Entegrus Powerlines Inc.
320 Queen St. (P.O. Box 70)
Chatham, ON N7M 5K2
Phone: (519) 352-6300
Toll Free: 1-866-804-7325
entegrus.com

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: Newbury
Board File No.: EB-2011-0150

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

ENTEGRUS™

Formerly Chatham-Kent Energy

Reply Submission

2012 IRM3 Application

Rate Zone: Newbury
Board File No.: EB-2011-0150
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".

No intervenor requests were received or granted.

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.

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, 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 $1588_{\text{Global Variance}}$,
4. Reconciliation of Group 1 Deferral and Variance Accounts to RRR Data.

1. Account 1521 Special Purpose Charge

On April 9, 2010, the Board issued a letter and invoice to all licensed 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 Newbury, Entegrus' SPC assessment was $1,535. Entegrus collected SPC amounts from customers until April 30, 2011. The total amount collected was $1,478, inclusive of $525 collected in 2011. The forecasted balance for proposed disposition in Account 1521 SPC, inclusive of carrying charges to April 30, 2012, amounted to a collection from ratepayers of $65. 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.

Entegrus concurs with Board Staff and respectfully submits that the Board should authorize the disposition of the Account 1521 SPC balance of $65 from ratepayers.

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 for Group Deferral and Variances Accounts of $24,823 inclusive of interested projected to April 30, 2012. This amount resulted in a threshold calculation of $0.0068 credit per kWh, which exceeds the preset disposition amount.

Board Staff requested in interrogatory 5e) 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.

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 290 customers/connections.

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 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 review 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.

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. Reconciliation of Group 1 Deferral and Variance Accounts to RRR Data

On October 15, 2008, MPDC submitted MAAD applications EB-2008-0332 and EB-2008-0350 requesting Board approval to acquire all shares of the former Dutton Hydro Limited and the former Newbury Power Corporation and to subsequently amalgamate all entities into MPDC. The Board approved these acquisitions and subsequent amalgamation in its Decision and Order issued February 9, 2009. MPDC subsequently closed the purchase transaction on April 30, 2009. Since that date, MPDC (and now Entegrus) has been serving the distribution areas formerly licensed to each of MPDC, Dutton Hydro Limited & Newbury Power Corporation and has maintained separate rate zones for each of the three former areas.

Entegrus noted in the Manager's Summary of its Application that there were differences between the Group 1 Deferral and Variance Account balances requested for disposition and those filed in the annual RRR filings for December 31, 2010. These variances arise from 2011 general ledger adjustments relating to final disposition of pre-acquisition Group 1 Deferral and Variance balances for 2005 to 2008, as well as pre-acquisition activity not previously recorded for January to April 2009. Entegrus further confirmed that is not seeking to retroactively adjust previously Board approved balances. Rather, Entegrus is appropriately reflecting Group 1 Deferral and Variance activity for the period prior to its acquisition of Newbury Power. As noted above, the 2005 to 2008 adjustments agree to Board decision in EB-2010-0274.

Board Staff submitted that the above adjustments have no bearing on the amounts sought for disposition in this proceeding and are satisfied with the explanations and reconciliations provided by Entegrus.

Entegrus concurs with Board Staff and respectfully submits that the Board should authorize the disposition of Group 1 Deferral and Variance Accounts, excluding Account 1588, as filed.

All of which is respectfully submitted.