Capital Details</b>			
Substation Upgrades/Replacement	\$ 690,000	\$1,300,000	\$1,300,000
Vehicle Replacement	\$ 133,000	\$ 25,000	\$ 385,000
Developer Expansion Payments			\$ 400,000
Pole Line Expansion			\$ 140,000
Other Capital Projects	\$ 627,000	\$ 884,000	\$ 595,000
<b>Total</b>	<b>\$1,450,000</b>	<b>\$2,209,000</b>	<b>\$2,820,000</b>

1 Midland submits of the total 2007 capital expenditures, the substation upgrade totalled  
2 \$690,000 vs. the substation upgrade in 2008 of \$1,300,000, an increase of \$610,000. In  
3 addition, in the interrogatory response to VECC 1<sup>st</sup> IR's #19, Midland advised the 2008  
4 capital spending would be reduced by \$400,000 due to the fact that no payments were made  
5 to developers for expansions in 2008, but additional spending of \$58,600 would be  
6 incurred. Consequently, the 2008 spending would be reduced by \$341,400.

7 In comparison to 2009, Midland submits of the total 2007 capital expenditures the  
8 substation upgrade totaled \$690,000 vs. the substation upgrade in 2009 of \$1,300,000. In  
9 2007 a small bucket truck was replaced at a cost of \$133,000 vs. the 2009 replacement of a  
10 double bucket truck of \$385,000. Additional capital projects in 2009 include developer  
11 expansion payments of \$400,000 and a pole line expansion based on customer growth for  
12 future development of \$140,000. Midland's Other Capital Projects in 2009 are comparable  
13 to those completed in 2007 (\$595,000 in 2009 vs. \$627,000 in 2007).

14 Midland agrees with Board Staff (pg. 4) and VECC (#2.11) submissions that the reliability  
15 indices for the years 2003 – 2007 did not show any deterioration. Midland recognizes these  
16 indices do not indicate there are existing issues, however, the indices are indicators of what  
17 has happened historically. Midland has continued to be proactive in preventative  
18 maintenance for both the substations and pole lines. Midland will experience reliability  
19 issues if we do not upgrade our aging infrastructure through our capital programs. Midland  
20 was prudent in commissioning the substation study in 2006 and this study indicated  
21 replacement of the substations. The reliability statistics measure historical data, and  
22 Midland submits if the upgrading of the infrastructure as submitted in the Application is not  
23 completed, our reliability indices are at risk of deterioration.

24 Midland also submits with respect to system reliability, if the projects are not completed in  
25 a timely manner, system reliability and safety will be at risk. Midland submits putting off  
26 plans to replace aging infrastructure could result in hours or days of outages to Midland  
27 customers. In addition, as indicated in Midland's Interrogatory Response to OEB Staff IR

1 #15, Midland could face multiple infrastructure replacements at the same time or  
 2 emergency situations which would increase costs due to the nature of the emergency.

3 Midland agrees with the Board Staff (pg. 2), SEC (#3.1.1) and VECC (#2.5) submissions  
 4 that 2009 Capital projects are approximately 89% higher than 2007 capital expenditures.  
 5 Midland disagrees with SEC's (#3.1.9) submission. Midland submits the capital projects in  
 6 2008 and 2009 are warranted. Midland has been proactive in developing its capital budgets  
 7 to provide a foundation for the replacement/upgrade to existing infrastructure, other capital  
 8 requirements and to plan for future development. These projects are more particularly set  
 9 out under E2, T1, T2, and T3.

10 The increase in capital expenditures in 2009 over 2007 spending is attributable to specific  
 11 projects, a summary of which is provided in Table #5 below:

12 **Table #5 – Summary of Increases - Capital Expenditures 2009 over 2007**

Description	2007	2009	Change
Substation Increase Cost	\$ 690,000	\$ 1,300,000	\$ 610,000
Developer Expansion Payments	\$ 0	\$ 400,000	\$ 400,000
Vehicle Purchase	\$ 133,000	\$ 385,000	\$ 252,000
Pole Line Expansion	\$ 0	\$ 140,000	\$ 140,000
Other Capital Projects	\$ 627,000	\$ 595,000	(\$ 32,000)
<b>Total Capital Expenditures</b>	<b>\$ 1,450,000</b>	<b>\$ 2,820,000</b>	<b>\$ 1,370,000</b>

14  
 15 Although in each of the years 2007 and 2009 a substation project was completed, the costs  
 16 incurred in 2009 are substantially higher (\$610,000) due to the fact the entire substation  
 17 will need to be replaced and relocated. Developer contributions were not paid in 2007, but  
 18 will be paid in 2009 (\$400,000) to fulfill the Board's requirements in the Distribution  
 19 System Code and as set out in E2, T3, S1, Pg. 32. In 2007, a small bucket truck was

1 replaced whereas in 2009, a double bucket truck will be replaced. This bucket truck is 18  
2 years old and is in dire need of replacement. In addition, in 2007 there were no pole line  
3 expansion projects, whereas in 2009 the Sunnyside pole line project is an expansion. Other  
4 capital projects are reduced in 2009 by \$32,000 as compared to 2007.

5 VECC has indicated (#2.6) that actual spending levels for the years 2005, 2006 and 2007  
6 capital are lower than the test year. Midland is cognizant of the fact that our infrastructure  
7 is aging and that spending levels on capital have been lower in previous years, however,  
8 Midland is taking steps to provide for the replacement and/or upgrade through our asset  
9 management plan. Midland also notes the 2009 test year includes major projects -  
10 substation, developer expansion payments, vehicle purchase, pole line expansion as  
11 itemized above.

12 Midland agrees with Board Staff submission (pg. 3) in regard to the SCADA software  
13 deferment to 2010.

14 In Board Staff's submission (pg. 4) reference was made to the increase of \$121,860 in  
15 capital expenditures in 2009. These expenditures are warranted due to the increased costs  
16 from \$53,100 to \$143,000 of Project #2009-01 - Bourgeois Lane Transformer Kiosk, as  
17 outlined in Midland's response to Board Staff 1st IR #15 (b) and Board Staff 2<sup>nd</sup> IR #1.  
18 Midland agrees these increased costs are based on the recommendation in an independent  
19 engineering report requiring the additional installation of a secondary splitter box and a  
20 steel vault cover. In addition, the Fourth St. Substation upgrade and pole line projects will  
21 incur additional costs and the purchase of the bucket truck has increased due to currency  
22 exchange rates in effect in 2009 vs. 2008. Complete details of the increase of \$121,860  
23 was provided in response to VECC's 1<sup>st</sup> IR #21 (b).

24 In VECC's submission (#2.4), VECC indicated Midland's capital spending on pole line  
25 rebuilds has risen from \$406,600 to \$548,600. Midland would point out that there was a  
26 error in Midland's response to VECC 2<sup>nd</sup> IR#21(b) with respect to the grouping of pole line  
27 rebuilds. Midland erroneously included the Bourgeois Lane Transformer Kiosk Project  
28 with the category of pole line rebuilds. This project is to replace the existing transformer

1 installation and to install a backup primary feed to the transformers. The total cost of this  
2 project has increased from \$53,200 to \$143,000 in 2009. Consequently, this would reduce  
3 the original pole line projects from \$406,600 to \$353,500 (\$406,600 less \$53,100 –  
4 Application budget cost for Bourgeois Lane Transformer Kiosk) and reduce the updated  
5 pole line projects from \$548,600 to \$405,600 (\$548,600 less \$143,000 – revised budget  
6 cost for Bourgeois Lane Transformer Kiosk). Therefore, Midland submits there is not a  
7 35% increase in pole line rebuilds since filing the Application, but in fact the difference is  
8 \$52,100 (\$405,600 - \$353,500) or 15%. This increase in cost is warranted and Midland  
9 would request the Board's approval for the increase.

