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August 19, 2010

VIA MAIL and E-MAIL

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge St.
Toronto, ON
M4P 1E4

Dear Ms. Walli:

Re: Vulnerable Energy Consumers Coalition
Tech Conference Questions: EB-2009-0278
Algoma Power Inc. – 2010 & 2011 Electricity Distribution Rate Application

Please find enclosed the Tech Conference Questions of the Vulnerable Energy Consumers Coalition in the above-noted proceeding. We have also directed a copy of the same to the Applicant.

Thank you.

Yours truly,

Michael Buonaguro
Counsel for VECC
Encl.

ALGOMA POWER HYDRO INC. – 2010 & 2011 RATE APPLICATION

(EB-2009-0278)

VECC'S TECHNICAL CONFERENCE QUESTIONS

GENERAL

TC #1

Reference: OEB Staff #2
OEB Staff 1 b)

Preamble: The response to OEB Staff #2 states that "it appears that the Board's IRM rate setting methodology is incompatible with API's legislated rate setting methodology". However, OEB Staff 1 b) states that API has a "preference to utilize a form of incentive regulation to set rates for 2012".

a) Please reconcile these two statements and confirm API's plans for 2012.

TC #2

Reference: VECC #1 c) and d)
SEC #2 c)

a) Please provide copies of all requests or other communications received from either bondholders or the investment community over the last twelve months that resulted in Fortis Inc. and/or FortisOntario providing explanations regarding its financial results that involved the current mismatch between the rate year and its fiscal year for API (or any of FortisOntario's other electricity distribution subsidiaries).

b) Please provide copies of all materials prepared by Fortis Inc. / Fortis Ontario or API for use in explaining to either bondholders or the investment community the difference between its approved and actual rate of return. Please also include all internal materials prepared to assist with oral explanations.

c) Given that API's rates will generally not be implemented until after May 1st (per SEC #2 c)) won't the adoption of a January 1st Effective Date increase the foregone revenue that will need to be recovered over the remaining months of the rate year through a rate rider and, thereby, increase the bill impacts to customers of any proposed rate change? If not, why not?

d) The response to part SEC #2 c-iv suggests that new rates would be "implemented" January 1st. However, the response to part (ii) states that it is unlikely new rates would be implemented before May 1st. Please reconcile.

RATE BASE

TC #3

Reference: OEB Staff #5 a)
VECC #11 d) and e)

Preamble: The response to VECC #11 states that API did not track the PST included in capital spending in 2008 and 2009. OEB Staff #5 states that there is no HST included in the post-July 1, 2010 costs.

a) How did API determine the HST/PST to exclude from the post-July 1, 2010 capital spending?

b) What amount of PST is included in the pre-July 1, 2010 capital spending?

TC #4

Reference: VECC #7

a) As requested in the original question, please confirm that over the 2007-2009 period there have been/will be no road relocations undertaken by API. If this is not the case, please explain why there are no recorded capital contributions.

TC #5

Reference: OEB Staff #16

a) Please provide the analysis that supports the Management determination that a stand-alone system would be more expensive and indicate what "stand alone" systems were used for purposes of the analysis.

TC #6

Reference: OEB Staff #10
VEC #5 d)

Preamble: The response to OEB Staff #10 “suggests” that API’s overhead capitalization methodology is not fully compliant with IFRS requirements and that this is why a formal Board approval is required. VECC #5 d) requested clarification regarding IFRS compliance of the overhead capitalization policy. However, the response appears to deal with regulatory assets and liabilities as opposed to overhead capitalization.

a) Please clarify whether the proposed overhead capitalization methodology is compliant with IFRS requirements (for non-regulated entities) as API currently understands them.

b) If not, in what regard is it “none compliant”?

TC #7

Reference: VECC #22 a)
SEC #7

Preamble: SEC #7 states that historically API did not capitalize overhead costs and that the change in methodology results in the capitalization of $821,003 in overhead for 2010. The response to VECC #22 a) suggests that there was no change in the capitalization of Compensation costs due the change in the new overhead capitalization policy.

a) Are any of the $821,003 additional costs capitalized in 2010 associated with employee compensation? If yes, please respond to VECC #22 a) and indicate how much? If not, please explain what the $821,003 is comprised of.

