FFPC

FORT FRANCES POWER CORPORATION

January 20, 2011

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

Dear Ms. Walli:

RE: Fort Frances Power Corporation
2011 IRM2 Rate Application
Response to Board Staff Interrogatories
Board File Number EB-2010-0128

Please find attached the Fort Frances Power Corporation's 2011 2nd Generation IRM Electricity Distribution Rate Application Response to Board Staff Interrogatories, due January 20th, 2011.

If you have any questions or require any further information, please do not hesitate to contact me.

Sincerely,

FORT FRANCES POWER CORPORATION

Jörg Ruppenstein

Joerg Ruppenstein
President and CEO

Att.

Fort Frances Power Corporation Response to Board Staff Interrogatories
2011 EDR 2nd Generation IRM EB-2010-0128

1. Ref: Smart Meter – 5.1 PILS

a) Please explain why 2011 Forecasted Amortization is referencing cell -'4. Smart Meter Rev Req'!R47 instead of cell -'4. Smart Meter Rev Req'!T47.

Sheet 5. PILs

PILs Calculation

INCOME TAX	2006 Audited Actual	2007 Audited Actual	2008 Audited Actual	2009 Audited Actual	2010 Actual	2011 Forecasted
Net Income	$ -	$ -	$ -	$ -	$ -	$ -
Amortization	$ -	$ -	$ 27,629.59	$ 61,260.73	$ 67,262.29	$ -
CCA - Smart Meters	$ -	$ -	-$ 22,568.21	-$ 48,691.11	-$ 50,155.96	-$ 46,143.48
CCA - Computers	$ -	$ -	-$ 24,993.96	-$ 40,394.38	-$ 22,330.62	-$ 10,048.78
CCA - Other Equipment	$ -	$ -	-$ 1,678.21	-$ 3,267.39	-$ 2,860.53	-$ 2,288.43
Change in taxable income	$ -	$ -	-$ 21,610.79	-$ 31,092.15	-$ 8,084.82	-$ 58,480.69
Tax Rate *(3. LDC Assumptions and Data)*	36.12%	36.12%	33.50%	33.00%	32.00%	30.50%
Income Taxes Payable	$ -	$ -	-$ 7,239.61	-$ 10,260.41	-$ 2,587.14	-$ 17,836.61

b) If Fort Frances is of the view that the data included in the application is more appropriate to use, please explain why. If not, please re-file the referenced sheet with the correct data and staff will make the necessary adjustments to the Smart Meter model.

Response:

Fort Frances Power Corporation (FFPC) has not altered the referencing of the Sheet 5. PILS within the Smart Meter Rate Calculation Model and, upon review of the original and other LDC's completed models, has found this reference consistent through all reviewed models. FFPC requests OEB staff restore the original, correct references to preserve the integrity of the model.

