

November 6, 2008

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
P.O. Box 2319, 27<sup>th</sup> Floor  
2300 Yonge Street  
Toronto, Ontario  
M4P 1E4

Dear Ms. Walli:

**Re: Orillia Power Distribution Corporation  
Licence Number ED-2002-0530  
2009 Electricity Distribution Rates Application EB-2008-0239**

Orillia Power Distribution Corporation ("Orillia") is pleased to submit to the Ontario Energy Board (the "Board") its 2009 electricity distribution rate application, in compliance with the Board letter dated October 23, 2008 that directs the company to file its electricity distribution rate application by November 7, 2008. The October 23<sup>rd</sup> letter was accompanied by the Board's filing requirements for 2009 incentive regulation mechanism ("IRM") rate adjustments and the 2009 IRM model.

The filing requirements indicate that each application should include a completed incentive regulation mechanism model ("IRM Model") and a brief Manager's Summary explaining all rate adjustments applied for. The completed 2009 IRM Model is attached and this letter will constitute the Manager's Summary for Orillia's 2009 rate application. Information that is provided in the IRM Model will not be repeated in this letter.

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Orillia's 2009 electricity distribution rate application will be sent to you in the following form:

- (a) Electronic filing through the Board's web portal at [www.errr.oeb.gov.on.ca](http://www.errr.oeb.gov.on.ca), consisting of one (1) electronic copy of the application in searchable /unrestricted PDF format and one (1) electronic copy in Microsoft Excel format of the completed 2nd Generation IRM model and one (1) electronic copy of the Manager's summary;
- (b) Two (2) paper copies of the application, the Manager's Summary and the IRM Model, along with a CD of the above (item (a)).

### **Price Cap Adjustment**

Under the 2nd Generation IRM plan, Orillia's electricity distribution rates for 2009 have been adjusted for four factors: a price escalator, an X-factor, a K-factor and a federal tax adjustment. The Board has determined that GDP-IPI – for final domestic demand is to be used as the price escalator for the 2nd Generation IRM. For 2009, the Board expects Orillia to use, as a proxy, the current value of 2.1% in its application. The IRM Model includes this proxy as a reasonable estimate of the index result. Orillia understands that when the final 2008 data are published by Statistics Canada in late February 2009, the Board will adjust the inflation index in Orillia's rate application model to ensure this final published number is used to adjust rates.

The Board approved X-Factor of 1.0% is applied to reduce the upward adjustment resulting from the price escalator value. The X-Factor represents the annual average expected productivity gain to be achieved by a distributor.

In the Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors, the Board determined that a common deemed capital structure of 40% equity and 60% debt would be used for rate-setting purpose. In 2009, year 2 of the transition, it is assumed Orillia's deemed capital structure will move from 46.7% equity and 53.3% debt to 43.3% equity and 56.7% debt. An adjustment factor of -0.3% is applied to the 2008 rates to address the change in deemed capital structure. This adjustment factor has been termed the K-factor.

As the result of the federal government announced in an Economic Statement on October 30, 2007 that the federal income tax rates for corporations would be reduced effective January 1, 2008, the Board made changes to the IRM application process. The 2009 price cap will be adjusted to reflect the new income tax rates by the method described in Appendix A of the Board's letter dated November 21, 2007. A federal tax rate adjustment of -0.2% is applied to the 2008 rates to address the change in federal income tax rates.

The IRM Model applied the price cap adjustment of 1.1% (i.e. 2.1% price escalator less -1.0% X-factor) to the 2008 fixed and variable distribution rates before the smart meter funding adder, and after the application of the K-factor and the federal tax adjustment. The combined impact of the price cap adjustment, the K-factor and the federal tax adjustment on distribution rates is approximately 0.6%. Orillia understands the price cap will not apply to Specific Service Charges.

### **The Smart Meter Adder**

Smart Meter Funding is currently included in the Monthly Service Charge in accordance with the Board's Decision RP-2005-0020/EB-2005-0529 and as approved in the Board's Decision and Rate Order that supports Orillia's current rates. The current rate adder of \$0.27 has been removed and a new rate adder of \$1.00 has been incorporated into 2009 rates.

Orillia is participating in the Cornerstone Hydro Electric Concepts ("CHEC") and Ontario Utility Smart Meter ("OUSM") groups. Orillia intends to achieve full deployment of smart meters to all its residential and general service <50 kW customers by the end of 2009. Orillia has initiated procurement of smart meters pursuant to and in compliance with the August 14, 2007 Request for Proposal issued by London Hydro Inc. and has been extended authorization pursuant to Ontario Regulation 427/06 as amended on June 25, 2008 to install smart meters within its service territory.

Orillia has entered into negotiations with Sensus, its vendor selected through the London Hydro RFP and expects to have a signed contract by December 2008. Orillia plans to install 11,981 meters in the 2009 rate year at an estimated capital cost of \$184 per meter and \$2.2 Million in total.

Orillia has not purchased, and does not expect to purchase, smart meters or advanced metering infrastructure ("AMI") whose functionality exceeds the minimum functionality adopted in O. Reg. 425/06. Orillia has not incurred, and does not expect to incur, costs associated with functions for which the SME has the exclusive authority to carry out pursuant to O. Reg. 393/07.

### **Retail Transmission Rates**

The Board "Guidelines for Electricity Distribution Retail Transmission Rates ("RTSR's) were issued October 22, 2008. Based on the Decision and Rate Order of the Board (EB-2008-0113), new Uniform Transmission Rates (UTR's) are effective January 1, 2009. The Guideline instructs distributors to adjust RTSR's in the same manner as the UTR's have been changed. An increase of

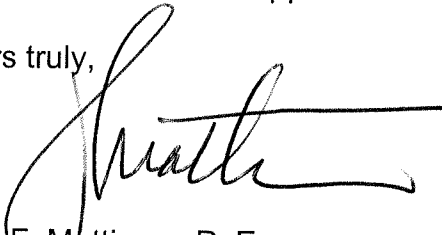
11% has been applied to the 2008 Network Service Rate and an increase of 5% has been applied to the 2008 Line Transformation Connection Service Rate.

### Conclusion

The proposed 2009 distribution rates for Orillia are calculated in Sheet N1.1 and N2.1, the 2009 Proposed Tariff Sheet and the resulting bill impacts are shown in excel sheets generated by the model. The bill impact for a residential customer in Orillia, with a monthly electricity consumption of 600 kWh, will increase by 1.8% or \$1.30 per month after GST. The same customer using 1,000 kWh per month will see an increase of 1.4% or \$1.60 per month after GST. This increase is the result of three factors: a net increase in distribution rates, an increase in smart meter funding adder from \$0.27 to \$1.00 and an increase in RTSR rates.

We would be pleased to provide any further information or details that you may require relative to this application.

Yours truly,

A handwritten signature in black ink, appearing to read "J. Mattinson", with a long horizontal stroke extending to the right.

John F. Mattinson P. Eng.  
President & Secretary  
Orillia Power Distribution Corporation