August 1, 2012

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

Attention: Ms. Walli

Re: Espanola Regional Hydro Distribution Corporation's (ERHDC) 2012 Cost of Service Electricity Distribution Rate Application EB-2011-0319
Reply Submission

ERHDC has attached the reply submission in the above noted proceedings. The submission has been filed through the Web Portal.

In the event of any additional information, questions or concerns, please contact Jennifer Uchmanowicz, Rate and Regulatory Affairs Officer, at Jennifer.Uchmanowicz@ssmpuc.com or (705) 759-3009.

Sincerely,

Jennifer Uchmanowicz

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Jennifer Uchmanowicz
on behalf of Espanola Regional Hydro Distribution Corporation
Rates and Regulatory Affairs Officer
PUC Services
Sault Ste. Marie Ont.
Email: jennifer.uchmanowicz@ssmpuc.com
Phone: 705-759-3009

2012 ELECTRICITY DISTRIBUTION RATES

Espanola Regional Hydro Distribution Corporation

(“ERHDC”)

EB-2011-0319

REPLY SUBMISSION

INTRODUCTION

Espanola Regional Hydro Distribution Corporation ("ERHDC" or the "Applicant") is a licensed electricity distributor serving the Town of Espanola and the Township of Sables-Spanish Rivers, which has a total population of approximately 8,700. ERHDC filed its 2012 rebasing application (the "Application") on February 15, 2012. ERHDC requested approval of its proposed distribution rates and other charges effective May 1, 2012. The Application was based on a future test year cost of service methodology.

The Vulnerable Energy Consumers' Coalition ("VECC") was granted intervenor status. The proceeding has been conducted through written discovery.

This reply submission reflects ERHDC's response to observations and concerns that arose from Board staff's and VECC's review of the pre-filed evidence and interrogatory responses provided by ERHDC.

THE APPLICATION

In the original application, ERHDC requested a service revenue requirement of $1,810,263 (or a base revenue requirement of $1,670,364). In response to a Board staff interrogatory filed on June 8, 2012, ERHDC revised its service revenue requirement to $1,788,572 (or a base revenue requirement of $1,648,673). The updated proposed rates are set to recover a revenue deficiency of $423,422.

Issue #1

Transition to IFRS (OM&A)

In the original application, ERHDC provided an estimated total cost of $50,000 for consulting services for its transition from CGAAP to IFRS to be recovered over a 4 year period. ERHDC included the estimated $12,500 IFRS costs in the 2012 OM&A expenses.

In response to a Board staff interrogatory, ERHDC explained that it has not incurred incremental administrative IFRS transition costs in 2012. In addition, ERHDC expects to implement IFRS on January 1, 2013 instead of January 1, 2012 as originally planned.

ERHDC Response

ERHDC agrees and Board Staff concurs to remove the $12,500 IFRS costs from the 2012 OM&A expenses and use the Board approved Account 1508, Other Regulatory Asset, Sub account Deferred IFRS Transition costs.

The removal of this cost is not reflected in the updated revenue requirement number identified earlier in this submission. ERHDC will include the adjustment in the draft rate order.

Issue #2

Vegetation Management (OM&A)

ERHDC provided a revision to its tree trimming costs in the following table.

Year		2008	2009	2010	2011	2012	2013	2014	2015
13km Bass Lake Road – One time	Costs					$37,500	$37,500	$37,500	$37,500
	Costs / km					3.25km $11,538/km	3.25km $11,538/km	3.25km $11,538/km	3.25km $11,538/km
13km Bass Lake Road – Ongoing	Costs				$10,000				
	Costs / km				1 km $10,000/km				
All other lines	Costs	$64,272	$100,443	$135,566	$113,916	$148,501	$148,501	$148,501	$148,501
	Costs / km	28km $2,295/km	36km $2,790/km	34km $3,987/km	11km $10,356/km	14km $10,607/km	14km $10,607/km	14km $10,607/km	14km $10,607/km
Total	Costs	$64,272	$100,443	$135,566	$123,916	$186,001	$186,001	$186,001	$186,001