2. Ref: Smart Meter – 7.1 Funding Adder Collected

Sheet 7. Smart Meter Funding Adder Collected

Date	Opening	Fund Adder	Int. Rate	Interest	Closing
Jan-06	$ -	$ -	6.25%	$ -	$ -
Feb-06	$ -	$ -	6.25%	$ -	$ -
Mar-06	$ -	$ -	6.25%	$ -	$ -
Apr-06	$ -	$ -	4.14%	$ -	$ -
May-06	$ -	$ 50	4.14%	$ -	$ 50
Jun-06	$ 50	$ 665	4.14%	$ 0	$ 715
Jul-06	$ 715	$ 1,041	4.59%	$ 3	$ 1,759
Aug-06	$ 1,759	$ 895	4.59%	$ 7	$ 2,661
Sep-06	$ 2,661	$ 793	4.59%	$ 10	$ 3,464
Oct-06	$ 3,464	$ 1,218	4.59%	$ 13	$ 4,695
Nov-06	$ 4,695	$ 870	4.59%	$ 18	$ 5,583
Dec-06	$ 5,583	$ 1,368	4.59%	$ 21	$ 6,972
Jan-07	$ 6,972	$ 980	4.59%	$ 27	$ 7,979
Feb-07	$ 7,979	$ 979	4.59%	$ 31	$ 8,989
Mar-07	$ 8,989	$ 907	4.59%	$ 34	$ 9,930
Apr-07	$ 9,930	$ 1,051	4.59%	$ 38	$ 11,019
May-07	$ 11,019	$ 912	4.59%	$ 42	$ 11,973
Jun-07	$ 11,973	$ 906	4.59%	$ 46	$ 12,925
Jul-07	$ 12,925	$ 1,047	4.59%	$ 49	$ 14,021
Aug-07	$ 14,021	$ 911	4.59%	$ 54	$ 14,986
Sep-07	$ 14,986	$ 844	4.59%	$ 57	$ 15,887
Oct-07	$ 15,887	$ 1,148	5.14%	$ 68	$ 17,103
Nov-07	$ 17,103	$ 1,961	5.14%	$ 73	$ 19,137
Dec-07	$ 19,137	$ 1,079	5.14%	$ 82	$ 20,298
Jan-08	$ 20,298	$ 806	5.14%	$ 87	$ 21,191
Feb-08	$ 21,191	$ 979	5.14%	$ 91	$ 22,260
Mar-08	$ 22,260	-$ 44	5.14%	$ 95	$ 22,311
Apr-08	$ 22,311	$ 837	4.08%	$ 76	$ 23,224
May-08	$ 23,224	$ 782	4.08%	$ 79	$ 24,085
Jun-08	$ 24,085	$ 1,259	4.08%	$ 82	$ 25,426
Jul-08	$ 25,426	$ 889	3.35%	$ 71	$ 26,386
Aug-08	$ 26,386	$ 976	3.35%	$ 74	$ 27,436
Sep-08	$ 27,436	$ 1,121	3.35%	$ 77	$ 28,633
Oct-08	$ 28,633	$ 979	3.35%	$ 80	$ 29,692
Nov-08	$ 29,692	$ 922	3.35%	$ 83	$ 30,696
Dec-08	$ 30,696	$ 2,324	3.35%	$ 86	$ 33,106
Jan-09	$ 33,106	-$ 314	2.45%	$ 68	$ 32,860
Feb-09	$ 32,860	$ 1,034	2.45%	$ 67	$ 33,961
Mar-09	$ 33,961	$ 1,152	2.45%	$ 69	$ 35,182
Apr-09	$ 35,182	$ 921	1.00%	$ 29	$ 36,132
May-09	$ 36,132	$ 973	1.00%	$ 30	$ 37,135
Jun-09	$ 37,135	$ 4,041	1.00%	$ 31	$ 41,207
Jul-09	$ 41,207	$ 3,427	0.55%	$ 19	$ 44,653
Aug-09	$ 44,653	$ 4,598	0.55%	$ 20	$ 49,271
Sep-09	$ 49,271	$ 3,423	0.55%	$ 23	$ 52,717
Oct-09	$ 52,717	$ 3,750	0.55%	$ 24	$ 56,490
Nov-09	$ 56,490	$ 4,273	0.55%	$ 26	$ 60,789
Dec-09	$ 60,789	$ 3,758	0.55%	$ 28	$ 64,575
Jan-10	$ 64,575	$ 3,255	0.55%	$ 30	$ 67,859
Feb-10	$ 67,859	-$ 582	0.55%	$ 31	$ 67,309
Mar-10	$ 67,309	$ 4,259	0.55%	$ 31	$ 71,599
Apr-10	$ 71,599	$ 3,753	0.55%	$ 33	$ 75,385
May-10	$ 75,385	$ 4,536	0.55%	$ 35	$ 79,955
Jun-10	$ 79,955	$ 3,767	0.55%	$ 37	$ 83,759
Jul-10	$ 83,759	$ 3,378	0.89%	$ 62	$ 87,199
Aug-10	$ 87,199	$ 4,721	0.89%	$ 65	$ 91,984
Sep-10	$ 91,984	$ 3,337	0.89%	$ 68	$ 95,390
Oct-10	$ 95,390	$ 3,985	0.89%	$ 71	$ 99,446
Nov-10	$ 99,446	$ 4,398	0.89%	$ 74	$ 103,918
Dec-10	$ 103,918	$ 3,769	0.89%	$ 77	$ 107,763
Jan-11	$ 107,763	$ 3,250	0.89%	$ 80	$ 111,093
Feb-11	$ 111,093	-$ 500	0.89%	$ 82	$ 110,675
Mar-11	$ 110,675	$ 4,300	0.89%	$ 82	$ 115,058
Apr-11	$ 115,058	$ 3,700	0.89%	$ 85	$ 118,843
May-11	$ 118,843	$ -		$ -	$ 118,843
Jun-11	$ 118,843	$ -		$ -	$ 118,843
Jul-11	$ 118,843	$ -		$ -	$ 118,843
Aug-11	$ 118,843	$ -		$ -	$ 118,843
Sep-11	$ 118,843	$ -		$ -	$ 118,843
Oct-11	$ 118,843	$ -		$ -	$ 118,843
Nov-11	$ 118,843	$ -		$ -	$ 118,843
Dec-11	$ 118,843	$ -		$ -	$ 118,843
Jan-12	$ 118,843	$ -		$ -	$ 118,843
Feb-12	$ 118,843	$ -		$ -	$ 118,843
Mar-12	$ 118,843	$ -		$ -	$ 118,843
Apr-12	$ 118,843	$ -		$ -	$ 118,843
May-12	$ 118,843	$ -		$ -	$ 118,843
		$ 115,814		$ 3,029	

