ERIE THAMES POWERLINES

Your Home Town Utility

March 15th, 2013

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, Suite 2700
Toronto, ON M4P 1E4

Dear Ms. Walli,

Re: 2013 IRM Rate Application
EB-2013-0018

Please find enclosed responses to Board Staff and VECC Interrogatories with respect to Erie Thames Powerlines 2013 IRM application. In order to allow the tab 4 of the rate model to perfectly align with the current Tariff sheet ETPL is requesting that an additional description for a deferral and variance account rate rider be added to its model for the GS>50 to 999 kW rate class as follows:

Rate Rider for Disposition of Deferral/Variance Accounts (2012) – effective until December 31, 2013
Applicable in the service area excluding the former service area of Clinton Power $/kW (0.5957)

Currently the rate model uses the same rate twice with two separate descriptions. The response is being submitted through the Board's electronic filing portal and two paper copies will follow via courier.

Should you have any questions, or concerns, please contact myself at Erie Thames Powerlines Corporation at 519-485-1820 ext. 254, or via email at gpettit@eriethamespower.com.

Respectfully,

Graig Pettit
Manager of Finance and Regulatory Affairs
Erie Thames Powerlines Corporation.
cc. Chris White President Erie Thames Powerlines

Erie Thames Powerlines Corporation
EB-2013-0018

Board Staff Additional Interrogatories

Interrogatory #11
Ref: Revised Application, EB-2013-0018, Pages 5-6

It appears to Board staff that Erie Thames, through its request of a lower stretch factor, is unwinding or clawing back the savings that it chose to return to ratepayers starting with 2012 rates. Board staff invites Erie Thames to explain if this is not the case.

Answer:

Erie Thames does not agree with the statement of Board Staff. The savings agreed to in the 2012 rates are embedded in the base that is used over the IRM period. There is no claw-back of those savings in this Application as the IRM is applicable to the rates derived from the new base. Staff is suggesting that any utility that improves its cohort ranking is clawing back savings which is incorrect.

The Consultant's Report uses Erie Thames' 2011 OM&A cost of $5,853,359 for 2011 and the comparable costs included in the 2012 Cost of Service proceeding of $5,660,594 (Appendix K Settlement agreement, EB-2012-0121) which is $192,765 or 3.3% lower than the 2011 number and more than the amount indicated would result from the amalgamation. This further confirms the prior organization is not reflective of the efficiencies of the current organization. Coupled with this reduction is the fact that Erie Thames utilizes its staff to complete third party billing on behalf of its affiliate. The revenue for this work, performed on a cost recovery basis, is approximately $405,000 annually and was included in other revenue in Erie Thames' 2012 COS application. Details of this can be found in Exhibit 3 Tab 3 Schedule 2 Page 1 of the application in the explanation of the change from 2010 Actual to 2011 Bridge amounts on page 625 of the application. When combined this represents almost $600,000 or 10% in reduction to Erie Thames' operating costs attributable to its customers between what would have been used in the ranking of Erie Thames and what is actually embedded in its 2012 COS rates.

Interrogatory #12
Ref: Revised Application, EB-2013-0018, Pages 5-6

Please provide evidence and supporting justification for the statement that "…the imposition of the highest stretch factor in addition to the other efficiencies recognized from the amalgamations is effectively imposing the stretch factor three times".

Answer:

The annual distribution revenue requirement for Erie Thames in EB-2012-0121 was $8,920,714. As such a rate adjustment of 0.1% is approximately equal to $9,000 in revenue. Therefore, the difference between a 0.2% stretch factor and a 0.6% stretch factor is approximately $36,000. As noted the agreed to savings from the amalgamation alone were $100,000 and when the new cost structure approved in ETPL's COS is not factored into the ranking and the stretch factor is being applied to ETPL as though its costs remain unchanged from prior to the amalgamation. Further cost savings have been detailed in response to VECC #1 and Board Staff #11.

Interrogatory #13
Ref: Revised Application, EB-2013-0018, Page 5

Please explain how the transition from a virtual utility with two employees to a more "traditional" utility with approximately 45 FTE's impacted the total revenue requirement envelope. Did Erie Thames have costs that were much lower under the virtual structure?

Answer:

As point of clarification, the former CPC and WPPI had staff and the former Erie Thames was a "virtual utility".

