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March 2, 2012

Ms. Kirsten Walli
Ontario Energy Board
PO Box 2319
27th Floor, 2300 Yonge Street
Toronto, Ontario M4P 1E4

Re: Entegrus 2012 3rd Generation IRM Rate Application Reply Submission
Rate Zone: Strathroy, Mount Brydges and Parkhill
Board File No.: EB-2011-0148

Dear Ms. Walli,

Please find enclosed the response of Entegrus in the above-noted application, as permitted by the Notice of Application and Hearing dated December 15, 2011.

If you have any further questions, please do not hesitate to contact Andrya Eagen at (519) 352-6300 extension 243 or via email at regulatory@entegrus.com.

Sincerely,

[Original Signed By]

David C. Ferguson
Director of Regulatory Affairs & Risk Management
(519) 352-6300 x558
Email: david.ferguson@entegrus.com

cc: Dan Charron, President
Chris Cowell, Chief Financial and Regulatory Officer



Reply Submission

2012 IRM3 Application

Rate Zone: Strathroy, Mount Brydges & Parkhill

Board File No.: EB-2011-0148

Date Filed: March 2, 2012

Corporate Structure

On August 31, 2011, Chatham-Kent Hydro Inc. (“CKH”) applied to the Ontario Energy Board (“Board”) for leave to amalgamate Middlesex Power Distribution Corporation (“MPDC”) with CKH in application EB-2011-0328. On December 16, 2011, the Board approved the amalgamation, and on January 11, 2012, CKH notified the OEB that this transaction was complete. On January 20, 2012, CKH received its amended licence and notification that MPDC licence had been canceled.

Subsequently, on January 31, 2012, CKH applied to the Board to amend the company name on its Electricity Distribution Licence ED-2002-0563 to Entegrus Powerlines Inc. The Board approved this change and issued an updated licence on February 24, 2012.

Background

On November 25, 2011, the former MPDC submitted an application (the “Application”) for its proposed distribution and transmission rates under the 3rd Generation Incentive Regulation Mechanism (“IRM”) for its Strathroy, Mount Brydges and Parkhill rate zone, to be effective May 1, 2012. This rate zone was formally referred to as “MPDC – Main”.

Vulnerable Energy Consumers Coalition (“VECC”) requested, and was granted, intervenor status.

In a letter to the Board dated November 16, 2011, MPDC acknowledged the Board’s EB-2008-0381 Combined Deferred PILs decision, and the expectation that distributors would apply for the final disposition of Account 1562 Deferred PILs with their next rate applications. However, MPDC explained that locating and validating the PILs related pre-acquisition accounting records of the three MPDC predecessor utilities was proving challenging. Subsequently, in a letter to MPDC dated November 23, 2011, the Board directed MPDC to file stand-alone applications for the disposition of Account 1562 by no later than April 1, 2012.

VECC and Board Staff submitted interrogatories in respect to the application, and full responses to the interrogatories were filed by Entegrus on February 3, 2012.

On February 17, 2012, VECC and Board Staff filed submissions on the following matters:

1. Account 1521 Special Purpose Charge (“SPC”),
2. Calculation of Preset Disposition Threshold Group 1 Deferral and Variance Accounts,
3. Disposition of Account 1588_{Power} and Account 1588_{Global Variance},
4. Lost Revenue Adjustment Mechanism (“LRAM”) Claim.

1. Account 1521 Special Purpose Charge

On April 9, 2010, the Board issued a letter and invoice to all licenced electricity distributors outlining SPC assessments and SPC unit rates for each distributor. Subsequently, the Board established variance Account 1521 SPC to capture any difference between the amount remitted to the Ministry of Finance for the SPC assessment and the amount recovered from customers.

For the rate zone of Strathroy, Mount Brydges and Parkhill, Entegrus' SPC assessment was \$74,815. Entegrus collected SPC amounts from customers until April 30, 2011. The total amount collected was \$83,077, inclusive of \$25,493 collected in 2011. The forecasted balance for proposed disposition in Account 1521 SPC, inclusive of carrying charges to April 30, 2012, amounted to a refund to ratepayers of \$8,128. As noted by Board Staff, this residual balance arises from volume variances.

Board Staff noted that usual practice is to dispose of audited variance account balances. Inherently, the forecasted carrying charges and 2011 activity in the table provided by Entegrus in its original application are not yet audited. Board Staff submitted that the Board should authorize the disposition of this Account 1521 SPC balance for December 31, 2010, plus the amount recovered from customers in 2011, including carrying charges as of April 30, 2012. Board Staff further submitted that the one-year disposition period proposed by Entegrus is consistent with the EDDVAR report and should be approved by the Board.

VECC made no submissions in this regard.

Entegrus concurs with Board Staff and respectfully submits that the Board should authorize the disposition of the Account 1521 SPC refund balance to ratepayers of \$8,128.

2. Calculation of Preset Disposition Threshold Group 1 Deferral and Variance Accounts

In July 2009 the Report of Board titled *Electricity Distributor's Deferral and Variance Account Review Initiative* (the "EDDVAR Report") was issued. The EDDVAR Report provides that during an IRM period, a utility's Group 1 variance accounts may be reviewed and disposed of if a preset threshold calculation exceeds \$0.001 per kWh, debit or credit balance. It was stated in the EDDVAR Report that during the IRM plan term "this disposition threshold level should enhance the distributor's ability to manage its cash flow."

