

Variance Analysis on Rate Base:

The following paragraphs provide a narrative on the changes that have driven the rate base changes/variances since the 2008 COS for Erie Thames.

| RATE BASE SUMMARY | 2008 Board Approved | 2008 West Perth Actual | 2008 Clinton Actual | 2008 Combined with ETPL Approved | 2008 Actual | Variance from 2008 Board Approved |
|---------------------------------|--------------------------------|-----------------------------------|--------------------------------|---|---------------------|--|
| | (\$'s) | (\$'s) | (\$'s) | (\$'s) | (\$'s) | (\$'s) |
| <u>Gross Asset</u> | | | | | | |
| Asset Values at Cost | \$21,923,880 | \$4,289,242 | \$1,593,049 | \$27,806,171 | \$28,667,623 | \$861,452 |
| <u>Accumulated Depreciation</u> | | | | | | |
| Depreciation | -\$5,366,284 | -\$2,446,215 | -\$409,924 | -\$8,222,423 | -\$9,048,179 | -\$825,756 |
| Net Fixed Asset | \$16,557,596 | \$1,843,027 | \$1,183,125 | \$19,583,748 | \$19,619,444 | \$35,696 |
| Working Capital Expenses | \$37,927,851 | \$5,102,904 | \$2,731,166 | \$45,761,920 | \$39,906,337 | -\$5,855,583 |
| Allowance for Working Capital | \$5,689,178 | \$765,436 | \$409,675 | \$6,864,288 | \$5,985,951 | -\$878,337 |
| Utility Rate Base | \$22,246,774 | \$2,608,462 | \$1,592,800 | \$26,448,036 | \$25,605,394 | -\$842,642 |

2008 Board Approved compared to 2008 Actual:

The variance between the 2008 actual fixed assets and the 2008 Board approved amount for 2008 of \$861,452 is offset by the change in amortization for the same period and is immaterial.

The difference between the working capital expenses between 2008 actuals and Board approved can be directly attributed to the change in Cost of Power between the two. ETPL forecast its COP to be \$33,705,585 when the actual cost of power for 2008 was \$28,804,902.74.

| RATE BASE SUMMARY | 2008 Actual | 2009 Actual | Variance from 2008 Actual |
|---------------------------------|---------------------|---------------------|----------------------------------|
| | (\$'s) | (\$'s) | (\$'s) |
| <u>Gross Asset</u> | | | |
| Asset Values at Cost | \$28,667,623 | \$30,609,784 | \$1,942,161 |
| <u>Accumulated Depreciation</u> | | | |
| Depreciation | -\$9,048,179 | -\$10,365,519 | -\$1,317,340 |
| Net Fixed Asset | \$19,619,444 | \$20,244,265 | \$624,821 |
| Working Capital Expenses | \$39,906,337 | \$42,681,218 | \$2,774,881 |
| Allowance for Working Capital | \$5,985,951 | \$6,402,183 | \$416,232 |
| Utility Rate Base | \$25,605,394 | \$26,646,448 | \$1,041,054 |

2008 Actual Compared to 2009 Actual:

The change year over year is due to the normal capital spending for both West Perth and Clinton Power in 2009 and the reduced capital program in 2009 of Erie Thames Powerlines due to its work interruption in that year.

Working capital increased by a total of \$416,232 the driver of that increase was fully with respect to the increase in commodity cost – which drove a \$440,000 increase in working capital while the remainder of the WCA, the controllable expenses, was actually reduced.