10 VECC's submission (#2.11) is incorrect. VECC indicates that the budgeted pole line  
11 projects in 2007 were \$45,300. VECC has only taken into consideration the small pole  
12 line projects in its comparison. Pole line projects in 2007 totaled \$177,000 (Queen St. -  
13 #2007-02, Tiffin Park #2007-03, particulars of which are set out at E2, T3, S1, Pg. 16 & 17;  
14 and small pole line projects, VECC 1<sup>st</sup> IR#18 (b)). No expansion projects were required in  
15 2007 and the Queen St. and Tiffin Park projects were smaller pole line rebuilds vs. the  
16 projects designed for 2009. In particular, the Yonge St. pole line project in 2009 is the  
17 largest pole line project Midland has undertaken and will encompass the replacement of 54  
18 poles as set out in E2, T3, S1, Pg. 34. Midland disagrees with VECC's submission (#2.11)  
19 in regard to the comparison of 2009 pole line projects vs. 2010 and 2011. As indicated  
20 previously, the 2009 pole line projects total \$405,600 which are in line with 2010  
21 (\$339,100) and 2011 (\$387,900) budgets (VECC 1<sup>st</sup> IR #21 (b)).

22 In VECC's submission (#2.4 and #2.13) VECC questions how the vehicle costs have risen  
23 by 15% since filing of the Application. Midland submits the bucket truck is manufactured  
24 in the United States and the increase in cost is attributed to the increase in currency  
25 exchange rates prevailing from the time of the filing of the Application to the purchase in  
26 2009. Midland submits the current exchange rates are \$1.3222 and therefore, expects the  
27 cost of this vehicle to increase further as a result. Midland, in the general course of  
28 conducting its business affairs, endeavours to obtain the best possible price for all

1 purchases especially given the state of the business cycle and price trends for other  
2 vehicles.

3 VECC's submission (#2.7 and #2.8) indicates they are suspicious of Midland's motives in  
4 the way in which Midland conducts its business operations. Midland strongly objects to  
5 this vexatious comment. Midland submits the Bridge Year budget of \$2,550,000 (E2, T3,  
6 S1, Pg.30) has been adjusted to \$2,209,000 as set out in Table #4 above. Midland submits  
7 VECC does not understand the capital scheduling process LDC's undertake during the  
8 course of a year. Major capital projects are designed based on when demand will  
9 accommodate the disruption and rebalancing of load where required. In addition,  
10 contractors quite often do not require payment for their services until a percentage of the  
11 job is completed or upon full completion. This quite often does not occur until the end of  
12 the year.

13 In VECC's submission (#2.9 & #2.10), VECC equates the flow of spending vs. when work  
14 is performed. In 2008, Midland paid the final installment on the substation in the late fall  
15 in the amount of \$450,000. Midland submits the balance of the capital spending  
16 constitutes 17% of the total budget which is in line with VECC's submission that "83% of  
17 the budget was spent in the preceding 10 months". Midland submits it is not reasonable to  
18 assume there will be an even flow of spending over the year. Midland strongly disagrees  
19 that the capital spending in 2008 should be reduced beyond the \$341,400 already being  
20 considered as a reduction from what was originally submitted for 2008.

21 Midland submits if projects are put off it will lead to a backlog of infrastructure projects. In  
22 addition, if there is a catastrophic failure of one of the substations, the replacement in an  
23 emergency will require increased costs (Board Staff 1<sup>st</sup> IR's #15).

24 Midland disagrees with SEC's submission (#3.1), except for #3.1.8, with respect to the  
25 capital spending plan. Throughout this proceeding Midland has acted in a professional  
26 manner to all parties and Midland is aghast at the disrespect shown by SEC. Midland  
27 specifically takes exception to the comments raised with respect to the prudent operation of  
28 the distribution system and the recommendations of the independent engineering report on

1 the substations. If SEC had taken the time to read the engineering report, in particular page  
2 2 which is reproduced on Page 15 of this submission for the Board's convenience, it would  
3 have realized that Midland is following the recommendations made by Rondar to the letter.  
4 SEC would then not have had to take the time to submit their disparaging comments as  
5 itemized in #3.1.2, #3.1.3, #3.1.4, #3.1.5, #3.1.6, #3.1.7, #3.2.2 and #3.2.3. Midland  
6 believes that SEC was unprepared to comment on our capital programs given the fact that  
7 SEC has had access to our substation study since August 15, 2008 and have obviously  
8 misinterpreted or have not read the recommendations made by Rondar. Midland submits it  
9 specifically provided the substation study in our original Application which was filed on  
10 August 15, 2008 to allow all parties the appropriate time to review the report in detail. It  
11 therefore appears that SEC has not comprehensively reviewed Midland's Application as  
12 would be expected by a professional intervenor.

13

14

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September 25, 2006

Midland PUC  
16984 Highway 12  
Midland, Ontario  
L4R 4P4

Attention: **Mr. Wayne Dupuis, C.Tech.**

Subject: **Distribution Substation Evaluations  
Our Reference No. C1753**

Dear Sir,

We are enclosing the results of the assessment of Midland PUC's six (6) distribution substations. The inspections were completed on August 2, 3, 17 and 18, 2006.

The results indicate that the order of priority to complete the repairs is as follows. We recommend that the work at Scott Street and Brandon Street be completed as soon as possible.

- 1) Scott Street Substation
- 2) Brandon Street Substation
- 3) Fourth Street Substation
- 4) Dorion Street Substation
- 5) Montreal Street Substation
- 6) Queen Street Substation

Before construction commences, we also recommend that the following engineering studies be completed to support equipment selection: protection co-ordination study, short circuit analysis, ground grid study, and equipment evaluation study.

We trust that the contents, comments and recommendations of the assessment meet your satisfaction. If any further information or explanations are required, please do not hesitate to contact our office.

RONDAR INC.

Dan Brown, A.Sc.T.  
Technical Service Representative

1 Midland has an obligation to serve new growth within our service area in a timely and cost  
2 effective way. In order to fulfill this obligation, Midland identifies all potential areas where  
3 new growth may occur, while recognizing that the actual timing of each possible new  
4 development is uncertain. This is the prudent approach to planning since it ensures that we  
5 are ready to accommodate the most extreme demands that we may face. Nevertheless, we  
6 recognize that it is unlikely that all of the plans that developers have in our service area will  
7 proceed as quickly as expected. Our capital budget reflects the level of growth that we  
8 anticipate based on the overall rate of development in our service area in recent years,  
9 anticipated economic conditions and management judgment. Given the uncertainty of  
10 development in our area, our plans are updated regularly to ensure that they reflect the most  
11 current plans of developers.

12

13 It is Midland's submission the proposed capital budget is consistent with the prudent  
14 operation of the distribution system and the engineering report on the substations. Midland  
15 submits the upgrades and replacement of the substations has been in accordance with the  
16 engineering report.

17 Midland agrees with SEC's submission (#3.1.8) that the Fourth St. Substation should  
18 proceed as planned in 2009 and that it is well supported by the evidence.

19 Midland agrees with SEC's submission (#3.1.10) in regard to capital programs being  
20 lumpier in some years as opposed to others. However, Midland submits, due to the  
21 pressures since market opening, capital programs have been deferred or not given priority.  
22 This is a combination of pressures as a result of market opening requirements and the fact  
23 that Midland's rates are currently based on 2004 costs.

24 With respect to SEC's submission (#3.1.11) Midland submits this is irrelevant. Midland is  
25 not delaying projects for tax shield purposes, and finds it disingenuous for SEC to make  
26 this accusation.

27 Midland disagrees with SEC's submission (#3.1.12). Midland submits the capital budget of  
28 \$2,820,000 is warranted and should be approved by the Board.

1 Throughout this Cost of Service Application process, Midland followed the filing  
2 requirements as set out by the Ontario Energy Board, has reviewed many 2008 cost of  
3 service applications and has taken into consideration the Board and intervenor comments  
4 made in those Applications, particularly in regard to the detail and openness of the  
5 information required. Midland has complied with every request made and we believe we  
6 have provided countless documents and information pertaining to our LDC. Having said  
7 this, it is disingenuous that SEC would use such vexatious comments they have raised in  
8 their submission. VECC has also made comments in regard to the timing of when projects  
9 are carried out throughout the year. Both VECC at #2.8, #2.10, #4.3, and #4.4, and SEC at  
10 #3.1.3, #3.1.4, #3.1.5, #3.1.6, #3.1.7, #3.2.2, and #3.2.3 have made accusations regarding  
11 the way in which Midland conducts its business affairs. These accusations are totally  
12 unfounded and Midland would submit that the accusations lead Midland to the conclusion  
13 that intervenors may be increasing the volume of their submissions only to increase their  
14 cost awards which will increase costs to our ratepayers. Midland submits the Board should  
15 take this into consideration before approving cost awards.

