Midland Power Utility Corporation

REPLY SUBMISSION

2010 ELECTRICITY DISTRIBUTION RATES

EB-2009-0236

Submitted February 18, 2010

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OVERVIEW/INTRODUCTION

This is the reply submission of Midland Power Utility Corporation (Midland) in regard to its 2010 3rd Generation Incentive Regulation Mechanism for an order approving just and reasonable rates for the distribution of electricity effective May 1, 2010 (Application). Midland's submission is filed in reply to submissions filed by Ontario Energy Board Staff ("Board Staff") February 1, 2010.

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

> The parcel of land surrounded by the northern Town boundary and the centerline of the roads, beginning at a point on Old Penetanguishene Road southerly to a point at Harbourview Drive (if extended), easterly along Harbourview to Fuller Street, then northerly along Fuller Street to Gawley Drive, then easterly along Gawley Drive to the shoreline of Georgian Bay.
>
> The parcel of land described above laying east of Fuller Street was formerly known as Sunnyside and the parcel of land described above laying west of Fuller Street was formerly known as Portage Park.

Midland operates an electrical distribution system with a total service area of 20 square kilometers within its boundaries.

Midland filed the Application on October 20, 2009 under section 78 of the Ontario Energy Board Act, 1998. Midland submitted its responses to interrogatories from OEB Staff on January 7, 2010.

DISPOSITION OF DEFERRAL AND VARIANCE ACCOUNTS AS PER THE EDDVAR REPORT

Midland agrees with Board staff (pg.3) submission that it would not be practical nor feasible to establish a separate rate rider for the disposition of the global adjustment sub-account balance and submits that the sub-account balance be collected from the >50kW customer class.

Midland disagrees with Board Staff (pg 3) submission with respect to the time period over which the rate riders should apply. Midland submits the balances in the Group 1 accounts have not been accumulating for over the last four year period. In accordance with the Board's Decision and Order dated May 11, 2009 relating to Midland's Cost of Service rate application, Midland was ordered to recover balances up to December 31, 2007. Those balances were approved to be disposed of over a two year period ending April 30th, 2011. Midland submits there will be increased volatility in electricity bills if the disposition period is shortened to one year which is not in the customer's best interest. Midland submits having one rate rider end in 2011 and the next rate rider end in 2012 will smooth out any volatility. Midland does not believe a two year disposition period would increase intergenerational inequities. Midland further submits a one year disposition will negatively impact cash flows.

Midland agrees with Board Staff (pg5) submission that the Board approve the proposed deferral and variance account balances on a final basis.

TREATMENT OF SMART METER FUNDING ADDER

Midland agrees with Board Staff (pg 5) submission to increase the smart meter funding adder to $2.00 per month per metered customer.

ADJUSTMENTS TO THE REVENUE TO COST RATIOS

Midland agrees with Board Staff (pg 6) submission that Midland has complied with the filing requirements of the 2010 Supplemental Filing Module and requests the Board to approve the revenue to cost ratio adjustments as submitted.

ADJUSTMENTS TO THE RETAIL TRANSMISSION SERVICE RATES (RTSR)

Midland agrees with Board Staff (pg 8) submission that the RTSR rates be revised to reflect the January 1, 2010 values.

ACCOUNTING FOR THE IMPLEMENTATION OF THE HARMONIZED SALES TAX

Midland does not agree with Board Staff (pg 9) submission that a deferral account be established to record the effects of the harmonized sales tax. Midland submits and re-iterates it's response to IRR #8(a). Midland submits the appropriate time to address this issue is at the point of the Cost of Service Applications when all OM&A expenses and capital expenditures are before the Board. In addition, Midland submits the Cost of Service Applications are made on a forward test year which includes projections for both capital and OM&A expenses. Any deviations from those projections, both increases in costs or reductions in costs, are to be managed by the LDC during the year they are incurred. No deferral accounts are set up to record the differences between projected expenses and actual costs.

Not all expenses in ratebase include PST. Legal, auditing fees, snow plowing are examples of items that historically do not attract PST. In addition, the actual expense incurred may not equal the expense projected in the COS Application For example, if the goal is to remove PST from ratebase expenses, you first need to determine what expenses attracted PST. If the ratebase expense was for office supplies – say $1,000, the PST would be $80. The cost included in ratebase would have been $1,080. When you actually incur the office supply expense, it may be for $1500 or $500 – resulting in $120 or $40 in PST, both of which do not match what was included in ratebase. Board Staff are requesting that the actual PST be recorded in the deferral account, when in fact the amount recorded in ratebase is different. Consequently, in order to determine if the costs actually incurred are included in ratebase, a cross check will need to be developed every time an entry is made to the deferral account. If this process is not taken into account and all PST is returned to the customer, the shareholder will be negatively impacted. Additional burden will be placed on the LDC to perform this cross check.

With respect to capital additions, Midland submits there are two issues to be considered. Firstly, LDCs receive only a rate of return on the PST which would be included in the capital additions. Secondly, amortization included in ratebase would be over a number of years. Consequently, the PST would need to be spread out over that number of years. For example, if Midland's forecasted capital included a capital project at a cost of $2,000, the PST would be calculated at $160. Midland would have received a rate of return on the $2,160. If the Board orders PST to be refunded to customers, the shareholder will be negatively impacted if the total $160 were to be refunded vs. the rate of return on the $160. In addition, with respect to amortization, if the amortization period were to be 25 years in the same example, it would mean $86.40 would be amortized per year ($2160/25) vs. the new rate of $80 ($2000/25). Midland submits if the Board orders a deferral account be set up, that the same cross check principle will need to be applied to determine if the capital additions as projected in the COS Application equal the actual costs incurred.

Midland submits should the Board order a deferral account process be implemented, that in addition to the above, the Board consider adjusting PILS to account for the increase in revenues as a result of the perceived increase in income.

All of which is respectfully submitted,

MIDLAND POWER UTILITY CORPORATION

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