Espanola Regional Hydro Distribution Corporation (ERHDC)

Reply Submission to:

Board Staff Submission

Vulnerable Energy Consumer Coalition Submission

School Energy Coalition

Concerning Espanola Regional Hydro Distribution Corporation's
2008 Electricity Distribution Rate Application

EB-2007-0901

April 21, 2008

1. Introduction

Espanola Regional Hydro Distribution Corporation ("ERHDC" or the "Applicant") is a licensed electricity distribution utility that operates near the north shore of Lake Huron. It serves three urban communities – the Town of Espanola, Massey and Webbwood, the latter two being communities located within the municipality of the Township of Sables-Spanish River. The utility has 3,268 metered customers.

ERHDC self-nominated for 2008 rate rebasing. ERHDC calculated a Revenue Requirement of $1,340,404.

Through this application, ERHDC seeks:

To recover:

- Deficiency arising from changes in OM&A, Amortization, and the Rate of Return.
- Deferral and Variance Account Balances.

To change:

- Distribution Loss Factor.

To reflect:

- Just and Reasonable Distribution Rates that have been modeled in accordance with the Ontario Energy Board Filing requirements for Distribution Rate Applications.

ERHDC acknowledges the receipt of Ontario Energy Board Staff's (Board staff), the Vulnerable Energy Consumers Coalition's (VECC) and the School Energy Coalition's (SEC) submissions concerning ERHDC's 2008 EDR application and welcomes the opportunity to reply.

The following submission addresses the various components of ERHDC's application and responds to submissions from the Board Staff, VECC and SEC.

2. Operations Maintenance & Administration (OM&A)

2.1 Other Operating Costs

Issue

Board Staff notes that Exh4/Pg6 of the Application includes a component of Total Operating Costs Entitled "Other Operating Costs" for the amount of $132,375 in the 2008 Test Year. Exh4/Pg5 breaks down this amount as consisting of "Interest on Debt to Associated Companies" in the amount of $84,625 and "Other Interest Expense" in the amount of $47,750. It remains unclear if the Applicant has included "Interest on Debt to Associated Companies" in the amount of $84,625 and an additional separate amount in the rate base calculation.

ERHDC Comment

ERHDC confirms that there is no double recovery of interest expense in its application. To clarify, a detailed calculation of the total rate base is included below. The rate base of $2,763,963 agrees to ERHDC's Application Exhibit2/Page3 "Rate Base Summary Table". The eligible distribution expenses listed below agree to Exhibit4/Page3 exclusive of other operating costs in the amount of $132,375 which is "interest on debt to associated companies" and "other interest expense".

Eligible Distribution Expenses	
3500 – Distribution Expenses - Operation	237,426
3550 – Distribution Expense - Maintenance	187,328
3650 – Billing and Collecting	254,687
3700 – Community Relations	2,000
3800 – Administrative and General Expenses	282,788
Total Eligible distribution Expenses	964,229
3350 – Power Supply Expense	4,829,970
Total Expenses for Working Capital	5,794,199
Working Capital Allowance 15%	869,130
Test Year Balances, Fixed Assets in Service	
Opening Balance	1,882,361
Closing Balance	1,907,305
Average Balance	1,894,833
Add: Working Capital Allowance	869,130
Total Rate Base	**2,763,963**

2.2 Consulting Costs

Issue
SEC questions whether regulatory consulting costs in non-rebasing years will be at the same level as during a year when a cost of service application is prepared.

ERHDC Comment
ERHDC included the amount of $36,700 in consulting costs for 2008 which is the forecast average over 3 years (2008 to 2010) taking into consideration that there is costs in 2008 for rate rebasing and there will be costs in 2010 for the 2011 rate rebasing application. It is expected that costs in 2008 and 2010 will be higher than in 2009 and therefore an average has been used for 2008. It should be noted that in Board staff IR#7(b) the 2008 forecast costs are 15% lower than the 2006 actual consulting costs.

2.3 Offsetting reduction in OM&A Costs

Issue
Other revenue declined between 2006 and 2008 due to the reduction of work performed for other utilities. The total reduction over the two years is roughly $23,000. VECC is surprised that there is no reported offsetting reduction in OM&A costs over the same period.

ERHDC Comment
The revenue relating to work performed for other utilities was based on labour and associated payroll burdens. These costs have not been reduced now that there has been a reduction in work performed for other utilities. The available labour is utilized to perform work on ERHDC’s system.

3.0 Shared and Purchased Services

Issue
Board Staff questions whether the new services company arrangements are producing reasonable costs for the Applicant as there is a significant increase in costs with the present supplier, PUC Services, compared to the costs incurred when the Services Corporation was the supplier. VECC concurred with the Board Staff request for further justification for this expense. SEC did not raise concerns with this issue.