16

17 Midland disagrees with VECC (#2.1.0, #2.1.2 & #2.1.3) and SEC's (#3.2.4) proposals to  
18 reduce Midland's capital budget. Midland submits the evidence provided in the  
19 Application, the interrogatory process and this submission clearly indicate the need for the  
20 capital expenditures of \$2,820,400. Consequently Midland submits the rate base of  
21 \$12,202,110 be accepted by the Board.

## 22 **Working Capital**

23 Midland submits it has followed the filing requirements as set out by the Board in regard to  
24 Working Capital. Midland submits in response to VECC's submission (#2.16) with respect  
25 to the transmission and connection charges, Midland has used the latest approved Hydro  
26 One rates to calculate the 2009 rates. Midland further submits it has used the rate of  
27 \$60.30/MWh as the average RPP price in response to VECC (#2.14 & #2.15). Midland  
28 notes SEC (#3.2.5) has made no submissions on the calculation of working capital. SEC  
29 (#3.2.6, #3.2.7 & #3.2.8) has submitted the Board order Midland to undertake a lead-lag

1 study and file it with our next rebasing application. Midland submits the cost of these  
2 studies is prohibitive and would request should the Board require such a study, it be done  
3 on an industry wide basis in a consultation process through the OEB.

4 Midland submits it has updated the Rural Remote Electricity Rate Protection Rate from  
5 \$0.0010 to \$0.0013 in accordance with the letter from the Ontario Energy Board dated  
6 December 17, 2008.

7 Midland submits the change to the transmission/connection rates and the RRRP rate have  
8 been reflected in the Summary of Final Submission Changes Table #13 at the end of this  
9 submission.

10

11 **OPERATING REVENUE**

12 Midland notes Board Staff and SEC have not made submissions in regard to Operating  
13 Revenues and Other Revenues.

14 **Miscellaneous Revenue**

15 Board Staff and SEC have made no submissions with respect to miscellaneous revenues.  
16 VECC's submission (#3.15) indicates Midland's jobbing income should increase by  
17 \$11,000, based on revenues of \$82,000 and expenses of \$49,800, for a net income of  
18 \$32,200. Midland's Application provided for jobbing revenues of \$82,000 and expenses of  
19 \$60,800 for a net income of \$21,200, which is a projection of what Midland believed  
20 jobbing revenues and expenses would be in 2008 and 2009. Midland submits its actual  
21 jobbing revenue for 2008 is \$41,000 with expenses of \$23,000 for a net income of \$18,000.  
22 Based on this result and the economic decline since the Application was filed, Midland  
23 expects the net income resulting from jobbing in 2009 to decrease below the forecast of  
24 \$21,200, however, Midland would ask the Board approve the net income from jobbing at  
25 \$21,200 as set out in Application.

1 VECC submitted (#3.16) any gain on vehicle disposition be included in miscellaneous  
2 revenues for 2009. Midland submits the vehicle in question is 18 years old and does not  
3 expect to have any gain on the disposition of this vehicle.

4 VECC's submits (#3.17, #3.18 & #3.19) interest income should be increased by \$20,000 in  
5 the 2009 test year. Midland strongly disagrees with this submission. Midland submits the  
6 interest revenue for 2009 will be greatly diminished due to the disposition of regulatory  
7 asset balances from a debit position to a credit position as outlined in the Board Staff  
8 submission (pg. 14 & 15). In addition, Midland submits the capital funding requirements in  
9 2008 and 2009 will result in overdraft and loan requirements in 2009. Midland submits the  
10 actual interest revenue for the year 2007 was \$75,000 and for 2008 was reduced to \$37,000.  
11 Midland therefore submits interest income in 2009 will be negligible, if at all and the value  
12 of \$10,000 provided in the Application is reasonable.

13 Midland therefore disagrees with VECC's submissions in regard to miscellaneous revenues  
14 (#3.8, #3.9, #3.10, #3.11, #3.12 #3.13, #3.14, #3.15, #3.16, #3.17, #3.18 and #3.19).

15

## 16 **OPERATING COST**

### 17 **2009 Rebasing Cost**

18 Midland disagrees with VECC's submission (#4.2) in regard to the reduction in regulatory  
19 costs from \$175,000 to \$150,000. In Midland's interrogatory response to Board Staff 2<sup>nd</sup>  
20 IR #5, Midland "voluntarily" reduced regulatory costs from \$175,000 to \$125,000 due to  
21 the elimination of the oral component requirement in this Application process. Therefore,  
22 Midland submits regulatory costs of \$125,000 be approved by the Board. This change has  
23 been reflected in the Summary of Final Submission Changes Table #13 at the end of this  
24 submission.

25 Midland notes that VECC (#4.5) does not take issue with the compensation component of  
26 the Test Year revenue requirement. Midland does disagree with VECC's submission (#4.4)

1 in regard to the additional management position. VECC is incorrect in saying the  
2 regulatory component is for rate application purposes only. Since market opening Midland  
3 has consistently faced pressure to provide additional regulatory reporting and other  
4 regulation related roles such as Electrical Safety Standards, Health and Safety reporting and  
5 recordkeeping requirements, Economic Evaluations and additional reporting and  
6 recordkeeping requirements from the Ontario Energy Board. VECC (#4.4) is incorrect in  
7 assuming Midland's only regulatory reporting requirement is a rate application. Midland  
8 has provided evidence supporting the addition of this management position at E4, T2, S2,  
9 Pg. 47-48 and at page 55 & 59 of Board Staff 1<sup>st</sup> IR's.

10 Midland agrees with SEC's submission (#4.1.1), but disagrees with SEC's submissions  
11 (#4.1.2, #4.1.3 and #4.1.4). Midland submits evidence has been provided to the Board to  
12 justify the increase in OM&A expenses at E4, T2, S8, Pg. 47 – 48 and at Pg. 55 & 59 of  
13 Board Staff 1<sup>st</sup> IR's and Board Staff 1<sup>st</sup> IR's #21 at page 61 & 62. Midland submits a 3%  
14 increase year over year including the labour component is inappropriate and is not a  
15 reflection of the reality of Midland's labour compensation at E4, T2, S8, Pg. 1. Midland  
16 submits an increase of 3% year over year, excluding the labour component is appropriate.

17 In addition, it is clear to Midland that VECC and SEC do not understand how an LDC  
18 conducts its operations and the pressures placed on it to be competitive in the labour  
19 market. If we are not competitive, we will lose staff to neighbouring LDC's or other  
20 jurisdictions outside Canada. This has happened to Midland and is due to the inequitable  
21 wage rates. Consequently, Midland is taking steps to bring wage rates within those of  
22 neighbouring LDCs – i.e. market rates.

