MIDLAND POWER UTILITY CORPORATION
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January 8, 2013

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

Dear Ms. Walli:

Midland Power Utility Corporation – Licence #ED-2002-0541
2013 Cost of Service Electricity Distribution Rate Application
OEB File No.: EB-2012-0147

We are in receipt of the Board's letter dated January 4, 2013 in regard to the above noted matter, wherein the Board is "seeking clarification from the Applicant and other parties to the settlement as to why the revenue-to-cost ratios agreed upon in the PSA are at the extreme end of the Board's target ranges for all rate classes except the GS<50 KW class".

Midland offers the following comments in response to the Board's letter. Midland has reviewed this response with the representatives of the other Parties to the Proposed Settlement Agreement (the School Energy Coalition and the Vulnerable Energy Consumers Coalition), and those parties have expressed their support for these comments. We trust that this will clarify the changes to Cost Allocation and revenue-to-cost ratios in this Application.

In the August 31, 2012 original Application filing, at Exhibit 7, Tab 1, Schedule 2 (page 8 of 11) Table 7.1.3, Midland provided proposed revenue-to-cost ratios that included reductions of the cost allocation model results for the Street Lighting and Unmetered Scattered Load classes to the upper boundary of the Board's target range (120%). In addition, Midland proposed a reduction of the Residential customer class revenue-to-cost ratio for rate mitigation purposes, without which the residential class would have incurred bill impacts of greater than 10%. To offset the above-noted reductions Midland proposed increases in the revenue-to-cost ratios for GS<50 kW and GS>50 kW customer classes.

Table 7.1.3: Midland PUC's Proposed Revenue-to-Cost Ratios is reproduced below for your reference.

Table 7.1.3: Midland PUC's Proposed Revenue-to-Cost Ratios

	Updated OEB Cost Allocation Model Results	Proposed Revenue to Cost Ratios	Board Target Range Low	Board Target Range High
Residential	109.2%	101.5%	85.0%	115.0%
GS < 50 kW	96.7%	96.8%	80.0%	120.0%
GS 50 - 4,999 kW	81.1%	96.8%	80.0%	120.0%
Street Lighting	122.7%	120.0%	70.0%	120.0%
Unmetered Scattered Load	297.9%	120.0%	80.0%	120.0%

Throughout the interrogatory and settlement process, updates to the Application resulted in Residential customer class bill impacts of less than 10%. Consequently, no rate mitigation for the Residential class was necessary. The adjustments to the revenue-to-cost ratios for the Street Lighting and Unmetered Scattered Load customer classes in order to move them to the upper boundaries of the Board-approved ranges were offset by an increase to the revenue-to-cost ratio for the GS>50 kW customer class. These adjustments were set out in Settlement Table #12: 2013 Test Year Revenue-To-Cost Ratios, which is reproduced below for your reference.

Settlement Table #12: 2013 Test Year Revenue-To-Cost Ratios

Class	Revenue Requirement - 2013 Cost Allocation Model	2013 Base Revenue Allocated based on Proportion of Revenue allocated at Existing Rates	Miscellaneous Revenue Allocated from 2013 Cost Allocation Model	Total Revenue	Revenue Cost Ratio	Revenue Cost Ratios from 2013 Cost Allocation Model - Line 75 from O1 in CA	Proposed Revenue to Cost Ratio
Residential	$ 2,033,773	$ 2,141,913	$ 161,415	$ 2,303,328	113.25%	113.25%	113.25%
GS < 50 kW	$ 683,187	$ 540,767	$ 53,106	$ 593,873	86.93%	86.93%	86.93%
GS >50 to 4999 kW	$ 1,120,607	$ 838,302	$ 64,873	$ 903,176	80.60%	80.60%	81.83%
Street Lighting	$ 111,571	$ 126,576	$ 12,033	$ 138,609	124.23%	124.23%	120.00%
Unmetered and Scattere	$ 5,222	$ 15,001	$ 373	$ 15,375	294.40%	294.40%	120.00%
TOTAL	**$ 3,954,361**	**$ 3,662,561**	**$ 291,800**	**$ 3,954,361**			

Class	Proposed Revenue	Miscellaneous Revenue	Proposed Base Revenue	Board Target Low	Board Target High
Residential	$ 2,303,328	$ 161,415	$ 2,141,913	85%	115%
GS < 50 kW	$ 593,873	$ 53,106	$ 540,767	80%	120%
GS >50 to 4999 kW	$ 917,008	$ 64,873	$ 852,135	80%	120%
Street Lighting	$ 133,885	$ 12,033	$ 121,852	70%	120%
Unmetered and Scattere	$ 6,267	$ 373	$ 5,893	80%	120%
TOTAL	**$ 3,954,361**	**$ 291,800**	**$ 3,662,561**		

Page 8 of 75 of the Proposed Settlement Agreement states "The Parties agree no rate classes face bill impacts that require mitigation efforts as a result of this agreement." In addition, Midland has proposed revenue-to-cost ratios in the Proposed Settlement Agreement which are in accordance with what Midland understands to be the Board's practice and policy with respect to revenue-to-cost ratios. Midland understands that counsel to SEC has filed correspondence with the Board that addresses SEC's understanding of Board policy in greater detail.

For those ratios outside the Board's range (i.e. Street Lighting and USL), the ratios were moved to be within the Board range. For those ratios inside the Board's range no adjustments were made except to the extent that adjustments were necessary to maintain revenue neutrality. As a result, the ratios for the Residential and GS < 50 kW classes remained at the ratios resulting from the updated Cost Allocation Model and the ratio for the GS > 50 kW class was moved from 80.60% to 81.83% to maintain revenue neutrality.

We trust this now clarifies this matter. Should you have any questions, please do not hesitate to contact the writer.

Yours very truly,

MIDLAND POWER UTILITY CORPORATION

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