ERHDC Comments
Prior to 2006 ERHDC operated as an affiliated group of companies. ERHDC was to be charged by the services corporation for the management, operations, maintenance and administrative services to operate the distribution utility. The method of allocating costs between the service company and ERHDC was not

reflective of the actual burden generated by ERHDC. Consequently, the service company had losses in its years of operation (2003 to 2005) as a result of not properly allocating costs. The true cost of operations of ERHDC therefore was not captured as the costs from the service company were not allocated properly. Expenses of ERHDC were understated as a result of the service company arrangement for the years 2003 to 2005.

The cost allocation issue was addressed in 2005 with the winding up of the services corporation and a search for a new general manager. No suitable candidates were found due to the scope of the qualifications required – knowledge of the operations/engineering side of the business but also the increasing regulatory requirements of rate applications, cost allocation filing, etc. It was decided that another option was to enter into a service agreement with a neighbouring LDC that could provide oversight for all aspects of the business. The oversight would be supplemented by consultants in specific areas of expertise as recommended by the oversight service provider. In either situation, costs would increase over the 2004 Board approved due to the proper inclusion of all relevant costs in ERHDC's expenses.

As noted in ERHDC's original application, the Board approved expenses (2004 actual) are not reflective of the operation of ERHDC. The service company was in operation during the period 2003 to 2005 and all ERHDC costs were not properly allocated from the service company to ERHDC. In 2002, the year prior to the introduction of the service company, ERHDC's total OM&A expenses were $946,697 (PEG Report – PEER Data, EB-2006-0268). The requested 2008 test year OM&A expenses are $964,229. This is a total increase of $18,000 (2%) over a six year period from 2002 to 2008. The 2008 test year amount is less than the 2006 actual and considering inflationary factors, is less than the 2002 actual expense level.

	2002	2007	2008
OM&A	946,697	941,112	964,229

As further justification of the reasonableness of the OM&A costs the Board is directed to data contained in the report *Benchmarking the Costs of Ontario Power Distributors* by PEG that was completed for the OEB and is a matter of public record. In the peer group containing ERHDC its per customer OM&A costs for 2006 are the fifth lowest of the 11 LDC's in the group.

ERHDC respectfully submits that the increased costs are not arising from the management service agreement with PUC Services but from the incorrect allocation of costs in the 2004 Board approved year. The service agreement with PUC Services has allowed ERHDC staff and PUC Services to contain ERHDC's costs and has reduced costs in some areas while also managing the increased regulatory requirements.

ERHDC submits that the costs with the service provider, PUC Services, are just and reasonable.

4.0 Rate Base

4.1 Reconciliation of Numbers

Issue
Board Staff noted discrepancies in the evidence related to total capital expenditures and rate base.

ERHDC Comment
The following comments relate to the Board noted discrepancies between the original application and the response to Board interrogatory 11 b).

Total Capital Expenditure - Expenditures for overhead lines in 2006 were erroneously included in the 2006 opening asset balance rather than 2006 additions. The response to 11 b) is correct for asset additions of $98,444 in 2006. The correction to Exhibit 2 of the original application does not affect the amount of the 2008 rate request.

Rate Base – As noted by VECC (Section 4.2 of this submission), the calculation of gross assets for 2006 is not correct in Exhibit 2. In addition, upon review of the response to Board 11 b) the following items were discovered in the calculation of rate base for 2006 and 2007:

Construction in progress and capital tax were included in the rate base calculation for 2006 and 2007,

Distribution maintenance expense was excluded from the rate base calculation in 2006, and

A slight variance resulted from using the latest 2007 data rather than the original bridge year data included in the application.

Following is the corrected 11 b) table. Note that the asset base issue identified by VECC has not yet been corrected but does not affect the amount of the 2008 rate request.

	2002	2003	2004	2005	2006	2007	2008
Net Income	**(294,749)**	**158,719**	**(124,507)**	**(110,432)**	**(272,333)**	**(3,059)**	**112,720**
Actual Return on Equity portion of the regulated rate base %	**-9.98%**	**5.79%**	**1.76%**	**2.06%**	**-3.66%**	**6.11%**	**7.12%**
Allowed Return on the Equity portion of the regulated rate base %	**8.57%**	**8.57%**	**8.57%**	**8.57%**	**8.13%**	**8.13%**	**7.12%**
Retained Earnings	**(221,598)**	**(62,879)**	**(187,386)**	**(297,818)**	**(570,151)**	**(573,212)**	**(454,325)**
Dividends to Shareholders	**0**	**0**	**0**	**0**			
Sustainment Capital Expenditures excluding smart meters	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Development Capital Expenditures excluding smart meters	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Operations Capital Expenditures	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Smart meters Capital Expenditures	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Other Capital Expenditures (identify)	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total Capital Expenditures including smart meters	**161,516**	**351,558**	**220,868**	**181,915**	**98,444**	**146,808**	**204,399**