23  
24 Midland submits the following analysis showing the increase of OM&A expenses over  
25 2007 levels:

26

27

28

1

**Table #6 – OM&A Expense Analysis**

	2007	2008	2009
Total OM&A Expenses per Application	1,785,000	1,934,700	2,099,350
Less: Wages & Benefits (E4, T2, S8, Pg. 1 line 11)	(1,076,686)	(1,225,252)	(1,351,673)
Net OM&A Expenses	708,314	709,448	747,677
Add: 3% per year increase per SEC Submission (#4.1.3)		729,563	751,450
Add: Regulatory Costs			31,250
Add: IFRS Costs			25,000
2009 OM&A Expenses net of Wages & Benefits			807,700
Add: Wages & Benefits (E4, T2, S8, Pg. 1 line 11)			1,351,673
Total 2009 OM&A based on 3% increase over 2007			2,159,373

2

3 In the table above, Midland has separated Wages and Benefits from Total OM&A to arrive  
 4 at Net OM&A Expenses. Midland submits its unionized labour costs as indicated in the  
 5 evidence (E4, T2, S8, Pg. 1), will increase by 8.5% over 2008 levels due to the fact outside  
 6 staff hourly rates have lagged behind other LDCs in comparison to those adjacent to  
 7 Midland’s service territory Midland submits in order to maintain a stable work force this  
 8 adjustment to the hourly wage rates is necessary. To do so otherwise would be putting  
 9 safety and reliability of our system at risk due to staff turnover and the ability to retain  
 10 competent staffing levels. Midland has in the past been subject to considerable staff  
 11 turnover as indicated in Midland’s response to SEC 1<sup>st</sup> IR’s #3 pgs 4 to 8. In addition, as  
 12 indicated previously, 2009 labour expense is expected to increase due to the hiring of an  
 13 additional manager in the operations department. Midland submits, therefore, based on a  
 14 3% increase as outlined by SEC (#4.1.3) Net OM&A expenses year over year from 2007 to  
 15 2009 would increase to \$2,159,373 vs. 2009 OM&A expenses of \$2,099,350 – a difference  
 16 of \$60,000 over and above Midland’s OM&A expenses as set out in our Application. It  
 17 should be noted even with this increase the total OM&A envelope of expenses is \$60,000  
 18 less than SEC’s proposal of a 3% increase in OM&A expenses each year.

1 Midland notes Board Staff did not take issue with Midland's OM&A expenses. Midland  
2 therefore requests the Board approve Midland's OM&A expenses of \$2,099,350 as set out  
3 in this Application.

#### 4 **Amortization**

5 Midland disagrees with SEC's submission (#4.2) and with VECC's submission (#4.1).  
6 Midland submits no reductions in capital spending are warranted. Therefore no adjustment  
7 to amortization is necessary. Midland therefore, requests the Board approve Midland's  
8 amortization expense as set out in this Application.

9

#### 10 **LOAD FORECAST**

11 Midland notes Board Staff, VECC (#3.7) and SEC (#2) accept Midland's submission in  
12 regard to the load forecast. Midland notes VECC has submitted (#3.4) Midland's method  
13 is the preferred approach for load forecasting. Midland also recognizes improvements to  
14 the process are reasonable for the next rebasing rate application and will monitor the load  
15 forecasting process in the upcoming years to ensure Midland has the best forecasting  
16 method available at the time. Midland therefore submits the load forecast as submitted be  
17 approved by the Board.

18

#### 19 **PAYMENT IN LIEU (PILs) OF TAXES**

20 Midland agrees with the Board Staff submission (pg. 4 & 5) that the appropriate income tax  
21 rate is 16.5% based on the changes announced in the 2009 Federal Budget. Midland notes  
22 VECC (#7.1) has agreed with submissions of the Board Staff. Midland has included this  
23 change in the Summary of Final Submission Changes Table #13 at the end of this  
24 submission. Midland notes SEC (#5.4) has agreed with Board Staff submissions and SEC  
25 has submitted (#5.4.2) should the Province of Ontario change corporate tax rates for the

1 year 2009 these rates be reflected in the PILs calculations. Midland submits the PILs  
2 calculation be based on income tax rates in effect as at January 1, 2009.

3

#### 4 **COST OF CAPITAL**

##### 5 **Capital Structure**

6 Midland agrees with Board Staff submission (pg. 5, 6 & 7) in regard to capital structure.  
7 SEC has not made a submission with respect to the capital structure. Midland notes VECC  
8 (#5.1) agrees with Midland's approach. Midland therefore submits the Board approve  
9 Midland's capital structure as filed.

##### 10 **Short Term Debt**

11 Midland agrees with Board Staff submissions (pg. 6) and submits it will adopt the short  
12 term debt rate as adopted by the Board at 1.33%. Midland notes SEC (#5.2) is in  
13 agreement with the 1.33% short term debt rate and VECC (#5.1) is in agreement with  
14 Board Staff submissions. This change has been reflected in the Summary of Final  
15 Submission Changes Table #13 at the end of this submission.

##### 16 **Long Term Debt**

17 Midland agrees with the Board Staff submission (pg. 6 & 7) that the proposed long term  
18 cost of debt is compliant with the Board Report. Midland notes VECC (#5.1) has agreed  
19 with the Board Staff report and SEC (#5.1) has agreed with Midland's submission in this  
20 regard. Midland also notes SEC (#5.1.2) views Midland's long term debt proposal is a  
21 commendable approach. Midland submits the proposed long term debt rate is 4.64% which  
22 is significantly lower than the Board's long term debt rate of 7.62% outlined in the Board's  
23 letter dated February 24, 2009 regarding Cost of Capital Parameter Updates for 2009 Cost  
24 of Service Applications.

25

1    **Common Equity**

2    Midland agrees with Board Staff (pg. 7) and SEC submissions (#5.3.1) that the cost of  
3    capital calculations should be recalculated using the 8.01% return on equity.

4    Midland submits the rates of 1.33% for short term debt, and 8.01% for return on equity  
5    have been adjusted, the results of which are noted on the attached Summary of Final  
6    Submission Changes Table #13.

7

8    **SMART METERS**

9    Midland notes Board Staff and SEC have made no submissions with respect to smart  
10   meters. Midland submits it has not incurred and does not intend to incur any costs  
11   associated with functions which the SME has the exclusive authority to carry out pursuant  
12   to O. Reg. 373/07. Midland notes subject to confirmation of this submission, VECC agrees  
13   (#11.1) the Board should approve the \$1.00 per customer per month smart meter rate adder.

14

15   **LINE LOSSES**

16   Midland agrees with Board Staff submission (pg. 7, 8 & 9) the proposed DLF of 1.0301  
17   and proposed TLF of 1.0651 are consistent with other partially embedded distributors of  
18   similar size and profile. Midland agrees with SEC's submission (#2.2.1) that the total loss  
19   factor of 1.0651 be accepted. Midland notes VECC has not made any submission in regard  
20   to line losses. Midland therefore submits the DFL of 1.0301 and the TLF of 1.0651 be  
21   approved by the Board.

22

23

24

1 **COST ALLOCATION AND RATE DESIGN**

2 **Low Voltage**

3 The following Table #7 provides the Hydro One Low Voltage rates:

4 **Table #7 – Hydro One Low Voltage Rates**

<b>Low Voltage Costs per kW</b>	<b>Midland Application</b>	<b>Effective Feb. 1, 2009</b>	<b>Effective May 1, 2009</b>
Shared Low Voltage Line	\$ 0.6330	\$ 0.5400	\$ 0.5450
Shared Low Voltage Distribution Station	\$ 2.1200	\$ 1.2000	\$ 1.2120

5

6 As submitted by Board Staff (pg. 9 & 10), Midland is prepared to use the proposed May 1,  
7 2009 LV rates to forecast its Low Voltage costs for 2009. Midland also observes VECC's  
8 agreement (#8.19) with the proposed allocation of LV costs. Midland's Low Voltage  
9 expenses have been revised to \$279,640 from \$339,515 as a result of the reduction in the  
10 above-noted rates and is shown on the Summary of Final Submission Changes Table #13 at  
11 the end of this submission. Midland therefore submits the Board approve Midland's  
12 proposed Low Voltage expenses of \$279,640.

13 **Retail Transmission Service Rates**

14 Board Staff (pg. 10 & 11) have submitted Midland has used the most up to date Uniform  
15 Transmission Rates from Hydro One as well as taking into account Midland's trend in the  
16 deferral account balances in calculating its Retail Transmission Service Rates for 2009 as  
17 previously submitted in response to Board Staff 1<sup>st</sup> IR's #5. Board Staff have also agreed  
18 those rates have been designed appropriately to collect the associated revenues. Midland  
19 notes SEC (#8.4) made no submission and VECC (#10.1) has agreed with the Board Staff

1 submission. Midland therefore submits the RTS rates as submitted under OEB 1<sup>st</sup> IR's #5  
2 (c) at pg. 24, be approved by the Board.

