



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2008 ELECTRICITY DISTRIBUTION RATES

ERIE THAMES POWERLINES CORPORATION

EB-2007-0928

April 23, 2008

INTRODUCTION

Erie Thames Powerlines Corporation (“Erie Thames” or “ETPL”) is an electric distribution utility that operates in the Town of Aylmer, Ontario. Erie Thames carries on the business of distributing electricity within the town/cities of Aylmer, Beachville, Belmont, Burgessville, Embro, Ingersoll, Norwich, Otterville, Port Stanley, Tavistock and Thamesford. The utility has 13,993 metered customers.

Erie Thames submitted an application for 2008 electricity distribution rates on November 30, 2007. The application was based on a forward test year. On March 6, 2008, ETPL filed its responses to interrogatories from Board staff and the two intervenors, the Vulnerable Energy Consumers Coalition (“VECC”) and Energy Probe Research Foundation (“Energy Probe”). On April 4, 2008, ETPL filed its responses to supplemental interrogatories from Board staff, VECC and Energy Probe.

These submissions reflect observations and concerns arising from Board staff’s review of the pre-filed evidence and interrogatory responses from the utility, and are intended to assist the Ontario Energy Board (the “Board”) in evaluating ETPL’s application and setting reasonable and just rates.

THE APPLICATION

ETPL has requested a distribution revenue requirement of \$7,631,268 to be recovered in new rates effective May 1, 2008. Erie Thames has claimed a revenue sufficiency for 2008 and has calculated this to be \$317,071.

INTERIM RATES

Erie Thames filed its application on November 30, 2007. In its Application, Erie Thames has requested that its proposed rates for 2008 be made effective May 1, 2008.

As at the date of this submission, Board Staff believes that the Board will not be in a position to have a final rate order for new rates to be effective and implemented on May 1, 2008.

Staff invites comments from Erie Thames on whether the portion of the revenue change that results from the Board’s Decision in this case for 2008, relative to the revenue derived from the currently approved rates for the same period (i.e. the “retroactive portion”), should be disposed. This retroactive portion would be disposed after such time as the Board issues its final rate order and the resulting new rates are implemented. Erie Thames may wish to comment on how this retroactive portion, if allowed, would be implemented in practice.

OPERATIONS, MAINTENANCE & ADMINISTRATION COSTS (OM&A)

ETPL's Summary of Operating Costs is found at Ex.4/Tab1/Sch.2/p.1 of its application ("Summary"). The 2008 Total Controllable OM&A Expenses forecast is \$4,428,759. The result is a 5% (or \$223,368) increase compared to the 2006 actual level.

Discussion and Summary

Using the Summary as its base, Board staff created two different tables and asked interrogatories concerning each table to clarify the drivers of the increase. In its response to Board staff interrogatory #8, ETPL confirmed the accuracy of the tables, subject to an update of the 2007 Bridge and 2008 Test years.

Table 1, based on the update, summarizes the key components of ETPL's operating costs for the 2006 Board approved and actual, 2007 Bridge and 2008 Test years. Table 2, also based on the update, highlights the significant sources of variance for controllable expenses.

The update incorporated increased costs for 2007 and 2008 which resulted in a shift from a 3% decrease in 2008 Total Controllable OM&A relative to 2006 contained in the original application to the present 5% increase. ETPL offered no explanation for the update.

Table 1

	2006 Board Approved	2006 Actual	2007 Bridge	2008 Test
OM&A Expenses				
Operation (Working Capital)	13,887	71,733	41,682	34,756
Maintenance (Working Capital)	1,093,343	1,266,425	1,444,132	1,461,897
Billing and Collections	867,185	963,228	1,054,982	1,073,487
Community Relations	33,218	36,709	28,879	28,879
Administrative and General Expenses	2,097,378	1,867,296	1,785,091	1,829,740
Controllable OM&A Expenses	4,105,011	4,205,391	4,354,766	4,428,759
Amortization Expenses	970,610	1,023,655	890,252	935,609
Cost of Power	26,490,207	31,378,239	31,118,010	32,857,823
Other Operating Costs	-	-	-	-
LCT, OCT and Income Taxes	452,787	122,234	781,100	302,852
Total Operating Costs	32,018,615	36,729,519	37,144,128	38,525,043

