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July 2, 2008

Delivered by Courier and E-mail

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

Dear Ms. Walli:

**Re: Peterborough Distribution Inc. - Request for amendment to electricity
distribution rates – OEB File No. EB-2007-0886**

We are counsel to Peterborough Distribution Inc (“PDI”) in the above-captioned matter. Please find accompanying this letter two copies of PDI’s Reply Submission in respect of this matter, together with an electronic version of same.

Should you have any questions or require further information in this matter, please do not hesitate to contact me.

Yours very truly,

BORDEN LADNER GERVAIS LLP

Original Signed by James C. Sidlofsky

James C. Sidlofsky
JCS/dp

Copies to: Larry Doran, President & Chief Executive Officer, PDI
Rob Kent, Acting CFO, PDI

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IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, (Schedule B);

AND IN THE MATTER OF an application by Peterborough Distribution Inc., pursuant to section 78 of the Ontario Energy Board Act seeking approval to amend electricity rates.

**REPLY SUBMISSION OF PETERBOROUGH DISTRIBUTION INC.
DELIVERED JULY 2, 2008**

Introduction:

1. On March 7, 2008, Peterborough Distribution Inc. ("PDI") filed a letter (the "March 7th Letter") with the Ontario Energy Board (the "OEB") requesting an Order:
 - (a) that the OEB adjust PDI's current (2007) distribution rates to reflect the updated customer/connection numbers as outlined in Appendix A to the letter, effective January 1, 2008; and
 - (b) That the OEB accept the revised 2008 IRM model and electricity distribution rates accompanying the letter as Appendix B in substitution for PDI's 2008 IRM model and proposed electricity distribution rates filed on October 28, 2007.
2. As discussed in the March 7th Letter, the reason for the request was that during the process of preparing its 3rd quarter 2007 financial statements, PDI management became aware that its distribution revenues would fall short of the forecast. The analysis conducted on the September 30, 2007 results revealed that 2007 revenue was below budget by approximately 4%, which represented approximately \$400,000 in distribution revenue for PDI. A detailed investigation into this issue determined that the customer numbers used in PDI's 2006 EDR model were incorrect. Specifically, the number of unmetered sentinel lights was double-counted in numerous instances. The correct number of sentinel light connections (626) was included in the Sentinel Light class, but because customers with unmetered sentinel lights are in PDI's Residential, GS < 50 kW and GS > 50 kW rate classes, 156 sentinel light connections were included in those classes as well. The impact was the greatest in the GS > 50 kW rate class since the ratio of double-counted unmetered sentinel lights compared to the total number of customers

in this class was the highest. With an actual customer count of 363 in the GS > 50 kW customer class, the inadvertent addition of 77 unmetered sentinel light connections inflated the size of that customer class by approximately 21%. The effect of this double-counting, as discussed in the letter of March 7, 2008, is that PDI cannot meet its revenue requirement.

3. PDI determined that the double-counting dated back to the preparation of its 2006 Electricity Distribution Rate Application. At page 2 of the March 7th Letter, PDI notes that “A detailed analysis of the process used to determine customers/connections used in the 2006 EDR model revealed that the result was overstated because of an error in the logic of that process. The process counted each customer with an unmetered sentinel light as two customers instead of one.”
4. PDI’s revenue requirement has been adversely affected since prior to May 2006, when its 2006 electricity distribution rate order came into force. Notwithstanding that, PDI’s adjustment request relates only to the period commencing January 1, 2008, which coincides with the beginning of PDI’s 2008 fiscal year. As PDI noted at pages 6-7 of the March 7th Letter:

“PDI notes that the under-recovery resulting from the double-counting of customers in the Residential, GS<50 and GS>50 classes has occurred since prior to May 2006. However, PDI is not requesting that the OEB approve the recovery of any revenue forgone prior to January 1, 2008. PDI simply wishes to correct this situation and ensure that it is able to recover its Board Approved revenue requirement from January 1, 2008 forward.”
5. Notice of this application was published on April 9, 2008, pursuant to the OEB’s Letter of Direction in that regard. On April 24, 2008, PDI requested that the OEB issue an order granting the requested relief at its earliest convenience, noting that there were no intervenors in the proceeding.
6. OEB staff, in their submission dated June 20, 2008, do not appear to have any objection to the adjustment of PDI’s 2008 distribution rates in the manner proposed in the March 7th Letter and based on the revised 2008 IRM model filed with the March 7th Letter. The staff submission appears to pertain only to the questions of whether a retroactive

adjustment should be permitted in respect of the 2007 rates and, if so, what should be the effective date. Staff have put the following questions to the OEB and PDI:

- Should there be a retroactive adjustment to rates caused by an error of the applicant?
- If so, what should be the date of the retroactive adjustment? In addition to the applicant's requested date, the adjustment could be timed to the filing date or notification date of the original application, or the filing date or notification date of the amended application.

7. PDI will address these questions below.

A retroactive adjustment should be made notwithstanding PDI's error.