ERHDC proposes a one-time tree trimming cost of $150,000 specifically for Bass Lake Road which requires extensive trimming, removal, and management of brush. In its application, ERHDC amortizes this cost over a 4 year recovery period, which results in $37,500 per year. ERHDC explained that in 2009, the Bass Lake Road area was not identified as a priority for tree trimming and limited resources had prevented the necessary concentration of effort on the Bass Lake Road section. Board staff has reviewed the evidence provided by ERHDC and has no concerns with this expenditure. However, staff has concerns with the proposed costs for all other lines.

ERHDC is planning to establish a tree trimming cycle of three years which represents average annual clearing of approximately 40km of primary line plus associated secondary line and services. Board staff notes that the table above shows that the tree trimming costs per km for all other lines in 2008 was $2,295/km. However in 2010, the costs per km had increased to $3,987/km. This represents a 74% increase as compared to 2008. Furthermore ERHDC is proposing further increases to $10,607/km in 2012. It is Board staff's view that this substantial increase in the test year has not been well justified or explained, nor has the requirement for accelerating the pace of the tree trimming cycle. Board staff notes that ERHDC has not provided documentation to support the increase for all other lines. Such evidence could include expected impact on reliability if less tree trimming is done or higher costs to respond to tree-related outages. In the absence of more clarifications from ERHDC in its reply submission justifying both the quanta and timing of the tree trimming activity proposed, Board staff submits that the Board may wish to deem an amount of $42,000 which represents the average of 2008-2010 tree trimming costs ($3,024 per km for 14 km as reported in the table for 2012). As such the total tree trimming costs for 2012 should be at the level of $83,500, including the costs for Bass Lake road.

VECC noted that the vegetation management plan was not part of the asset management plan performed by outside consultants and questioned why more work was not undertaken in the past under IRM rates. VECC questioned the severity of the issue based on the occurrence of outages.

ERHDC Response

ERHDC wishes to clarify the quanta and timing of the tree trimming activities proposed for 2012, 2013, 2014 and 2015.

Costs

ERHDC has identified the need to establish a tree trimming cycle of 3 years in order to keep pace with annual vegetation growth rates. Based on ERHDC's existing 126 kms of overhead lines, a three year cycle represents average annual clearing of approximately 40 km of primary lines.

In the table provided above the kms of lines for 2012 year and going forward should be 40km per year. This annual amount was identified by ERHDC in its response to IRR Question #9 (d) page 37, "ERHDC is planning to establish a tree trimming cycle of three years which represents average annual clearing of approximately 40km of primary line plus associated secondary line and services".

In the table above ERHDC indicated 14 kms of line per year (2012 to 2015) which was an oversight and incorrect. A revised table is included below:

Year		2008	2009	2010	2011	2012	2013	2014	2015
13km Bass Lake Road – One time	Costs					$37,500	$37,500	$37,500	$37,500
	Costs / km					3.25km $11,538/km	3.25km $11,538/km	3.25km $11,538/km	3.25km $11,538/km
13km Bass Lake Road – Ongoing	Costs				$10,000				
	Costs / km				1 km $10,000/km				
All other lines	Costs	$64,272	$100,443	$135,566	$113,916	$148,501	$148,501	$148,501	$148,501
	Costs / km	28km $2,295/km	36km $2,790/km	34km $3,987/km	11km $10,356/km	40km $3,713/km	40km $3,713/km	40km $3,713/km	40km $3,713/km
Total	Costs	$64,272	$100,443	$135,566	$123,916	$186,001	$186,001	$186,001	$186,001