Total Capital Expenditures excluding smart meters	**161,516**	**351,558**	**220,868**	**181,915**	**98,444**	**185,828**	**204,399**
Depreciation	**222,382**	**247,369**	**216,027**	**157,783**	**188,561**	**178,061**	**179,455**
Number of Customer Additions by class:							
Residential	**0**	**4**	**6**	**5**	**6**	**10**	**-6**
GS<50	**0**	**1**	**0**	**6**	**2**	**3**	**2**
GS>50	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Street Lights (connections)	**0**	**0**	**0**	**0**	**0**	**0**	**-1**
Sentinal Lights (connections)	**0**	**0**	**0**	**0**	**0**	**0**	**0**
USL (connections)	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Rate Base	**2,938,961**	**2,749,606**	**2,798,816**	**3,017,643**	**2,777,357**	**2,775,638**	**2,763,963**

4.2 2006 Gross Assets in Service

Issue

The 2006 actual gross assets at cost of $4,241,628 Exhibit2/Page3 is calculated as the average 2006 actual closing balances and the 2006 Board Approved balance (which is the average of 2003 and 2004). SEC believes this is not correct and the 2006 asset value is overstated by $831,053 and accumulated depreciation by $859,683.

ERHDC Comment

ERHDC agrees that the Net Fixed Assets in Exhibit 2/Page3 used in the Rate Base Summary Table for the 2006 Actual is overstated by $28,630. Although there is a misstatement in the table the error is not carried forward in the application and does not affect the 2007 or the 2008 rate base. ERHDC acknowledges the error and submits that there are no adjustments required to the rates applied for in the application.

4.3 Increase in 2008 Capital Expenditures

Issue

In response to Board Staff interrogatory #14, the Applicant stated that the amount of $41,644 will be budgeted for replacing underground residential distribution cables and $98,196 will be budgeted for pole replacement. In addition, the response also stated that condition assessment for underground system and poles will be initiated in 2008. Given that the work for condition assessment of infrastructure has not yet been completed, Board staff remain unclear as to how these levels of expenditures were determined and if they would be adequate for replacement of deteriorated poles and underground primary cables.

VECC questions the validity of ERHDC's assertions that a) sustaining investment in pole replacement will need to target 40 poles per year and b) the long term target for annual sustaining reinvestment in underground conduit will be double 2008 spending levels.

ERHDC Comment

In response to Board submission the table presented below was included in the response to Board staff interrogatory #14. This table outlines the methodology by which the proposed expenditures were determined. In addition to the below noted information, ERHDC offers the additional comments which follow the chart below in order to further clarify the methodology used. The capital requirements have been reviewed by professional engineers with several decades of electric utility experience.

Item	Description	2008 Amount	Rationale for Expenditure
A	Replace Substation Equipment	$19,793	This allocation is required to replace deteriorated concrete blocks in Station #3. See attached report from structural engineer and cost estimate from local contractor.
B	Pole Replacement (20 poles)	$98,196	A qualified consultant will be hired in 2008 to test all 2,040 wood poles in the ERHDC system over a period of five years. It is anticipated that at least 20 poles will be identified through the condition assessment that will require immediate replacement. The long term target for pole replacement levels is anticipated to be approximately 40 poles per year based on typical pole life of 50 years. This allocation will be increased gradually in each subsequent year until the long-term sustaining reinvestment in pole replacements reaches the target level of 40 poles per year. 2007 was the start year of this phase in approach, hence the increase in numbers over the two years.
C	Construct misc. lines (250m)	$30,883	This allocation is an estimate based on reasonable assumptions based on past experience to account for unforeseen construction of miscellaneous lines that are expected to occur through the year in response to customer demand. There may be some recovery from the customer, but it is not possible to predict the amount in advance.
D	Replace underground primary cable (residential distribution)	$41,644	This allocation is required to initiate the process of replacing underground residential distribution cables that are now in excess of 30 years old in order to maintain reliability. Normal life expectancy of these underground cables is 30 years. Condition assessment of the underground system will be initiated in 2008 through inspection by the field crew. This inspection activity is included in the O&M allowances. It is anticipated that some replacement work will be required in 2008 as a result of this condition assessment. The long-term target for annual sustaining reinvestment in underground cable replacements is forecasted at double this 2008 allocation. This allocation will be increased each year until the long-term target level of expenditure is achieved

Annual Sustaining Reinvestment:

The table below identifies normal life expectancies for each of the various distribution components of the ERHDC system and their associated replacement costs. The table serves to identify the ***sustaining annual reinvestment*** required to provide for ongoing renewal of this infrastructure.

Projected Long Term Infrastructure Renewal Costs

Combined Espanola, Massey and Webbwood Facilities

Asset Type	Quantity	Estimated Life	Estimated Replacement Cost		Sustaining Annual Reinvestment	Units to Replace per Year
			Per Unit	Total		
Substations	3	40	$240,000	$720,000	$18,000	n/a
Distribution Transformers	703	40	$3,080	$2,165,240	$54,131	18
Distribution Switches (disconnects)	750	25	$300	$225,000	$9,000	30
Distribution Poles (c/w hardware)	2,040	50	$4,910	$10,016,400	$200,328	41
Underground Cables (1 phase URD)	10,600	30	$236	$2,498,628	$83,288	353
Overhead Wires (3 phase equiv.)	61,000	40	$25	$1,525,000	$38,125	1,525
Electric Meters	3,300	25	$65	$214,500	$8,580	132
			Total	$17,364,768	**$411,452**	

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The numbers presented in this table represent the ***minimum*** range of capital expenditure required, on an annualised basis, simply to match replacement of infrastructure with end-of-life time frames. These numbers are based on steady-state conditions that assume no backlog of deteriorated plant.

