Entegrus Powerlines Inc.
320 Queen St. (P.O. Box 70)
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June 27, 2013

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

Re: Written Comments Defining and Measuring Performance of Electricity Distributors (EB-2010-0379)

Dear Ms. Walli,

On May 30, 2013, the Ontario Energy Board (the "Board") posted a letter with a list of questions on topics of particular interest to the Board in relation to matters discussed at the two-day Stakeholder Conference held on May 27 and 28, 2013.

Entegrus appreciates the opportunity to assist the Board and has provided feedback where applicable. Entegrus notes that for certain questions, responses have been omitted where it was deemed necessary to have the views and interpretation of subject matter experts. Accordingly, in the absence of specific answers, Entegrus has reviewed the EDA expert report submitted to the Board by Dr. Adonis Yatchew and supports the suggested recommendations.

Please see attached Entegrus' detailed reply (See Exhibit A). If you have any questions, please do not hesitate to contact me.

All of which is respectfully submitted,

[Original Signed By]

David C. Ferguson
Director of Regulatory & Administration
Phone: (519) 352-6300 Ext. 558
Email: regulatory@entegrus.com

cc: Dan Charron, President
Chris Cowell, Chief Financial & Regulatory Officer
Ryan Diotte, Senior Regulatory Analyst

Exhibit A

Question 7

a. Are the recommended peer groups appropriate?

Entegrus does not believe that the recommended peer groups are appropriate for the unit cost/peer group model for the following reasons.

First, Entegrus notes that there have been cited concerns over inconsistent data as reported by LDCs. Specifically, Entegrus raised concerns over data inconsistencies related to Licensed Service Area ("LSA") in our letter to the Board dated May 21, 2013 (see Attachment A).

Secondly, at the May 27th, 2013 Stakeholder consultation, Dr. Kaufmann of the Pacific Economic Group ("PEG") noted that after further adjustments were made to the econometric model it became apparent that "…a couple of the variables turned out to be less significant or insignificant, and those were undergrounding and area[1]".

Entegrus submits that, given the known limitations of LSA data reported by LDCs, coupled with PEG's conclusion that LSA and Undergrounding variables are statistically less significant or insignificant, it is inappropriate to structure the peer groups as initially proposed by PEG. As noted by the EDA, "there are a number of factors that contribute to differences amongst distributors. Further, there are significant data limitations that preclude adequately identifying and quantifying some of those variations. Peer group analysis in this context is unreliable and may lead to unreasonable rate-setting[2]".

b. If not, what peer groups would you recommend why?

Entegrus recommends that Undergrounding and LSA be removed from the list of business conditions considered for profiling of LDCs.

Alternatively, Entegrus recommends the following three cohort structure:

- Maintain Group 1 as currently mapped by PEG in order to segregate the unique business conditions found in Ontario's largest LDCs.
- Create two additional groups based on geographic proximity (excluding Group 1 LDCs). Entegrus notes that LDCs within the same or similar geographical region, that are not large LDCs, should inherently experience similar and comparable business conditions. As a starting point for the creation of the two geographically centric groups, Entegrus recommends evaluating the 21 predetermined regions for regional planning in conjunction with the three predetermined regions used for Regional Infrastructure Planning ("RIP") purposes (see Attachment B).
- For illustrative purposes Entegrus has demonstrated three potential peer groups. See Attachment C.

[1] OEB Vol.1 Distributor Efficiency Stakeholder Meeting Transcripts, page 124, lines 12-14.
[2] Electricity Distributor Association Expert Report – June 13, 2013, Executive Summary, page i.

Entegrus submits that peer groups based on geographical regions will provide transparency and a comparative foundation most akin to how most distributors already compare themselves.

c. Should each distributor's unit cost be compared to the average unit cost for the peer group or to the median unit cost for the peer group?

Entegrus submits that the median unit cost for the peer group should be compared as it is better suited to remove skewed distributions in the peer group datasets. Using the median will normalize any overweighed effects of extreme outlier unit costs.

Question 11

What are appropriate stretch factor values? Why?

Entegrus supports the EDA position that the stretch factor values should range from -0.3% to 0.3%. The establishment of symmetrical stretch factors which provide a reward/penalty balance will further encourage distributor efficiency as intended by Incentive Regulation.