Table 2

	2006 Board Approved	Variance 2006/2006	2006 Actual	Variance 2007/2006	2007 Bridge	Variance 2008/2007	2008 Test	Variance 2008/2006	
OM&A Expenses									
Operation (Working Capital)	13,887	57,846	71,733	(30,051)	41,682	(6,926)	34,756	(36,977)	-51.5%
		1.4%		-0.7%		-0.2%		-0.9%	
Maintenance (Working Capital)	1,093,343	173,082	1,266,425	177,707	1,444,132	17,765	1,461,897	195,472	15.4%
		4.1%		4.1%		0.4%		4.6%	
Billing and Collections	867,185	96,043	963,228	91,754	1,054,982	18,505	1,073,487	110,259	11.4%
		2.3%		2.1%		0.4%		2.6%	
Community Relations	33,218	3,491	36,709	(7,830)	28,879	0	28,879	(7,830)	-21.3%
		0.1%		-0.2%		0.0%		-0.2%	
Administrative and General Expense	2,097,377	(230,081)	1,867,296	(82,205)	1,785,091	44,649	1,829,740	(37,556)	-2.0%
		-5.5%		-1.9%		1.0%		-0.9%	
Controllable OM&A Expenses	4,105,010	100,381	4,205,391	149,375	4,354,766	73,993	4,428,759	223,368	5.3%
		2.4%		3.4%		1.7%		5.3%	
Amortization Expenses	970,610	53,045	1,023,655	(133,403)	890,252	45,357	935,609	(88,046)	-8.6%
Cost of Power	26,490,207	4,888,032	31,378,239	739,771	32,118,010	739,813	32,857,823	1,479,584	4.7%
Other Operating Costs	0	0	0	0	0	0	0	0	
LCT, OCT and Income Taxes	452,787	(330,553)	122,234	658,866	781,100	(478,248)	302,852	180,618	147.8%
Total Operating Costs	32,018,614	4,710,905	36,729,519	1,414,609	38,144,128	380,915	38,525,043	1,795,524	4.9%

Board staff notes that the two significant components of this increase are (1) the \$195,472 (15.4%) increase in Maintenance and (2) the \$110,259 (11.4%) increase in Billing and Collections.

In response to Board staff interrogatory #9, ETPL explained that the increase in Billing and Collections was due to a difference in how costs were allocated in 2007 and 2008, compared to 2006, but no quantification of this differential was provided. With respect to the increase in maintenance costs, ETPL provided no explanation.

ETPL was also asked in Board staff interrogatory #8b to provide a table outlining key cost drivers contributing to the increase in 2008 over 2006. The response provided was that "As displayed in Schedule #8 of this response 2008 costs have increased by 5.31% over 2006 actual costs, or less than 2% per year."

Erie Thames is invited to direct staff in its reply submission to any references on the record that would provide further justification and/or clarification for these increases. Board staff further invites Erie Thames to direct staff to any references on the record that would further justify its cost increases for Maintenance and Billing and Collections.

Regulatory Costs

In response to Board staff Interrogatory #10, ETPL stated that its regulatory costs for 2008 are \$256,385. ETPL stated in its response to this interrogatory that it included one-third of the costs for recovery in 2008. On this basis, it is staff's understanding that ETPL proposed to include \$85,462 in 2008 rates. Board staff was unable to confirm this from the evidence

provided. Board staff invites ETPL to confirm in its reply submission that only one-third of the regulatory costs incurred in 2008 are included in the forecast test year's revenue requirement. ETPL should also identify where in its evidence this adjustment is made.

Increase in Compensation and Staffing

Board staff notes that ETPL outsources most of its services to third party companies. ETPL indicated that it has 2 employees, as per Ex.4/Tab 2/Sch.7. Executive costs are charged indirectly through ETPL's affiliate company, Erie Thames Power Corporation, while management and unionized employee costs are charged through Erie Thames Services.

Table 3, labour costs for ETPL, was prepared by Board staff from ETPL's responses to Board staff interrogatories #1 and #2.

Table 3

Year	Total # of Employees	Aggregate Costs	Average Cost per Employee	2008 versus % Change
2006 Board Approved	57	\$952,792	\$16,716	-37%
2006 Actual	70	\$640,433	\$9,149	15%
2007	76	\$637,393	\$8,387	26%
2008	77	\$810,988	\$10,532	

ETPL stated in its response to VECC supplemental interrogatory #27, that its employee numbers are based on head count rather than full time equivalents. The utility further noted that it is charged a fixed price contract by the outsourcing companies with no breakdown of employee charges based on salary and wages, benefits, overtime and materials. Board staff notes that some of the charges in the above table are significant and certain anomalies are unexplained. In 2007, the total number of employees increased by 6, while aggregate costs decreased by \$3,040. However, for 2008 ETPL is forecasting an increase of 1 employee and an aggregate cost increase of \$173,595. Board staff invites Erie Thames to point to where in the evidence the justification for these increases lies.

In comparing the distributor's labour costs to Total Controllable OM&A, Board staff notes that labour is approximately 18% of operating costs as indicated in the Table 4 below.

Table 4

		2006 Board Approved	2006 Actual	2007 Bridge	2008 Test
OM&A Labour	A	\$ 952,792	\$ 640,433	\$ 637,393	\$ 810,988
Total Controllable OM&A Expenses	B	\$ 4,105,011	\$ 4,205,391	\$ 4,354,766	\$ 4,428,759
Labour as a percent of OM&A	C = A / B	23.2%	15.2%	14.6%	18.3%

Board staff prepared Table 5 to identify the final value of labour cost drivers to be used in the cost driver analysis.

Table 5

	2006 Board Approved	2006 Actual	2007 Bridge	2008 Test
OM&A	\$ 952,792	\$ 640,433	\$ 637,393	\$ 810,988
Annual Labour Changes	-\$ 312,359	-\$ 312,359	3,040	\$173,595
% Change		-49%	-0.5%	21.4%

From Table 5, the significant variance is the 21% increase in the 2008 test year. Aside from the increase in total number of employees from 70 in 2006 to 77 in 2008, it is unclear what other factors have contributed to ETPL's increase in labour costs. Board staff also notes that there is a significant variance between the 2006 Board approved amount and 2006 actual amount, with the approved amount being \$312,359, or 49% higher than the 2006 actual of \$640,433. ETPL is invited to direct Board staff to material already filed in order to provide further justification and/or clarification for this variance. The significant variance between the 2006 Board Approved and Actual levels raises concerns as to the accuracy of the applicant's forecast, especially given that the 2008 Test year forecast shows a significant increase over the 2007 Bridge forecast.