While this analysis is quite simplistic, it serves a very useful purpose which is to establish a ***minimum long-range target*** for annual spending on capital works required to maintain the existing infrastructure in a reliable and safe condition. The cost estimates used are generally very broad range estimates which will need to be updated with detailed engineering estimates over time. This table identifies “plant renewal” costs only.

Based on this analysis, the minimum long-term target for capital spending to renew infrastructure is in the range of $411,500 per year. However, it is recognized that this level of expenditures would be too impactive on customers and therefore is proposed for gradual phase-in over time, between 3 and 6 years.

Pole Replacements:

Wood poles used by ERHDC are typically of the species Western Red Cedar (WRC). Generally accepted industry practice identifies the average life expectancy of WRC poles to be approximately 40 years. In the case of ERHDC, soil conditions are generally sandy in nature providing for excellent drainage and therefore average life of wood poles is expected to be greater. ERHDC has used a 50 year life expectancy in recognition of the typical soil conditions in the region.

There are approximately 2,040 poles in the ERHDC system serving the three communities. Based on the 50 year life, under steady state conditions, ERHDC must replace 1/50th of the 2,040 poles (i.e. 41 poles) per year simply to keep pace with normal end-of-life requirements.

Asset condition assessment has not been performed in the past, but is proposed for 2008. In the interim, until assessment data is available, ERHDC is proposing an allocation to cover replacement of 20 poles in the amount of $98,196.

Underground Cable Replacements:
The typical life expectancy of the type of high voltage underground distribution cables used in residential developments (URD cables) in ERHDC is approximately 30 years. Existing cables are approximately 30 years old and there have been no cable replacements to date. As noted in the table on Projected Long Term Infrastructure Renewal Costs, the minimum annual expenditure to provide for replacement of 1/30th of the total installed quantity of URD cables in ERHDC is approximately $83,288 per year.

The allocation proposed for 2008 is half this amount (i.e. $41,644) and is intended simply as a starting point to address this issue in the long term. The intent is to increase this allocation each year in order to gradually phase-in the long term expenditure target over the next 3 to 6 years. The annual proposed allocation will be adjusted to reflect the findings of the proposed asset condition evaluation to be conducted in 2008.

4.4 Service Reliability Indices

Issue
Overall, Board Staff notes that insufficient evidence was provided to permit an accurate evaluation as to whether or not there has been an appropriate methodology used for development, evaluation, and prioritization of 2008 capital projects.

ERHDC Comment
The Board's comments at the bottom of page 9 of the submission are noted and ERHDC offer the following comments.

The methodology used in the development of the proposed capital spending for 2008 has been outlined above. Reliability to date has not been a concern for

ERHDC and therefore service reliability indices were not considered in developing the capital program.

Nonetheless, it is ERHDC's intention to review the reliability information during 2008. The findings of this review will be incorporated into future budget planning.

4.5 Asset Management Plan

Issue
Board Staff seeks comments on if the Applicant should develop a formal asset management plan?

VECC submits that ERHDC should be directed to file its asset condition and resulting asset replacement plan with the Board prior to the end of 2008.

ERHDC Comment
Board staff questions on page 10 of their submission whether a formal asset management plan should be developed. The information provided above outlines the steps ERHDC has taken to initiate the development of just such a plan. ERHDC recognizes the challenge of developing reasonable long term plans that will sustain service reliability while mitigating economic impact on customers. ERHDC plan is to develop the asset management plan and phase it in over the next 3 to 6 years in a reasonable and responsible manner.

4.6 Working Capital Calculation

Issue
VECC submits that based on the lower sales forecast to retail customers plus the fact Hydro One Networks is applying for a reduction in its Retail Transmission Service Rates the cost to ERHDC for Transmission and Wholesale Market Services should be going down in 2008 - not up. The board should direct ERHDC to adjust these components of its working capital calculation accordingly.

ERHDC Comment
The following is a chart included as VECC interrogatory response 8 b).

