ERIE THAMES POWERLINES

Your Home Town Utility

January 17th, 2014

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: 2014 IRM Rate Application
EB-2013-0126

Please find enclosed Erie Thames Powerlines Reply Submission with respect to its 2014 IRM Application file EB-2013-0136 for a change to distribution rates based upon 4th Generation IRM framework.

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,

Original signed

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

Erie Thames Powerlines Corporation
2014 IRM Distribution Rate Application
EB-2013-0126

Introduction

Erie Thames Powerlines Corporation ("Erie Thames Powerlines") filed an application (the "Application") with the Ontario Energy Board (the "Board") on October 11, 2013, seeking approval for changes to the rates that Erie Thames Powerlines charges for electricity distribution, to be effective May 1, 2014. The Application is based on the 2014 Incentive Regulation Mechanism ("IRM") as set out by the Board.

The purpose of this document is to provide the Board with the submissions of Erie Thames Powerlines in reply to the submissions provided by Board Staff. The sole outstanding issue is the disposal of certain variance accounts. Erie Thames Powerlines has proposed that no disposition of any Group 1 Accounts be approved at this time, with full disposition of final balances ending December 2013 to be undertaken in its 2015 rate application.

The Application

Erie Thames Powerlines' total Group 1 Deferral and Variance Account ("Group 1 Account") balances amount to a credit of $3,396,113 as at December 31st, 2012, which is applicable to both RPP and Non-RPP customers. The balance of Account 1589 – Global Adjustment is a debit of $888,810, and is applicable only to the 4,100 Non-RPP customers. These balances also include interest calculated to April 30, 2013. Based on the threshold test calculation, the Group 1 Account balances equate to $0.0054 per kWh which exceeds the threshold of $0.001/kWh (debit or credit) established by the Board. As such, Erie Thames Powerlines is required to justify why disposition through a rate rider should not occur at this time.

It is well established that rate stability is to be encouraged to permit both the utility and the customer to be able to organize their affairs. Rate volatility is to be avoided where possible. Further, the Board has encouraged utilities to forecast and plan their affairs over the next few years for both capital and operating and maintenance. ErieThames Powerlines approach is consistent with the premise that distributors need to be aware of and plan for the future.

The balances, ($3,396,113) and $888,810, represent a significant rate reduction impact on a customer base of 18,512. However, as pointed out in the Application, Erie Thames Powerlines noted that upon reviewing the balances of its Group 1 Accounts, it projects that the disposition of this credit balance at this time would result in a significant rate increase in 2015. Therefore, Erie Thames Powerlines proposed that no disposition of any Group 1 Accounts be approved at this time, with full disposition of final balances ending December 2013 (regardless of the threshold test results) to be undertaken in its 2015 rate application.

As explained below, Erie Thames Powerlines is seeking to defer disposition to avoid having customers experience a “yo-yo” of rates over 2014 and 2015. In addition, Erie Thames Powerlines has concerns regarding the cash flow impacts of a short term repayment.

In its interrogatory response to Interrogatory #11 Erie Thames Powerlines provided the following table:

Account Number	**2013 YTD Variance**	**2014 IRM Continuity Schedule**	**Continuity as of August 31, 2013**
1550	$165,707.22	-$432,908.00	-$267,200.78
1580	-$263,432.29	-$1,148,761.00	-$1,412,193.20
1584	$41,511.33	-$2,437,123.00	-$2,395,611.67
1586	$330,563.20	-$72,391.00	$258,172.20
1588	$1,449,988.29	$324,981.00	$1,774,969.29
1589	$708,032.19	$888,810	$1,596,842.19
1590	$0	-$50,096.00	-$50,096.00
1595	$0	$420,185.00	$420,185.00
Total	**$2,432,369.94**	**-$2,507,303**	**-$74,933.06**

The first column represents the 2013 year to date variance which is the annual change from January to August 2013. The second column is the 2014 IRM continuity schedule from the Rate Generator Model, and the third column is the sum of the former two columns which displays what the continuity amounts are as at August 31, 2013.

Erie Thames Powerlines noted that this table details the calculation of the repayment of approximately $75,000 for the 8 month period ending August 2013 (i.e. December 2012 to August 2013). The table shows an approximate change of $2.5 million over the first 8 months resulting in a credit balance of $74,933.06 as of August 31, 2013. However, Erie Thames Powerlines noted that with one full quarter of operations remaining, the cumulative balance amounts to September 2013 could shift to the customer owing approximately $618,405.

It is Erie Thames Powerlines submissions that by deferring disposal, “the transactions effectively take place on the accounting side in a quicker fashion with less volatility in customer bills and less confusion.” Customer confusion and rate volatility should be avoided.

