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September 17, 2010

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

Dear Kirsten:

Re: Atikokan Hydro Inc. - Application for 2011 Electricity Distribution Rates EB-2010-0064

Atikokan Hydro Inc. ("Atikokan") is pleased to submit to the Ontario Energy Board (the "Board") its 2011 electricity distribution rate application, in compliance with the Board letter dated August 20, 2010 that directs the company to file its electricity distribution rate application by September 17, 2010. In the August 20th letter distributors were assigned to one of six groups based on the type of application the distributor was submitting. In the case of Atikokan, this application is a 3rd Generation Incentive Rate ("IRM3") rate application.

The filing requirements indicate that each application should include:

- A Manager's Summary documenting explaining all rate adjustments applied for.
- A completed Rate Generator model with supplemental filing modules or work forms, provided by the Board, both in electronic (i.e. Excel) and PDF form.
- A PDF copy of the current Tariff Sheet.
- A PDF copy of the facsimile tariff sheet generated by the Rate Generator.
- A PDF copy of the bill impacts generated by the Rate Generator.

The completed 2011 IRM3 models are attached along with the requested tariff sheet and bill impact information. The Manager's Summary for Atikokan's 2011

rate application is attached to this letter. The information that is provided in the IRM3 models will not be repeated in the Manager's Summary in order to focus the Manager's Summary on the relevant items.

Atikokan's 2011 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, 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 IRM3 models 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)).

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 "Wilf Thorburn". The signature is written in a cursive, flowing style.

Wilf Thorburn
CEO/Secretary/Treasurer
Atikokan Hydro Inc.

Atikokan Hydro Inc.

EB-2010-0064

MANAGER'S SUMMARY

September 17, 2010

Atikokan Hydro Inc ("Atikokan") is a licensed electricity distributor (ED-2003-0001) that owns and operates electricity distribution systems that provide service to the Town of Atikokan. Atikokan charges its customers distribution rates and other charges as authorized by the Ontario Energy Board ("Board"). In this application Atikokan is applying for rates and other charges effective May 1, 2011.

Atikokan has adhered to the Board's directions in completing the Board approved IRM3 rate models and incorporated the necessary adjustment. This Manager's Summary will address the following items:

- Revenue to Cost Ratio Adjustment
- Shared Tax Savings
- Smart Meter Funding Adder
- Price Cap Adjustment
- Deferral and Variance Account Riders
- Retail Transmission Service Rates
- Rate Rider Or Z-Factor Treatment
For Recovery Of Late Payment Penalty Litigation Costs
- Current and Proposed Rates – Appendix A
- Customer Impacts – Appendix B

Revenue to Cost Ratio

With the approval of Atikokan's 2010 rates the directive from the Board's Decision on Atikokan's 2008 cost of service application in regards to revenue to cost ratios was fully implemented. As a result, no further adjustments to the Revenue to Cost ratios have been made in this application.

Shared Tax Savings

The completion of the 2011 IRM3 Shared Tax Savings Workform for Atikokan indicates that 2011 tax sharing amount is a refund of \$750. This amount when unitized using Atikokan volumetric billing determinants results in \$(0.0000) energy-based kWh rate riders when rounded to four decimal places for the Residential and General Service Less Than 50 kW rate classes. For the General Service 50 to 4,999 kW class the result is a \$(0.00) demand-based kW rate rider when rounded to two decimal places. Atikokan currently does not have any customers in the Unmetered Scattered Load and Sentinel Lighting rate classes. Consistent with the Board's approach to this issue in Atikokan's 2010 application, Atikokan proposes the amount of \$750 be recorded in variance account 1595 for disposition in a future rate setting process.

Smart Meter Funding Adder

In its Decision and Rate Order (EB-2010-0185) dated July 13, 2010, the Board approved a smart meter funding adder for Atikokan of \$3.50 per month per metered customer plus a rate rider for recovery of foregone smart meter funding adder revenue of \$0.28 until April 30, 2011. In the 2011 IRM3 Rate Generator model, Atikokan has entered \$3.78 as the current smart meter funding adder in the C1.1 Smart Meter Funding Adder worksheet. Atikokan proposes to continue the \$3.50 smart meter funding adder for the 2011 rate year and expects to bring

forward a smart meter cost recovery application as part of its 2012 cost of service application.

Price Cap Adjustment

Under the 3rd Generation IRM plan, Atikokan's electricity distribution rates for 2011 have been adjusted for three factors: a price escalator, a productivity factor and a stretch factor. For the purposes of preparing the 2011 application, the Board expects Atikokan to use a proxy for the price cap adjustment. The proxy is 0.18%. Atikokan understands that when the final price adjustment factor is determined the Board will adjust the price cap adjustment assumed in the 2011 final rates.