LOAD FORECAST AND OPERATING REVENUE

TC #8

Reference: SEC #17

a) Please clarify the heading in the third column of table provided in the response. Are the values reported the annual billing kW or the average monthly billing kW?

TC #9

Reference: Energy Probe #9
VECC #14 a)

a) What is the increase in anticipated annual load (kWh and billing kW) for 2010 and 2011 associated with the expansion described in Energy Probe #9?

b) Has the impact of this customer expansion been reflected in the 2010 and 2011 load forecast? If yes, please indicate how.

c) Please confirm that the new customer referenced in VECC #14 a) is not included in the current load forecast for 2011. What is the anticipated annual energy and billing kW associated with this customer?

TC #10

Reference: OEB Staff #4
VECC #14 c)

Preamble: VECC #14 c) states that the adjustment to account for RRRP was only made to the volumetric charges for R1 and R2.

a) Please reconcile the differences in volumetric rates shown in the two references for the Street Lighting and Seasonal Classes (e.g, for Seasonal the values are $0.07/kWh vs. $0.1412/kWh while for Street Lighting they are $0.0496 vs. $0.0602/kWh).

TC #11

Reference: VECC #14 c) and d)

a) Under API's currently approved rates is the amount of RRRP that API receives each year fixed (i.e., $8,861,800) or does it vary with the kWh sales to the R1 and R2 classes?

b) If it is fixed, please confirm that Tables 1 and 2 (Exhibit 3, Tab 2, Schedule 2) do not accurately portray 2010 and 2011 revenues at existing rates and provide a corrected version.

TC #12

Reference: VECC #16 b)

a) Please respond to the initial question and explain why processing a post-dated cheque is administratively more costly than processing a cheque received through the mail in response to a regular power bill.

b) The response suggests that API returns the post-dated cheque to the customer after it has been forwarded to API's financial institution for deposit. Please confirm that this is the case. Does the same apply to payment cheques received through the mail in response to a regular power bill?

OPERATING COSTS

TC #13

Reference: OEB Staff #5 a)
VECC #11 e) and #17

Preamble: The response to VECC #11 states that API did not track the PST included in capital spending in 2008 and 2009 and VECC #17 indicates that this also applies to OM&A. OEB Staff #5 states that there is no HST included in the post-July 1, 2010 costs.

c) How did API determine the HST/PST to exclude from the post-July 1, 2010 OM&A?

d) What amount of PST is included in the pre-July 1, 2010 OM&A costs?

TC #14

Reference: VECC #29
Exhibit 4, Tab 3, Schedule 1, pages 1-2

a) Why wasn't the incremental meter reading costs arising from the deployment of smart meters recorded in the Smart Meter variance account, partcularly since these costs will not continue to be incurred in 2012?

<u>TC #15</u>

Reference: OEB Staff #28

a) Please describe future cost benefits that will be realized through the common use the SAP IT system and when they will start to accrue to API.

<u>TC #16</u>

Reference: OEB Staff #32
SEC #22 a)
VECC #20 and #23 b)

a) The response to OEB #32 b) states that the elimination of cost sharing with transmission increases costs in 2010 and 2011. Please clarify how not sharing transmission costs leads to an increase in costs for 2010.

b) SEC #22 a) suggests that there has been no change in the activities undertaken by API as a result of the acquisition by Fortis. Please provide a schedule that set out the costs for the services provided to API by affiliates as a stand-alone entity within GLP as noted in VECC #23 b). Please contrast this with the costs allocated to API by affiliates as part FortisOntario for similar services.

c) Please contrast the cost of the contracted services received by API (as part of GLP) for Regulatory and Engineering Design with API's allocated costs for such services as a part of FortisOntario.