No, Erie Thames did not have costs that were much lower under the virtual structure. The combined OM&A costs of the three former utilities were in fact higher than the applied for and agreed to O&MA costs in the 2012 rates. The savings were noted in EB-2012-0121, in the Settlement Agreement – Issue 4(a) which noted the amount was based upon a 2% increase from 2008 Board approved for ETPL and 2008 Actual for CPC and WPPI less the $100,000 for savings from the amalgamation. Erie Thames' 2011 OM&A cost of $5,853,359 for 2011 and the comparable costs included in the 2012 Cost of Service proceeding of $5,660,594 (Appendix K Settlement agreement, EB-2012-0121) which is $192,765 or 3.3% lower than the 2011 number. This further confirms the prior organization is not reflective of the efficiencies of the current organization. Coupled with this reduction is the fact that Erie Thames utilizes its staff to complete third party billing on behalf of its affiliate. The revenue for this work, performed on a cost recovery basis, is approximately $405,000 annually and was included in other revenue in Erie Thames' 2012 COS application. Details of this can be found in Exhibit 3 of the 2012 COS Application in the explanation of the change from 2010 Actual to 2011 Bridge amounts EB-2012-0121, Exhibit 3, Tab 3, Schedule 2, Page 1, in page 625 of the application. When combined this represents almost $600,000 in reduction to Erie Thames' operating costs between what would have been used in the ranking of Erie Thames and what is actually embedded in its 2012 COS rates.

EB-2013-0018

ONTARIO ENERGY BOARD

IN THE MATTER OF
the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15 (Schedule B), as amended;

AND IN THE MATTER OF an Application by
Erie Thames Powerlines Corporation for an order or orders
approving or fixing just and reasonable
distribution rates to be effective May 1, 2013.

Information Requests of the Vulnerable Energy Consumers Coalition (VECC)

<u>Stretch Factor Change</u>

VECC Question # 1

Reference: Application Page 4, Price Cap Adjustment – Stretch Factor

a) Please discuss Erie Thames awareness of the circumstances and outcome of other utilities that have requested a change in stretch factors.

<u>Answer:</u>

Erie Thames is not aware of any distributor that has sought Stretch Factor adjustment as a result of intervening events of the nature that occurred in their present circumstances. From Erie Thames' understanding, where a utility challenged the Stretch Factor, such as Enwin, the concern of the utility was attributable to the underlying approach used in the consultant's ranking report (PEG at the time) to prepare the ranking.

Erie Thames understood that the utility was essentially arguing the ranking presented in the PEG Report were not representative of the efficiency of the organization for the year for which the ranking were presented. Put another way, the position advanced was a problem with the mathematical analysis performed to rank the utilities.

The position of Erie Thames is very different. Erie Thames is not saying that its rankings were inappropriate for 2009, 2010 and 2011. The position of Erie Thames is the organizational changes, 3 utilities into 1 utilities in mid-2011 and repatriation of staff, which occurred have made the utility fundamentally different

than it was during the period covered by the ranking report. For example, the amalgamation occurred in June 2011and so there can only be half a year of savings even if one ignores one-time costs of the amalgamation and assume all savings will be realized immediately following amalgamation. Therefore, at most, 6 months of data pertain to the current organization out of the 36 months included in the consultant's report. However, the current COS rates reflect the 2012 costs – including 9 months of actuals from 2012. As such, the rankings are effectively for a fundamentally different utility and are not representative of the current organization.

As an example, the Consultant's Report uses Erie Thames' actual 2011 OM&A cost of $5,853,359 for 2011 and the comparable costs included in the 2012 Cost of Service proceeding of $5,660,594 (Appendix K Settlement agreement, EB-2012-0121) which is $192,765 or 3.3% lower than the 2011 number. This further confirms the prior organization is not reflective of the efficiencies of the current organization.

A second item, coupled with the reduction described above, is the fact that Erie Thames utilizes its staff to complete third party billing. The revenue for this work, performed on a cost recovery basis, is approximately $405,000 annually and was included in other revenue in Erie Thames' 2012 COS application. Previously, during the period covered by the report, Erie Thames had no billing staff and there would be no revenue received as an offset for billings until it repatriated the billing staff. As such, out of the $5,660,594 included in the O&MA for 2012, approximately $405,000 is not attributable to the distribution service provided to Erie Thames' customers. Details of this can be found in Exhibit 3 Tab 3 Schedule 2 Page 1 of the application in the explanation of the change from 2010 Actual to 2011 Bridge amounts on page 625 of the application. When combined this represents almost $600,000, more than 10%, in reduction to Erie Thames' operating costs between what would have been used in the ranking of Erie Thames and what is actually embedded in its 2012 COS rates.

VECC Question # 2

Reference: Application, Page 4

Preamble: Erie Thames indicates that given its unique circumstances, it has requested a stretch factor of 0.2%.

a) Please explain how Erie Thames determined that a stretch factor of 0.2% was more appropriate for its circumstances than 0.4%, and provide any analyses undertaken.

Answer:

a) Erie Thames reviewed the OM&A costs and trends and determined that it had effectively out-performed the savings of 0.6% and as a result the 0.2% would be appropriate going forward, as evidence by the fact that the costs utilized in the PGE report of $5,853,359 is 3.3% higher than the OM&A approved in Erie Thames Recent cost of service rate application not including the change in other revenue as detailed in the answer to question 1 above.