2007 and 2008 charges were shown on the incorrect lines. See following revised chart. Also included								
is 2007 costs based on IESO and Hydro One invoices.								
			2006 Board Approved	2006 Actual	2007 Bridge	2008 Test		2007 IESO/Hydro One Invoices
4705	Power Purchased		$3,294,748	$3,616,484	$3,904,000	$3,700,000		$3,905,682
4708	WMS		$423,033	$333,112	$356,000	$412,209		$399,767
4714	NW		$342,043	$316,097	$330,000	$334,165		$317,120
4716	CN		$260,571	$303,318	$200,000	$244,300		$277,701
4730	RRA							
4710	Cost of Power Adjustments							
4712	Charges - One-time							
4720	Other		$2,085					
4750	Charges - LV			$16,843	$119,393	$139,296		$133,538
			$4,322,480	$4,585,854	$4,909,393	$4,829,970		$5,033,809

The 2008 test year expenses for WMS and transmission charges are above the 2007 actual payments to IESO and Hydro One. However, the 2007 actual energy charges are in excess of the 2008 test year amount. The overall cost, even at a reduced consumption is a reasonable estimate and may be understated compared to 2007 actual.

5.0 Cost of Capital

Issue

Board staff submits that to be consistent with the Board guidelines that the allowed debt rate should be the lower of the 5.82% and the updated deemed debt rate, which the board has determined to be 6.10%, communicated on March 7, 2008.

In VECC's view the 5.82% is appropriate – providing the debt restructuring is still on track to occur in 2008. Otherwise, the rate should be 5%.

ERHDC Comment

The current debt rate on ERHDC's note with its shareholders is 5%. It is ERHDC's intent to restructure its capital structure to the Board's deemed debt to equity ratio. ERHDC's return calculation and resulting distribution rates in the original application were based on a return of 8.69% on equity at 40% and the anticipated deemed debt rates of 5.82% (long term) and 4.77% (short term) on the debt portion of 60%. ERHDC's expectation is that the return will be based on current deemed rates which are:

- the deemed equity rate at the deemed equity level (now set at 8.57%)
- the restructured debt at the deemed rate (now at 6.10%)
- the deemed short term debt rate (now set at 4.77%)

ERHDC awaits the Board's direction in this matter.

6.0 Other Distribution Revenue

Issue
ERHDC used the 2007 bridge year Other Distribution Revenue to calculate the 2008 revenue deficiency.

ERHDC Comment
ERHDC used the 2007 bridge year Other Distribution Revenue in Exhibit7/Page2 of the application to determine revenue deficiency. ERHDC agrees with Board Staff that for the purpose of Exhibit7/Page2 the 2008 level of Other Distribution Revenue would have been more appropriate. ERHDC confirms that the proposed 2008 rates in the original application are based on the 2008 level of projected Other Distribution Revenue in the amount of $146,652.

Issue
Board Staff is unclear as the whether ERHDC has included the SSS Administration revenue in the other distribution revenue figures.

ERHDC Comment
ERHDC confirms it has included the SSS Administration charge in other distribution revenue. In Exhibit 3/Page 14 of the application SSS Administration charges are included in “Other Electric Revenues”. The total for “Other Electric Revenues” is $28,957 in the 2008 Test year, $12,000 of which relates to SSS Administration revenue.

7.0 Load Forecasting

Issue – Weather Normalization
The Applicant noted that Hydro One carried out the weather normalization that was performed, albeit only for the year 2004. It is not clear whether Hydro One used the weather normalization method approved by the Board in the Distribution Cost Allocation Review (EB-2005-0317) and Hydro One’s own 2006 Distribution Rate case (RP-2005-0020/EB-2005-0378).

ERHDC Comment
It is ERHDC’s understanding that Hydro One used the weather normalization method approved by the Board in the Distribution Cost Allocation Review (EB-2005-0317). ERHDC does not know if this weather normalization method was used by Hydro One in its own 2006 Distribution Rate case (RP-2005-0020/EB-2005-0378). However, it is ERHDC’s understanding that Hydro One has used the same weather normalization method for a number of years. As result, ERHDC expects Hydro One used the same weather normalization method in both cases.

8.0 Cost Allocation

8.1 Low Voltage Costs

Issue

Board Staff notes that the Host Distributor, Hydro One, has an application currently with the Board that included lower rates for several services that are used by embedded distributors. Board Staff submits that the Applicant should re-calculate the LV adjustments to the volumetric distribution rate for each class. The applicant might assist the Board by providing details of its updated LV cost forecast.

ERHDC Comment

As per EB-2007-0681 / Exhibit G1 / Tab 4 / Schedule 4 / Pg 2 the following compares the current Low Voltages rates that Hydro One charges an embedded distributor and the proposed Sub Transmission Rates that Hydro One proposes to charge an embedded distributor in its 2008 rate application.

Current Low Voltage Rates		Proposed Sub Transmission Rates	
Asset Type Utilized	Current Volumetric Rate (*)	Asset Type Utilized	Proposed Volumetric Rate(**)
Shared LV Line	$0.633/kW	Common ST Line	$0.58/kW
HVDS-high	$1.678/kW	HVDS-high	$1.42/kW
HVDS-low	$3.797/kW	HVDS-low	$2.66/kW
Shared LVDS	$2.12/kW	LVDS-low	$1.24/kW
Specific LV Line	$526/km	Specific ST Line	$729/ km
Specific Distribution Line	$358/km	Specific Primary Line	$565/ km

(*) No applicable Service Charge

(**) Fixed Charge of $188 and a meter charge of $553 will also apply

ERHDC has recalculated the amount it expects to pay Hydro One for Sub Transmission service in 2008 based on the proposed rates. The detail calculations shown below indicate this amount is $141,701.