Shared Services

Erie Thames Powerlines' Corporate Entities Relationships chart is provided at Exhibit 1, Tab 1, Schedule 14. The chart indicates that ETPL is owned by Erie Thames Power, which in turn also owns Erie Thames Services and ET Solutions Inc. The latter also has holdings in a number of other companies including Utilismart and RDI Consulting Inc.

Discussion and Submission

ETPL's application shows that it has only two employees. However, in response to Board staff interrogatory # 2, ETPL states that it will have a total of 77 employees working for it, or providing

services to ETPL in the 2008 test year. These figures indicate the extent to which ETPL outsources its services.

In its response to Board staff interrogatory #12, ETPL provided details of its transactions with its affiliated companies, also found in the evidence at Exhibit 4, Tab 2, Schedule 4, Page 1. The OM&A components of these transactions are summarized in Table 6 below which indicates the extent to which ETPL's costs are driven by its shared services arrangements:

Table 6

	2006 Actual	2007 Bridge	2008 Test
Erie Thames Service Corp.	\$2,979,797	\$3,030,390	\$2,974,753
Erie Thames Power Corp.	\$723,165	\$848,003	\$986,643
RDI Consulting Inc.	\$35,406	\$70,812	\$72,228
Utilismart Corporation	\$57,600	\$115,200	\$117,504
Total	\$3,795,968	\$4,064,405	\$4,151,128
Controllable OM&A Exp.	\$4,205,391	\$4,354,766	\$4,428,759
% of Controllable OM&A	90%	93%	94%

The most significant costs are paid to Erie Thames Services Corporation ("Servco"). In Exhibit 4, Tab 2, Schedule 4 of its evidence, ETPL describes the cost allocator for OM&A services received from Servco as "Fixed Price Per Customer." These costs were also stated to "represent a 2% reduction in per customer costs."

Board staff interrogatory #14(a) asked ETPL to provide a detailed description of how the fixed price was determined and ETPL responded that:

The fixed price was determined during the onset of deregulation of the Ontario market and utilized the cost base from 1999 and determined a fixed price per customer based on 1999 customer counts. The fixed price is included in the MSA between ETPL and ETS.

Based on this response, Board staff supplemental interrogatory #2(i)a asked ETPL to provide a detailed explanation of how the fixed price was determined including:

- (a) the components of the cost base for 1999 that were used,
- (b) an illustrative calculation of how the fixed price would be determined using the 1999 customer counts, and

(c) the charges outlined in Schedule B of the Master Services Agreement.

Schedule #2A of ETPL's response to the supplemental interrogatory provided a calculation which was based on a figure described as "Total OM&A costs allowed by regulation" of \$1,862,668 with no further explanation provided. ETPL also explained that there have been no updates to Schedule B for years subsequent to 2003 and that ETPL has continued to pay the 2003 rate in order to keep it immune from inflationary factors.

Board staff interrogatory #14(b) asked ETPL to explain what was meant by the above 2% reduction in customer costs associated with OM&A services received from Servco. ETPL responded that:

The 2% reduction referenced in this schedule relates to the actual fixed charge per customer billed to ETPL was reduced by 2% and has since reached its lowest point as per the MSA. There was an increase in this amount since the 2% reduction in the fixed charge as detailed in the MSA has completed and since this is a per customer charge the total amount has escalated with the addition of customers.

Board staff supplemental interrogatory #2(ii)a noted this explanation and asked ETPL to provide a detailed explanation as to how the 2% reduction was determined and why it was considered to be reasonable. ETPL responded that:

The 2% reduction was determined on the basis of the Productivity Factor in the Performance Based Regulation that was originally proposed in the deregulated market at the time of market opening from the original Distribution Rate Handbook from 1998.

Given that ETPL's shared service costs are a substantial percentage of its total costs noted above, these costs are significant to both ETPL's absolute level of costs and any cost changes. Erie Thames is invited to clarify its justifications for these costs by directing Board staff to material already filed with the Board in its application, if any, that supports its reply submission.

COST OF CAPITAL

Erie Thames has provided its proposed Cost of Capital in Exhibit 6. The following table

summarizes its proposed Cost of Capital:

Cost of Capital Parameter	Applicant's Proposal
Capital Structure	53.3% debt (composed of 49.3% long-term debt and 4.0% short-term debt) and 46.7% equity. There is some confusion as ETPL has variously rounded the percentages, but Board staff understands that ETPL is proposing to use the transitional capital structure for 2008 as documented in the Board Report.
Short-Term Debt	4.77%, to be updated in accordance with section 2.2.2 of the Board Report.
Long-Term Debt	7.25%, as the interest rate on long-term debt owed to the municipal shareholders. This is further discussed below.
Return on Equity	8.68%, to be updated in accordance with the methodology in Appendix B of the Board Report.
Return on Preference Shares	Not applicable
Weighted Average Cost of Capital	7.82% as proposed, but subject to change as the short-term debt rate and ROE are updated per the Board Report at the time of the Board's Decision.