Question 12

What indicators should the Board consider monitoring on an on-going basis to test the reasonableness of the results of its PCI formula before it is applied to adjust the distributor's rates (i.e., ex ante)?

Entegrus submits that the Board should utilize consistent, transparent and symmetrical indicators to ensure the reasonableness of PCI adjustments prior to application. It may be appropriate to track a "bank" of historical adjustments (where downward or upward adjustments are made), in order that symmetry considerations can be maintained and balanced over time.

Question 13

When the Board updates the industry productivity factors every five years, should the new productivity factor be automatically applied to all distributors that are then on 4th Generation IR? Why or why not?

Entegrus submits that any changes in the industry productivity factor should be applied to 4th Generation IR distributors only at such time as the distributor's next Cost of Service. This would serve to provide customers and distributors with a degree of rate certainty in the period following a Cost of Service decision, and would also assist in promoting distributor efficiency as intended by Incentive Regulation.

Question 14

With respect to your preferred approaches, as identified in your answers to prior questions, what other implementation matters, if any, need to be considered by the Board.

Entegrus notes that regardless of the approach ultimately selected by the Board, the method of estimating the missing industry capital additions data for the 1997-2002 is of critical statistical importance. Entegrus has previously identified concerns with the current estimation approach employed in the PEG Report and has made recommended changes. These observations and recommendations are detailed in the attached letters to the Board dated May 31, 2013 (see Attachment D) and June 24, 2013 (see Attachments D).

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Attachment A

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May 21, 2013

Ms. Kirsten Walli
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Toronto, Ontario M4P 1E4

Re: Consultant Report and Stakeholder Consultations Meetings in May Defining and Measuring Performance of Electricity Distributors (EB-2010-0379)

Dear Ms. Walli,

Entegrus Powerlines Inc. ("Entegrus") appreciated the opportunity to attend the above-noted consultation held at the Ontario Energy Board on May 16, 2013.

Throughout the consultation, the importance of total service area square kilometre data was apparent. In designing the proposed distributor total cost benchmarking, the Pacific Economic Groups ("PEG") has utilized the data both as a variable for the econometric model (refer to Table 12), and as a determinant in the establishment of unit cost peer groups (refer to Table 23). Subsequently, Entegrus raised an observation during the consultation with regard to potential inconsistent interpretation amongst distributors in reporting total service area square kilometres for RRR reporting purposes.

Specifically, some distributors have licenced service territories comprised of non-contiguous "islands" of urban centres. The parcels of rural territory between the non-contiguous urban centres of distributors is often licenced to and serviced by Hydro One Distribution Networks. Please refer to Attachment 1, which demonstrates the non-contiguous nature of the Entegrus service territory. Accordingly, RRR reporting inconsistency may arise from the following potential interpretation cases of service territory definition amongst distributors:

(a) Report just the area of service territory actually served (i.e. the area of the islands); or,
(b) Report the entire range of service territory, including the distances between the islands.

Entegrus notes that the Board's RRR Filing Guide (refer to section 2.1.5.5, entitled "Utility Characteristics") defines this data as follows: *"Licensed Service Area (Sq. Kms.) in total, and broken down by rural and urban."* The inclusion of the term "licensed" above has resulted in Entegrus historically reporting just its licenced service territory for RRR purposes (i.e. reporting case (a) above). Entegrus believes that its filing interpretation is correct, but notes there to be the risk of differing interpretation across distributors. Such differences would result in the use of inconsistent data in the benchmarking model data for this key variable.

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Entegrus respectfully requests that the Board consider validating whether distributors have reported total service area square kilometre data in a manner consistent with licenced service territory. In the event that the Board decides to apply reporting case (b) above to all distributors for the purposes of Total Cost Benchmarking, Entegrus offers the following additional data in advance with respect to its service territory:

Entegrus Powerlines Service Territory Details	
Number of urban communities served (refer to ED-2002-0563 excerpt shown as Attachment A)	16
Reporting case (a) above – licenced service territory served only (as reported for RRR purposes)	96 square km
Reporting case (b) above – entire range of service territory	3,300 square km

If you have any questions, please do not hesitate to contact me.

