Erie Thames Powerlines Submission
2013 IRM3 Rate Application
EB-2013-0018

Introduction

Erie Thames Powerlines Corporation ("Erie Thames") filed an application (the "Application") with the Ontario Energy Board (the "Board") on February 1, 2013, seeking approval for changes to the distribution rates that Erie Thames charges for electricity distribution, to be effective May 1, 2013. The Application is based on the 2013 3rd Generation Incentive Regulation Mechanism ("IRM").

The purpose of this document is to provide the Board with the submissions of Erie Thames Powerlines based on its review of the submissions of Board staff and VECC.

Retail Transmission Service Rates ("RTSR")

In its Manager's Summary, Erie Thames stated that "it does not seek any changes to its Retail Transmission Service Rates. The applicant's current rates have only been in place since January 1, 2013 and as such there is little history with respect to these rates and their accuracy in recovering the applicant's costs for RTSR at this time."

Through interrogatories, Board staff noted that on December 20, 2012 the Board issued its Rate Order for Hydro One Transmission (EB-2012-0031) which adjusted the Uniform Transmission Rates ("UTR") effective January 1, 2013. Board staff noted that Erie Thames' current RTSR's are not calculated based on the most recent UTR's. Board staff requested that Erie Thames provide a further explanation as to why it believes this is appropriate.

In its interrogatory responses, Erie Thames stated that it "felt that given it had changed its UTR's effective January 1, 2013, further changes would not be required…however given the changes to the 2013 UTR's, Erie Thames' would agree that updating the rates is appropriate." Erie Thames provided a completed RTSR Workform for Board staff's review.

Board staff notes the following discrepancies in the data filed:

- Tab 4 – "RRR Data": Board staff is unable to reconcile the data entered in columns "Non-Loss Adjusted Metered kWh" and "Non-Loss Adjusted Metered kW" to Erie Thames' most recent RRR 2.1.5 filings. Board staff also notes that the "Applicable Loss Factor" does not reconcile to the one found in Erie Thames' current tariff sheet.
- Tab 6 – "Historical Wholesale": Board staff notes that the "Line Connection" rate under the Hydro-One section does not reconcile to the applicable Hydro One rate of $0.64. If Erie Thames is charged a combined Line and Transformation connection rate, Board staff

notes that both the line connection and transformation connection columns should be completed.

Erie Thames has updated its RTSR Model for the discrepancies detailed above and has included the revised model in this submission.

Stretch Factor

Erie Thames has applied for a 0.2% stretch factor rather than the 0.6% stretch factor that would result from following the rankings provided in the report prepared by Power System Engineering, Inc., on November 28, 2012 (the "**PSE Report**"). Erie Thames had indicated in its evidence that intervening events [strike, repatriation of employees, amalgamations] and cost savings had made the numbers utilized in the PSE Report inapplicable to the current organization, from the period in which the PSE Report uses data. Further, Erie Thames confirmed that its position was in fact reasonable by reviewing third party information and overall rates which clearly demonstrated it was not a below average performer.

Erie Thames would note that in EB-2009-0221 the Board did not find compelling reasons to deviate from the guideline and therefore determined that it would follow the existing Board guideline. As such, it is fair to infer that where the Board does find compelling reasons it would deviate from the guidelines.

Erie Thames submits that a utility must not only show that the circumstances are unique but that these circumstances have resulted in changes which warrant a departure from the Board's guidelines. Erie Thames is of the view that its circumstances are compelling and material and warrant a departure from the guidelines. Not only has the organization completely transformed since the data used in the PSE Report was compiled but it has realized significant savings since the data used in the PSE Report.

The real costs of distributing electricity to Erie Thames' customers are incorporated into the 2012 Cost of Service rates and these rates have captured the efficiencies of the re-organization. These efficiencies were not captured in the PSE Report and were significantly greater than the application of the largest stretch factor. Adopting the PSE Report, effectively will punish Erie Thames for its improved performance and deter other utilities from undertaking such initiatives and therefore will be detrimental to ratepayers.

a) Background

The 2013 IRM depends upon the cost of service rates set in 2012 and the information in the PSE Report which covers the years 2009 through 2011. The 2012 cost of service rates were a function of the rates from 2008 less savings resulting from the amalgamation of Erie Thames Powerlines, Clinton Power Corp. ("**CPC**") and West Perth Power Inc. ("**WPPI**") is providing a brief summary of events.