Erie Thames' approach to cost of capital, with the exception of long-term debt, is consistent with the policies in the Board Report.

Long-term Debt Rate

Erie Thames proposed in Exhibit 6 a long-term debt rate of 7.25%, corresponding to the interest rate on the debt owed to the municipal shareholders. Erie Thames has documented its long-term debt in Exh 6 / Tab 1 / Sch 3. ETPL also states that it, "plans to adjust its actual debt equity split to match the deemed proportion in early 2008 prior to the implementation of its new rates. ETPL is in the process of investigating options for adjusting its Debt Equity split."¹

Copies of the Shareholders' Agreement were filed in response to Board staff interrogatory #30. The Promissory Note is defined in section 1.1 (t) of the Shareholders' Agreement as follows:

"Promissory Note" means a promissory note due and payable bearing interest at a rate of 7.25%, calculated and payable quarterly"

¹ Note at bottom of Exh 6 / Tab 1 / Sch 2.

In the response to Board staff interrogatory #30, ETPL also stated that the interest rate payable on the affiliated debt has not changed during the term of the debt instruments.

A further description of the affiliated debt is found in Note 12 of ETPL's 2006 Audited Financial Statements:²

The long-term debt represents amounts owing to the municipal shareholders for purchase of the respective Municipality's Hydro Electric Commission's net assets. ... The rate of interest is currently 7.25% and is set by the Board of Directors, from time to time. The term of the debt is undefined and no principal amounts are anticipated to be paid over the next twelve months. The loan is secured by a second position General Security Agreement covering accounts receivable, inventory and equipment, including motor vehicles.

Section 2.2.2 of the Board Report contains two paragraphs that deal with affiliated debt:

The Board has determined that for embedded debt the rate approved in prior Board decisions shall be maintained for the life of each active instrument, unless a new rate is negotiated, in which case it will be treated as new debt.

and

For all variable-rate debt and for all affiliate debt that is callable on demand the Board will use the current deemed long-term debt rate. When setting distribution rates at rebasing these debt rates will be adjusted regardless of whether the applicant makes a request for the change.

Board staff submits that the second paragraph is applicable for the following reasons:

- The debt does not have a fixed rate for a finite life;
- The debt payable does not appear to be repaid per a schedule; and
- The debt is convertible.

Further, as explained by ETPL in response to Board staff interrogatories and stated in Note 12 of its 2006 Audited Financial Statements, renegotiation of the terms of the debt, including the interest rate, is at the discretion of the Board of Directors who represent the municipal shareholders. Board staff submits that this appears to meet the definition of affiliated debt that is callable on demand. Therefore, to be consistent with the existing Board policy the allowed debt rate for setting ETPL's 2008 revenue requirement and distribution rates would have to be

² Appendix F of ETPL's Application

the deemed long-term debt rate of 6.10% as published by the Board on March 7, 2008 and based on January 2008 data from Consensus Forecasts, Bank of Canada and TSX Inc.

SMART METERS

ETPL is not one of the 13 distributors authorized to undertake smart meter activities and is not named in the combined smart meter proceeding, EB-2007-0063.

In the “Update: Smart Meter” section of its 2006 Annual Report,³ ETPL stated that, “[ETPL] is moving forward with smart metering and has begun to implement a system that can quickly be scaled from targeted installations to full-scale deployments. In addition, the system can be expanded to handle water metering.” In the same section, ETPL outlined the following smart meter plan:

“PHASE ONE, 2007 – Installation of 500 smart meters. This past April, 268 meters were deployed in residential areas throughout Ingersoll. An additional 238 meters will be installed on an as needed basis in locations where single-phase meters are due for reverification.

PHASE TWO, 2008 – Installation of 5,000 Smart Meters (location to be determined).

PHASE THREE, 2009 - Installation of 5,000 Smart Meters (location to be determined).

PHASE FOUR, 2010 – Installation of the remaining meters, approximately 3,500 (location to be determined).”

Authorization for Undertaking Smart Meter Activity

In response to the Board staff Interrogatory #54, ETPL clarified that the 268 meters referenced in its 2006 annual report were installed in residential areas, as part of the Board approved CDM pilot project in April 2006.

In Board staff interrogatory #55, staff asked the Applicant to confirm whether “PHASE ONE, 2007 – Installation of 500 smart meters” and “PHASE TWO, 2008 – Installation of 5,000 Smart Meters” are part of ETPL’s official smart meter plan for 2007 and 2008. Further, in light of its “un-named” status, staff requested that ETPL explain under what authority it is undertaking smart meter activity in 2007 and 2008, and for copies of all directives and regulations that ETPL has received from the Ontario Government directing or authorizing the utility to undertake smart meter activities. In response, ETPL stated that “Phase One 2007 and Phase Two 2008 were anticipated timelines for smart metering in order to complete full deployment of smart meters by 2010.” Erie Thames clarified that “ETPL was making its shareholders aware that ETPL was

³ Appendix I of ETPL’s Application, page 13.

prepared for, and had a plan in place, for Smart Metering in the event that ETPL was directed to deploy Smart Metering.” ETPL did not provide any authorization to undertake smart meter activity and stated that “ETPL did not intend to progress without directives and regulations from the Ontario Energy Board and Provincial Government.”

