

May 31, 2013

Ms. Kirsten Walli
Ontario Energy Board
PO Box 2319
27th Floor, 2300 Yonge Street
Toronto, Ontario M4P 1E4

Re: May 27 & 28, 2013 Stakeholder Consultation re: Measuring Performance of Electricity Distributors (EB-2010-0379)

Dear Ms. Walli,

Entegrus Powerlines Inc. ("Entegrus") is appreciative of having had the opportunity to attend the above-noted stakeholder consultations earlier this week.

These latest stakeholder sessions reiterated to Entegrus the importance of accurate historical capital data. These data are critical to the proposed distributor total cost benchmarking methodology developed by the Board consultant, the Pacific Economic Groups ("PEG"). The PEG Report details how this historical capital data was utilized to derive a capital benchmark (1989) and subsequent year data was utilized to develop a TFP growth trend against the benchmark¹. The PEG Report further notes that the dataset for 1989 thru 2011 capital additions was incomplete. The incomplete dataset required that PEG create an estimation process to fill in data for missing years, as explained in the PEG Report:

*"MUDBANK data are available for all municipal distributors through 1997 and for some municipal distributors through 1998. RRR data are available from 2002 to the present for all distributors. Because there was a data "gap" between these data sources between 1997 and 2002, PEG had to interpolate capital additions data between 1997 and 2002."*²

The available capital data from PEG's TFP & BM Database for three selected distributors (Entegrus, Distributor 9 and Distributor 13) is shown as **Attachment A** to this letter. The attachment clearly demonstrates the period for which the dataset is incomplete.

The PEG Report indicates that in most cases, capital additions for the incomplete period could be inferred based on the difference between gross asset values between 1997 and 2002. For the purposes of this letter, this PEG inference method will be referred to as "Methodology 1".

However, the PEG Report further explains that in certain exception cases another inference method was employed:

¹ Report of the Pacific Economics Group Research, LLC, pages 31-34

² *ibid*, page 32

“In some cases, however, PEG noticed precipitous drops in gross assets between 1997 and 2002. These drops did not appear to be plausible. Discussions with PBR Working Group revealed that, in some mergers over the 1997-2002 period, the gross capital stocks reported in 2002 for the merged company were in fact equal to net asset values in those years. The actual gross stocks were accordingly higher than what was reported by these distributors in 2002.”³

The PEG Report proceeds to provide a detailed algorithm developed to infer capital additions in cases where “precipitous drops in gross assets between 1997 and 2002”⁴ were observed. For the purposes of this letter, this inference methodology will be referred to as “Methodology 2”.

Attachment B to this letter shows the capital data for the three selected distributors, inclusive of the PEG inferences for 1998-2002 capital additions. Based on review of PEG’s TFP and BM database calculations, in all three cases the inference methodology employed was Methodology 2. However, Entegrus notes that none of the three selected distributors appear to meet the Methodology 2 criteria of having shown “precipitous drops in gross assets between 1997 and 2002”.

Further, in the opinion of Entegrus, the 1998-2002 capital additions produced by Methodology 2 do not appear reasonable. Specifically, in the case of Entegrus as shown in **Attachment B**:

- a) the inferred 1998-2002 capital additions are 305% higher than the average actual 1990-1997 Entegrus capital additions, and;
- b) the inferred 2003-2011 capital additions are 165% higher than the average actual 2003-2011 Entegrus capital additions.

Entegrus made similar observations with respect to Distributor 9 and Distributor 13.

Based on this analysis, it is the conclusion of Entegrus that the 1998-2002 capital additions are overstated for the three selected distributors. Entegrus believes that this overstatement has a material impact on the statistical models and TFP calculations and negative consequence to the affected distributors. Entegrus puts forth for the Board’s consideration that in these three cases, Methodology 1 or an alternative methodology should be employed. In the event that an alternative methodology is developed, Entegrus seeks the opportunity to review the detailed calculations and provide commentary.

Please note that Entegrus may have additional comments in advance of the June 27, 2013 stakeholder commentary deadline established in the Board’s letter of May 30, 2013.

³ *ibid*, page 33

⁴ *ibid*, page 33

In the meantime, if you have any questions, please do not hesitate to contact me.