Sincerely,

[Original Signed By]

David Ferguson
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Email: regulatory@entegrus.com

cc: Lisa Brickenden, Ontario Energy Board
Dan Charron, President
Chris Cowell, Chief Financial and Regulatory Officer
Ryan Diotte, Senior Regulatory Analyst

Attachment 1
Excerpt from Entegrus Powerlines Distribution Licence ED-2002-0563

Entegrus Powerlines Inc.
Electricity Distribution Licence ED-2002-0563

SCHEDULE 1 DEFINITION OF DISTRIBUTION SERVICE AREA

This Schedule specifies the area in which the Licensee is authorized to distribute and sell electricity in accordance with paragraph 8.1 of this Licence.

Those parts of the following former municipalities (including the former Police Village of Merlin) that the former dissolved public utilities commissions served on December 31, 1997:

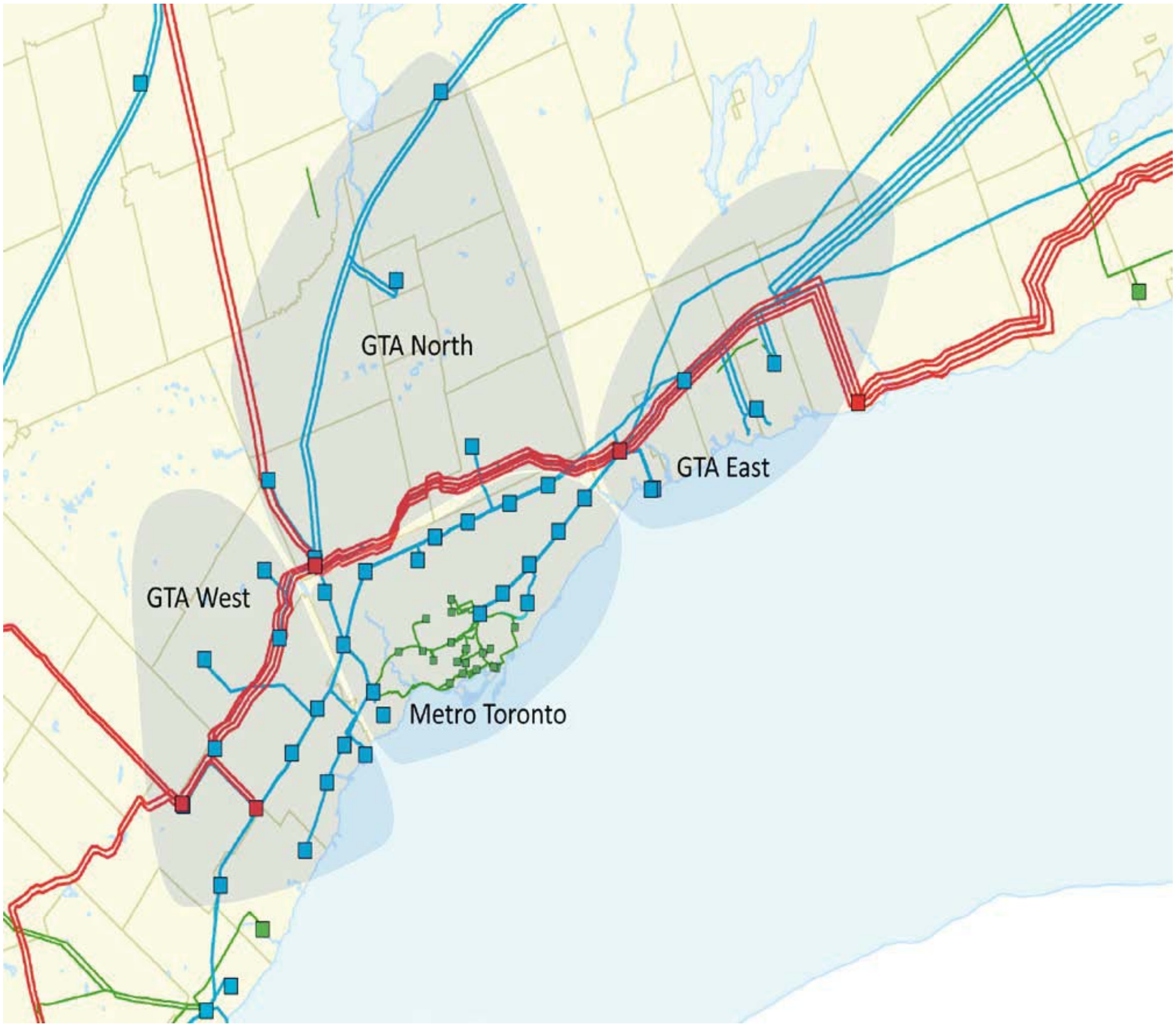
1. Town of Blenheim,
2. Town of Bothwell,
3. City of Chatham,
4. Town of Dresden,
5. Village of Erieau,
6. Police Village of Merlin,
7. Town of Ridgetown,
8. Village of Thamesville,
9. Town of Tilbury,
10. Town of Wallaceburg,
11. Village of Wheatley, and
12. Part Lots 16 & 17, Concession A, Geographic Township of Ranleigh, designated as Part 1, Reference Plan 24R 7195, Municipality of Chatham-Kent, and Part Lot 17, Concession A, Geographic Township of Ranleigh, designated as Part 2, Reference Plan 7195, Municipality of Chatham-Kent as per Board Order RP-2003-0044, dated September 16, 2003.
13. The former Town of Strathroy as of December 31, 2000.
14. The former Police Village of Mount Brydges as of December 31, 2000.
15. The former Town of Parkhill as of December 31, 2000.
16. The Village of Dutton as of December 31, 1997, now within the Municipality of Dutton/Dunwich.
17. The Village of Newbury as of November 7, 1998.