In addition, Erie Thames had 2012 COS rates set based upon information that included 9 months of actuals for 2012 and the decision was not implemented until Jan. 1, 2013. As such, it was felt the 0.2% stretch factor would be most appropriate.

Erie Thames would point out that the rate increases for CPC and WPPI were 33% and 10% respectively in the 2010 COS proceedings. There was a recognition that the revenues of CPC and WPPI were not sufficient for the utilities' operations. The 2012 COS Settlement agreement was based upon a 2% increase from 2008 which would not reflect the significant increase that was determined reasonable in the 2010 decisions for WPPI and CPC.

VECC Question # 3

Reference: Application, Page 5

a) Please explain more fully how the expenditures in 2009 are not reflective of the efficiency of expenditures by Erie Thames.

Answer:

a) The 2009 expenditures pertain to the former Erie Thames (not including CPC and WPPI). In 2009, Erie Thames was subject to an 18 week work interruption which resulted in very little capital work being completed in the year. Consequently almost 100% of Erie Thames' costs for the year were expensed. In addition, cost savings due to 18 weeks of no unionized labour were more than offset by security and contractor costs to keep the utility operating safely during the labour interruption. Therefore, 2009 operating cost data is not representative of either to former Erie Thames costs, nor the cost structure of the current merged entity. Erie Thames would note that the labour interruption resulted in one of the first negotiations in the industry that had a less than 3% annual wage increase. As such, Erie Thames incurred significant costs in 2009 for a longer term benefit.

VECC Question # 4

Reference: Application, Page 6

Preamble: The evidence indicates Erie Thames did not seek to defer rebasing for up to 5 years immediately following the merger as provided for in EB-2007-0028. Instead, Erie Thames applied for a cost of service rebasing less than 1 year later.

a) Please discuss Erie Thames' rationale for filing a cost of service application less than 1 year later.

Answer:

a) The rationale for filing for COS in 2012 has several contributing factors, including:

i) Erie Thames was scheduled to rebase for the 2012 rate year.

ii) During the cost of service proceedings for CPC and WPPI, the Settlement Agreement (see below, a similar statement appears in the CPC proceeding) indicated that the Parties expected that a combined Application would be forthcoming and that such a filing would be in the interests of ratepayers. Given the statement, Erie Thames was of the view that such a position contributed to achieving settlement and Erie Thames was following through on the expectations that had been created.

> ***WPPI and Clinton Power Corporation were acquired by the present owner, ERTH Corporation, following an application to the Board in EB-2009-0156 and EB-2009-0157. The acquisition of WPPI was effective January 1, 2010. The Parties recognize that certain background information that would normally be used to prepare the Application was unavailable and have concluded the evidence provided is sufficient for the purpose of this Settlement Agreement. This Settlement Agreement is entered into based upon the understanding that WPPI will likely either be included in a cost of service rate application as part of Erie Thames Powerlines Corporation or submit a cost of service application, either on its own or in conjunction with Clinton Power Corporation, prior to the Board's schedule for for applications to set rates for the 2013 Rate Year. The Intervenors recognize WPPI may be involved in such an application and are of the view the such an approach is in the interest of WPPI, the ratepayers and the Board.***

iii) Bringing forward the Application in 2012 allowed Erie Thames to streamline certain activities such as administering one rate order.

(iv) The financials for CPC and WPPI in 2010 indicated both utilities were in a loss position which was not sustainable, as evidenced by the settlements agreed to by VECC and SEC. Rebasing in 2012 provided an opportunity for the utility to have costs set appropriately for the entire utility. This new level of approved costing should be the basis on which Erie Thames is benchmarked not the prior amounts that the PGE report is relying upon.

VECC Question # 5

Reference: Application, Page 6, Table 1

Preamble: Table 1 in the evidence compares Erie Thames' overall rates for delivered electricity compared to the rates of similar utilities ion Cohort 1 and Cohort 2.

a) Please provide a reference for the data in Table 1.

b) In Table 1, the utility with an overall average rate ranking of 2 has a cohort result of 3 (0.6%). Erie Thames has a ranking of 10 and a cohort result of 3. Please discuss Erie Thames' request in the context of these results.

Answer:

a) The data from table one is from a presentation by The School Energy Coalition to the distribution sector that were filing 2013 Cost of Service applications which took place on July 17th 2012, Erie Thames cannot testify to the manner of calculation used but wanted to highlight how a third party considered certain issues.

b) Table 1 was inserted to demonstrate that when looking at Erie Thames with respect to rates in comparison to utilities in its cohort Erie Thames is not at the bottom of the spectrum. Erie Thames would note that this is despite the fact that it is one of the only LDC's in its cohort that has rebased twice since the current rate-setting regime began and typically rebasing results in significant increases in rates. Further, Erie Thames wanted to demonstrate, there is no cost shifting occurring within Erie Thames (switching from OM&A) which would result in abnormally high rates charged to customers.