<u>TC #17</u>

Reference: OEB #36

a) With respect to the 2010 shared services allocations on page 3 please provide a schedule that sets out for 2010 the total cost of each Shared Service Function along with the allocation percentage and dollar value for CNPI-Distribution based on the current Application

b) Please also include in the response to part (a) the total cost of each shared service for 2010 as forecast at the time of the 2010 Rate Applications for Fort Erie, Port Colborne and Eastern Ontario Power, along the allocation percentage and dollar value for the allocation to CNPI-Distribution as forecast at that time.

c) Based on the results of parts (a) and (b), please comment on whether API is now being allocated Corporate Function costs for 2010 for which recovery has already been provided in the 2010 rates approved for Fort Erie, Port Colborne and Eastern Ontario Power?

TC #18

Reference: Energy Probe #19

a) The compensation cost for the Finance Department increase by almost 20% between 2009 and 2011 while the employee count only increases by 4.3%. Please explain the large increase in compensation per employee over this period.

b) A similar situation exists for Engineering. Please explain the apparent large increase in compensation per employee between 2009 and 2011.

TC #19

Reference: OEB #35
OEB #36
Exhibit 1, Tab 1, Schedule 13

a) Please confirm that the Service Agreements filed in response to OEB #35 to not address services provided to API by either FortisOntario or Fortis Inc.

b) Is there a Service Agreement between CNPI and API for various services provided?

c) There does not appear to be a Service Agreement between Fortis Inc. and the affiliates it provides services to. Does one exist?

TC #20

Reference: VECC #19 b)

a) The response explains that the $28,181 increase for 2011 is related to wage increases. However, the response does not explain the $66,047 increase for 2010 as requested. Please do so.

COST ALLOCATION

TC #21

Reference: VECC #4 and #14 c)
VECC #26 a), b) and e)

a) Please confirm that the allocation of the Distribution Revenue ($18,585,008) in VECC #26 e) – Sheet O1 to customer classes is based the distribution of "Total Revenue" as shown in VECC #14 c) – Table C-10.
   - If this is not the case please fully explain the basis for the allocation of the Distribution Revenue to customer classes.
   - If this is the case, please explain why the Deferred Amount for Seasonal was included in the determination of the class shares but the foregone Street Lighting revenue was not.

b) Please confirm that the class revenue shares derived from Table C-10 reflect the load patterns as forecast in EB-2007-0744. Please also confirm that the loads used to allocate the 2010 costs are based on the relative load shares by class as currently forecast.

c) Please provide a revised version of Table C-10 where the revenues by customer class are based on the 2010 Revenue Forecast at current rates as set out in VECC #4.

d) Please re-do the cost allocation model with the class revenue shares based on the results from part c).

TC #22

Reference: VECC #26 f)

a) In the case of the Residential class the Test Year revenue assuming Current Revenue to Cost ratios is $13,926,971 and yields a R/C ratio of 115.42%. Given these results why is API proposing to increase the revenues to be collected from the class to $14,138,880 and correspondingly further increase the Revenue to Cost ratio?

RATE DESIGN

TC #23

Reference: OEB Staff #48

a) Please update the response to reflect the new Cost Allocation model results for Sheet O2 and indicate if any changes are required to API's proposals regarding the Monthly Service Charge for each customer class.

TC #24

Reference: VECC #28 a) & b)
SEC #29
Exhibit 8, Tab 6, Schedule 1

a) Please provide the 2010 bill impacts for a small, medium and large R2 customer assuming the monthly service charge is held fixed at the approved 2007 level and the variable rates are adjusted accoringly.

TC #25

Reference: Energy Probe #32
Exhibit 8, Tab 7, Schedule 1

a) Please explain what differentiates Street Lighting customers from Seasonal customers that the rationale for reclassification of Street Lighting customers to Residential as set out at lines 15-27 Exhibit 8, Tab 7, Schedule 1, page 2 wouldn't also apply to Seasonal customers.

DEFERRAL AND VARIANCE ACCOUNTS

TC #26

Reference: OEB Staff #6 a), #8 & #42
SEC #30

a) Please confirm that if API converts to IFRS in 2013 as indicated in response to OEB Staff #8 then the requested IFRS Deferral Account will not be required for 2010 and 2011.