### 3 **Rural Remote Electricity Rate Protection (RRRP)**

4 Midland submits it has adjusted the RRRP rate from \$0.0010 to \$0.0013 in accordance with  
5 the Ontario Energy Board letter dated December 17, 2008. Midland's RRRP expenses  
6 have been revised to \$302,465 from \$232,665 as a result of the increase in the above-noted  
7 rate and is shown on the Summary of Final Submission Changes Table #13 at the end of  
8 this submission. Midland therefore submits the Board approve Midland's proposed RRRP  
9 expense of \$302,465.

### 10 **Transformer Allowance**

11 Both VECC and SEC disagree with the Cost Allocation results of the Informational Filings  
12 relating to the handling of the transformer allowance.

13 VECC submission (#8.2 – #8.6) proposes removing the cost of the transformer ownership  
14 allowance from the allocation of the revenue to the customer classes. VECC proposes to  
15 allocate the transformer ownership allowance directly to the GS>50 kW class after the cost  
16 allocation adjustments have been completed. This results in a set of revenue-to-cost ratios  
17 provided in VECC (#8.6) which VECC feels is a more appropriate starting point.

18 SEC (#8.1.3) provided, in their opinion, a better approach. SEC did not calculate revenue-  
19 to-cost ratios based on their proposal but indicated although the results would be similar to  
20 the VECC method, the revenue-to-cost ratios would be calculated more accurately.

21 Although alternative methods have been cited, Midland submits it is most appropriate at  
22 this time for LDC's to apply consistent methodology until an alternative has been  
23 developed, tested, and approved by the Board. For this reason, Midland submits the Board  
24 should approve the Transformer Allowance method used in the Cost Allocation model and  
25 the resulting revenue to cost ratios for use in the 2009 Application with a view of

1 addressing this subject through a consultation process under the direction of the Board  
2 before the 2012 Cost of Service rate applications are filed.

### 3 **Cost Allocation & Revenue to Cost Ratios**

4 VECC (#8.7, #8.8, #8.9, #8.10 & #8.11) has expressed concern with Midland's use of the  
5 class revenue requirement distribution from the Cost Allocation Informational Filing to  
6 determine cost responsibility for 2009. VECC (#8.10) has proposed an alternate method  
7 which produces values to be used as the reference point for any cost allocation adjustments.  
8 Midland notes VECC (#8.10) has incorrectly recorded Midland values for Sentinel Lights  
9 and Unmetered Scattered Load at 32% and 43% respectively. These values should be  
10 recorded as 0.32% and 0.43% respectively.

11 Midland disagrees with VECC's proposal and submits it followed an iterative process of  
12 allocating different proportions of revenue to the classes while trying to achieve desirable  
13 revenue to cost ratios which would move all classes in the direction toward unity. SEC  
14 (#8.2.1) agrees the Board should move all classes toward 100% revenue to cost ratios.  
15 Midland believes one class should not be subsidizing another class and it has been shown  
16 that the GS>50 KW has historically been subsidized by the Residential class. Midland is  
17 proposing rates that are fair and balanced to all customers by bringing all classes closer to  
18 paying their fair share of costs that are attributed to them. While it is true the use of a  
19 different starting point would obviously result in slightly different results, the reduction of  
20 revenue by one class would have to be picked up by the other classes.

21 SEC (#8.2.3) agrees "Midland is one of those cases in which the general service classes that  
22 include schools are undercontributing rather than overcontributing, in this case the GS>50  
23 KW class." and suggests "Those that are in the range should not be altered unless it is  
24 required to move other classes to the edge of their range." Midland submits in order to  
25 move the Residential class within the required target range and the movement of Street  
26 Lights and Sentinel Lights to half way of the lower boundary, the only option was to make  
27 the offsetting adjustment to the GS>50 KW class, as the GS>50 KW has historically been  
28 subsidized.

1 Midland disagrees with SEC's submission (#8.2.10). Midland submits the revenue to cost  
2 ratios submitted in this Application are within the Board approved ranges and the  
3 movement to unity will alleviate the cross subsidization between classes. In addition,  
4 Midland submits the adjustments were required to move other classes within target ranges  
5 and is in accordance with Board regulatory policy.

6 The Board Report on Cost Allocation dated November 28, 2007 stated cost allocation "calls  
7 for the exercise of some judgment both in terms of the cost allocation methodology itself  
8 ..." and it is therefore recognized there will be differences of opinions on how some issues  
9 are handled. Midland is not looking for winners or losers in the allocation of the revenue  
10 requirement but attempted to move the ratios toward unity while trying to keep the bill  
11 impact to reasonable levels for all customer classes.

12 The Street Lighting and Sentinel Lighting customer classes are impacted with the highest  
13 rate shock in this Application and for that matter this is also the case across most of the  
14 LDCs in the Province. As a result of this rate shock impact in 2009 for both of these  
15 customer classes, Midland would recommend the appropriate treatment for these customers  
16 would be to phase in the balance of the movement to the bottom of the target range over  
17 more than one year as suggested by Board Staff (pg. 12 & 13) and SEC (#8.2.7). Midland  
18 submits this is consistent with the submission of Board Staff (pg. 12), "Many of those  
19 decisions have gone on to require that the revenue re-balancing continue in subsequent  
20 years, culminating in a ratio that would be in the policy range before the expected next cost  
21 of service application." Therefore, Midland submits the Board should direct Midland to  
22 phase in the movement of the revenue-to-cost ratios for the Street Lighting and Sentinel  
23 Lighting customer classes over the entire IRM period which will mitigate the bill impact on  
24 these two classes following the rate shock year proposed for 2009.

25 Both VECC (#8.13) and SEC (#8.2.7) have agreed with Midland's proposal to move the  
26 Street Light and Sentinel Light class ratios half way to the bottom end of the Board's  
27 Guidelines for the 2009 rate year.

1 Midland has observed there are many alternative methodologies with respect to the  
 2 allocation of Midland's revenue requirement across customer classes. Table #8 below  
 3 provides a comparison of the proposed revenue-to-cost ratios between Midland's  
 4 Application, VECC, and SEC, however, it should be observed Board staff did not propose  
 5 different revenue-to-cost ratios from those proposed by Midland.

6 **Table #8 - Proposed Revenue-to-Cost Ratios**

	<b>Midland</b>	<b>VECC</b>	<b>SEC</b>
Residential	107.00	115.00	113.50
GS<50 kW	98.00	105.58	97.96
CGS>50 kW	98.00	80.00	83.67
Street Lights	49.00	49.00	46.73
Sentinel Lights	49.00	49.00	49.11
USL	100.00	120.00	114.00

7

8 Based on the different revenue-to-cost ratios proposed for almost every customer class in  
 9 Table #8 above, Midland submits it would be inappropriate for the Board to support one  
 10 proposal over another and further submits it should accept Midland's proposal supported  
 11 with all of the facts through to the bill impacts which were included with the Application  
 12 submitted on August 15, 2008.

13 VECC (#8.14) has suggested adjusting the revenue-to-cost ratio for the GS>50kW class to  
 14 80% and (#8.15) to allocate revenues resulting from the revenue-to-cost adjustments to the  
 15 Residential and USL classes. VECC's (#8.14) discussion is based on the results of an  
 16 alternative approach suggested in VECC 1<sup>st</sup> IR 5 (c) and displayed in the centre column of

1 (#8.12) VECC's submission showing a revenue-to-cost ratio for the GS>50kW of 69.67%.  
2 Midland's starting point for the GS>50kW class is a revenue-to-cost ratio of 83.67% based  
3 on the Cost Allocation Informational filing. Midland submits it would not be appropriate to  
4 change the methodology at this stage in the process for at least 2 reasons. First, the  
5 alternative method suggested by VECC would need to be fully explored to ensure the  
6 process is sound. Secondly, the use of different criteria to arrive at a new starting point for  
7 the revenue-to-cost ratios and the allocation of revenue to customer classes would likely  
8 result in costly amendments to the model used by many LDC's to prepare their  
9 Applications and would inevitably result in missing the May 1, 2009 effective date for  
10 approved rates.

11 SEC submission (#8.2.1) suggests the current cost allocation information is the best  
12 available information and should be used to require utilities to move towards revenue-to-  
13 cost ratios of 100% for each class.