Attachment B

1. Planning Zones – Northern Ontario

2. Planning Zones –Southern Ontario

3. Planning Zones – GTA



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Attachment C

Unit Costs By Peer Group

Group 1

Company Name	Unit Cost Average 2009 - 2011	Benchmark Unit Cost Comparison
KITCHENER-WILMOT HYDRO INC.	34,862,301	-18.69%
LONDON HYDRO INC.	35,693,443	-16.75%
HORIZON UTILITIES CORPORATION	37,404,875	-12.76%
VERIDIAN CONNECTIONS INC.	40,069,785	-6.54%
HYDRO OTTAWA LIMITED	42,402,993	-1.10%
HYDRO ONE BRAMPTON NETWORKS INC.	42,873,919	0.00%
POWERSTREAM INC.	43,521,778	1.51%
ENERSOURCE HYDRO MISSISSAUGA INC.	44,171,342	3.03%
ENWIN UTILITIES LTD.	52,733,100	23.00%
HYDRO ONE NETWORKS INC.	58,869,959	37.31%
TORONTO HYDRO-ELECTRIC SYSTEM LIMITED	70,787,098	65.11%
MEDIAN	42,873,919	

Group 2

Company Name	Unit Cost Average 2009 - 2011	Benchmark Unit Cost Comparison
HYDRO HAWKESBURY INC.	20,289,273	-52.78%
HALDIMAND COUNTY HYDRO INC.	35,008,338	-18.52%
PUC DISTRIBUTION INC.	36,987,435	-13.91%
HALTON HILLS HYDRO INC.	36,020,522	-16.17%
E.L.K. ENERGY INC.	37,326,747	-13.13%
HYDRO 2000 INC.	34,730,445	-19.17%
CAMBRIDGE AND NORTH DUMFRIES HYDRO INC.	39,158,703	-8.86%
LAKEFRONT UTILITIES INC.	36,944,558	-14.01%
WASAGA DISTRIBUTION INC.	36,982,324	-13.93%
BURLINGTON HYDRO INC.	39,463,701	-8.15%
GRIMSBY POWER INCORPORATED	37,102,189	-13.65%
BLUEWATER POWER DISTRIBUTION CORPORATION	41,588,545	-3.21%
WELLAND HYDRO-ELECTRIC SYSTEM CORP.	36,266,450	-15.59%
KINGSTON HYDRO CORPORATION	40,315,352	-6.17%
ESSEX POWERLINES CORPORATION	40,981,406	-4.62%
RIDEAU ST. LAWRENCE DISTRIBUTION INC.	37,285,466	-13.22%
CENTRE WELLINGTON HYDRO LTD.	38,809,015	-9.68%
NORFOLK POWER DISTRIBUTION INC.	44,304,190	3.11%
LAKELAND POWER DISTRIBUTION LTD.	44,442,370	3.44%
NIAGARA PENINSULA ENERGY INC.	44,553,279	3.69%
BRANTFORD POWER INC.	42,708,772	-0.60%
INNISFIL HYDRO DISTRIBUTION SYSTEMS LIMITED	42,966,129	0.00%
WATERLOO NORTH HYDRO INC.	43,463,669	1.16%
ST. THOMAS ENERGY INC.	40,913,972	-4.78%
COLLUS POWER CORPORATION	41,008,126	-4.56%
NEWMARKET-TAY POWER DISTRIBUTION LTD.	41,074,924	-4.40%
TILLSONBURG HYDRO INC.	44,484,426	3.53%
PETERBOROUGH DISTRIBUTION INCORPORATED	44,808,270	4.29%
ORANGEVILLE HYDRO LIMITED	45,189,615	5.17%
NIAGARA-ON-THE-LAKE HYDRO INC.	45,087,493	4.94%
ENTEGRUS POWERLINES	41,094,588	-4.36%
ORILLIA POWER DISTRIBUTION CORPORATION	41,706,342	-2.93%
