January 28, 2015

Kirsten Walli, Board Secretary
Ontario Energy Board
P.O. Box 2319, 27th Floor
2300 Yonge Street
Toronto, ON, M4P 1E4

Attention: Ms. Walli

Re: Espanola Regional Hydro Distribution Corporation ("ERHDC")
2015 IRM distribution Rate Application
Reply Board Staff Submission
Board File No. EB-2014-0071

In accordance with Procedural Order No. 1 dated November 25, 2014 please find attached ERHDC's reply submission in the above proceeding.

ERHDC has filed these responses pursuant to the Board's e-Filing Services and two hard copies of the responses will be delivered to the Ontario Energy Board.

In the event of any additional information, questions or concerns, please contact Andrew Belsito, Rates and Regulatory Affairs Officer, as per the contact below.

Sincerely,

Andrew Belsito

Andrew Belsito, CPA, CMA
on behalf of Espanola Regional Hydro Distribution Corporation
Rates and Regulatory Affairs Officer
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Sault Ste. Marie Ont.
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Reply Submission
Espanola Regional Hydro Distribution Corporation
2015 IRM Rate Application
EB-2014-0071

Introduction

Espanola Regional Hydro Distribution Corporation ("ERHDC") filed an application (the "Application") with the Ontario Energy Board (the "Board") on October 10, 2014, seeking approval for changes to the distribution rates that ERHDC charges for electricity distribution to be effective May 1, 2015. The Application is based on the 2015 Incentive Regulation Mechanism ("IRM"). ERHDC respectfully submits this document as a reply submission to the Board.

Retail Transmission Service Rates (RTSR)

Issue

ERHDC completed the RTSR portion of the Rate Generator Model and Board staff had no concerns with the data supporting the updated RTSR proposed by ERHDC.

Board staff indicated it will update ERHDC's RTSR applicable data at the time of the Decision in this proceeding.

ERHDC Comments

ERHDC has no further comments on this issue and is in agreement with the Board staff's submission.

Tax Savings

Issue

ERHDC has completed the Tax Savings portion of the Rate Generator Model. Although ERHDC had originally entered an incorrect rate base, ERHDC confirmed the error and the Board made the necessary correction. As revised with the corrected information, the Board has no concerns with the data supporting the Tax Savings model proposed by ERHDC.

ERHDC Comments

ERHDC has no further comments on this issue and is in agreement with the Board staff's submission.

Deferral and Variance Account Disposition

Issue

ERHDC's total Group 1 Deferral and Variance Account balances amount to a credit of $106,410. The balance of Account 1589 – Global Adjustment is a debit of $67,412, and is applicable only to Non-RPP customers. These balances also include interest calculated to April 30, 2015. Based on the threshold test calculation, the Group 1 Deferral and Variance Account balances equate to $0.0017 per kWh which exceeds the threshold, and as such, ERHDC requested disposition of these Accounts over a one year period. Board staff reviewed ERHDC's Group 1 Deferral and Variance Account balances and noted that the principal balances as of December 31, 2013 reconcile with the balances reported by ERHDC pursuant to the *Reporting and Record-Keeping Requirements*. Also, the pre-set disposition threshold has been exceeded. Accordingly, Board staff has no issue with ERHDC's request to dispose of its 2013 Deferral and Variance Account balances at this time over the requested one-year period.

ERHDC Comments

ERHDC has no further comments on this issue and is in agreement with the Board staff's submission.

Over-Earnings in 2013

Issue

It was noted by Board staff that ERHDC's 2013 RRR 2.1.5.6 return on equity ("ROE") filing shows an ROE of 29.92%, which is a difference of 20.8% in excess of the Board-approved 9.12% ROE. ERHDC was asked to explain the driver's for the over-earnings, whether it expects the over-earnings to be a one-time occurrence or if it will continue, and why ERHDC felt that it is reasonable to apply an increase to its base rates given the over-earning in 2013. ERHDC responded by providing a table listing revenue and cost drivers for the over-earning, while also stating that a normalized ROE for 2013 was 10.83%, differing from the Board approved ROE by 1.71%.

Board staff submitted that the level of earnings in 2013 and the expected level of over-earnings in 2014 by ERHDC warrant an evaluation on whether the Price Cap IR plan properly balances the interests of the customers in paying reasonable rates and the interests of the utility in earning a financial reward commensurate with its business risks. After further review, Board staff acknowledged that ERHDC was significantly under earning in 2011 and 2012 and over-earning was not occurring year after year allowing the Board staff to conclude that any need for action to be taken, such as an earlier than planned rebasing, was unnecessary because ERHDC's next rebasing is to be completed shortly for the 2016 rates.

Board staff mentions that given the level of overearning and expectation that it will continue, the Board has reasonable grounds to deny the Price Cap adjustment in this application. While Board staff is concerned with the current over-earnings position of ERHDC, it is noted that the average ROE over the 4 years, provided to the Board in the interrogatory response, is only 7.82%. On this basis, and because ERHDC is scheduled to file a cost of service application in 2015 for 2016 rates, Board staff does not oppose ERHDC's Price Cap adjustments in this application.

After review of ERHDC interrogatory replies and the Board staff submission, in ERHDC's opinion, VECC's submission closely resembles that of Board staff submission but has concluded that the Board should deny the Price Cap adjustment requested by ERHDC.

<u>ERHDC Comments</u>

ERHDC respects the opinions of Board staff and VECC, but would like to clarify the reasoning for the over-earnings in 2013 and forecasted over-earnings in 2014.

ERHDC has been experiencing large fluctuations in ROE between the years of 2011 and forecasted 2014 which show ERHDC with a negative ROE in 2011 and 2012 and a positive ROE in 2013 and forecasted 2014. These fluctuations are due in large part to timing variances based on revenue and cost drivers implemented during ERHDC's 2012 cost of service rate application.

VECC's submission states that ERHDC's ROE for 2013 and forecasted 2014 are materially above the level that underpins ERHDC's base rates and that the Board should deny the Price Cap adjustment requested.

ERHDC would like to reiterate the key points that reinforce ERHDC's opinion that the Price Cap adjustment requested is reasonable and should be approved;

- As noted in the Board staff submission, ERHDC's four year average ROE is 7.82%.
- Factors, inherent to this four year rate cycle, have caused ERHDC to experience over-earning and under-earning years as a result of:
    - o the Board approved rate mitigation plan which pushed revenue into the latter years of the four year period, and;
    - o Costs incurred in first year while the revenue recoveries are spread over the four years

ERHDC is fully aware of the over-earnings in years 2013 and forecasted 2014, however, emphasizes the earnings over the four year period of the 2012 COS Rate Application will be within the dead band of the Board approved ROE of 9.12%.

\- All of which is respectfully submitted -