2008 Funding for Undertaking Smart Meter Activity

In response to Board staff interrogatory #56 and interrogatory #57, ETPL noted that it did not include any capital costs with respect to smart metering in its 2008 distribution rates application and that costs were only incurred as part of CDM plans with respect to smart metering up to the date of the filing of this application. It is not clear whether ETPL replaces conventional meters that are up for renewal or requires replacement with smart meters. Board staff invites Erie Thames to provide clarification on this matter in its reply.

Board staff notes that, in ETPL’s response to Board staff interrogatory #58, the capital expenditure of \$30,000 in year 2008 that ETPL proposes to incur for “Project 1113 – C&I Meter Changes” under USoA Account 1860 and which is described as “enhancement”, is not related to smart metering. Board staff invites the Applicant to provide clarification of the nature of this expenditure in its reply submission and to direct staff to material already filed with the Board in its Application in support of its submissions with respect to this matter.

In response to Board staff interrogatory #57(ii) the Applicant confirmed that it wishes to maintain its current rate adder of \$0.26 per customer per month approved by the Board in the April 12, 2007 decision EB-2007-0524.

RATE BASE

Capital Expenditures

ETPL is projecting 2008 capital expenditures of \$1,123,000. This represents an increase of approximately 18.2% compared to 2007 projected capital expenditures of \$950,332, and a decrease of 37.5% from the 2006 actual level of \$1,788,590. The capital expenditure amounts for 2006 to 2008 do not include expenditures for smart meters.

Discussion and Submission

Board staff finds that the Applicant has responded to information requirements and that the record is complete in most areas. Some of the Applicant’s responses to interrogatories on matters of service reliability appear inconsistent, and Board staff submits that it doesn’t have enough information to comment on the effectiveness of ETPL’s approach to asset management.

In responses to interrogatories posed by Board staff and intervenors, ETPL did provide a reconciliation of rate base amounts. These matters are discussed below.

Increase in 2008 Capital Expenditures

The Table below is part of Schedule 18, provided by the Applicant in response to Board staff interrogatory #18:

Year	2002	2003	2004	2005	2006	2007	2008
Net Income (\$000)	(234)	972	(92)	218	18	1,143	898
Actual ROE (%)	-2.96	10.95	-1.05	2.56	0.21	11.80	8.35
Allowed ROE (%)	9.88	9.88	9.88	9.88	9.0	0.0	8.68
Dividends to Shareholder (\$000)	0	0	0	486	0	0	0
Total Capital Expenditures (\$000)	1,114	1,594	1,395	1,389	1,789	950	1,123

Capital expenditures have decreased significantly in 2007 and 2008 compared to 2006 and the average for the period from 2002 to 2005 (\$1,373,029). In response to Board staff interrogatory #20, Erie Thames explained that the decrease in 2007 was due to timing for the collection of developers' contributed capital. The projects for which developers' capital was contributed were not identified.

Capital expenditures have returned approximately to levels which were occurring in the years prior to the reduction in spending in 2007. The expenditures for the years 2006 and 2007, if looked at in aggregate, appear consistent in comparison to long-run historic levels.

Assessment of Asset Condition and Asset Management Plan

Erie Thames states that it has a program of assessing its distribution facilities every third year, and has provided spreadsheets indicating detailed results from an assessment of the condition of poles. It is not clear that the entire inventory of distribution equipment is assessed on a regular basis. For example, there is no evidence of the condition of underground cable being examined or assessed for problems that have been found to exist in other utilities.

ETPL provided a flow diagram in response to Board staff interrogatory #25, found at schedule 25a, and entitled "Erie Thames Asset Investment Strategic (AIS) Process", indicating how assessment investment decisions are made. The diagram includes some aspects of an asset management plan, and some may be included implicitly in ETPL's processes.

Service Reliability

The supplemental response from ETPL (Board staff supplemental interrogatory #4) provides little insight into the understanding of ETPL's performances and practices in regard to reliability.

In staff's view, ETPL has provided some contradictory information:

- ETPL states it has "historically maintained a consistent level of Service Reliability Indicators that meet or exceed Board prescribed levels." (Board staff supplemental interrogatory #4 a).
- ETPL ascribes unsatisfactory 2007 performance to reclosure events on the Hydro One feeders during extreme weather conditions.
- ETPL states that it "does work to ensure that ETPL's Service Reliability Indicators meet and exceed levels required by the Ontario Energy Board in the Electricity Distribution Handbook." However, ETPL states that it currently has no internal targets for service reliability (response #4 b).

ETPL indicates that the number of unplanned events in 2007 was actually down, but that each event was linked to higher concentrations of customers. Board staff notes that the reliability measures are established on a "per-customer" basis and these measures have degraded on that basis.

ETPL indicates that trees are a contributing factor to the lower reliability figures (response to Board staff interrogatory #4c, second bullet and response to interrogatory #4d) and that this is an uncontrollable factor. Board staff does not have sufficient information to evaluate this statement. However, Board staff submits that a review of tree trimming frequency or increased clearances might be considered to reduce incidents of tree contacts and improve reliability for the coming years.