| RATE BASE SUMMARY | 2009 Actual | 2010 Actual | Variance from 2009 Actual |
|---------------------------------|---------------------|---------------------|--|
| | (\$'s) | (\$'s) | (\$'s) |
| <u>Gross Asset</u> | | | |
| Asset Values at Cost | \$30,609,784 | \$34,226,675 | \$3,616,891 |
| <u>Accumulated Depreciation</u> | | | |
| Depreciation | -\$10,365,519 | -\$11,889,320 | -\$1,523,801 |
| Net Fixed Asset | \$20,244,265 | \$22,337,355 | \$2,093,090 |
| Working Capital Expenses | \$42,681,218 | \$45,947,632 | \$3,266,414 |
| Allowance for Working Capital | \$6,402,183 | \$6,892,145 | \$489,962 |
| Utility Rate Base | \$26,646,448 | \$29,229,500 | \$2,583,052 |

2009 Actual Compared to 2010 Actual:

Net fixed assets increased by \$2,100,000 in 2010 over 2009. This change was predominantly the result of the re-organization of Erie Thames and the retrenching of staff and vehicles from Erie Thames' affiliate into the LDC. This resulted in the addition of \$1,871,000 gross fleet costs into Erie Thames and the associated amortization of the fleet offset the capital spend for the year.

Again, the increase in working capital of \$489,000 was driven by the increase in commodity cost by the amount of \$490,000 increase in working capital allowance that is derived as a direct result.

| RATE BASE SUMMARY | 2010 Actual | 2011 Bridge | Variance from 2010 Actual |
|---------------------------------|---------------------|---------------------|--|
| | (\$'s) | (\$'s) | (\$'s) |
| <u>Gross Asset</u> | | | |
| Asset Values at Cost | \$34,226,675 | \$37,561,610 | \$3,334,935 |
| <u>Accumulated Depreciation</u> | | | |
| Depreciation | -\$11,847,726 | -\$13,692,992 | -\$1,845,266 |
| Net Fixed Asset | \$22,378,950 | \$23,868,618 | \$1,489,669 |
| Working Capital Expenses | \$45,947,632 | \$45,796,394 | -\$151,238 |
| Allowance for Working Capital | \$6,892,145 | \$6,869,459 | -\$22,686 |
| Utility Rate Base | \$29,271,094 | \$30,738,077 | \$1,466,983 |

2010 Actual Compared to 2011 Bridge:

The change in net fixed assets between 2010 to 2011 bridge of \$800,000 is specifically related to the normal capital spending program of Erie Thames and the addition of two bucket trucks for approximately \$600,000 and leasehold improvements of \$150,000. The need for the bucket trucks was dealt with in the CPC and WPPI 2010 COS proceeding.

The change in working capital allowance for the bridge year is not related to the change in cost of power as was the case in previous years, the \$23,000 decrease is directly related to the change in operating costs for 2011.

| RATE BASE SUMMARY | 2011 Bridge | 2012 Test | Variance from 2011 Bridge |
|---------------------------------|---------------------|---------------------|--|
| | | (\$'s) | (\$'s) |
| | | | |
| <u>Gross Asset</u> | | | |
| Asset Values at Cost | \$37,561,610 | \$40,519,539 | \$2,957,929 |
| | | | |
| <u>Accumulated Depreciation</u> | | | |
| Depreciation | -\$13,692,992 | -\$14,474,214 | -\$781,222 |
| | | | |
| Net Fixed Asset | \$23,868,618 | \$26,045,325 | \$2,176,707 |
| | | | |
| Working Capital Expenses | \$45,796,394 | \$38,806,386 | -\$6,990,008 |
| Allowance for Working Capital | \$6,869,459 | \$5,044,830 | -\$1,824,629 |
| | | | |
| | | | |
| Utility Rate Base | \$30,738,077 | \$31,090,155 | \$352,078 |

2011 Bridge Compared to 2012 Test:

The change in net fixed assets between the bridge and test year of \$2,176,707 is directly attributable to the projected capital spending plan as discussed later in the asset management portion of this Application, coupled with the addition of smart meter assets which is only partially offset by the removal of the stranded assets.

The decrease in working capital allowance is with respect to the decrease in cost of power amounts due to the significant change in load forecast as a result of the lost customer and decreased production of industry within Erie Thames's service territory.