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BY E-MAIL

October 1, 2010

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: Algoma Power Inc.
2010 and 2011 Distribution Rates Application
Board Staff Interrogatories
Board File No. EB-2009-0278**

Enclosed is Board staff's submission on the *Report on the Rural and Remote Rate Protection and Adjustment Mechanism*.

Please forward the submission to Algoma Power Inc. and to all other registered parties to this proceeding.

Yours truly,

Original Signed By

Richard Battista
Project Advisor – Applications & Regulatory Audit

**Algoma Power Inc.
EB-2009-0278**

Board Staff Submission on:

Rural and Remote Rate Protection and Adjustment Mechanism

October 1, 2010

Introduction

In Procedural Order No. 3, dated September 22, 2010 the Board called for a Board staff report on the RRRP mechanism to be filed by September 30, 2010.

The issue in the Revised Settlement Proposal is defined as:

What is the appropriate method of calculating the average rate adjustments of other distributors in order to calculate the rate increase for the customers of API, and the remaining amount that is payable under RRRP?

Under separate cover Board staff filed its report.

This submission presents Board staff views on the options presented in its report.

This submission relies on the Board staff report for any relevant background material.

In general, Board staff has been guided by the following principles:

- the data is available in the public domain;
- the data calculation is relatively simple and straight-forward;
- the calculation particulars are in keeping with the intention of the underlying regulation;
- there should be a reasonable balance between the value to be gained from increased refinement, including materiality and the time and resources required to achieve it.

Submission

(A) "Other Distributor" class comparator

Board staff submit that the calculation to capture the province-wide increase should include Residential as well as General Service < 50kW customer classes.

Under the current mechanism, the calculation for average increase in rates experienced by the other electricity distributors includes only "residential rate classes". Algoma Power's residential rate classes, R1 and R2, however, also include customers who, for other distributors, would be classified as General Service. Board staff believe that excluding general service classes puts into

question the completeness or representativeness of the province-wide average. However, Board staff do not think it essential to include General Service >50 kW. It is likely questionable that the amount of incremental representativeness offsets the significant amount of work that would be required to calculate the average increase for each distributor for this sub class of customer. This sub class tends to have relatively few customers and its bill impacts are difficult to generalize. Board staff submit the class comparator should include only General Service < 50kW in addition to Residential.

(B) Comparator Weightings

Board staff submit that each distributor should have a weighting of one regardless of the number of tariffs, for a single class, it may have at any given time. If effect, each licensed distributor would have a weighting of one.

In the current methodology the calculation of the RRRP adjustment is based on the province-wide average increase of all residential rates for which there is a Board ordered tariff. A distributor may have several tariffs for the same class, for example, if has amalgamated with or purchased another utility. The average province-wide increase can be skewed as harmonization takes place. Board staff believe that the intent of the O. Reg. 442/01 does not include adding rate harmonization impacts. To prevent the calculation from being overly onerous, the calculation of the increase within the particular distributor would continue be the simple average of the changes in its tariffs. Any lost refinement would not materially impact the average of 80 or so licensed distributors.

(C) Included Delivery Costs

Board staff submit that the Delivery cost components used to calculate the province-wide average should be the same as the rates to which the adjustment will apply.

The current mechanism used to calculate the RRRP adjustment in Algoma Power's last rates proceeding took into account all the components of the Delivery line of the bill i.e. monthly fixed charge, variable charge, retail transmission rates, rate riders and rate adders to establish the comparator province-wide increase. The resulting percentage increase was then applied to

Algoma Power's monthly fixed charge and variable distribution rate. In the normal course of events, Algoma Power's service revenue requirement, absent any RRRP, would be recovered only through its monthly fixed charge and variable distribution rate. In that O. Reg. 442/01 sec.4. requires that the RRRP amount be revenue requirement based, it follows that the calculation for the RRRP adjustment do so as well.

(D) Volumetric Assumption

Board staff submit that mechanism use 800 kWh as the average monthly consumption and 2,000 kWh for General Service < 50kW

The current mechanism uses 1,000 kWh per month as the average consumption for a typical residential customer for the purposes of calculating the RRRP. Currently Board uses 800 kWh per month as the average consumption for a typical residential customer and 2,000 kWh for a typical General Service < 50kW, for bill impact calculation purposes. Using the same average consumption in the RRRP adjustment calculation keeps things simple and comparable.

Conclusion

Board staff recommends that the "class comparator" should include General Service < 50kW and Residential, that each distributor be weighted as "1" (regardless of the number of tariff sheets, "delivery costs" should include only the fixed charge and variable distribution charges, and that the volumetric assumption should be 800kWh for Residential and 2000kWh for General Service < 50kW. Board staff also recommends that the average increase be calculated for the years 2008, 2009 and 2010 (as described in the Board staff Report). If this recommendation is accepted, it will result in a RRRP adjustment of about 10.2%. (See option 2 in the Board staff Report).

All of which is respectfully submitted.