Deferral and Variance Account Riders

The Report of the Board on Electricity Distributors' Deferral and Variance Account Review Report (the "EDDVAR Report") provides that during the IRM plan term, the distributor's Group 1 audited account balances will be reviewed and disposed if the preset disposition threshold of \$0.001 per kWh (debit or credit) is exceeded. Atikokan has completed the 2011 IRM Deferral and Variance Account Workform and has determined that threshold has been exceeded. The 2009 actual year end amount for Group 1 accounts with interest projected to April 30, 2011 is a debit of \$186,637. As a result, Atikokan will be seeking disposition of this amount in the proposed 2011 rates over a one year period.

Subsequent to the release of the EDDVAR Report, exogenous events resulted in significant increased balances in the USoA Account 1588 global adjustment sub-account for most electricity distributors. The global adjustment sub-account captures the difference between the IESO's estimated value billed to non-RPP customers by the distributor and the actual amount paid by the distributor to the IESO. During the 2010 EDR process, the Board determined for Atikokan that a

separate rate rider that would apply prospectively to non-RPP customers should be established to dispose of the global adjustment sub-account. For this application Atikokan has reviewed USoA Account 1588 global adjustment subaccount and has determined a credit balance of \$13,189. This represents the 2009 balance in this subaccount with interest to April 30, 2011. Atikokan proposes to dispose of this balance over a one year period with a separate rate rider applied to Non-RPP customers.

Retail Transmission Rates

On July 8, 2010, the Ontario Energy Board (the "Board") issued revision 2.0 of the Guideline G-2008-0001 Electricity Distribution Retail Transmission Service Rates (the "Guideline"). This Guideline outlines the information that the Board requires electricity distributors to file when proposing adjustments to their retail transmission service rates ("RTSRs") for 2011. The Board also indicated in the covering letter that in order to assist electricity distributors in the calculation of the distributor's specific RTSRs, Board staff would provide a filing module. Atikokan has completed this module and the proposed 2011 RTSRs reflect the outcome of this module.

Conclusion

A copy of the current tariff sheet, the proposed tariff sheet and the customer impacts are provided in Appendix A. In summary, the bill impact for a Residential customer in Atikokan, with a monthly electricity consumption of 800 kWh, will be 5.8% or \$7.87 per month after HST. The bill impact for a General Service Less Than 50 kW customer with a monthly electricity consumption of 2,000 kWh will be 6.2% or \$19.91 per month after HST.

**RATE RIDER OR Z-FACTOR TREATMENT FOR RECOVERY OF LATE
PAYMENT PENALTY LITIGATION COSTS**

1. As part of this application, Atikokan Hydro Inc. will be seeking recovery of a one-time expense in the amount of \$7,605.80 which is expected to be paid on June 30, 2011. If this payment is made, it will serve to resolve long-standing litigation against all former municipal electric utilities (“MEUs”) in the Province in relation to late payment penalty (“LPP”) charges collected pursuant to, first, Ontario Hydro rate schedules and, after industry restructuring, Ontario Energy Board rate orders (the “LPP Class Action”).
2. On July 22, 2010, The Honourable Mr. Justice Cumming of the Ontario Superior Court of Justice approved a settlement of the LPP Class Action, the principal terms of which are the following:
 - (a) Former MEUs collectively pay \$17 million in damages;
 - (b) Payment is not due until June 30, 2011; and
 - (c) Amounts paid, after deduction for class counsel fee, will be paid to the Winter Warmth Fund or similar charities.
3. Subject to the right of the MEUs to terminate the settlement if more than 10,000 plaintiff class members opt out of the settlement by September 23, 2010, Atikokan Hydro Inc. will make a payment of \$7,605.80 by June 30, 2011. This amount represents Atikokan Hydro Inc.’s share of the settlement, applicable taxes and legal fees. Atikokan Hydro Inc. believes that the settlement is in its best interest and the best interest of its customers and that the payment in connection with the settlement will be a prudent one.
4. Atikokan Hydro Inc., along with all other electricity distributors filing for cost of service and IRM applications for 2011 electricity distribution rates (the “LDCs”), proposes that, following September 23, 2010, the Board hold a generic hearing to determine if all costs and damages incurred in this litigation and settlement are recoverable from customers and, if so, the form and timing of recovery from customers. If the Board agrees to hold this generic hearing, the LDCs will collectively file written evidence to address the prudence of the settlement, the costs incurred, the methodology of allocating total settlement costs amongst the LDCs, the proposed method of recovery, and any other matters the Board determines appropriate.
5. If the Board determines that it will not hold a generic proceeding, Atikokan Hydro Inc. asks to be advised of this fact as soon as possible so that it can file, to permit adjudication as part of this proceeding, written evidence to address the prudence of the settlement, the costs incurred, the methodology of allocating total settlement costs amongst the LDCs, the proposed method of recovery, and any other matters the Board determines appropriate.