8. PDI submits that a retroactive adjustment to its 2007 rates would be appropriate in this case, for the brief period requested in the March 7th Letter. PDI acknowledges that it erred in counting its sentinel light connections. PDI's shareholder will have borne the bulk of the risk and financial consequences of this error, which dates back to May 2006, if not earlier.
9. PDI submits that the situation before the OEB is analogous to a billing error. Customers in the affected classes have effectively been under-billed by PDI for at least two years. In the case of billing errors, section 7.7 of the OEB's Retail Settlement Code provides, in part:
- “Where a billing error, from any cause, has resulted in a consumer or retailer being under billed, and where Measurement Canada has not become involved in the dispute, the distributor shall charge the consumer or retailer with the amount that was not previously billed. In the case of an individual residential consumer who is not responsible for the error, the allowable period of time for which the consumer may be charged is two years. For non-residential consumers or for instances of wilful damage, the relevant time period is the duration of the defect.”
10. Notwithstanding the time periods set out in the Retail Settlement Code, PDI had only requested an adjustment for the period commencing January 1st of this year.
11. PDI submits that it would not be appropriate for the OEB to only provide for adjustments in the case of errors that favour the customer. PDI submits that the OEB's approach in

the context of the Retail Settlement Code represents a balanced and more appropriate approach. PDI notes, though, that it is withdrawing its request for recovery of incremental revenue for the period of January 1, 2008 through April 30, 2008. This is discussed further below in the context of the effective date of the adjustment. Accordingly, this first issue may be rendered moot. The proposed adjustment to PDI's 2008 rates, based on an effective date of May 1, 2008, will result in reduced bills to PDI's customers.

What should be the effective date of the adjustment?

12. PDI has considered the comments of OEB staff with respect to possible effective dates for the adjustment. As can be seen from the second staff question, shown in paragraph 6 above, the staff comments contemplate five possible dates:
 - PDI's requested date;
 - the filing date of the original application;
 - the notification date of the original application;
 - the filing date of the amended application; or
 - the notification date of the amended application.
13. Assuming that the staff concerns pertained to the adjustment of 2007 rates and not the May 1, 2008 IRM rate adjustment, PDI would not have proposed the filing or notification dates of the original application – those dates (October 30, 2007 and November 16, 2007 respectively) relate to the application for the adjustment of 2008 rates, and that application did not address 2007 rates. Moreover, those dates precede the January 1, 2008 date requested in the March 7th letter, and PDI would not have considered it appropriate to increase the retroactivity of its requested relief at this time.
14. However, PDI has given further consideration to its January 1, 2008 proposed effective date for the adjusted 2007 rates in light of the staff submissions. Given the short period between April 9, 2008 – the notification date for the amended application – and May 1, 2008, the requested effective date for PDI's 2008 rates, PDI is prepared to withdraw its request for the recovery of forgone revenues for the period prior to May 1, 2008. PDI suggests that there is therefore no longer an issue with respect to retroactivity.

15. This leaves the matter of PDI's 2008 rates. In order to arrive at the proposed 2008 rates, the methodology set out in the March 7th Letter must be followed even if PDI is no longer requesting the recovery of forgone revenue from the 2007 rate year.
16. While not addressed in the staff submission, PDI requests that its proposed adjusted 2008 distribution rates be made effective May 1, 2008. The 2008 IRM Model that accompanied PDI's May 15, 2008 interrogatory responses in this proceeding sets out PDI's proposed 2008 distribution rates, including updates to transmission rates, with the exception that that version of the model has not been adjusted for the recent reduction in GST. PDI confirms, however, that that adjustment will also be required in determining PDI's final 2008 schedule of rates and charges.
17. On April 15, 2008, the OEB issued a rate order in respect of PDI's Asphodel-Norwood Service Area (EB-2007-0911) and its Lakefield Service Area (EB-2007-0910). The Order recognized that no decision had been issued in respect of PDI's Peterborough service area, but maintained the current rates for the Peterborough Service Area, except for the deletion of the Regulatory Asset Recovery charges that ceased on May 1, 2008.
18. The second table on page 6 of the March 7th Letter illustrates the bill impacts resulting from the move from PDI's current Board Approved 2007 rates to its proposed 2008 rates. PDI has updated that calculation by considering the bill impacts resulting from the move from PDI's current Board Approved 2008 rates as included in the Asphodel-Norwood/Lakefield rate order, to the amended 2008 rates proposed in the March 7th Letter with additional adjustments to transmission rates and GST. The result of that move is bill reductions for all customer classes. PDI has provided the following table of bill impacts resulting from the adjustment:

		Current 2008	Amended 2008	\$ Impact	% Impact
		Bill	Bill		
Residential	1,000 kWh	\$111.75	\$111.35	-\$0.40	-0.4%
	2,000 kWh	\$216.13	\$214.95	-\$1.18	-0.5%
GS < 50 KW	1,000 kWh	\$120.09	\$120.01	-\$0.08	-0.1%
	2,000 kWh	\$219.50	\$218.56	-\$0.94	-0.4%
	5,000 kWh	\$517.75	\$514.17	-\$3.58	-0.7%

GS < 50 KW	60kW, 15,000 kWh	\$1,816.56	\$1,802.68	-\$13.88	-0.8%
	100kW, 40,000 kWh	\$4,092.02	\$4,064.44	-\$27.58	-0.7%
	500kW, 100,000 kWh	\$11,427.92	\$11,263.35	-\$164.57	-1.4%

19. PDI believes that its customers should receive the benefit of bill reductions, but that those bills must reflect the accurate sentinel light counts reflected in the revised 2008 IRM model provided in Appendix B to the March 7th Letter (as noted above, that model was updated as part of PDI's responses to Staff interrogatories in May of this year, but the sentinel light counts did not change from those shown Appendix B).
20. As noted previously, there is no apparent concern on the part of staff to the adjustment of the 2008 rates. PDI's customers have received two notices of pending changes to the 2008 rates (in respect of both the original IRM application and the adjustment requested in the March 7th Letter), and there are no intervenors. Accordingly, PDI requests that the OEB adjust PDI's 2008 rates for its Peterborough Service Area, effective May 1, 2008, and that the adjustment be annualized over the remaining portion of the 2008 rate year.

ALL OF WHICH IS RESPECTFULLY SUBMITTED THIS 2ND DAY OF JULY, 2008

Original signed by James C. Sidlofsky
James C. Sidlofsky
Counsel to Peterborough Distribution Inc.