ERIE THAMES POWERLINES CORPORATION	48,903,704	13.82%
OTTAWA RIVER POWER CORPORATION	42,939,092	-0.06%
MILTON HYDRO DISTRIBUTION INC.	47,353,397	10.21%
WESTARIO POWER INC.	43,123,590	0.37%
MIDLAND POWER UTILITY CORPORATION	44,602,078	3.81%
OAKVILLE HYDRO ELECTRICITY DISTRIBUTION INC.	48,452,933	12.77%
FESTIVAL HYDRO INC.	49,276,104	14.69%
WEST COAST HURON ENERGY INC.	44,809,621	4.29%
PARRY SOUND POWER CORPORATION	45,240,103	5.29%
CANADIAN NIAGARA POWER INC.	50,197,877	16.83%
BRANT COUNTY POWER INC.	50,356,576	17.20%
GUELPH HYDRO ELECTRIC SYSTEMS INC.	48,983,648	14.01%
COOPERATIVE HYDRO EMBRUN INC.	51,051,765	18.82%
RENFREW HYDRO INC.	50,178,128	16.79%
WELLINGTON NORTH POWER INC.	54,780,233	27.50%
WOODSTOCK HYDRO SERVICES INC.	60,745,231	41.38%
ALGOMA POWER INC.	86,301,013	100.86%
OSHAWA PUC NETWORKS INC.	39,709,014	-7.58%
WHITBY HYDRO ELECTRIC CORPORATION	46,426,168	8.05%
MEDIAN	42,966,129	

Group 3

Company Name	Unit Cost Average 2009 - 2011	Benchmark Unit Cost Comparison
HEARST POWER DISTRIBUTION COMPANY LIMITED	28,679,826	-33.67%
SIOUX LOOKOUT HYDRO INC.	37,960,464	-12.21%
NORTHERN ONTARIO WIRES INC.	33,646,420	-22.19%
NORTH BAY HYDRO DISTRIBUTION LIMITED	43,240,820	0.00%
THUNDER BAY HYDRO ELECTRICITY DISTRIBUTION INC.	43,588,405	0.80%
ESPANOLA REGIONAL HYDRO DISTRIBUTION CORPORATION	38,852,916	-10.15%
GREATER SUDBURY HYDRO INC.	45,892,570	6.13%
CHAPLEAU PUBLIC UTILITIES CORPORATION	42,055,473	-2.74%
KENORA HYDRO ELECTRIC CORPORATION LTD.	44,189,419	2.19%
ATIKOKAN HYDRO INC.	52,273,319	20.89%
FORT FRANCES POWER CORPORATION	48,152,850	11.36%
MEDIAN	43,240,820	

Group 1 Comments:
Entegrus notes that LDCs proposed in Grouping 1 represent Large Local Distributions Companies as defined by PEG in the initial expert report. Entegrus agrees that similar business conditions are experienced by these LDCs irrespective of their geographical proximity.

Group 2 Comments:
Peers of Group 2 were systematically allocated based on Planning Zone 2 - Southern Ontario (See Attachment B).
Entegrus submits that after allocating Groups 2 and 3 based on RIP Planning Zones and segregating all Large LDCs per PEG's empirical work, it was determined that three LDCs were not captured in the profiling exercise. These LDCs include PUC Distribution Inc., Oshawa PUC Networks Inc. and Whitby Hydro Electric Corporation. For illustrative purposes Entegrus slotted these LDCs in Group 2.