LV Charges

	Rate - Jan. to April 2007	Current Rate - May to Dec. 2007	Proposed Rate	% Change	2007 Cost	Estimated 2008 Cost	% Change
Shared LV Line	$0.63	$0.633	$0.580	-8.4%	$19,366	$17,783	-8.2%
Shared LVDS	$2.11	$2.12	$1.240	-41.7%	$22,457	$13,164	-41.4%
Specific LV Line	$524	$526	$729.00	38.7%	$15,760	$21,870	38.8%
HVDS - Low	$3.78	$3.80	$2.660	-30.1%	$75,955	$53,317	-29.8%
Fixed and Meter Charges						$35,568	
					$133,538	$141,701	

ERHDC will update the LV adjustments to the volumetric distribution rate for each class to reflect the revised cost when final rates are determined if so ordered by the OEB. This assumes that in the event the proposed Hydro One Sub Transmission rates are not approved, the resulting difference would be captured in the variance account.

8.2 Revenue to Cost Ratios

Issue

Board Staff notes that two classes (streetlights and sentinel lights) have proposed ratios that remain outside the Board's policy range, both on the low side. Board staff notes that in recent decisions (for example, Barrie Hydro) with similar situations the Board has directed the applicant to move the ratio within acceptable Board policy ranges over a two year period.

SEC suggests that in order to mitigate distribution rate impacts, the transition for the GS>50 kW class be staggered over two years. The distribution rate increase for GS>50 kW customers depending on volumes range from 69.4% - 100%. In SEC's submission, the revenue lost by doing so should be made up by the Streetlight class.

VECC submits that the increases for Sentinel and Streetlights should both be moved closer to the lower limit of the Board's guidelines and that it is inconsistent to move the GS>50 kW all the way to 100% while maintaining the USL ratio at 92%. A better approach would be to just move the GS>50 kW ratio up to the lower limit of the Board's guideline.

ERHDC Comment

ERHDC is concerned about further increases to the streetlight and sentinel light bills should the ratios be further adjusted. ERHDC also notes in response to SEC's submission concerning the distribution rate increase of 69.49% to 100% that the total bill increase for GS>50 kW customers depending on volumes range from 4.6% to 9.1%. These increases are in most cases less then the estimated streetlight increase. ERHDC awaits the Board's direction on this matter.

9.0 Retail Transmission Service Rates

Issue

Board Staff submits that it may be reasonable for ERHDC to calculate revised Retail Transmission Service Rates based on the assumptions that the rates it will pay to Hydro One for wholesale service will be approved per Hydro One's application (EB-2007-0681/ExhibitG2/Tab94/Schedule1/Pg3). It might assist the Board if ERHDC were to identify the revised rates in its reply submission. It would also be helpful if ERHDC provided revised calculations of the total bill impacts to Streelighting and Sentinel Lighting, in place of the estimates already provided.

ERHDC Comment

Following is the calculation of revised Retail Transmission Service Rates based on Hydro One's proposed rates. Also included are bill impacts for Streetlighting and Sentinel Lighting at the revised transmission rates.

MONTH	IESO Network Service Charge	IESO Line Connection Service Charge	IESO Transformation Connection Service Charge	Hydro One Retail Network Service Charge	Hydro One Retail Connection Service Charge	Network Billings	Connection Billings
Nov-06				$27,656	$20,490	$30,945	$22,602
Dec-06				$32,274	$23,751	$34,187	$24,945
Jan-07				$34,878	$25,532	$36,374	$26,531
Feb-07				$34,446	$25,179	$37,416	$27,271
Mar-07				$33,180	$24,273	$31,452	$23,001
Apr-07				$27,190	$19,963	$24,904	$18,232
May-07				$21,470	$16,103	$23,288	$17,151
Jun-07				$23,818	$18,145	$23,024	$16,954
Jul-07				$22,719	$17,363	$23,467	$17,286
Aug-07				$23,935	$18,188	$23,914	$17,556
Sep-07				$20,589	$15,682	$20,936	$15,275
Total	$0	$0	$0	$302,155	$224,669	$309,907	$226,804
Old Rate	$1.00	$1.00	$1.00	$2.52	$2.09		
New Rate	$1.00	$1.00	$1.00	$2.01	$1.88		
Est. Hydro One				80%	90%		
Costs @ new rates	$0	$0	$0	$241,005	$202,095		
				80%	90%		
				ESTIMATED			