14 While VECC (#8.16, #8.17 & #8.18) disagrees with the move to unity for the USL  
15 customer class Midland submits the USL class has a small number of customers and the  
16 revenue allocation (less than 0.5% of the total revenue requirement) relative to the other  
17 classes is small. Since these customers are small energy consumers they will likely have  
18 smart meters installed in 2010 and move to the GS<50kw customer class.

19 Both VECC and SEC have made recommendations as to what revenue-to-cost ratios are  
20 appropriate for each of the customer classes. Midland submits it approached the Cost  
21 Allocation adjustments using a consistent methodology utilized by the 2008 Cost of Service  
22 rate filers and subsequently approved by the Board.

23 Midland further submits it has applied for rates within the OEB Cost Allocation Guidelines.  
24 Any approach that is being cited as being more appropriate than that used by the 2008 and  
25 2009 rate filers should be reviewed by the Board and communicated to the applicants for  
26 future year filings. Midland submits it will apply any changes directed by the Board in its  
27 Decision.

1 **Rate Design**

2 Midland observes VECC (#9.1) views the fixed/variable split for the Residential customer  
3 class appropriate. Also, SEC (#8.3.1) agrees with Midland's adjustment of the monthly  
4 service charge for the GS>50kW to the bottom of the range is appropriate and should be  
5 approved by the Board. Midland submits the fixed/variable components in the Application  
6 be approved by the Board.

7 In addition, Midland looks forward to the results of the Ontario Energy Board Rate Review  
8 mentioned in the November 28, 2007 Report of the Board on the Application of Cost  
9 Allocation for Electricity Distributors which will also examine the role of Rate Design.  
10 Both undertakings will undoubtedly have determinative impacts on Cost Allocation and the  
11 fixed/variable ratio policy.

12

13 **DEFERRAL AND VARIANCE ACCOUNTS**

14 Midland submits in the Application it has proposed the disposition of accounts 1508 and  
15 1550 with a subsequent minor revision to account 1508 relating to Other Regulatory Assets  
16 – Transition Costs as set out under Board Staff 2<sup>nd</sup> IR's #4 Pg. 7. Midland agrees with  
17 Board Staff submission (pg. 13, 14 & 15) and VECC's submission (#6.1, #6.2, #6.3 &  
18 #6.4) requesting the Board allow clearance of these accounts, however, Midland submits  
19 these accounts be recovered by way of a variable rate rider over the 4 year rebasing period  
20 in order to smooth rates for customers.

21 Board Staff has submitted (pg. 15) the Board may wish to consider disposition of a number  
22 of other RCVA and RSVA accounts at this time. Midland is aware the Board is proposing  
23 to deal with RCVA and RSVA balances through a separate process from the Cost of  
24 Service applications, however, Midland agrees with Board Staff submission disposing of  
25 these balances at this time rather than waiting for the separate initiative. Midland submits  
26 because of the credit position of these accounts, if the Board does direct the disposition of  
27 all accounts submitted by Board Staff they be disposed of over the entire IRM period

1 which is 4-years as this would be in the best interest of customers. Midland has prepared  
 2 Table #9 below which calculates the 4-year Rate Riders and shows all of the accounts to be  
 3 disposed of as proposed by Board Staff. The Summary of Final Submission Changes at the  
 4 end of the documents shows NIL affect on the Revenue Requirement.

5 Midland notes both SEC (#7.1.1) and VECC (#6.4) have agreed with Board Staff proposal.

6

7 **Table #9 – Board Staff Proposed DVAD, revised allocators over 4 years**

8

Deferral / Variance Account	Total Recovery Amount	Allocation Basis	Residential	General Service <50 kW	General Service >50 Kw	Street Lighting	Sentinel Lighting	Unmetered Scattered Load
1508-Other Regulatory Assets	89,068	Distribution Revenue (proposed rates)	45,033	13,908	27,816	1,790	138	383
1518-RCVAREtail	-8,739	Customers	-7,648	-926	-131	-5	-14	-15
1550-LV Variance Account	122,180	kWh's	27,830	15,455	77,931	668	9	287
1580-RSVAWMS	-395,943	kWh's	-90,188	-50,084	-252,546	-2,166	-29	-930
1582-RSVAONE-TIME	15,930	kWh's	3,628	2,015	10,161	87	1	37
1584-RSVANW	280,233	kWh's	63,831	35,447	178,742	1,533	20	658
1586-RSVACN	-1,029,880	kWh's	-234,586	-130,273	-656,893	-5,634	-75	-2,420
1588-RSVAPOWER	672,930	kWh's	153,280	85,121	429,218	3,681	49	1,581
<b>Sub-Total for recovery</b>	<b>-254,221</b>		<b>-38,819</b>	<b>-29,337</b>	<b>-185,703</b>	<b>-45</b>	<b>100</b>	<b>-418</b>
<b>Total Recoveries Required (4 years)</b>	<b>-254,221</b>		<b>-38,819</b>	<b>-29,337</b>	<b>-185,703</b>	<b>-45</b>	<b>100</b>	<b>-418</b>
<b>Annual Recovery Amounts</b>	<b>-63,555</b>		<b>-9,705</b>	<b>-7,334</b>	<b>-46,426</b>	<b>-11</b>	<b>25</b>	<b>-105</b>
Annual Volume			49,791,737	27,650,878	332,681	3,052	44	513,550
Proposed Rate Rider per			(\$0.0002) kWh	(\$0.0003) kWh	(\$0.1396) kW	(\$0.0037) kW	\$0.5663 kW	(\$0.0002) kWh

9

1 **SUMMARY**

2

3 **Description of Proposed Changes**

4 Midland has proposed changes to the Application in the 1<sup>st</sup> IR's, the 2<sup>nd</sup> IR's and the final  
5 submissions. A description of these changes is provided below. Table #13 – Summary of  
6 Final Submission Changes on page 38 of this submission provides details of the  
7 calculations and impacts on the components to the revenue requirement which includes the  
8 revenue deficiency.

9 **1<sup>st</sup> IR's ADJUSTMENTS**

10 **OEB IR#3 - Street Lighting/Sentinel Lighting**

11 Midland is proposing to increase the R/C Ratios to 49% in this Rate Application and to  
12 further increase the R/C Ratios to 70%. Although no adjustment is required to the  
13 Application to reflect these changes, Midland is proposing in this final submission the  
14 adjustment from 49% to 70% be made over the next 4 years.

15

16 **OEB IR#40 – PILS**

17 **In the 1<sup>st</sup> IR's Midland** revised the income tax calculation to include the deduction for  
18 deemed interest. The impact on the revenue requirement as presented in the Rate  
19 Application was a reduction of \$124,171 (Income Tax per Rate Application of \$204,993,  
20 less revised Income Tax \$80,822). Midland has made a number of changes to the  
21 Application as itemized below, resulting in a proposed PILs calculation of \$71,526.  
22 Midland is proposing to reflect this change to the revenue requirement and any subsequent  
23 changes made by the Board once final rates are determined.

24

25 **OEB IR#5 & VECC #IR 15 – RTSR**

26 Midland has prepared an analysis of the impact to the Retail Transmission Rates in  
27 accordance with the OEB's guidelines of October 22, 2008. This analysis, if approved by  
28 the Board would result in a decrease to the cost of power projections and consequently,  
29 working capital. Midland is also proposing to update the power supply expense using the

1 October 15, 2008 OEB forecasted rate of \$0.0603 per kWh. Midland is proposing to make  
2 this adjustment as the Board directs through our draft order.

3

4 **OEB IR#14 – Interest Charge**

5 The yearly interest charge of 19.56% was inadvertently omitted on Midland’s proposed rate  
6 schedule. Midland has proposed to add this charge to the rate schedule at the time final  
7 rates are determined.

8

9 **OEB IR#23 & VECC IR#11 (1<sup>st</sup> IR’s); OEB 2<sup>nd</sup> IR’s #5 – Regulatory Expense**

10 In the 1<sup>st</sup> IR’s Midland proposed an additional \$25,000 in cost to Regulatory Expense for  
11 total Regulatory Expense of \$175,000 as it anticipated the oral component of the  
12 Application will require increased costs over and above those itemized in the Application.  
13 In the 2<sup>nd</sup> IR’s as a result of the change in procedure alleviating the necessity of an oral  
14 component, Midland voluntarily reduced the Regulatory Expense to \$125,000 over 4 years.  
15 vs. the three years as submitted in the Rate Application in August, 2008. Midland is  
16 proposing to reflect this change to the revenue requirement and any subsequent changes  
17 made by the Board once final rates are determined.