Group 3 Comments:
Peers of Group 3 were systematically allocated based on Planning Zone 1 - Northern Ontario (See Attachment B).

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Attachment D

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June 24, 2013

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Toronto, Ontario M4P 1E4

Re: Consultation re: Measuring Performance of Electricity Distributors (EB-2010-0379)

Dear Ms. Walli,

On May 31, 2013, Entegrus Powerlines Inc. ("Entegrus") submitted a letter of commentary to the Board in respect of the above-noted consultation. In the letter, Entegrus raised concerns regarding the reasonability of certain 1997-2002 industry capital asset addition figures determined by the Pacific Economic Group ("PEG") Report by way of estimate. A copy of this letter has been included as Attachment A.

On June 19, 2013, Entegrus received a response in this matter from PEG via Board Staff. PEG explained that two different estimate methods were applied for each distributor on a case-by-case basis to estimate figures for the period of 1997-2002 where industry capital additions data were not available. PEG further acknowledged that *"Entegrus was one company for which neither method generated highly plausible estimates of additions."* A copy of the PEG response has been included as Attachment B.

In the PEG Report, it was noted that for some distributors, "a precipitous drop in gross assets between 1997 and 2002"[1] was observed. PEG further explains that "discussions with the 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."[2] This reasoning was cited as support for PEG applying an alternative estimation methodology ("Methodology 2") to infer 1997-2002 capital asset additions for a handful of distributors who were deemed to have experienced a "precipitous drop in gross assets". However, as demonstrated under Scenario A of Exhibit A attached, in the case of Entegrus there was in fact no drop in gross capital assets between 1997 and 2002 – *gross capital actually increased*. Yet, PEG employed Methodology 2 for Entegrus with the result that implausible capital addition estimates were generated. These Methodology 2 estimates are equally improbable as those which would have been generated had PEG elected to use Methodology 1 (see Exhibit A, Scenario B), which was applied to the majority of other distributors.

[1] Report of the Pacific Economics Group Research, LLC, pages 31
[2] Ibid, page 31

Methodology 2, designed by PEG to account from the information taken from the PBR Working Group discussions, in effect assumes that the total distributor assets were reported on a net asset basis. Entegrus submits that PEG should consider a more plausible and financially reasonable explanation: In many cases assets which were fully depreciated were not added to the books of the combined entity at the time of Market Opening because the net book value was $Nil. The end result is a net book value which is correct, but also an apparent drop in gross asset value and accumulated depreciation which is the case for the identified handful of distributors. The incorrect interpretation of the cause for the apparent decline in gross assets has lead PEG to create a methodology which renders an implausible result.

Entegrus submits that, given the importance of this initiative and the consequence to distributors, it is inappropriate to utilize an estimate methodology that generates implausible results. As previously noted by Entegrus in the letter of May 31, 2013, the methodology applied by PEG results in estimated 1998-2002 capital additions are 305% higher than the average actual 1990-1997 Entegrus capital additions, and 165% higher than the average actual 2003-2011 Entegrus capital additions. The result is that Entegrus is disadvantaged in the efficiency rankings for levels of capital expenditure that never actually occurred. This issue also impacts a handful of other distributors where Methodology 2 was employed, despite the fact that their gross capital assets also increased between 1997 and 2002.

Entegrus recommends that in cases where neither Methodology 1 nor Methodology 2 generates a reasonable estimate of additions for 1997-2002, a third approach be utilized. In this regard, please see Exhibit A for a comparison of the following different alternatives utilizing Entegrus data:

- Scenario I – PEG Inference Method 2 (as currently utilized in PEG Report);
- Scenario II – PEG Inference Method 1;
- Scenario III – Average of Capital Additions for: (i) 1989-1996 (Average I); (ii) 1989-2011 - excluding the missing 1997-2002 period (Average II), and (iii) 2003-2011 (Average III); and,
- Scenario IV – Actual Capital Additions for 1997-2002 (based on internal company records)

Entegrus understands that at this stage of the consultation process, it may be impractical to collect 1997-2002 internal data from each distributor to support actual 1997-2002 capital asset additions. However, as shown by the calculation captioned "Average II" in Scenario C of Exhibit A, the use of an average based on existing data can closely approximate actual capital additions for the 1997-2002 period (comparatively, see Scenario D of Exhibit A). Specifically, in the case of Entegrus, the average generates an estimate of $4,204,479 versus an actual average of $4,818,347.