While Erie Thames Powerlines stated it is not proposing to defer this approval due to cash flow implications it is significant to note that if The Board approved the refund of $2,500,000 customers over two years Erie Thames Powerlines would pay back $1,250,000 to its customers in 2014, continue to carry approximately $2,500,000 (through September only) in unrecovered expenses, and pay back $365,000 to its customers in PILs from EB-2013-0225. The total of this impact for 2014 would be a negative cash flow of $4,115,000 or 10% of Erie Thames Powerlines' entire annual revenue (including commodity). Unless significant changes occur in the recovery of 2014 commodity expenses, it is anticipated that further cash flow impacts will be realized on top of this amount. Given that Erie Thames Powerlines' last COS service revenue requirement was $9,973,033 the known negative cash flow for 2014 noted above represents 41% of Erie Thames Powerlines' service revenue requirement. This significant impact is an unnecessary burden upon Erie Thames Powerlines.

Board staff submitted that Erie Thames Powerlines did not point to any unusual circumstances that could have lead to the large accumulation of deferral and variance account balances during the 2013 fiscal year. Erie Thames points out that the Global Adjustment rates have rapidly increased from $0.0493 per kWh to $0.0786 per kWh over a very short period of time. Given these extreme increases in Erie Thames Powerlines must manage the very significant under recovery of these costs. The TOU rates in place are insufficient to cover off these drastic price increases. As a result of this Erie Thames Powerlines' 1588 GA account alone has increased by over $1,000,000 since January of 2013 and this is expected to continue. Erie Thames Powerlines submits that this in not standard day to day transactions that an LDC should bear the burden of and also submits that this large increase will cause a yoyo effect of rates charged to consumers by crediting their accounts extraordinarily in 2014 and inversely increasing their expense in 2015.

Board staff submitted that since the 2013 balances are not audited that they should not be relied upon. Erie Thames Powerlines acknowledges that the Group 1 balances as of September 2013 are unaudited. However, given that these balances are commodity related variances the accounting entries required to track these changes are straightforward and not open to interpretation as with some other Regulatory accounts; it is simply commodity costs compared to commodity revenues gives you the variance. External auditors would not be reviewing these accounts for judgement issues and would look specifically to data errors in the calculations of these accounts. As such the risk associated with the account balances being unaudited is diminished dramatically.

In its interrogatory responses, Erie Thames Powerlines provided approximate bill impacts representing a one, two and three year disposition period if the Group 1 Accounts were to be disposed at the request of Board staff. Board staff were unable to verify the impacts provided by Erie Thames Powerlines.

Erie Thames Powerlines submits that the Board Staff IRM Rate model does not allow for the flexibility to apply some and not all rate riders as required by Erie Thames Powerlines current Tariff Sheet, which has rate riders applicable by region and are not applied in bulk to all customers. As such, Erie Thames Powerlines' approximate bill impacts filed in its interrogatories were based upon the former Erie Thames Powerlines rate customers alone and were calculated by ignoring all rate riders specifically for the customers of the former utilities of West Perth and Clinton. Erie Thames Powerlines submits that the bill impacts as provided in its interrogatory response for customers residing in Ingersoll and all territories belonging to the original entity most closely resemble the impacts of the vast majority of customers within its service territory and should be utilized in the determination of this application.

Deferral and Variance Account Refund

1 Year		Distribution		Total Bill	
Rate Class	kWh	$ Impact	% Impact	$ Impact	% Impact
Residential	800	$ 0.15	0.46%	-$ 9.85	-7.62%
Residential	1,000	$ 0.17	0.47%	-$ 12.32	-7.84%
GS<50 kW	2,000	$ 0.30	0.57%	-$ 25.23	-8.61%

2 Year		Distribution		Total Bill	
Rate Class	kWh	$ Impact	% Impact	$ Impact	% Impact
Residential	800	$ 0.15	0.48%	-$ 6.91	-5.38%
Residential	1,000	$ 0.17	0.48%	-$ 8.65	-5.54%
GS<50 kW	2,000	$ 0.30	0.57%	-$ 17.90	-6.11%

3 Year		Distribution		Total Bill	
Rate Class	kWh	$ Impact	% Impact	$ Impact	% Impact
Residential	800	$ 0.15	0.46%	-$ 5.86	-4.53%
Residential	1,000	$ 0.17	0.47%	-$ 7.33	-4.66%
GS<50 kW	2,000	$ 0.30	0.58%	-$ 15.27	-5.23%

In summation Board Staff submits that a 2 year disposition period would strike a reasonable balance for mitigating rate volatility and inter-generational inequity. As noted above Erie Thames Powerlines is of the view that the rate volatility which would occur in 2015 would be in excess the 10% Board threshold for mitigation for a 2 year disposition and as such a 1 year disposition period, must be avoided. However, a two year disposition period will likely result in the significant shift in rate riders next year and cause significant customer confusion. As such, Erie Thames Powerlines is of the view that its submission to defer disposition until 2015 is superior to either the 1 or 2 year disposition period as it avoids both rate volatility and customer confusion.

All of which is respectfully submitted