2. Ref: Smart Meter – 7.1 Funding Adder Collected

a) Please confirm calculations for the funding adder are correct. If Fort Frances is of the view the calculations are correct please explain the negative revenues for Mar-08, Jan-09 and Feb 10.

Response:

Fort Frances Power Corporation confirms that the funding adders are correct and that the negative revenues for Mar-08, Jan-09 and Feb 10 are a result of unbilled revenue adjustments for the previous year.

b) Please explain why calculations for the funding adder are only calculated up until Aug-10 and not Apr-11. If Fort Frances agrees the funding adder should be calculated up until Apr-11, please re-file the referenced sheet with the correct data and staff will make the necessary adjustments to the Smart Meter Model.

Response

Fort Frances Power Corporation has re-filed (above) the referenced sheet with the completed estimated smart meter revenue to April 2011 as requested.

3. Ref: Manager's Summary – 1.8

a) Please provide a copy of the request to defer clearance of the Regulatory Assets pertaining to Global Adjustment forwarded to Mary Anne Alder on October 27, 2010

- A request to defer clearance of the Regulatory Assets pertaining to Global Adjustment as they relate to the Historical Agreement, as directed by our counsel, Kelly Friedman, Davis LLP. Our counsel has forwarded this request to Mary Anne Aldred, General Counsel, OEB, October 27, 2010 on our behalf.

Response

Fort Frances Power Corporation has attached a copy of letter forwarded to Mary Anne Aldred, as requested.

OGILVY RENAULT

Direct Dial: (416) 216-2985
Direct Fax: (416) 216-3230
kfriedman@ogilvyrenault.com

SENT BY E-MAIL

Toronto, October 29, 2010

Mary Anne Aldred, General Counsel
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street
26th Floor
Toronto, Ontario
M4P 1E4

Dear Ms. Aldred:

RE: Fort Frances Power Corporation
1905 Agreement and relationship with Global Adjustments

I am writing to you in my capacity as counsel for Fort Frances Power Corporation (FFPC).

It has come to FFPC's attention that it has likely been accounting incorrectly for the Global Adjustment insofar as it relates to a 1905 historical agreement which benefits the residents of Fort Frances. My client is reaching out to you, and to Mr. Abramovitz, or whomever else on staff you believe to be appropriate, to assist FFPC to correct the problem, which we believe has inadvertently resulted in depriving the residents of Fort Frances of a benefit to which they are legally entitled. Please allow me to give you sufficient background to understand the current problem.