	Network	Connection
Estimated New		
IESO & Hydro One Costs	$241,005	$202,095
Billing Revenues	$309,907	$226,804
Ratio	**78%**	**89%**
Current Retail Transmission Rates		
Residential	$0.0053	$0.0039
General Service Less Than 50 kW	$0.0049	$0.0035
General Service 50 to 4,999 kW	$1.9900	$1.3968
Street Lights	$1.5009	$1.0798
Sentinel Lights	$1.5085	$1.1024
Unmetered Scattered Load	$0.0049	$0.0035
Proposed Retail Transmission Rates		
Residential	**$0.0041**	**$0.0035**
General Service Less Than 50 kW	**$0.0038**	**$0.0031**
General Service 50 to 4,999 kW	**$1.5476**	**$1.2446**
Street Lights	**$1.1672**	**$0.9622**
Sentinel Lights		
	78%	89%

REVISED RETAIL TRANSMISSION RATES WERE EFFECTIVE NOVEMBER 2006 FOR ERHDC CUSTOMERS

Street Light

143 kW Consumption
48,489 kWh Consumption

	Metric	2007 BILL Volume	2007 BILL Rate $	2007 BILL Charge $	2008 BILL Volume	2008 BILL Rate $	2008 BILL Charge $	IMPACT Change $	IMPACT Change %	IMPACT % of Total Bill
Monthly Service Charge				0.41			0.82	0.41	100.0%	0.0%
Distribution	kW	143	2.97110	425.36	143	5.47930	784.45	359.09	84.4%	7.4%
Sub-Total				**425.77**			**785.27**	**359.50**	**84.4%**	**7.4%**
Regulatory Asset Recovery	kW	143	0.18790	26.90	143	1.14050	163.28	136.38	507.0%	2.8%
Retail Transmission - Network	kW	154	1.50090	230.44	151	1.16720	176.18	(54.26)	-23.5%	-1.1%
Retail Transmission - Line and Transformation Connection	kW	154	1.07980	165.78	151	0.96220	145.24	(20.55)	-12.4%	-0.4%
Wholesale Market Service	kWh	52,000	0.00520	270.40	51,122	0.00520	265.84	(4.56)	-1.7%	-0.1%
Rural Rate Protection Charge	kWh	52,000	0.00100	52.00	51,122	0.00100	51.12	(0.88)	-1.7%	0.0%
Debt Retirement Charge	kWh	48,489	0.00700	339.42	48,489	0.00700	339.42	0.00	0.0%	0.0%
Cost of Power Commodity	kWh	52,000	0.05704	2,966.07	51,122	0.05704	2,916.01	(50.06)	-1.7%	-1.0%
Total Bill				**4,476.78**			**4,842.36**	**365.57**	**8.2%**	**7.5%**

Sentinel

0.75 kW Consumption
50 kWh Consumption

	Metric	2007 BILL Volume	2007 BILL Rate $	2007 BILL Charge $	2008 BILL Volume	2008 BILL Rate $	2008 BILL Charge $	IMPACT Change $	IMPACT Change %	IMPACT % of Total Bill
Monthly Service Charge				0.45			0.90	0.45	100.0%	1.6%
Distribution	kW	1	8.55780	6.42	3	7.71300	21.98	15.56	242.5%	54.9%
Sub-Total				**6.87**			**22.88**	**16.01**	**233.2%**	**56.5%**
Regulatory Asset Recovery	kW	1	12.05030	9.04	1	0.10170	0.08	(8.96)	-99.2%	-31.6%
Retail Transmission - Network	kW	1	1.50850	1.21	1	1.17310	0.93	(0.29)	-23.5%	-1.0%
Retail Transmission - Line and Transformation Connection	kW	1	1.10240	0.89	1	0.98230	0.78	(0.11)	-12.4%	-0.4%
Wholesale Market Service	kWh	54	0.00520	0.28	53	0.00520	0.27	(0.00)	-1.7%	0.0%
Rural Rate Protection Charge	kWh	54	0.00100	0.05	53	0.00100	0.05	(0.00)	-1.7%	0.0%
Debt Retirement Charge	kWh	50	0.00700	0.35	50	0.00700	0.35	0.00	0.0%	0.0%
Cost of Power Commodity	kWh	54	0.05704	3.06	53	0.05704	3.01	(0.05)	-1.7%	-0.2%
Total Bill				**21.75**			**28.35**	**6.60**	**30.3%**	**23.3%**

10.0 Line Losses

Issue
ERHDC should be required to provide details of the locations of the defined meter point on the primary or high voltage side of the transformer and the metering installation on the secondary or low voltage side of the transformer in order to confirm the inclusion/exclusion of Hydro One losses in the DLF provided.

ERHDC Comment
In the preparation of this submission ERHDC has again reviewed this confusing issue. The loss factor of 1.0495 (chart in Board staff submission, page 18) was calculated as the average of the losses for the years 2004 to 2006. It is a comparison of the total wholesale kWhs billed to ERHDC by IESO and Hydro One which includes Hydro One loss factors, compared to the retail kWhs billed to ERHDC customers. Therefore in ERHDC's view, Hydro One's loss factors are included in ERHDC's DLF and the total loss factor should be 1.0495.