The cost per km of line clearing is consistent with prior year costs with the exception of 2011. As noted in IRR, Question #9 (h) page 38, in 2011 there was an attempt to undertake clearing a section of Bass Lake Road in combination with scattered removals in other areas as opposed to continuous line clearing sections which resulted in slower progress and higher costs. ERHDC submits that the proposed costs per km of line is reasonable based on prior years (note that 2012 per km cost is lower than 2010 per km cost) and the oversight was in the km’s of line to be cleared annually. ERHDC submits that the annual kms of lines to be cleared should be revised from 14kms to 40kms. Therefore, the costs would be $148,501 ($3,713 per km for 40km as reported in the revised table for 2012). ERHDC note that the OEB proposed level of $42,000 is less than the current inadequate level. As such the total tree trimming costs for 2012 should be at the level of $186,001, including the costs for Bass Lake Road.

Timing and Need

As per ERHDC’s *Utility Vegetation Management Report* by PUC Services in Exhibit 4, Tab 2, Schedule 5, page 19 to 27 of the original application, “Review of the condition of the entire overhead electrical system at ERHDC shows evidence of inadequate vegetation control. An attempt to keep up with the strong vegetation growth (2009 and 2010) is apparent. However, there is significant back log that has developed in the rural areas that must be addressed as soon as possible.”

If the vegetation is not maintained, with the proposed aggressive tree trimming cycle, the increased growth into the power lines will prove to be costly in future years due to mature tree related issues. There are many areas in ERHDC system where the conductor is touching the vegetation and burning or the line is barely visible through the vegetation.

Safety

ERHDC is committed to the safety of the public, customers and employees. There are many areas where the conductors are touching vegetation. It is clearly a safety hazard when branches grow too close to the power lines. For example, if the public or workers were to come in contact with a tree that is touching a primary power line there is a potential for electrocution. In addition to the shock hazard, there is a fire hazard including the increased risk of initiating a potential forest fires in the area. Furthermore, ERHDC wants to protect its workers that will be exposed to dangerous situations when called to repair tree related damage.

Reliability Statistics

ERHDC acknowledges that the reliability statistics from 2008-2010 are improving and there has been a decreased number of outages. ERHDC's distribution feeders utilizes fuses for overcurrent protection which are less sensitive than electronic relaying thus explaining some improvement in SAIDI, SAIFI despite an excessive amount of vegetation contact with the lines. The use of fuses allows the vegetation to be in contact with the primary lines and burn as opposed to having an outage. ERHDC emphasized that it proposes to increase tree trimming efforts in order to ensure the safety of the public and its workers and not because of concerns over reliability.

Line Losses

As noted in Boards staff submission, ERHDC line losses being applied for are 1.0714. ERHDC submits that the proposed vegetation management program will help reduce tree contact and thus lower the line losses being experienced.

Issue #3

Low Voltage Charges

ERHDC is an embedded distributor of Hydro One Networks Inc. and is subject to Low Voltage ("LV") charges. In response to a Board staff interrogatory ERHDC revised its proposed LV costs from $144,544 to $229,288 and stated the revision is based on the current Hydro One rates.

The Applicant allocated the LV costs to each class based on the Hydro One sub transmission charges forecast in 2012. The following LV charges for each class are determined by volumes derived from the 2012 load forecast.

Rate Classes	Allocation to classes	Proposed LV Charges
Residential	$121,998	$0.0037/kWh
GS < 50 kW	$39,252	$0.0035/kWh
GS > 50 kW	$65,376	$1.4840/kW
Street Lights	$1,848	$1.0466/kW
Unmetered Scattered Load	$743	$0.0035/kWh
Sentinel Lights	$71	$1.0684/kW

Board staff reviewed the details of the proposed amount and confirmed the calculations are based on the latest approved Sub Transmission charges for Hydro One Network Inc. (EB-2009-0096), effective January 1, 2011. As such staff has no concerns with the LV costs proposed by the Applicant. However, since the proposed LV costs are approximately 14% of the proposed base revenue requirement, staff submits that ERHDC should identify in its reply submission whether it has explored any alternatives that could lead to a reduction of the LV costs in the future and that would benefit ERHDC's customers. If not, staff encourages ERHDC to explore this area and report on its findings in the next cost of service application.