The 1905 Agreement

Since 1905, the residents of the Town of Fort Frances have enjoyed the benefit of a contract between the Town and the local pulp and paper mill (the "1905 Agreement"). The 1905 Agreement obligates the mill owner, or more precisely, the owner of the generation assets at the mill, to provide the Town of Fort Frances with a significant amount of electric power at a very beneficial price.[1]

In 1983, in *Fort Frances v. Boise Cascade Canada Ltd.*, [1983] 1 S.C.R. 171, the Supreme Court of Canada confirmed that the mill owner, at the time Boise Cascade, had a perpetual obligation to provide electrical energy produced from its generation facilities on the Rainy River at Fort Frances to the extent of 4,000 horsepower (which is equivalent to 2.984 Megawatts) per annum, such electricity to be made available to the Town at the contract price of $14 per horsepower per annum.

Historically, there was a physical tie between Fort Frances and the generation assets on the Rainy River. Today, there is no physical connection and the generation assets simply feed power into the grid. The obligation to deliver power under the 1905 Agreement, therefore, has become a financial obligation as opposed to a physical delivery obligation. Essentially, for 2.984 Megawatts, Abitibi-Consolidated Hydro Limited Partnership pays any additional costs above the price under the 1905 Agreement which is paid by FFPC customers.

Accordingly, the 1905 Agreement is filed as a physical bilateral contract between FFPC and Abitibi-Consolidated Hydro Limited Partnership with the IESO. To comply with the physical bilateral and the Supreme Court of Canada decision, FFPC calculates a credit to reflect the value of the 1905 Agreement to apply to the bills of eligible consumers, which are residential customers and small business owners, in order to ensure that eligible customers are effectively being supplied power at a blended rate which reflects the benefits of the 1905 Agreement.[2]

<u>Treatment of the 1905 Agreement since market restructuring</u>

When the electricity market was restructured, Fort Frances Public Utilities Commission obtained an order from the Ontario Energy Board exempting Fort Frances Public Utilities Commission and its successor LDC, FFPC, from Section 2.2.2 of the *Standard Supply Service Code*, which required an LDC to meet all of its standard supply obligation with power at market rates. This exemption preserved the ability of the residents of Fort Frances to obtain the benefit of the lower cost of power available under the 1905 Agreement for 2.984 Megawatts.

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[1] Historically, the mill owner owned the generation facilities on its premises, and so the mill owner had all obligations under the 1905 Agreement. Today, the mill itself is owned by Abitibi Bowater, but the generation assets are owned by its affiliate, Abitibi-Consolidated Hydro Limited Partnership, which now holds the obligations under the Agreement.

[2] The only FFPC customers who are ineligible are those that have signed contracts with retailers. While industrial customers might not be eligible under the Agreement, FFPC has no industrial customers at this time.

Similarly, Ontario Regulation 339/02 maintained the right of the eligible customers of Fort Frances to receive the benefit of the 1905 Agreement with respect to standard supply customers such that they effectively received a blended rate consisting of power purchased from the IMO (now IESO) at market prices and power at the beneficial price under the 1905 Agreement.

All subsequent legislation and regulations dealing with electricity prices, such as Ontario Regulation 95/05, have recognized the unique circumstances of FFPC and have recognized that the benefit of the 1905 Agreement must continue to be passed on to eligible customers as dictated by the Supreme Court of Canada. Specifically, with respect to the volume of power under the 1905 Agreement, that is, 2.984 Megawatts, eligible customers must only effectively pay the equivalent of $14 per Horsepower, or 0.21416¢ per kilowatt hour, and not prices dictated by the Regulated Price Plan, the spot market with adjustments, or any other mechanism.

The Global Adjustment

Consistent with the regulations that preceded it, Ontario Regulation 429/04, which provides for adjustments under section 25.33 of the *Electricity Act, 1998* (the "Global Adjustment Regulation"), recognizes the unique circumstances of FFPC.