All of which is respectfully submitted,

[Original Signed By]

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cc: Lisa Brickenden, Ontario Energy Board
Dan Charron, President
David Ferguson, Director of Regulatory & Administration
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Attachment A Capital Data by Year

Data Source: Pacific Economics Group: Report to the Board (TFP and BM database calculations 2.xlsx)

Ref Tab: Capital Calculations for BM

Year	Entegrus Powerlines		Distributor 9		Distributor 13	
	Gross Capital	Gross Capital Additions	Gross Capital	Gross Capital Additions	Gross Capital	Gross Capital Additions
1989	37,493,506	-	12,917,032	-	81,912,076	-
1990	41,725,464	4,231,958	14,042,437	1,125,405	92,734,057	10,821,981
1991	42,872,828	1,147,364	14,416,882	374,445	95,268,129	2,534,072
1992	44,906,811	2,033,983	15,063,217	646,335	101,602,879	6,334,750
1993	46,513,128	1,606,317	15,710,962	647,745	106,050,589	4,447,710
1994	48,850,746	2,337,618	16,337,649	626,687	118,167,577	12,116,988
1995	52,500,748	3,650,002	17,481,990	1,144,341	121,528,811	3,361,234
1996	56,756,822	4,256,074	18,422,793	940,803	126,988,623	5,459,812
1997	60,685,188	3,928,366	19,274,578	851,785	133,953,628	6,965,005
1998	Data incomplete for this period	Data incomplete for this period	Data incomplete for this period	Data incomplete for this period	Data incomplete for this period	Data incomplete for this period
1999						
2000						
2001						
2002	62,409,035		20,367,757		135,229,482	
2003	66,602,176	4,193,141	22,333,454	1,965,697	142,945,891	7,716,409
2004	71,243,595	4,641,419	24,442,192	2,108,738	151,427,068	8,481,177
2005	73,792,006	2,548,411	26,039,920	1,597,728	134,715,886	(16,711,182)
2006	80,045,540	6,253,534	28,241,965	2,202,045	146,718,043	12,002,157
2007	86,769,390	6,723,850	30,946,706	2,704,741	159,584,472	12,866,429
2008	93,295,204	6,525,814	36,045,408	5,098,702	178,599,796	19,015,324
2009	99,104,240	5,809,036	39,134,819	3,089,411	202,210,227	23,610,431
2010	105,983,310	6,879,070	42,668,454	3,533,635	217,907,103	15,696,876
2011	110,693,490	4,710,180	47,355,942	4,687,488	237,422,405	19,515,302

Attachment B
Capital Data per Year, Inclusive of PEG 1998-2002 Capital Addition Inferences

Data Source: Pacific Economics Group: Report to the Board (TFP and BM database calculations 2.xlsx)

Ref Tab: Capital Calculations for BM

Year	Entegrus Powerlines			Distributor 9			Distributor 13		
	Gross Capital	Gross Capital Additions	Average Additions	Gross Capital	Gross Capital Additions	Average Additions	Gross Capital	Gross Capital Additions	Average Additions
1989	37,493,506			12,917,032			81,912,076		
1990	41,725,464	4,231,958		14,042,437	1,125,405		92,734,057	10,821,981	
1991	42,872,828	1,147,364		14,416,882	374,445		95,268,129	2,534,072	
1992	44,906,811	2,033,983		15,063,217	646,335		101,602,879	6,334,750	
1993	46,513,128	1,606,317		15,710,962	647,745		106,050,589	4,447,710	
1994	48,850,746	2,337,618		16,337,649	626,687		118,167,577	12,116,988	
1995	52,500,748	3,650,002		17,481,990	1,144,341		121,528,811	3,361,234	
1996	56,756,822	4,256,074		18,422,793	940,803		126,988,623	5,459,812	
1997	60,685,188	3,928,366		19,274,578	851,785		133,953,628	6,965,005	
1998		8,829,919			7,908,887			16,550,789	
1999		8,829,919			7,908,887			16,550,789	
2000		8,829,919			7,908,887			16,550,789	
2001		8,829,919			7,908,887			16,550,789	
2002		8,829,919			7,908,887			16,550,789	
2003		8,829,919			7,908,887			16,550,789	
2004		8,829,919			7,908,887			16,550,789	
2005		8,829,919			7,908,887			16,550,789	
2006		8,829,919			7,908,887			16,550,789	
2007		8,829,919			7,908,887			16,550,789	
2008		8,829,919			7,908,887			16,550,789	
2009		8,829,919			7,908,887			16,550,789	
2010		8,829,919			7,908,887			16,550,789	
2011		8,829,919			7,908,887			16,550,789	

Entegrus Notations & Observations:	
Yellow highlights:	The numbers highlighted represent PEG capital addition inferences for the period 1998 thru 2002.
Blue highlights:	In all 3 cases, comparing the 2002 gross capital numbers to the 1997 numbers does not demonstrate a "precipitous drop".