VECC notes that Hydro One's LV charges for 2012 are the same as for 2011. As a result, VECC submits that a more accurate forecast of 2012 LV costs (and one that is consistent with Espanola's overall load forecast) can be developed by multiplying the actual 2011 LV costs ($203,607) by the ratio of forecast 2012 forecast purchases (67,042,178 kWh) over actual 2011 purchases (65,440,486 kWh). This calculation yields a forecast of 2012 LV costs of $208,590. VECC submits that this is the LV cost that the Board should approve for 2012.

ERHDC Response

In 2006, ERHDC explored alternatives that would lead to a reduction of the LV costs and determined it was more cost effective to be an embedded distributor. ERHDC will continue to explore this area in the future to reduce LV costs.

ERHDC agrees with Board staff submission and has no concerns with the proposed calculation of the LV charges submitted by ERHDC in the interrogatory responses.

Issue #4

Loss Factors

ERHDC is proposing a Total Loss Factor ("TLF") of 1.0714 for secondary metered customers < 5,000 kW based on an underlying Distribution Loss Factor ("DLF") of 1.0527 and Supply Facility Loss Factor ("SFLF") of 1.0178. The proposed SFLF and DLF are based on the average of five historical years 2006 to 2010. ERHDC's actual DLF for the 2006 to 2010 period has fluctuated from a low of 1.0440 to a high of 1.0634. The currently approved TLF for secondary metered customers < 5,000 kW is 1.0543.

Board staff notes that the underlying Distribution Loss Factor ("DLF") for the recent years has decreased since 2006. However the DLFs were still above 5%. ERHDC states that it plans to investigate options to reduce line losses, yet no action was taken to this point. Board staff has concerns that ERHDC's proposed loss factors for 2012 are still above 5%, and proposed two options for the Board's consideration: first, the Board may wish to approve the proposed TLF and direct ERHDC to address any persistent DLF above 5% in the next cost of service application by developing and filing a plan to reduce losses. The second option is that the Board may wish to deem a DLF of 5% for purposes of this application and direct ERHDC to file a plan to reduce losses as part of its next cost of service application.

ERHDC Response

ERHDC expects that the additional line clearing proposed in this application will reduce some of the line losses in future years. If the Board wishes to deem a DLF of 5% for the purposes of this application, ERHDC would concur, as losses are expected to be reduced and the reduction in the DLF will also assist in rate mitigation.

Issue #5

Payment in Lieu of Taxes – PILS 1562

The PILs evidence filed by ERHDC in this proceeding includes tax returns, financial statements, Excel models from prior applications, calculations of amounts recovered from customers, SIMPIL Excel worksheets and continuity schedules that show the principal and interest amounts in the account 1562 Deferred PILs balance. In the pre-filed evidence, ERHDC applied to refund to customers a credit balance of $26,978 consisting of a principal credit amount of $24,804 plus related carrying charges of $2,174.

In determining the excess interest true-up variances in the SIMPIL models, the Board-approved maximum deemed interest of $96,738 was deducted from actual interest expense. Total interest expense from 2001 through 2003 was significantly lower than the maximum deemed interest and there was no excess interest. However, in 2004 and 2005, Espanola incurred interest expense that was higher than the maximum deemed interest. The table below was provided by ERHDC.

	Interest Expense per Financial Statements	IESO Costs	Interest on Regulatory Assets	Interest on PILS Assessment	Net Interest Expense for Interest Clawback
2004	173,677.32		(2,315.03)		171,362.29
2005	172,506.08	(4,897.81)	(4,275.56)	(4,984.02)	158,348.69

ERHDC stated its views on the components of interest expense as follows:

"ERHDC believes that interest expenses related to regulatory assets, IESO line of credit costs, and tax reassessments should be excluded from the excess interest claw back determination. In addition ERHDC believes it is unfair to treat costs related to IESO lines of credit as excess interest costs for similar reasons articulated above. Lines of credit are not reflected in the debt portion of capital structure on the balance sheet. As such they attract no debt return when rates are set."