It would seem that, with adequate asset management, recording and addressing of reliability performance, it would be possible to exclude all faults which were not the result of ETPL equipment, and then performance data could be provided to demonstrate the reliability of ETPL's system absent Hydro One-caused outages. Erie Thames is invited to address this matter in its reply.

OTHER DISTRIBUTION REVENUE

Board Staff notes that in Ref: Ex.3/Tab 3/Sch.1/p1, ETPL reported that Other Distribution Revenue 2006 Board Approved was \$294,379, less than the 2006 EDR Model. ETPL explained that “The difference of \$294,379 is from other income and deductions from the EDR model and were generated through various adjustments to accounting data that are not required in a forward test year application” (Board staff interrogatory #31). ETPL has not provided any further details concerning the “various adjustments to accounting data that are now required in a forward test year application”. As such, it remains unclear to Board staff whether or not ETPL has appropriately stated its Other Distribution Revenue. Board staff submits that an explanation should be provided.

Board staff notes that in ETPL's original application, ETPL did not include the SSS administration revenue in the Other Distribution Revenue figures. In its responses to VECC interrogatory #9a and Energy Probe interrogatory #9d, ETPL provided an updated schedule and confirmed that \$581,688 was the appropriate number to use as a revenue offset in the development of distribution rates. This would include the SSS administration revenue.

LOAD FORECASTING

Exhibit 3 of the pre-filed evidence shows the development of the customer count and load forecasts. Utilizing historical data, the 2007 Bridge Year and 2008 Test Year customer count by class were determined. The kWh forecast and the kW forecast for appropriate classes is presented by customer class. Also, variance analyses are presented in support of the forecasts.

Erie Thames provided additional information in response to two rounds of questions from Board staff, Energy Probe and VECC.

Methodology and Model

Erie Thames explained the trend in customer connections experienced during the 2002-2006 period and the extrapolation of that trend for the key customer classes to 2007 and 2008. It used a simple trend growth model given the slow growth and consistent trend in customer numbers in its service territory over that timeframe. For the GS>1000 to 5,000 kW customer classes, an annual growth rate of 0% was assumed for 2007 and 2008. The tabulated customer data support the explanation.

In terms of its kWh volume forecasts, Erie Thames explained that for its weather sensitive load, it first developed the retail normalized average use per customer (“retail NAC”) by customer

class. The retail NAC value by class was based on the 2004 load values that had been weather-normalized by Hydro One. Erie Thames explained in Exhibit 3 - and confirmed in response to Board Staff interrogatory # 35 - that the 2004-based retail NAC was assumed to be applicable in the future and was used without change as the basis for the load forecasts. The forecasted kWh loads were determined by multiplying the 2004-based retail NAC by the forecasted number of customers in the forecast year.

Board staff is concerned that the methodology chosen utilizes only a single year of weather-normalized historical load to determine the future load. The assumption that the retail NAC value remains constant over a number of years may yield inaccurate results. This is the equivalent of stating that no CDM improvement has occurred during the past few years and none is expected in the immediate future. The effect of the constant assumption could be to over-estimate the weather sensitive load by a few percent and correspondingly underestimate the required rates. Board staff submits that the kWh load methodology employed may be insufficient for the determination of an accurate weather normalized load forecast because only a single year of data was used (i.e., 2004).

Erie Thames presented its kW forecast for those customer classes that use this charge determinant. In response to Board staff interrogatory #36, a complete description of the employed methodology was presented.

In response to VECC interrogatory # 11d, Erie Thames addressed the expected load from two larger customers; i.e. the new Aylmer Ethanol Plant and the Otterville Golf Course.

Weather Normalization

Erie Thames stated that Hydro One carried out the weather normalization that was performed, albeit only for the year 2004. It is not clear if Hydro One used its established method, which had been accepted by the Board in the Distribution Cost Allocation Review (EB-2005-0317) and tabled in Hydro One's 2006 Distribution Rate case (RP-2005-0020/EB-2005-0378). Erie Thames may wish to clarify this in its reply submission.

Forecast Results

Erie Thames' forecast (Ex.3/Tab 2/Sch.1/p.2) shows a 1.0% annual average growth in customer numbers from 2006 to the 2008 Test Year which is identical to the historical 2002-2006 historical growth (Response to Board staff supplemental interrogatory #10). In response to Energy Probe supplemental interrogatory #2, Erie Thames provided 2007 actual customer numbers. The response showed the actual number of customers to increase by 0.9% from

2006 to 2007 (i.e., it was virtually identical to the Applicant's forecast). Board staff submits that the forecasted growth in customer numbers is consistent with the data to date.

Erie Thames' forecast (Ex.3/Tab 2/Sch.1/p.5) shows a 0.8% annual average kWh load increase from 2006 to the 2008 Test Year. This compares with an average annual kWh load increase of 3.2% during the 2002 to 2006 period (Response to Board staff supplemental interrogatory # 10). The actual kWh load change from 2006 to 2007 identified in the responses to Energy Probe interrogatory #8 and Energy Probe supplemental interrogatory #2 was negative 3.4%. Hence, if the forecasted kWh value for 2008 is to be achieved when the first year change is negative 3.4%, the increase from 2007 to 2008 would need to be positive 4.2%, i.e., significantly more than even the 2002 to 2006 annual average increase of 3.2%. The 2008 kWh forecast therefore appears to be high.