Utilizing the 2012 IRM Rate Generator Model, Entegrus reported a 2010 year-end credit balance (refund to ratepayers) for Group Deferral and Variances Accounts of \$245,886 inclusive of interested projected to April 30, 2012. This amount resulted in a threshold calculation of \$0.0012 credit per kWh, which exceeds the preset disposition amount.

Board Staff requested in interrogatory 2e) that Entegrus recalculate the present disposition value across all rate zones in aggregate. In response to the interrogatory, Entegrus recalculated the value and confirmed that the preset threshold would still be exceeded.

Board Staff submitted that the threshold calculation is in support of distributor's cash flow and is of the view that the cash flow situation is best reflected at the utility level and not within each rate zone. Board Staff further suggested that one threshold test should apply to Group 1 Deferral and Variance accounts across the utility.

VECC made no submission in this regard.

Entegrus submits that the combined threshold test approach is not in the best interest of its ratepayers. Due to the nature of the Group 1 Variance accounts it is possible to accrue a significant debit balance in one rate zone while accruing an offsetting credit balance in another. For example, each of Entegrus' rate zones currently have significantly different line loss factors.

A combined threshold test may result in the deferral of disposition of Group 1 Deferral and Variance accounts that are material to smaller rate zones. Deferral of ultimate disposition to a later point may result in larger riders that could create significant rate shock and fluctuation for customers, especially in rate zones such as Newbury, which has 208 customers.

Entegrus respectfully requests that it be permitted to continue to calculate the preset threshold calculation on an individual rate zone basis until such time as the line loss factors and the Group 1 Deferral and Variance accounts are merged between its rate zones.

3. Disposition of Account 1588_{Power} and Account 1588_{Global Variance}

Entegrus noted in the Manager's Summary of its Application that it had inadvertently not followed the prescribed methodology for Account 1588_{Power}. Entegrus further noted that it has initiated an internal view to determine the 2009 and 2010 balances attributable to 1588_{Power} are in accordance with Article 220 of the Board's Accounting Procedures Handbook ("APH"). In order to allow sufficient time to complete the reconciliation and analysis associated with this review and to maintain the IRM application procedural timeframe, Entegrus requested to defer the disposition as part of its 2013 IRM application.

Board Staff submitted that the internal review undertaken by Entegrus is an important step to ensure the correctness of the sub-accounts of Account 1588 since the sub-account balances are allocated to different customer groups based on cost causality. Board Staff further submitted that the disposition of account 1588 be deferred until Entegrus' 2013 IRM rate application.

VECC made no submission in this regard.

Entegrus concurs with Board Staff and respectfully submits that the Board should authorize the deferral of the disposition of its Account 1588 Power until the 2013 IRM application.

4. Lost Revenue Adjustment Mechanism ("LRAM") Claim

In the Application, Entegrus applied for an LRAM claim in the amount of \$29,950 with a disposition period of one year. The amount requested in this application has not been previously requested or received, and reflects the following programs and activity periods:

- OPA programs launched in 2006 to 2009 for activity occurring between January 1, 2011 and April 30, 2012, and;
- OPA programs launched in 2010 for activity occurring between January 1, 2010 and April 30, 2012.

Entegrus has previously collected one LRAM claim of \$75,714 relating to 2006 to 2009 OPA programs, for activities between January 1 of the program launch year and December 31, 2010¹.

Board Staff submitted that it is premature to consider any lost revenues persisting in 2011 and 2012. Board Staff further requested that Entegrus provide an updated LRAM amount that only includes lost revenues from 2010 OPA programs in 2010, including carrying charges, and the associated rate riders.

¹ MPDC – Main's 2011 IRM application, EB-2010-0098

VECC submitted that it supports the approval of the LRAM claim relating to 2010 OPA programs in 2010. VECC further submitted that an LRAM claim 2006 to 2010 programs results persisting into 2011 through April 30, 2012 is premature and not appropriate.

Entegrus acknowledges that LRAM is intended as a retrospective mechanism. However, the lost revenue being claimed by Entegrus relates to CDM programs which have already been implemented and for which savings to April 30, 2012 are known. Entegrus is not forecasting or using proxies to estimate the number of measures that were installed in – rather, it is reporting the actual known savings impact of these measures on revenues to April 30, 2012.

Lost revenues are known for these CDM programs because this information is available now and is identified as final by the OPA, who commissioned program-specific evaluations and reported savings from the measures installed over each year of the life of these programs. Other information required for calculating lost revenues, such as Entegrus distribution rates, has also been set and will not change. Consequently, there is no reason to presume that this portion of the LRAM claim will ever change, and therefore there is no reason why it should be excluded, and there is no reason that a variance should be required.

In contrast, lost revenues from 2011 CDM programs will not be known until such time as the OPA releases its final 2011 program results, presumably in late 2012. Accordingly, Entegrus has made no attempt to include 2011 CDM program results into its current LRAM claim for the rate year commencing May 1, 2012.

Entegrus therefore submits that the Board should approve its proposed LRAM claim of \$29,950 in its entirety.

All of which is respectfully submitted.