11.0 Deferral and Variance Accounts

11.1 Request for new deferral account – Late Payment Class Action Suit

Issue
ERHDC is requesting a new deferral account to record any claim and costs that would incur assuming the claim against Toronto Hydro succeeds.

ERHDC Comment
It is expected that the Toronto Hydro matter will be addressed before ERHDC's next rebasing rate application. As a result ERHDC submits that based on the experience with Enbridge Gas it would be reasonable and prudent at this time to request a deferral account to record any claim and costs that ERHDC would incur assuming the claim on Toronto Hydro is allowed. ERHDC submits that this deferral account could be established on a provincial basis.

11.2 Request for new deferral account – MDMR Account

Issue
ERHDC is requesting a new deferral account to record MDMR costs.

ERHDC Comment
It has recently been brought to ERHDC's attention by its service provider that it appears there is a method already in place to address the MDMR costs that are considered to be cost recoverable by using account 1556. ERHDC was not

aware this account could be used for this purpose. As a result, ERHDC no longer sees the need to establish a new deferral account for MDMR costs.

11.3 Treatment of 1508

Issue
Board Staff is unclear from the application and responses to the interrogatories that ERHDC ceased including principal amounts in account #1508, Sub Account Cost Assessment by the OEB after April 30, 2006.

ERHDC Comment
ERHDC further reviewed the treatment and calculations of the balance in account 1508. It has been determined that ERHDC did not cease including principal amounts in account 1508 after April 30, 2006. In account 1508 sub-account OMERS ERHDC included $9,872 in principal and $209 in associated carrying charges to from May 1, 2006 to October 2006. In 1508 sub-account OEB C/A ERHDC included $2,905 in principal and $68 in associated carrying charges from May 1, 2006 to December 31, 2006. ERHDC submits that the balances in account 1508 that ERHDC requested for disposition in the application should be changed as follows:

- Account 1508 sub-account OMERS – request for disposition was $9,221 and should be revised to $6,071.
- Account 1508 sub-account OEB C/A – request for disposition was $46,944 and should be revised to $36,259.

The revised disposition amounts include the related reduction in interest forecast until April 30, 2008.

11.4 Treatment of account 1550 and 1586

Issue
Board Staff is uncertain if the underlying balances in accounts 1550 and 1586 have been calculated properly.

ERHDC Comment
ERHDC submits that there has been no misclassification of accounts 1550 and 1586. From May 1, 2006 to October 2006 LV charges were recorded in account 4720 and the entire amount recorded from May 1, 2006 to October 2006 has been reclassed to account 4750 to be in accordance with the accounting procedures handbook. ERHDC confirms that account 1550 is used to record the variance between LV charges from a host transmitter including Hydro One and approved LV charges in the distribution rates effective May 1, 2006. Account 1586 is used to record LV charges approved for historic amounts. These amounts are in relation to Hydro One's LV charges allocated to a distributor and approved for the periods ended December 31, 2003 and April 30, 2006. ERHDC

also reviewed the boards guidance provided in APH and the December 2005 Frequently Asked Questions and believes that it is in accordance with the guidance provided.

11.5 Treatment of RSVA's

Issue
ERHDC is applying for disposition of RSVA accounts. The Board has recently announced that it intends to develop a streamline process for account 1588 RSVA Power and possibly include the remainder of the RSVA accounts as part of the Bill 23 process.

ERHDC Comment
ERHDC understands that this initiative will most likely review the disposition of 1588, 1580, 1584 and 1586. As a result, ERHDC will not be seeking recovery of 1588, 1580, 1584, and 1586 deferral and variance account balances until this initiative in completed.

11.6 Treatment of 1590

Issue
ERHDC proposes to dispose of account 1590 before the final balance has been determined.

ERHDC Comment
ERHDC agrees with the OEB's staff submission on this account and will not be seeking recovery of 1590 until the balance has been finalized and verified.

12.0 Smart Meters

Issue
ERHDC has requested continuation of the $0.26 per month per metered customer smart meter rate adder. SEC submits that in order to alleviate some of the potential rate shock that can occur when smart meter expenses begin to be recovered, it is prudent to continue the existing smart meter rate adder.

ERHDC Comment
At this time, ERHDC expects to bring forward to the board a smart meter rate adder application for rates effective May 1, 2009. It is ERHDC's view the issue of cost recovery of smart meter costs can be scrutinized and tested by interveners and the Board at the same time the smart meter adder application is submitted. Until such time as a new smart meter adder is approved ERHDC is requesting the continuation of the current smart meter adder of $0.26 per month per metered customer.

13.0 – Summary

Through its original application, interrogatory replies and this reply submission, ERHDC feels it has demonstrated the need for the requests made in its 2008 rate application. ERHDC has been responsive to the issues raised in the 2008 interrogatories and also assigned significant resources to address issues raised by the Board in ERHDC's 2006 rate decision.

This submission has focused on addressing issues in the Board Staff, VECC and SEC submissions, under the assumption that all other items in the original application and interrogatory responses are considered reasonable and acceptable by the parties involved.

- All of which is respectfully submitted -