Board has issued many recent decisions where the IESO stand-by charges have been considered to be interest expense for purposes of the interest true-up calculations. Board staff submits that interest on regulatory asset variance accounts and on PILs assessments should be excluded from the true-up calculations to be consistent with decisions already made by the Board. Board staff submits that fees charged on IESO or other prudential letters or lines of credit should be included in the true-up calculations to be consistent with decisions already made by the Board. Board staff submits that the revised credit amount would be approximately $28,245 consisting of a principal credit amount of $25,910 plus related carrying charges of $2,335.

Board staff submits that the minimum income tax rates used by ERHDC in the SIMPIL models are correct for a utility its size. Board staff submits that the amounts ERHDC has calculated as PILs recoveries from customers are reasonable.

Board staff requests that ERHDC file active Excel SIMPIL models as part of its draft Rate Order that may be affected by the Board's decision in this case and a revised continuity schedule.

<u>ERHDC Response</u>

Based on prior Board decisions, ERHDC agrees the revised credit amount to be returned to customers should be $28,245. ERHDC submits that since the increased credit returned to customers is $1,267 (including principle and carrying charges), materiality should be considered when determining if an active SIMPIL model and revised continuity schedules should be submitted as part of the Draft Rate Order.

Issue #6

Smart Meters

In response to a Board staff interrogatory, ERHDC confirmed that it used the following cost allocation methodology:

- Return (deemed interest plus return on equity) was allocated based on the number of smart meters installed by rate class;
- Amortization was allocated base on the smart meter costs by rate class;
- OM&A expenses were allocated based on the number of installed smart meters for each rate class;
- Payments in lieu of taxes (PILs) were allocated based on the revenue requirement allocated to each rate class before PILs; and
- Smart Meter Funding Adder revenue, including carrying charges, were allocated based on actual amounts collected from each rate class.

Board staff notes that cost causality should be the guiding principle when allocating costs to each class. Board staff is of the view that it is more appropriate to allocate the return based on the smart meter costs by rate class. Board staff submits that ERHDC should update its cost allocation to reflect the updated return calculation and provide the resulting SMDRs.

ERHDC Response

ERHDC agrees that it is more appropriate to allocate the return based on smart meter costs. The revised calculations are below:

As filed in Interrogatoires

Smart Meter Actual Cost Recovery Rate Rider - SMDR Calculated by Rate Class				
	Total	Residential	GS < 50	GS > 50
Allocators				
Average Smart Meter Unit Cost		$ 191.53	$ 251.74	$894.92
Smart Meter Cost	$ 675,907	$ 547,188	$ 107,240	$21,478
Allocation of Smart Meter Costs	100.00%	80.96%	15.87%	3.18%
Number of meters installed	3,307	2,857	426	24
Allocation of Number of meters installed	100.00%	86.39%	12.88%	0.73%
Total Return (deemed interest plus return on	$ 96,687	$ 83,530	$ 12,455	$ 702
Amortization	$ 107,917	$ 87,365	$ 17,122	$ 3,429
OM&A	$ 106,633	$ 92,123	$ 13,736	$ 774
Revenue Requirement before PILs	$ 311,237	$ 263,018	$ 43,313	$ 4,905
PILs	$ 16,573	$ 14,005	$ 2,306	$ 261
Total Revenue Requirement 2006 to 2011	$ 327,810	$ 277,024	$ 45,620	$ 5,166
	100.00%	84.51%	13.92%	1.58%
Smart Meter Rate Adder Revenues	($141,740)	($122,274)	($18,455)	($1,011)
Carrying Charge SMFA	($5,422)	($4,677)	($706)	($39)
Carrying Charge Deferred Expenses	$3,444	$2,910	$479	$54
Smart Meter True-up	$ 184,091	$ 155,571	$ 25,619	$ 2,452
Metered Customers per 2012 test year forecast	3,299	2,847	425	27
Rate Rider to Recover Smart Meter Costs (per	$ 4.65	$ 4.55	$ 5.02	$ 7.57
2 Year Rate Rider (per customer per month)	2.33	2.28	2.51	3.78