COST ALLOCATION

LOW VOLTAGE COSTS

Erie Thames indicated that the actual cost of Low Voltage service ("LV") for a period of approximately eight months in 2006 totalled \$335,001, consisting of charges for Shared Line, Shared Low Voltage Distribution Stations, and 9.9km of Specific Line (Response to Board staff interrogatory, Schedule # 42).

The amount approved by the Board in its previous Decision (RP-2005-0020/EB 2005/0361) was \$350,403. The actual cost in 2007 was \$521,444. The Application includes a 2008 projected cost of \$516,713.

Erie Thames provided schedule 11 A in response to Board staff's supplementary interrogatory, which shows the detailed billing by the host distributor for the first two months of 2008. The total LV charges for the two months totalled \$84,234, which prorated to twelve months is approximately equal to the Applicant's projected cost.

Discussion and Submission

It appears from schedule 11 A that the cost projection is made on the assumption that the host distributor's LV rates will not change. Hydro One has filed an application for new rates which, if approved, would result in a lower rate for Shared (Subtransmission) Lines and for Shared Low Voltage Distribution Station, and a higher rate for Specific Lines. Board staff submits that the projected cost should be calculated on the assumption that the Hydro One application will be approved as submitted, and submits further that a reasonable projection of LV Charges using this assumption would be \$435,000. Erie Thames may wish to submit its own projection, based

on its detailed information about the load at the various embedded delivery points and on the rates submitted by Hydro One (EB-2007-0681, Exhibit G2 / Tab 94 / Schedule 1).

CUSTOMER CLASSIFICATION

Erie Thames is a host distributor, providing service to Hydro One at two delivery points. The Application requests approval of a new customer class – “Embedded Distributor” – which does not currently exist in the approved tariff, nor was any revenue approved for Wheeling in the previous approval for the 2006 distribution rates.

Erie Thames has provided information that it has been billing Hydro One at the two delivery points at approved rates that would apply to an ordinary customer of the same size. One delivery point has been billed at the rates for GS 1000 – 2999 kW and the other delivery point has been billed at the rates for a Large User (Response to VECC Interrogatory 3(f)). The revenue received in 2006 was \$162,289, and in 2007 \$180,756 (Response to Board staff interrogatory # 41(a)).

The fully allocated cost of serving the embedded distributor is 2.32% of the total revenue requirement, which in 2008 is \$176,262 (Exhibit 8 / Tab 1 / Schedule 2 / page 2). The requested revenue is \$179,038, which is an additional 1% designed as this class’s share of the remaining cross-subsidization of Streetlighting (Exhibit 8 / Tab 1 / Schedule 2 / page 3).

Discussion and Submission

The revenue requirement of the new class is calculated in Run 3 of the cost allocation model, which provides the option of defining rate classes other than those in the 2006 EDR Decision. As noted, ETPL is proposing rates for the Embedded Distributor that would generate revenue of \$179,038 and yield a revenue to cost ratio of 101%. The Board has not established a policy range for the Embedded Distributor class. It has noted in its policy the general principle that revenue to cost ratios should move to a one to one ratio.

REVENUE TO COST RATIOS

The Application proposes to change the proportion of distribution revenue from the respective classes by increasing the proportion from classes where the Informational Filing indicated a revenue to cost ratio less than 100% and decreasing the proportion from classes with a ratio above 100%. The ratios reported from Run 3 are shown in column 1 in the table below.

The proposal is for a revenue to cost ratio of 101% for all classes except Streetlighting, which is proposed to have a ratio of 70%. The basis for the lower ratio for Streetlighting is that its current

ratio is 14.35%, and the total bill impact of going to a ratio of 70% is nearly 200% (Exhibit 9 / Tab 1 / Schedule 8 / page 9). The proposed ratios are shown for each class in column 2.

ETPL Revenue to Cost Ratios

%	Informational Filing Run 3 Exh 8 / Tab 1 / Sch 2 / p. 1 Col 1	Application Exh 8 / Tab 1 / Sch 2 / p. 3 Col 2
Customer Class		
Residential	91.1	101.0
GS < 50 kW	144.3	101.0
GS 50 – 999 kW	117	101.0
GS 1000 – 2999 kW	147.5	101.0
GS 3000 – 4999 kW	190.0	101.0
Large Use > 5 MW	99.3	101.0
Street Light	14.4	70.0
Sentinel Light	55.7	101.0
USL	187.9	101.0
Embedded Distributor	5.0	101.0

Erie Thames' proposes a rebalancing that implements the cost allocation policy to nearly its fullest extent.

RATE DESIGN

Monthly Service Charges

The approved monthly service charges in 2006 were higher than the ceiling that was subsequently calculated in the Informational Filing for five of ETPL's rate classes: four General Service classes and the Large User class. In all cases, the proposed monthly service charge is lower than the currently approved charge.

The Board's policy report addresses this situation as follows:

In the interim [prior to completion of a future Report], the Board does not expect distributors to make changes to the MSC [monthly service charge] that result in a charge that is greater than the ceiling as defined in the Methodology for the MSC. Distributors that are currently above this value are not required to make changes to their current MSC to bring it to or below this level at this time.