Table A – Timeline of Events

Year	Description
2008	• Erie Thames cost of service rate application.
2009	• January 1, 2009 – First day of data used in PSE Report • 19 week strike for Erie Thames • WPPI and CPC are operating at losses.
2010	• Following the strike the re-organization of Erie Thames commences with transfer of operational employees to Erie Thames. • Erie Thames' shareholder purchases CPC and WPPI. • WPPI cost of service rate application results in 10% increase in rates. • CPC cost of service rate application results in 33% increase in rates.
2011	• Amalgamation of West Perth Power Inc., CPC and Erie Thames Powerlines occurs effective June 1, 2011. • Financial systems conversion to allow for the migration from CGAAP to Modified IFRS. • Erie Thames Billing and collections staff repatriated within the utility. • December 31, 2011 – last day of period used in PSE Report.
2012	• EB-2012-0121, Cost of Service Rate Application for new combined entity. Cost of service OM&A includes approximately $405,000 for billing provided to third party and for which there is a revenue offset. As such, just reviewing current gross OM&A is not reflective of efficiency. • OM&A savings of $192,765 as compared to 2011.

In EB-2012-0121, the Settlement Agreement incorporated agreed savings of $100,000 from the merger and was based upon 2% increase from 2008. The Board approved Settlement Agreement included the following:

4 a. Are the overall levels of OM&A budgets appropriate?

Complete Settlement: *ETPL has recalculated the OM&A as provided in Appendix K. For the purpose of obtaining complete settlement of all issues, the Parties accept the revised OM&A of $5,660,594 as appropriate for the test year. The amount is reflective of a 2% annual compound increase in costs since 2008 Board Approved (ETPL) and 2008 Actual for (CPC and WPPI) and an adjustment for the savings from the amalgamation of CPC, WPPI and ETPL. The Parties agreed to an adjustment for savings attributable to the amalgamation of $100,000. LEAP funding, $11,825, was not included in the original Application but has been incorporated into this settlement along with $18,532 for OM&A related to smart meters.*[1]

The Settlement Agreement for 2012 was premised on an escalation from 2008 and ignored the fact that both CPC and WPPI were operating at losses during those years. Further, the unique rate increases of CPC (33%) and WPPI (10%) were not utilized in arriving at the 2012 Cost of Service rates rather the costs for the years in which those utilities were operating at a loss were used. Of note, the 2008 numbers did not include LEAP funding which are incorporated into the 2012 cost of service rates and will be incorporated into the 2013 IRM rates.

Erie Thames would note that another difference in comparison with the other utilities within its cohort, Erie Thames is one of only 2 utilities, ELK being the other, that has rebased twice since the beginning of the Cost of Service Rate regime. As most intervenors have noticed there are significant increases at rebasing – the “hockey stick” effect. As such, when a utility has gone through the rebasing more than others in its cohort and that utility has actually reduced costs by an amount multiple times larger than the largest stretch factor – that utility deserves to be properly acknowledged for its efforts.

a) Strike

Erie Thames had indicated that 2009 was not a typical year because of a prolonged work stoppage lasting 18 (or 19) weeks which is more than 1/3 of the entire year. Erie Thames noted in its evidence that during the strike OM&A was not saved because of costs for security and managing the strike exceeded any cost savings. Further, following the strike, Erie Thames had an abnormally high over-time requirement to complete the required operations and maintenance activities. Therefore, the costs tracked for the PSE Report are not reflective of a normal operating year or the efficiency of the current utility.

Board Staff incompletely and inappropriately argued that other utilities had incurred strikes without providing any identity of the striking utility, the role of the union (as some unions may not be O&M cost drivers), the duration of the work stoppage or its impact on the costs that year.