Revised to Allocate Return based on Smart Meter Costs

Smart Meter Actual Cost Recovery Rate Rider - SMDR Calculated by Rate Class				
	Total	Residential	GS < 50	GS > 50
Allocators				
Average Smart Meter Unit Cost		$ 191.53	$ 251.74	$ 894.92
Smart Meter Cost	$ 675,907	$ 547,188	$ 107,240	$ 21,478
Allocation of Smart Meter Costs	100.00%	80.96%	15.87%	3.18%
Number of meters installed	3,307	2,857	426	24
Allocation of Number of meters ins	100.00%	86.39%	12.88%	0.73%
Total Return (deemed interest plus	$ 96,687	$ 78,274	$ 15,340	$ 3,072
Amortization	$ 107,917	$ 87,365	$ 17,122	$ 3,429
OM&A	$ 106,633	$ 92,123	$ 13,736	$ 774
Revenue Requirement before PILs	$ 311,237	$ 257,762	$ 46,199	$ 7,275
PILs	$ 16,573	$ 13,725	$ 2,460	$ 387
Total Revenue Requirement 2006 to 2	$ 327,810	$ 271,488	$ 48,659	$ 7,663
	100.00%	82.82%	14.84%	2.34%
Smart Meter Rate Adder Revenues	($141,740)	($122,274)	($18,455)	($1,011)
Carrying Charge SMFA	($5,422)	($4,677)	($706)	($39)
Carrying Charge Deferred Expenses	$3,444	$2,852	$511	$80
Smart Meter True-up	$ 184,091	$ 152,462	$ 27,326	$ 3,564
Metered Customers per 2012 test yea	3,299	2,847	425	27
Rate Rider to Recover Smart Meter C	$ 4.65	$ 4.46	$ 5.36	$ 11.00
2 Year Rate Rider (per customer per	2.33	2.23	2.68	5.50

Issue #7

Lost Revenue Adjustment Mechanism (“LRAM”)

ERHDC seeks to recover a total LRAM claim of $160,270, which includes $8,740 in carrying charges, to be recovered over a three-year period. The lost revenues include the effect of CDM programs implemented from 2006-2010. ERHDC has requested approval of these savings persisting until April 30, 2012.

Since the OPA has not completed the evaluations on the 2011 CDM programs, Board staff submits that it is premature to consider any lost revenues for 2011 or 2012.

Board staff requests that ERHDC provide an updated LRAM amount and subsequent rate riders that only includes lost revenues from 2006 to 2010 CDM programs for the years 2006 to 2010, and the associated rate riders.

VECC supports the submissions of Board Staff in respect to LRAM recovery and agrees the recovery of 2011 and 2012 amounts is premature and inconsistent with the LRAM Guidelines.

ERHDC Response

The updated LRAM amount excluding 2011and 2012 is $152,728. ERHDC has provided below an updated LRAM amount and rate riders that only includes lost revenues from 2006 to 2010 CDM programs.

Residential rate class LRAM claims

Program Years	2006	2007	2008	2009	2010	Total
2006	$4,607	$4,557	$4,720	$4,528	$651	$19,063
2007		$32,670	$33,075	$31,636	$26,173	$123,554
2008			$2,577	$2,465	$2,040	$7,082
2009				$1,229	$995	$2,224
2010					$484	$484
Total	$4,607	$37,227	$40,372	$39,858	$30,343	$152,407

GS < 50 kW rate class LRAM claims

Program Years	2006	2007	2008	2009	2010	Total
2006	$0	$0	$0	$0	$0	$0
2007		$0	$0	$0	$0	$0
2008			$2	$2	$2	$6
2009				$62	$53	$115
2010					$200	$200
Total	$0	$0	$2	$64	$255	$321