18

19 **SEC IR#1 – IFRS**

20 Midland is proposing to increase the OM&A Expenses by \$25,000 per year over four years  
21 on account of expenses to be incurred as a result of the transition to IFRS. Midland will  
22 include this additional expense once final rates are approved by the Board. Midland is  
23 planning for the conversion from GAAP to IFRS and expects to incur an estimate of  
24 \$100,000 in one-time costs for this transition, which we have respectfully requested to be  
25 included in our Rate Application. Midland also expects that it will incur operational  
26 expenses on a yearly basis, but at this point has not included an estimate of these costs in  
27 our Rate Application. Until Midland is aware of the OEB requirements vs. IFRS  
28 presentation of our financial records, we are unable to estimate the additional cost,  
29 however, we are concerned that due to the time lag between rebasing, Midland may incur  
30 additional costs for which we will not be able to recover. Consequently, we would

1 appreciate the Board's guidance in determining whether Midland should, at this point  
2 include both the one-time costs and expected operational yearly expenses or whether the  
3 Board will be directing LDCs to include the costs in a variance account.

4  
5 **OEB IR#15 & VECC IR#19 – Capital Spending**

6 Project #2009-01 – Bourgeois Lane: As indicated in this interrogatory, Midland obtained  
7 an engineering estimate of \$143,000 for this project, which far exceeds the Rate  
8 Application budget of \$53,100.

9 Project #2009-08 – Scada Software: Midland is proposing to defer this project to 2010.  
10 This would result in a reduction to our capital programs of \$100,000 in 2009.

11 The result of these two adjustments and the adjustments referred to in VECC IR#21 would  
12 increase the capital programs in 2009 by \$121,860.

13 Midland will not be incurring \$400,000 in development contributions in 2008, but has  
14 additional capital work of \$58,600. Midland is proposing to reduce the capital spending in  
15 2008 by \$341,400 and will reflect this change if approved by the Board.

16 Midland is proposing to reflect these changes at the time final rates are determined.

17  
18  
19 **SUBMISSION ADJUSTMENTS**

20  
21 **Final Submission #1 – Cost of Capital**

22 Midland is proposing to reduce the short term debt rate to 1.33% and the return on equity to  
23 8.01%. Midland is proposing to reflect these changes at the time final rates are determined.

24  
25 **Final Submission #2 – Rural Remote Electricity Rate Protection (RRRP)**

26 Midland is proposing to increase the RRRP rate from \$0.0010 to \$0.0013 in accordance  
27 with the December 17, 2008 Board letter. Midland is proposing to reflect these changes at  
28 the time final rates are determined.

29  
30

1 **Final Submission #3 – Low Voltage**

2 Midland is proposing to adjust the Low Voltage charges in accordance with HONI  
3 approved rates. Midland is proposing to reflect these changes at the time final rates are  
4 determined.

5

6 **Final Submission #4 – Deferral and Variance Accounts**

7 Midland is proposing to adjust the deferral and variance account rate riders in accordance  
8 with Board Staff final submission, however, Midland would request the Board approve the  
9 disposition of these balances over the 4 year IRM period. Midland is proposing to reflect  
10 these changes at the time final rates are determined.

11

12 **OM&A Expenses – Final Submission**

13 The net change to OM&A Expenses as a result of the changes to the Application through to  
14 this submission are set out below as OM&A Expenses – Final Submission Table #10:

15

16 **Table #10 – OM&A Expenses – Final Submission**

17

Expenses per Application - August 15, 2008	\$ 2,093,100
Less: Regulatory Expenses (\$150,000 less \$25,000)	\$ (18,750)
Add: IFRS (\$100,000 over 4 years)	<u>\$ 25,000</u>
<b>Expenses per Final Submission</b>	<b><u>\$ 2,099,350</u></b>

18

19 **Base Revenue Requirement – Final Submission**

20 As a result of the changes made during the 1<sup>st</sup> IR's, 2<sup>nd</sup> IR's and the final submission,  
21 Midland has prepared a calculation of the base revenue requirement as set out in Table #11  
22 below:

23

24

25

1  
2 **Table #11 – Base Revenue Requirement – Final Submission**

3  
4

OM&A Expense	\$2,099,350
Amortization Expense	<u>\$ 725,027</u>
Total Distribution Expenses	\$2,824,377
Regulated Return on Capital	\$ 728,015
PILS (with gross-up)	<u>\$ 71,526</u>
Service Revenue Requirement	\$3,623,918
Less: Revenue Offsets	<u>(\$ 231,131)</u>
Base Revenue Requirement	<u>\$3,392,787</u>

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12  
13 With this revised Base Revenue Requirement the revised Revenue Requirement in Board  
14 staff's submission would therefore be \$4,073,403 as at March 11, 2009.

15 **Table #12 – Calculation of Board Staff Revenue Requirement**

16

Base Revenue Req. - Midland	\$3,392,787
Revenue Offsets	\$ 231,131
Low Voltage Charges	\$ 279,640
Transformer Allowance	\$ 151,200
Smart Meter Rate Adder	\$ 82,200
Deferral Account Rate Adder	<u>(\$ 63,555)</u>
Revenue Req. – Board Staff	<u>\$4,073,403</u>

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24 The Summary of Final Submission Changes is set out in Table #13 following this page:

Table #13  
 Midland Power Utility Corporation  
 Summary of Final Submission Changes