Accordingly, Entegrus requests that the Board direct PEG to use an average based on existing actual data to derive a plausible estimate result for Entegrus 1997-2002 capital asset additions for the purposes of the PEG Report. Entegrus recommends that this average be calculated as detailed by the caption "Average II" in Scenario C of Exhibit A.

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
Dave Hovde, Pacific Economics Group
Jim Hogan, CEO – Entegrus Inc.
Dan Charron, President – Entegrus Powerlines Inc.
David Ferguson, Director of Regulatory & Administration
Ryan Diotte, Senior Regulatory Analyst

Exhibit A
Entegrus Powerlines Capital Data Under Alternative Scenarios

Data Source: *Pacific Economics Group: Report to the Board (TFP and BM database calculations 2.xlsx)*
Ref Tab: *Capital Calculations for BM*

	Scenario A: PEG Current		Scenario B: PEG Alternative		Scenario C: Averages		Scenario D: Actuals		
Year	Gross Capital	Gross Capital Additions	Gross Capital	Gross Capital Additions	Gross Capital	Gross Capital Additions	Gross Capital	Gross Capital Additions	
1989	37,493,506	-	37,493,506	-	37,493,506		37,493,506	-	
1990	41,725,464	4,231,958	41,725,464	4,231,958	41,725,464		41,725,464	4,231,958	
1991	42,872,828	1,147,364	42,872,828	1,147,364	42,872,828		42,872,828	1,147,364	
1992	44,906,811	2,033,983	44,906,811	2,033,983	44,906,811	***2,898,960***	44,906,811	2,033,983	
1993	46,513,128	1,606,317	46,513,128	1,606,317	46,513,128	**(Average I)**	46,513,128	1,606,317	
1994	48,850,746	2,337,618	48,850,746	2,337,618	48,850,746	**(1990-1997)**	48,850,746	2,337,618	
1995	52,500,748	3,650,002	52,500,748	3,650,002	52,500,748		52,500,748	3,650,002	
1996	56,756,822	4,256,074	56,756,822	4,256,074	56,756,822		56,756,822	4,256,074	
1997	60,685,188	3,928,366	60,685,188	3,928,366	60,685,188		60,685,188	3,928,366	
1998		8,829,919		405,455		***4,204,479***		3,796,413	
1999	*Additions as currently estimated under PEG Methodology 2*	8,829,919	*Additions as estimated under PEG Methodology 1*	405,455	*Additions based on the average of 1990-1997 & 2002-2011 actuals*	**(Average II)**	*Actual additions based on Entegrus internal records*	4,249,786	
2000		8,829,919		405,455		**(1990-1997 &**		8,835,845 **	***4,818,347***
2001		8,829,919		405,455		**2003-2011)**		3,212,753	**(average**
2002	62,409,035	8,829,919	62,409,035	405,455	62,409,035		62,409,035	3,996,938	**actual)**
2003	66,602,176	4,193,141	66,602,176	4,193,141	66,602,176		66,602,176	4,193,141	
2004	71,243,595	4,641,419	71,243,595	4,641,419	71,243,595		71,243,595	4,641,419	
2005	73,792,006	2,548,411	73,792,006	2,548,411	73,792,006		73,792,006	2,548,411	
2006	80,045,540	6,253,534	80,045,540	6,253,534	80,045,540	***5,364,939***	80,045,540	6,253,534	
2007	86,769,390	6,723,850	86,769,390	6,723,850	86,769,390	**(Average III)**	86,769,390	6,723,850	
2008	93,295,204	6,525,814	93,295,204	6,525,814	93,295,204	**(2003-2011)**	93,295,204	6,525,814	
2009	99,104,240	5,809,036	99,104,240	5,809,036	99,104,240		99,104,240	5,809,036	
2010	105,983,310	6,879,070	105,983,310	6,879,070	105,983,310		105,983,310	6,879,070	
2011	110,693,490	4,710,180	110,693,490	4,710,180	110,693,490		110,693,490	4,710,180	

** Entegrus capital asset additions in 2000 were significantly higher than other years due to building construction to accommodate the merger of operations of the 11 former Chatham-Kent utilities that came together as a result of Municipal amalgamation.

