

April 26, 2011

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

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**RE: Fort Frances Power Corporation
2012 Rate Rebasing Proposal – Request to Defer Scheduled Rebasing**

This letter is in response to the March 1, 2011 Board Letter to all Licensed Distributors and Interested Parties regarding Electricity Distributors Scheduled to Apply for Rebasing for 2012 Rates. The letter states that any distributor included in Appendix A that believes that its next cost of service application should be deferred beyond the 2012 rate year must notify the Board in writing no later than April 29, 2011.

Fort Frances Power Corporation (FFPC) is hereby respectfully requesting Board permission to defer its scheduled rebasing from 2012 beyond 2012. On May 31, 2010 FFPC submitted a similar request with supporting reasons to defer FFPC's scheduled 2011 rebasing indefinitely. The Board granted FFPC a one year deferral and stated that in the event that FFPC wishes to seek a further deferral of its next cost of service rate review, the Board expects FFPC to update the Board by correspondence similar to its May 31, 2010 letter. Since the issuance of the May 31, 2010 letter FFPC's business environment has not changed considerably and FFPC is therefore basing this request on a very similar rationale as per the below.

FFPC's proposed 2012 rate rebasing revenue requirement increase is again well below the anticipated costs that are expected to be incurred in completing the Cost of Service Application, and the review process of the Board, Board staff and Intervenors. The Board's April 20, 2010 *Early Rebasing Application* letter addresses the expectation by the Board for distributors to manage their resources and financial needs. We again believe that FFPC has exercised diligence in financial planning and resource management and that our current circumstances do not warrant rate rebasing through a Cost of Service Application. We also believe that this proposal is in the best interests of FFPC, our customers, the Town of Fort Frances and the Board.

FFPC is proposing to complete a 2012 Incentive Rate Mechanism (IRM) Filing to replace the 2012 Cost of Service Application. Within the 2012 IRM Filing, FFPC will address all relevant

outstanding issues including the disposition of Regulatory Assets and Liabilities as well as Smart Meter cost recovery.

FFPC's Operating Strategy

Fort Frances Power Corporation is a small not-for-profit local distribution company whose major shareholder is the Town of Fort Frances. FFPC operates under a rate minimization philosophy that balances necessary distribution system maintenance and re-investment to provide our customers with safe and reliable service at the lowest possible rates. FFPC currently has no debt and operates at zero percent rate-of-return. FFPC's current rates under the Second Generation Incentive Rate Mechanism continue to adequately meet our financial requirements as our customer base has not changed over the last ten years. Under our current rate mechanism we are able to offer our customers some of the lowest rates in Ontario.

Corporate Stability

The Town of Fort Frances' major employer is the AbiBow Canada Inc., who own and operate one of the last paper mills in Northwestern Ontario. FFPC services the compact municipal boundaries of the Town of Fort Frances but does not supply any industrial load to AbitibiBowater Inc. FFPC's wholesale consumption has remained within a $\pm 2\%$ range over the last seven years and the average peak load is within a $\pm 4\%$ range during the same period. FFPC experienced slight decreases in overall consumption and peak demand in 2010 due to conservation programs and customer efficiencies but FFPC still managed to end the year with slight retained earnings. There is low to no customer growth with an average of less than five new connections per year.

FFPC has a well-built, efficient distribution system that is fed by a 115 kV to 7.2 kV step down distribution station. FFPC solicited a system optimization study by the EnerSpectrum Group that reported the following conclusions:

"The results from this analysis indicate marginal if not negative implications of any attempts to rebalance the system by changing individual load phase connections. This is a reflection of the quality of the work undertaken by operations staff over several years to sustain a well balanced distribution network."

"Although additional options for loss reduction were considered briefly (eg. Increasing conductor size), the costs would greatly outweigh any benefits that would accrue, again representation of a well designed, constructed and maintained system."

*Fort Frances, System Loss Optimization,
EnerSpectrum Group, August 2008*

Given the current state of our distribution system FFPC does not foresee any material short term changes to Operating, Maintenance and Capital spending requirements in relation to the upkeep of our distribution infrastructure.

FFPC is positioned well to continue to offer excellent service quality to our customers. The corporation has focused on human resource planning to ensure our staff are engaged, well trained and equipped to complete job tasks. FFPC uses a blend of full-time and contract employees to satisfy shifting work requirements.

FFPC has successfully deployed its Advanced Metering Infrastructure (Smart Metering System) and is expecting to transition to Time-of-Use rates on time in accordance to the OEB's prescribed determination date of June 2011. FFPC was able to fund this initiative without incurring debt. As a member of the Northwest Smart Meter Working Group, lead by Thunder Bay Hydro and Util-Assist, Inc., FFPC has benefited from both the sharing of resources and expertise.

Resource Management

FFPC staff are currently taxed with the implementation of Time-of-Use Rates, preparations for the transition to IFRS, development of Green Energy Act Plan, rollout of 2011 - 2014 Conservation and Demand Management Programs as well as the development of an Asset Management Plan. FFPC would like to continue to focus its resources on these key initiatives prior to filing a cost of service application as these initiatives could have a significant impact on FFPC's business model and as they represent key aspects of the application.

Revenue Requirement

FFPC has estimated the preliminary revenue deficiency sought by the 2012 Cost of Service application to be less than \$50,000 per annum. In our rate consultant's professional opinion FFPC would likely incur upwards of \$160,000 in direct expenses in relation to the completion of the 2012 Cost of Service Application. FFPC supports the Board's multi-year rate setting plan and is requesting that FFPC's term under the Second Generation Incentive Regulation Mechanism be extended considering the benefit-cost ratio for rebasing is less than 35% and due to the significant demands imposed on all parties involved.

The *Early Rebasing Applications April 20, 2010* letter instructed distributors to justify a reason to "off ramp" from the plan schedule for rebasing early. FFPC's situation is of the opposite perspective in that we believe the 2012 rate rebasing does not benefit our corporation, customers, shareholder or the OEB.

FFPC appreciates the Board position and its need for uniformity and consistency in rate setting. In most cases, the multi-year rate setting plan is justified to 'realign' the LDC to market conditions. FFPC operating circumstances are basically unchanged since the 2006 EDR and all predictions indicate that a rebasing would be a more suitable exercise once several major Board initiatives that could have a significant impact on our cost structure are better understood. As previously mentioned these initiatives include the transition to IFRS, the transition to Time-of-Use Rates, the possibility of Revenue Decoupled Rate Mechanisms and necessary business changes to accommodate the requirements under the Green Energy and Green Economy Act including implementation of the new 2011 to 2014 Conservation and Demand Management Programs.

FFPC is willing to provide any further information required to assist the Board in making a decision regarding this matter. We have enclosed a copy of our 2010 audited financial statements that include an unbiased, complete review of our current corporate status. We appreciate your consideration in this matter.

Sincerely,

Original Signed By

Joerg Ruppenstein
President and CEO

Att. FFPC 2010 Audited Financial Statements