



PUBLIC INTEREST ADVOCACY CENTRE
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ONE Nicholas Street, Suite 1204, Ottawa, Ontario, Canada K1N 7B7

Tel: (613) 562-4002. Fax: (613) 562-0007. e-mail: piac@piac.ca. <http://www.piac.ca>

Michael Buonaguro
Counsel for VECC
(416) 767-1666

April 3, 2008

VIA E-MAIL AND COURIER

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge St.
Toronto, ON
M4P 1E4

Dear Ms. Walli:

**Re: Middlesex Power Distribution Corporation – Draft Rate Order
2008 Electricity Distribution Rate Application (EB-2007-0867)**

VECC has reviewed the Draft Rate Order filed by Middlesex Power Distribution Corporation last week and has no comments regarding Middlesex's implementation of the Board's March 17, 2008 Decision.

However, during the course of its review VECC noted what appears to be a methodological error in the Board's IRM model. For purposes of preparing the Rate Orders the Board's model has been adjusted to incorporate a 2008 Federal Tax Adjustment Factor as well as the K-Factor included in the original model used for the Rate Application process. The K-Factor adjusts the Revenue Requirement to be consistent with the phase-in of the Board's direction on Cost of Capital; while the Tax Factor Adjustment incorporates the change in Federal Tax rates between 2006 and 2008. Given that the K-Factor adjusts for the change in capital structure, the starting point for the "Tax Factor" should be the newly defined net income, PILs and Base Revenue Requirement.

In contrast, the Board's IRM-adjustment model uses the initial 2006 values as its starting point. Middlesex has partially compensated for this by using the "revised" Base Revenue Requirement in its Tax Factor calculation instead of the

original 2006 value. Overall, VECC estimates that fully correcting the calculation would increase the revenue requirement by less than \$500 and, as result, have a negligible effect on the final rates. However, this may not be the case for other distributors.

Yours truly,

A handwritten signature in blue ink, appearing to be 'M. Buonaguro', with a stylized flourish at the end.

Michael Buonaguro
Counsel for VECC