Attachment A

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May 31, 2013

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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 benchmark[1]. 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:

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[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]

Chris Cowell
Chief Financial and Regulatory Officer
Phone: (519) 352-6300 Ext. 283
Email: regulatory@entegrus.com

cc: Lisa Brickenden, Ontario Energy Board
Dan Charron, President
David Ferguson, Director of Regulatory & Administration
Ryan Diotte, Senior Regulatory Analyst

ENTEGRUS

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*

	Entegrus Powerlines		Distributor 9		Distributor 13	
Year	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

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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*

	Entegrus Powerlines			Distributor 9			Distributor 13		
Year	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	*2,898,960*	14,042,437	1,125,405	*794,693*	92,734,057	10,821,981	*6,505,194*
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*	8,829,919	*8,829,919*	*Data incomplete for this period*	7,908,887	*7,908,887*	*Data incomplete for this period*	16,550,789	*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	62,409,035	8,829,919		20,367,757	7,908,887		135,229,482	16,550,789	
2003	66,602,176	4,193,141	*5,364,939*	22,333,454	1,965,697	*2,998,687*	142,945,891	7,716,409	*11,354,769*
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	

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".

Attachment B

Andrya Eagen

From: RRF <RRF@ontarioenergyboard.ca>
Sent: June-19-13 1:49 PM
To: David Ferguson
Cc: RRF
Subject: FW: Method 1 vs. Method 2 for Entegrus

Good Afternoon, Dave

Below, please see a response from PEG's to your May 31st e-mail and letter.

Cheers,

Lisa

From: Dave Hovde [mailto:hovde@earthlink.net]
Sent: June-18-13 2:15 PM
To: RRF; Larry Kaufmann
Subject: Method 1 vs. Method 2 for Entegrus

We looked into the issues Entegrus raised regarding our choice of method for estimating missing plant additions data. Entegrus was one company for which neither method generated highly plausible estimates of additions. As noted in the working papers on the Capital Calculations for BM spreadsheet, we noted the drop in accumulated amortization as evidence that method 2 was superior despite a small increase in gross plant from 97-02. In addition, the use of method 1 would result in a 90% drop vs. typical levels of additions which we see as more implausible than the increase generated by method 2.

Here are the results using method 1 which can be obtained by entering a 1 in the place of 2 in cell L337:

2011 Company Name	Year	Gross Additions
Entegrus Powerlines	1989	
Entegrus Powerlines	1990	4,419,426
Entegrus Powerlines	1991	1,355,991
Entegrus Powerlines	1992	2,248,347
Entegrus Powerlines	1993	1,830,851
Entegrus Powerlines	1994	2,570,184
Entegrus Powerlines	1995	3,894,256
Entegrus Powerlines	1996	4,518,578
Entegrus Powerlines	1997	4,212,150
Entegrus Powerlines	1998	405,455
Entegrus Powerlines	1999	405,455
Entegrus Powerlines	2000	405,455
Entegrus Powerlines	2001	405,455

Entegrus Powerlines	2002	405,455
Entegrus Powerlines	2003	4,505,186
Entegrus Powerlines	2004	4,974,430
Entegrus Powerlines	2005	2,904,629
Entegrus Powerlines	2006	6,622,494
Entegrus Powerlines	2007	7,124,078
Entegrus Powerlines	2008	6,959,661
Entegrus Powerlines	2009	6,275,512
Entegrus Powerlines	2010	7,374,591
Entegrus Powerlines	2011	5,240,097

Dave Hovde
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Suite 302
Madison, WI 53703
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From: David Ferguson [mailto:David.Ferguson@entegrus.com]
Sent: May-31-13 1:43 PM
To: BoardSec
Cc: Lisa Brickenden; Dan Charron; Chris Cowell; Ryan Diotte
Subject: May 27 & 28 Stakeholder Consultation EB-2010-0379: Letter of Comment

Good afternoon,

Please see the attached letter of comment from Entegrus Powerlines, as relating to the Stakeholder Consultation held at the Ontario Energy Board earlier this week.

Should you have any questions, please do not hesitate to contact us.

Best regards,
Dave

David Ferguson, CPA, CA, MBA
Director of Regulatory & Administration
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