



117 Gorrie Street, Box 1480
Atikokan, Ontario P0T 1C0

Telephone (807)597-6600
Fax (807)597-6988
e-mail wilf.thorburn@athydro.com

Manager's Summary

2009 Incentive Regulation Mechanism

Rate Application

OEB File No. EB-2008-0158

November 7, 2008

Introduction

Atikokan Hydro Inc. (Atikokan) is pleased to submit to the Ontario Energy Board (“OEB”), its 2009 Incentive Regulation Mechanism (IRM) distribution rate application, in compliance with the OEB letter dated September 17, 2008 that directs the company to file its distribution rate application by November 7, 2008. The September 17th letter was accompanied by the OEB’s Supplemental Report on 3rd Generation Incentive Regulation for Ontario’s Electricity Distributors. The Report detailed the Board’s determination of the values for the productivity factor, the stretch factors, and the capital module materiality threshold for use in 3rd Generation IRM. It also sets out the Board’s determination on the issue of tax changes in relation to the Z-factor and includes filing requirements to guide a distributor in the preparation of their rate applications for the 2009 rate year. Information that is provided in the IRM Model will not be repeated in this summary.

Price Cap Adjustment

Under the 3rd Generation IRM plan, Atikokan’s distribution rates for 2009 have been adjusted for two factors: a price escalator and an X-factor. The OEB has determined that GDP-IPI – for final domestic demand is to be used as the price escalator for the 3rd Generation IRM. For 2009, the OEB expects Atikokan to use, as a proxy, the current value of 2.10% in its application. The IRM Model includes this proxy as a reasonable estimate of the index result. Atikokan understands that when the final 2008 data are published by Statistics Canada in late February 2009, the OEB will adjust the inflation index in Atikokan’s rate application model, to ensure this final published number is used to adjust rates.

The OEB approved X-factor, has two components: the productivity factor and the stretch factor. The productivity component of the X-factor is intended to be the external benchmark which all firms are expected to achieve. The stretch factor

component of the X-factor is intended to reflect the incremental productivity gains that firms are expected to achieve. The productivity factor and the stretch factor for the 3rd Generation IRM is 0.72% and 0.40%, respectively. The X-factor is applied to reduce the upward adjustment resulting from the GDP-IPI value.

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 2009 price cap will be adjusted to reflect the new income tax rates. A federal tax rate adjustment of -0.X% is applied to the 2008 rates to address the change in federal income tax rates.

The price cap adjustment will be applied to the Service Charge and Distribution Volumetric Rate (including low voltage charges for embedded distributors), net of existing rate adders and rate rebalancing adjustments as determined necessary by the Board. The price cap adjustment will not be applied to Rate Riders, Retail Transmission Service Rates, Wholesale Market Service Rate, Rural Rate Protection Charge, Standard Supply Service – Administrative Charge, Specific Service Charges, Allowances¹, Retail Service Charges or Loss Factors.

The Smart Meter Adder

Smart Meter Funding is currently included in the Monthly Service Charge and Atikokan's current rate adder of \$0.25 has been removed and a new rate adder of \$1.00 has been incorporated into the 2009 rate.

Atikokan is participating “as one of the Group of the Five Northern LDCs” and Ontario Utility Smart Meter (“OUSM”) groups. Atikokan intends to achieve full deployment of smart meters to all its residential and general service <50 kW customers by the end of 2009. Atikokan 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.

Atikokan has entered into negotiations with Elster Metering; its vendor selected through the London Hydro RFP and expects to have a signed contract by December 2008. Atikokan plans to install 1686 meters in the 2009 rate year at an estimated capital cost of \$225.00 per meter and \$380,000 in total.

Atikokan 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. Atikokan 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.

Revenue to Cost Ratios

Atikokan has submitted a separate document to support this issue.

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 11.3% has been applied to the 2008 Retail Transmission Network Service Rate and an increase of 0.6% has been applied to the 2008 Retail Transmission Transformation Connection Service Rate since Atikokan only pays the IESO for wholesale transformation connection service.

Conclusion

The proposed 2009 distribution rates for Atikokan 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.

1. The bill impact for a residential customer in Atikokan, with a monthly electricity consumption of 600 kWh, will decrease by 9.7% or \$10.30 per month after GST. The same customer using 1,600 kWh per month will see a decrease of 7.9% or \$17.51 per month after GST. This decrease is the result of four factors: the expiration of rate riders, a net decrease in distribution rates because of further rationalization as of our revenue to cost ratios, an increase in smart meter funding adder from \$0.25 to \$1.00 and an increase in RTSR rates.
2. The bill impact for a general service less than 50 kW customer in Atikokan, with a monthly electricity consumption of 5000 kWh, will decrease by 6.9% or \$44.12 per month after GST. The same customer using 10,000 kWh, will decrease by 6.3% or \$75.99 per month after GST. This decrease is the result of four factors: the expiration of rate riders, a net decrease in distribution rates because of further rationalization as of our revenue to cost ratios, an increase in smart meter funding adder from \$0.25 to \$1.00 and an increase in RTSR rates.
3. The bill impact for a general service 50 kW to 4,999 kW customer in Atikokan, with a monthly electricity consumption of 510,000 kWh 1270 KW, will decrease by 4.6% or \$2,406.98 per month after GST. The same customer using 995,000 kWh 2,480 kW, will decrease by 4.6% or \$4,683.85 per month after GST. This decrease is the result of four factors: the expiration of rate riders, a net increase in distribution rates because of further rationalization as of our revenue to cost ratios, an increase in smart meter funding adder from \$0.25 to \$1.00 and an increase in RTSR rates.

4. The bill impact for an Unmetered Scattered Load customer in Atikokan, with a monthly electricity consumption of 500 kWh, will decrease by 2.6% or \$10.06 per month after GST. This decrease is the result of four factors: the expiration of rate riders, a net increase in distribution rates because of further rationalization as of our revenue to cost ratios, an increase in smart meter funding adder from \$0.25 to \$1.00 and an increase in RTSR rates.
5. The bill impact for a Sentinel Light customer in Atikokan, with a monthly electricity consumption of 130 kWh, will decrease by 17.3 % or \$17.61 per month after GST. This decrease is the result of four factors: the expiration of rate riders, a net increase in distribution rates because of further rationalization as of our revenue to cost ratios, an increase in smart meter funding adder from \$0.25 to \$1.00 and an increase in RTSR rates.
6. The bill impact for a street lighting customer in Atikokan, with a monthly electricity consumption of 360 kWh and 1kW, will decrease by 8.39 % or \$4.35 per month after GST. The same customer using 50,000 kWh and 120 kW, will decrease by 11.8 % or \$520.15 per month after GST. This decrease is the result of four factors: the expiration of rate riders, a net increase in distribution rates because of further rationalization as of our revenue to cost ratios, an increase in smart meter funding adder from \$0.25 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,



Wilf Thorburn
CEO / Sec Treas
Atikokan Hydro Inc.