LRAM Rate Riders

	LRAM	**Unit**	**2012 Forecasted Billed kWh/kW**	**3-yr Rate Rider $/unit**
Residential	$152,407	kWh	32,688,029	0.0016
GS < 50 kW	$321	kWh	11,268,418	0.0000
Total	**$152,728**	--		

Issue #8

PP&E Deferral Account

In the original application ERHDC applied the rate of return on equity of 6.66% to reflect the adjustment on the revenue requirement. Subsequently, in response to a Board staff interrogatory, ERHDC provided an update to the return component of the PP&E deferred balance using 6.20%.

Board staff notes that ERHDC's most recent update reflects the WACC figure of 6.20% for the calculation of the PP&E deferred balance amount of $29,483. Board staff is uncertain whether this update has been reflected in the updated revenue requirement. Board staff submits that ERHDC should clarify this and make the necessary adjustments in its 2012 revenue requirements given this recent update, if needed.

ERHDC Response

ERHDC confirms the adjustment to the rate of return to reflect the WACC figure of 6.20% for the calculation of the PP&E deferred account balance has been reflected in the updated revenue requirement submitted with the interrogatories.

Issue #9

Capital Expenditures and Green Energy Act

In ERHDC's Asset Management Plan the sustainment investments in existing substations and the new substation (MS 4) will be in future years and the costs are not included in this cost of service rate application. The Board states that as the related assets come into service, they will flow into the rate base in ERHDC's next cost of service application following a prudence review by the Board. VECC agrees with Board Staff that Espanola has provided substantive evidence in support of the future building of a new distribution station (MS 4) and for the rebuilding of three existing stations. However, VECC also note that these expenditures will cause Espanola to exceed its average annual capital expenditure by between 200% and 300% over the next six years. VECC noted that Espanola has not indicated whether it will file a capital adjustment application under IRM in the future. Espanola has also not commented on how it intends to finance these investments.

Secondly, in respect to 2011 capital expenditures, VECC notes that the forecast total expenditures (net of contributions) were updated from $395,865 in the original application to $333,752. VECC submits that the opening 2012 rate base should reflect the reduction form forecast to actual 2011 capital expenditures.

ERHDC Response

Due to the elevated risk of in-service failure of station assets, ERHDC intends to proceed in 2013 with the needed capital investments and apply for recovery in an IRM year utilizing the incremental capital module (ICM) which is intended to address the treatment of new capital needs that arise during the IRM plan term that are non-discretionary. ERHDC intends to finance these investments through third party borrowing.

ERHDC submits that the change in rate base due to 2011 actual capital expenditures would be a reduction of $31,035. The regulated return on rate base in this application is 6.20%; therefore, the reduction in regulated return would be $1,924. ERHDC agrees that due to the timing of the application and the availability of actual 2011 costs, the rate base could be updated using 2011 actual capital additions, but submits materiality should also be considered. Upon direction of the Board, ERHDC will make the change in the Draft Rate Order.

Issue #10

Working Capital Allowance

VECC submits that Espanola should be required to use the working capital adjustment of 13% of controllable costs as outlined in the Board's direction on April 12, 2012. VECC has consistently argued in all 2012 cost of service applications that a default value of 15% of the cost of power and controllable expenses is excessive to the needs of electric distribution utilities. This has been borne out by the various lead-lag studies that have been submitted in applications before the Board over the past two years. The Board's new default working capital value is presumably based on the best information at the time. The values are provided to the applicant as a means of improving efficiency in a regulatory proceeding. The Board has lowered the default value in recognition of the best information being a 13% factor. No substantive reason was given by Espanola to VECC's inquiry of why it should not use the revised working capital calculation. It simply stated that it was relying on the 2012 filing guidelines.