[1] EB-2012-0121, Erie Thames 2012 Cost of Service Rate Application.

Erie Thames is not aware of any strike of a similar nature impacting the distribution section in Ontario. Board Staff have made unsubstantiated general statements regarding other utilities and work stoppages for the first time in it submissions. If Board Staff was going to make an assertion regarding other utilities and labour disruptions being comparable, it had a clear obligation under the rules of evidence to provide such evidence clearly and with sufficient detail to permit Erie Thames to have the opportunity to make a complete and fulsome response.

Based upon the above, Erie Thames indicated that 2009 was not a representative year because of the prolonged labour disruption. As such, the Board should disregard Board Staff's comments in this regard.

b) Mergers and Amalgamations

The intent of a stretch factor is to encourage increased efficiency in providing distribution service. The Board is well aware that consolidation has been advocated as a way to realize efficiencies. 2009 and 2010, two the three years in the PSE Report, do not have any cost savings attributable to the amalgamation of Erie Thames, Clinton Power Corp. and West Perth Power Inc. Only 7 months of 2011 or 7 of 36 months pertain to the amalgamated entity.

In its application to the Board seeking approval of the amalgamation, Erie Thames had indicated that it anticipated saving approximately $91,700. Erie Thames would note that the efficiency predicted to result from the amalgamation was incorporated into the Settlement Agreement in EB-2012-0121 in determining the 2012 Cost of Service Rates which form the basis of the 2013 IRM. The savings realized from the amalgamation equate to % of OM&A. These savings alone, outstrip the efficiency factor of 0.6% let alone the delta of 0.4% in efficiency factor being sought in this Application. A 0.1% change represents approximately $9,000 in revenue.

However, in response to VECC IR #1, Erie Thames indicated that its 2012 OM&A was $192,765 lower than 2011. Erie Thames not only drove efficiencies through the amalgamation which outstrip the stretch factor, it drove additional efficiencies of $101,065 for a total improvement from 2011 to 2012 of 3.3% in total costs – even with inflation. Applying the maximum stretch factor to 2011 would only result in 0.6% reduction.

Erie Thames has noted that at most 7 of 35 months are amalgamation. However, VECC ignores the fact that there will be one time integration costs after closing the amalgamation and unless those costs are removed from the PSE analysis it will skew the results. For example, stub year tax filings must be completed for each utility. These costs must be incurred during that time period. Without incurring such one-time costs, the larger, longer-term savings can't be realized.

Erie Thames would also point out the timing of the decisions and the information available. The PSE Report is based upon data for a fundamentally different utility which had several significant events during the analytical period. For other utilities, the 2013 rates are not based upon 2012 information because there has been no testing or approval of such information. However, the intervenors and the Board have 10 month actual 2012 data in setting the rates in EB-2012-0121.

The significant savings are real and material and constitute better evidence about the current efficiency of Erie Thames.

Erie Thames is not aware of a situation in which an amalgamated utility has obtained such significant savings and completed a cost of service rate application so soon after an amalgamation.

Conclusions

In addition to the intervening events, the actual recognized OM&A savings, Erie Thames sought to proof the results against other measurements. Table 1 provided a summary of rates for average customers that were presented by Mr. Jay Shepherd at a session that took place in the Board's offices on July 17th, 2012 for utilities that were filing 2013 Cost of Service Rate Applications. The Table indicates that Erie Thames' average rate, pursuant to their independent analysis, was 104% of the average rates of the cohort. As such, Erie Thames concluded that its improved OM&A was not accomplished through a transfer to capital but rather through real efficiencies.

While some utilities may have experienced a strike, an amalgamation or even a transformative re-organization – Erie Thames would submit no utility has experienced all three such events - let alone in such a short time period. Further, the uncontroverted evidence is Erie Thames realized savings of 3.3% when comparing 2012 costs against the 2011 costs included in the PSE Report. For the reasons outlined above, including the 3.3% savings, Erie Thames is of the view that unique and compelling circumstances do exist to warrant a deviation from the Board's guideline. Further, the demonstrated savings are so material that a 0.2% stretch factor is appropriate.