

June 24, 2013

Ms. Kirsten Walli
Ontario Energy Board
PO Box 2319
27th Floor, 2300 Yonge Street
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]

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

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

Year	Scenario A: PEG Current		Scenario B: PEG Alternative		Scenario C: Averages		Scenario D: Actuals	
	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 (Average I) (1990-1997)	44,906,811	2,033,983
1993	46,513,128	1,606,317	46,513,128	1,606,317	46,513,128		46,513,128	1,606,317
1994	48,850,746	2,337,618	48,850,746	2,337,618	48,850,746		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	<i>Additions as currently estimated under PEG Methodology 2</i>	8,829,919	<i>Additions as estimated under PEG Methodology 1</i>	405,455	<i>Additions based on the average of 1990-1997 & 2002-2011 actuals</i>		4,204,479 (Average II) (1990-1997 & 2003-2011)	<i>Actual additions based on Entegrus internal records</i>
1999		8,829,919		405,455				4,249,786
2000		8,829,919		405,455				8,835,845
2001		8,829,919		405,455				3,212,753
2002		8,829,919		405,455				3,996,938
2003	66,602,176	4,193,141	66,602,176	4,193,141	66,602,176	5,364,939 (Average III) (2003-2011)	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		80,045,540	6,253,534
2007	86,769,390	6,723,850	86,769,390	6,723,850	86,769,390		86,769,390	6,723,850
2008	93,295,204	6,525,814	93,295,204	6,525,814	93,295,204		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

** **4,818,347**
(average actual)

** 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

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]

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

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	<i>Data incomplete for this period</i>					
1999						
2000						
2001						
2002						
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	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		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	

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
Vice President
Pacific Economics Group Research
22 E. Mifflin Street
Suite 302
Madison, WI 53703
hovde@earthlink.net

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
Entegrus
320 Queen Street, P.O. Box 70
Chatham, Ontario N7M 5K2
Phone: (519) 352 6300 x558

This electronic transmission, including any accompanying attachments, may contain information that is confidential, privileged and/or exempt from disclosure under applicable law, and is intended only for the recipient(s) named above. Any distribution, review, dissemination or copying of the contents of this communication by anyone other than the intended recipient(s) is strictly prohibited. If you have received this communication in error, please notify the sender immediately by return e-mail and permanently delete the copy you have received.

Ce message, transmis par courriel, y compris tout fichier joint, peut contenir des renseignements qui sont confidentiels, qui sont protégés par le secret professionnel ou qui ne peuvent être divulgués aux termes des lois applicables et s'adressent exclusivement au(x) destinataire(s) indiqué(s) ci-dessus. La distribution, la diffusion, l'examen ou la reproduction du contenu du courriel par une autre personne que le(s) destinataire(s) voulu(s) sont strictement interdits. Si vous recevez ce message par erreur, veuillez le supprimer définitivement et en aviser l'expéditeur immédiatement par retour du courriel.

This electronic transmission, including any accompanying attachments, may contain information that is confidential, privileged and/or exempt from disclosure under applicable law, and is intended only for the recipient(s) named above. Any distribution, review, dissemination or copying of the contents of this communication by anyone other than the intended recipient(s) is strictly prohibited. If you have received this communication in error, please notify the sender immediately by return e-mail and permanently delete the copy you have received.

Ce message, transmis par courriel, y compris tout fichier joint, peut contenir des renseignements qui sont confidentiels, qui sont protégés par le secret professionnel ou qui ne peuvent être divulgués aux termes des lois applicables et s'adressent exclusivement au(x) destinataire(s) indiqué(s) ci-dessus. La distribution, la diffusion, l'examen ou la reproduction du contenu du courriel par une autre personne que le(s) destinataire(s) voulu(s) sont strictement interdits. Si vous recevez ce message par erreur, veuillez le supprimer définitivement et en aviser l'expéditeur immédiatement par retour du courriel.