ERHDC Response

In its application, ERHDC used the default value of 15% in calculating its working capital allowance. This is consistent with the Filing Requirements. It is only with the 2013 group of cost of service filers that the default value will be reduced to 13%, and ERHDC is not aware of any provision in the Board's letter of April 12, 2012 or in the Filing Requirements that would provide for the retroactive application of that 2013 value. ERHDC does not have any evidence to support the assertion that 13% would be appropriate in its circumstances, nor do Board staff and VECC, and imposing the 13% value on ERHDC at this time would lock the lower value into place for the next four years. ERHDC understands that it may need to either conduct a study or use the default value in place at the time of its next cost of service application (expected for 2016). At this time, however, ERHDC submits that it is inappropriate to arbitrarily impose the 2013 value in its 2012 rebasing.

Issue #11

Revenue Offsets

VECC has two concerns regarding Espanola's 2012 Revenue Offset forecast. First, VECC submits that it would be reasonable to increase the anticipated 2012 Merchandising & Jobbing revenue to $4,000, based on a simple pro-ration of the year to date revenues over the balance of the year. VECC notes that this amount is likely conservative as it is materially less than revenues in each of the previous six years.

Second, VECC notes that Espanola has not included any Interest revenue in its forecast of Revenue Offsets. Based on historical income, VECC submits that interest revenues of $1,000 should be included for 2012. In total, these two adjustments would increase the forecast Revenue Offsets by $2,500.

ERHDC Response

ERHDC agrees to increase forecast Revenue Offsets by $2,500 in the Draft Rate Order.

Issue #12

Rate Design

Espanola stated that it is appropriate to maintain the same fixed/variable proportions in the current rates to all customer classes. The proposed MSCs are below the ceiling for every class as indicated in the cost allocation model, except for the GS > 50 kW class. Board staff noted that although the proposed MSC for the GS > 50 kW class exceeds the upper bound of the MSC, in past decisions, the Board has noted that it will not require utilities to lower the existing MSC if they are above the ceiling. Board staff submits that Espanola's proposal to maintain its fixed/variable proportion is reasonable.

VECC noted that the resulting monthly fixed charge is less than the MSC ceiling established by the Board for all customer classes except GS>50, where the 2011 value exceeds the ceiling. As a result, VECC submits that Espanola's approach is reasonable for all customer classes except GS>50. As noted in Espanola's Application, the OEB has indicated that "it does not expect distributors to make changes to the MSC that result in a charge that is greater than the ceiling". Given this direction, VECC submits that it is inappropriate to further increase a MSC that is already above the ceiling and that the MSC for the GS>50 class should be set at the 2011 value of $161.36.

ERHDC Response

ERHDC agrees with the Board submission, and consistent with past Board decisions, that it should not be required to lower its existing MSC for the GS>50 rate class that is above the ceiling. ERHDC submits that it is appropriate to maintain the same fixed/variable portions that are in the current rates to all customer classes.

Issue #13

Rate Mitigation

In response to a Board staff interrogatory, ERHDC filed an updated Revenue Requirement Work Form ("RRWF"), which included the bill impact calculation from current Board-approved (i.e. May 1, 2011) rates to ERHDC's updated proposed rates for 2012 for all the rate classes. Board staff notes that the total bill impact for all the rate classes are more than 10% except for GS > 50 kW class. Board staff also notes that ERHDC did not file a rate mitigation plan with its pre-filed evidence, nor did it opine on this in response to the above interrogatory

Board staff notes that a rate mitigation plan is required in keeping with the Board's filing requirements, which specify that a distributor will be required to file a mitigation plan for any class or group of customer whose total electricity bill is expected to increase by more than 10% over the previous bill amount. Staff submits that depending on the outcome of the Board's decision, a mitigation plan may still be required to be filed as part of the draft Rate Order to address any class whose total bill impact is over 10%.

ERHDC Response

In the draft rate order if ERHDC has a rate class with a total bill impact over 10% a rate mitigation plan will be addressed.

- All of which is respectfully submitted -