(Cost Allocation for Electricity Distributors, November 28, 2007, pp. 12-13)

Staff submits that the monthly service charges proposed by ETPL are consistent with the Board's policy.

LV Charges Adder

Erie Thames has confirmed that LV Cost was allocated to the rate classes in proportion to revenues in the same manner as in 2006, which is consistent with Board policy (Response to Board staff interrogatory # 42(c)). In the response to Interrogatory 43(b), Erie Thames stated that the allocation is in proportion to its retail transmission revenue.

It is not possible to determine, from the record provided, whether the cost of LV charges is allocated in proportion to total retail transmission revenue, according to the response to Interrogatory 43. Likewise, it is not possible to determine whether the allocation is in proportion to retail transmission connection revenue only, which is implied in the response to Interrogatory 42.

Similarly, the record is not sufficient to establish that the LV cost is recovered through an adder on the volumetric rate only.

It would be helpful if Erie Thames were to set out in its reply submission the LV component of the proposed rates and, for comparison, show the reduced components that would generate revenue equal to the projection that Board staff has suggested above (\$435,000).

LINE LOSSES

In response to Board staff interrogatory #44, ETPL reaffirmed that the proposed Total Loss Factor (TLF) for 2008 is based on the average of the actual TLFs for the 5-year period 2002 to 2006. ETPL has updated actual TLFs for 2004 and 2006 owing to an error in these factors in the application. Based on the updated information, the proposed TLF for 2008 is 1.0358. This is lower than the 2007 approved TLF of 1.0427. ETPL also confirmed that the underlying distribution loss factor (DLF) corresponding to the proposed TLF is 1.0312 and the Supply Facilities Loss Factor (SFLF) is 1.0045.

ETPL's actual TLF in the 5-yr period from 2002 to 2007 is shown in the table below.

Year	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Actual TLF	1.0371	1.0397	1.0382	1.0312	1.0325

Discussion and submission

ETPL is a partially embedded distributor, served by host distributor Hydro One. Board staff submits that the underlying DLF provided by ETPL would be in-line with the DLF of an embedded distributor provided it excludes losses incurred in the host distributor's system. However in its interrogatory response, ETPL has stated that the DLF provided includes losses that occur in the Hydro One distribution system (typically 3.4%).

Board staff is not able to determine from the pre-filed evidence and interrogatory responses how much of ETPL's load is delivered to ETPL's system through the host distributor's system and hence is unable to deduce distribution losses within ETPL's service territory. ETPL is invited to direct Board staff to any materials on the record that would be of assistance in apportioning distribution losses between Hydro One and Erie Thames. This may enable the Board to make a comparison to other distributors of comparable service territory and density.

DEFERRAL AND VARIANCE ACCOUNTS

Disposition Request

Erie Thames is proposing to clear the balances of certain deferral and variance accounts to the accounts of the customers. The following accounts and balances as per Ex.5/Tab 1/Sch.3 and based on the responses to Board Staff interrogatories 48 and 49, are proposed for disposition. The balances are calculated as of December 31, 2006 plus interest to April 30, 2008. These balances include an adjusting entry made in January 2007, as discussed below in the section "Transfers to 1590 – 2006 EDR."

1550 LV Variance, \$370,764
1580 RSVA – Wholesale Market Service Charge, (\$132,988)
1582 RSVA – One-time Wholesale Market Service, \$55,533
1584 RSVA – Retail Transmission Network Charges, (\$97,359)
1586 RSVA – Retail Transmission Connection Charges, (\$242,231)
1588 RSVA – Power, \$503,984
Total: \$457,702

The proposal is to collect these amounts from ratepayers over two years beginning May 1, 2008 via rate riders as per Ex.5/Tab 1/Sch.3.

Continuation of Deferral and Variance Accounts

The Board has already approved and defined, through the Accounting Procedures Handbook (“APH”) and associated letters, the period and functionality of deferral and variance accounts in the electricity distribution sector. Therefore, it is not necessary for ETPL to request permission to continue using open deferral and variance accounts as per the APH.

Treatment of RSVAs

Erie Thames is applying for disposition of RSVA accounts. The Board has recently announced that it intends to develop a streamlined process for account 1588 RSVA Power and possibly include the remainder of the RSVA accounts as part of this process. The Board may wish to consider the impact of ordering disposition of these accounts upon that process.

Transfers to 1590 – 2006 EDR

In the 2006 EDR rates decision (RP-2005-0020/EB-2005-0361/EB-2006-0197) the Board approved an amount of \$4,286,637 for disposition of regulatory assets to the account of customers (customer debit). The transfer of the approved balances from regulatory assets to 1590 did not occur until after 2006. The transfer occurred in January 2007. To reflect this decision and the late transfer to 1590, ETPL adjusted the December 31, 2006 deferral and variance accounts principal balances that are currently being requested for disposition. It appears that the balances that Erie Thames has requested for disposition in the current application are not the audited December 31, 2006 balances. Rather, the balances have been adjusted downwards to reflect the late transfer. Clearing the balance as of the December 31, 2006 date would have resulted in double collection of the pre-2005 balances that were cleared in the 2006 EDR. Board staff has no concerns about how Erie Thames has reflected the impact of this transaction in its application.

~ All of which is respectfully submitted ~