	Regulated Return on Capital	Regulated Rate of Return	Rate Base	Working Capital	Working Capital Allowance	Amortization	PLS	OM&A	Service Revenue Requirement	Base Revenue Requirement	Gross Revenue Deficiency
	D3	D3	D3	D1	D1	X12	X12	X12	F1	F1	G7
<b>Original Submission August 2008</b>	<b>\$780,334</b>	<b>6.33%</b>	<b>\$12,318,654</b>	<b>\$18,770,634</b>	<b>\$2,815,595</b>	<b>\$735,424</b>	<b>\$204,993</b>	<b>\$2,093,100</b>	<b>\$3,813,852</b>	<b>\$3,582,721</b>	<b>\$897,322</b>
OEB IR#3	\$780,334	6.33%	\$12,318,654	\$18,770,634	\$2,815,595	\$735,424	\$204,993	\$2,093,100	\$3,813,852	\$3,582,721	\$897,322
	\$0	0.00%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Street Lighting/Sentinel Lighting (no bill impact) Change											
OEB IR#40	\$780,334	6.33%	\$12,318,654	\$18,770,634	\$2,815,595	\$735,424	\$80,822	\$2,093,100	\$3,689,681	\$3,458,550	\$773,151
	\$0	0.00%	\$0	\$0	\$0	\$0	-\$124,171	\$0	-\$124,171	-\$124,171	-\$124,171
PILs Correction Change											
OEB IR#5 & VECC IR#15	\$789,805	6.33%	\$12,468,160	\$19,767,341	\$2,965,101	\$735,424	\$85,328	\$2,093,100	\$3,703,657	\$3,472,526	\$787,127
	\$9,471	0.00%	\$149,506	\$996,707	\$149,506	\$0	\$4,506	\$0	\$13,976	\$13,976	\$13,976
Commodity & RTSR update Change											
OEB IR#14	\$789,805	6.33%	\$12,468,160	\$19,767,341	\$2,965,101	\$735,424	\$85,328	\$2,093,100	\$3,703,657	\$3,472,526	\$787,127
	\$0	0.00%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Yearly Interest Rate (no bill impact) Change											
OEB IR#23 & VECC IR#11	\$789,745	6.33%	\$12,467,222	\$19,761,091	\$2,964,164	\$735,424	\$82,441	\$2,086,850	\$3,694,461	\$3,463,330	\$777,931
	-\$60	0.00%	-\$938	-\$6,250	-\$937	\$0	-\$2,887	-\$6,250	-\$9,196	-\$9,196	-\$9,196
Regulatory Increase/over 4 years Change											
SEC IR# 1	\$789,983	6.33%	\$12,470,972	\$19,766,091	\$2,967,914	\$735,424	\$82,482	\$2,111,850	\$3,719,739	\$3,488,609	\$803,210
	\$238	0.00%	\$3,750	\$25,000	\$3,750	\$0	\$41	\$25,000	\$25,278	\$25,279	\$25,279
IFRS Increase over 4 years Change											
OEB IR#15 & VECC IR#19	\$772,976	6.33%	\$12,202,496	\$19,786,091	\$2,967,914	\$725,027	\$82,898	\$2,111,850	\$3,692,751	\$3,461,620	\$776,221
	-\$17,007	0.00%	-\$268,476	\$0	\$0	-\$10,397	-\$416	\$0	-\$26,988	-\$26,989	-\$26,989
Capital 08 & 09 Amortization Change											
<b>1st IR's</b>	<b>\$772,976</b>	<b>6.33%</b>	<b>\$12,202,496</b>	<b>\$19,786,091</b>	<b>\$2,967,914</b>	<b>\$725,027</b>	<b>\$82,898</b>	<b>\$2,111,850</b>	<b>\$3,692,751</b>	<b>\$3,461,620</b>	<b>\$776,221</b>
OEB 2nd IR #5	\$772,857	6.33%	\$12,200,621	\$19,773,591	\$2,966,039	\$725,027	\$77,366	\$2,099,350	\$3,674,600	\$3,443,470	\$758,071
	-\$119	0.00%	-\$1,875	-\$12,500	-\$1,875	\$0	-\$5,532	-\$12,500	-\$18,151	-\$18,150	-\$18,150
Regulatory Cost Reduction Change											
Final Submission #1	\$727,927	5.97%	\$12,200,621	\$19,773,591	\$2,966,039	\$725,027	\$71,516	\$2,099,350	\$3,623,820	\$3,392,689	\$707,290
	-\$44,930	-0.36%	\$0	\$0	\$0	\$0	-\$5,850	\$0	-\$50,780	-\$50,781	-\$50,781
Cost of Capital Change											
Final Submission #2	\$728,551	5.97%	\$12,211,091	\$19,843,391	\$2,976,509	\$725,027	\$71,568	\$2,099,350	\$3,624,516	\$3,393,385	\$707,986
	\$624	0.00%	\$10,470	\$69,800	\$10,470	\$0	\$72	\$0	\$696	\$696	\$696
Rural Remote Electricity Rate Protection Change											
Final Submission #3	\$728,015	5.97%	\$12,202,110	\$19,783,516	\$2,967,527	\$725,027	\$71,526	\$2,099,350	\$3,623,918	\$3,392,788	\$707,389
	-\$536	0.00%	-\$8,981	-\$59,875	-\$8,982	\$0	-\$62	\$0	-\$598	-\$597	-\$597
Low Voltage Charges Change											
Final Submission #4	\$728,015	5.97%	\$12,202,110	\$19,783,516	\$2,967,527	\$725,027	\$71,526	\$2,099,350	\$3,623,918	\$3,392,788	\$707,389
	\$0	0.00%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Deferral and Variance Accounts Change											
<b>Final Submission</b>	<b>\$728,015</b>	<b>5.97%</b>	<b>\$12,202,110</b>	<b>\$19,783,516</b>	<b>\$2,967,527</b>	<b>\$725,027</b>	<b>\$71,526</b>	<b>\$2,099,350</b>	<b>\$3,623,918</b>	<b>\$3,392,788</b>	<b>\$707,389</b>
2006 EDR	\$545,706	6.90%	\$7,914,515	\$17,750,988	\$2,662,648	\$435,963	\$168,350	\$1,708,708	\$2,858,727	\$2,629,071	\$269,656
Change - Final Submission vs. 2006 EDR	33,41%	-13.48%	54.17%	11.45%	11.45%	66.30%	-57.51%	22.86%	26.77%	29.05%	\$763,717
	\$182,309	-0.93%	\$4,287,595	\$2,032,528	\$304,879	\$289,064	-\$96,824	\$390,642	\$765,191	\$763,717	
Change - Final Submission vs. August 15 Proposal	-6.70%	-5.69%	-0.95%	5.40%	5.40%	-1.41%	-65.11%	0.30%	-4.98%	-5.30%	-21.17%
	-\$52,319	-0.36%	-\$116,544	\$1,012,862	\$151,932	-\$10,397	-\$133,467	\$6,250	-\$189,934	-\$189,933	-\$189,933

1 **Summary of Specific Approvals Requested**

2 Through this Application process Midland sought:

3

- 4 • Approval of charges and rates effective May 1, 2009 to recover the Revenue  
5 Requirement that would include the Revenue Deficiency arising from changes in  
6 OM&A expenses and Capital investments;
- 7 • Approval of the proposed capital structure, decreasing Midland's deemed common  
8 equity component from 46.7% to 43.3% and increasing the debt component from  
9 53.3% to 56.7%;
- 10 • Approval of the proposed Short Term Interest Rate of 1.33% and the Return on  
11 Equity of 8.01%;
- 12 • Approval of Midland's OM&A and Capital programs to allow Midland to meet  
13 customer demand and for the replacement of an aging infrastructure;
- 14 • Approval to dispose of Deferral and Variance accounts, 1508 – Other Regulatory  
15 Assets, 1550 Low Voltage Variance, 1518 – Retail Cost Variance Account – Retail,  
16 1580 – RSVA – Wholesale Market Service Charge, 1582 – RSVA – One Time  
17 Wholesale Market Service, 1584 – RSVA – Retail Transmission Network Charge,  
18 1586 – RSVA – Retail Transmission Connection Charge, and 1588 – RSVA –  
19 Power (including Global Adjustment)
- 20 • Approval of Midland's Monthly Rates and Specific Service charges listed in Exhibit  
21 1, Tab 1, Schedule 5 as amended to include the annual interest rate to be charged on  
22 overdue accounts of 19.56%;
- 23 • Approval of Midland's revised RSVA Retail Transmission Network Rate and  
24 RSVA Retail Transmission Connection Rate;
- 25 • Approval of the Cost of Power rate used;
- 26 • Approval of the Low Voltage charges;
- 27 • Approval of the Rural Remote Electricity Rate Protection charge;
- 28 • Approval of the proposed approach to the transformer allowance;

- 1 • Approval of proposed total loss factors consisting of the supply facilities loss factor  
2 and the distribution loss factor;
- 3 • Approval of Midland’s approach to Cost Allocation;
- 4 • Approval of an increase to OM&A expenses of \$25,000 per year on account of  
5 costs associated with the International Financial Reporting Standards  
6 implementation, or in the alternative, approval for a deferral and variance account  
7 for tracking of these costs, and
- 8 • Approval of the Smart Meter funding adder.

9  
10  
11  
12 Midland submits the proposed distribution rates contained in this Application process are  
13 just and reasonable on the following grounds:

- 14  
15 ■ the proposed rates for the distribution of electricity have been prepared in accordance  
16 with the Filing Requirements;
- 17  
18 ■ the proposed rates are necessary to meet Midland’s Market Based Return (“MBRR”),  
19 Debt Rate and Payments in Lieu of Taxes (“PILS”) requirements;
- 20  
21 ■ there are no impacts to any of the customer classes or consumption level subgroups that  
22 are so significant as to warrant the deferral of any adjustments being requested by  
23 Midland or the implementation of any other mitigation measures; and
- 24  
25 ■ such other grounds as may be set out in the material accompanying this Application  
26 process.

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1

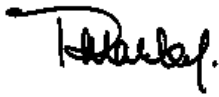
2 Midland submits therefore, the Board approve the service revenue requirement of  
3 \$3,623,918 which includes a revenue deficiency of \$707,389.

4

5 All of which is respectfully submitted,

6

7 MIDLAND POWER UTILITY CORPORATION



8

9 Phil Marley, CMA

10 President & CEO

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12 (705)526-9362 ext 204

13