Pursuant to the Global Adjustment Regulation, monthly, the IESO calculates a Global Adjustment Amount ("GAA") which it then allocates to market participants (ss. 2(1) and 2(2)). The IESO has a formula pursuant to which it allocates the GAA among the market participants (s.2(3)). The formula essentially allocates the GAA to market participants according to their proportionate share of the volume of electricity withdrawn from the grid and from embedded generators. However, when allocating the GAA among market participants, the IESO must specifically exclude the volume supplied under the physical bilateral from the allocation calculation numerator and denominator (s.2(4)). In other words, the volume under the 1905 Agreement does not have any global adjustment component assigned to it at all. The IESO is mandated to assign to FFPC each month a portion of the GAA equal to its proportion of the total system volume of power withdrawn from the grid and embedded generators less the volume under the 1905 Agreement.

The Ministry of Energy has recently proposed a regulation to amend the Global Adjustment Regulation to refine the allocation of global adjustment costs among end-use electricity customers so that those customers who contribute most to the 5 peak hours will pay the greatest proportion of the total system-wide global adjustment costs. The Ministry of Energy, recognizing the FFPC must be treated different on each occasion of a regulatory change to electricity prices, contacted FFPC in respect of its draft amendments to the Global Adjustment Regulation. I understand that Mr. Marc Abramovitz of your office was copied on some of the correspondence.

In keeping with past practice, the amendments to the Global Adjustment Regulation are consistent with the 1905 Agreement and the Supreme Court of Canada decision. For the months commencing after 2010, the IESO is told to allocate, monthly, the GAA among market participants based on the net volume of electricity withdrawn from the grid "without taking into consideration" three amounts, one of which is the "net volume withdrawn by [FFPC] under its physical bilateral contract with Abitibi-Consolidated Hydro Limited Partnership" (s.5(2)). The IESO is specifically told that it shall allocate no amount for a month to FFPC in respect of the net volume withdrawn by it under its physical bilateral (s.10(4)).

The amendments to the Global Adjustment Regulation then proceed to tell each distributor how to allocate its portion of the GAA to its various customers. With respect to Class B customers[3], FFPC is singled out. In section 15(8), the new Global Adjustment Regulation provides as follows:

> Fort Frances Power Corporation shall make such additional adjustments with respect to its Class B customers who do not have a contract with a retailer to ensure that, over time, those Class B consumers do not pay or receive any global adjustment in respect of the net volume of electricity withdrawn from the IESO-controlled grid by Fort Frances Power Corporation under its physical bilateral contract with Abitibi-Consolidated Hydro Limited Partnership.

This provision recognizes that Class B customers without retail contracts are eligible to receive the benefit under the 1905 Agreement and that customers receiving that benefit should not receive any global adjustment charge/credit with respect to the volume attributable to the 1905 Agreement.

Global adjustment regulatory accounting problem

When the Ministry made enquiries of FFPC this summer with respect to the Global Adjustment Regulation, Lori Cain, Cost & Regulatory Analyst at FFPC and Joerg Ruppenstein, President and CEO, revisited FFPC's methodology for accounting for global adjustment costs vis-à-vis customers eligible for the 1905 Agreement credit. They discovered that, although the IESO was properly eliminating a global adjustment cost on the 2.984 Megawatts as required by the Global Adjustment Regulation, FFPC has been essentially returning the benefit when FFPC "trues-up" the regulatory asset or liability with the IESO monthly to deal with RPP and non-RPP portions of the global adjustment.

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[3] Note that Fort Frances has no Class A customers, which are industrials, and does not foresee any in the near future.

In order to perform its monthly true-ups, FFPC has used the same method of regulatory accounting as other LDCs, that is, it has followed the guidance provided by the OEB in questions and answers related to charge types 101, 142 and 146 and accounts 1588 and 4705 (Questions 11 and 12).

Each month, as part of the true-up process, FFPC is supposed to recover from the IESO the global adjustment charge attributable to RPP customers. In calculating that amount, it has used the monthly amount of global adjustment costs assigned to FFPC and then deducted the non-RPP portion of FFPC's global adjustment costs to determine the remainder. This method is correct for LDC's who are assigned global adjustment costs on the full volume of power their customer's consume. But eligible FFPC customers are specifically, by law, not permitted to pay global adjustment costs on 2.984 Megawatts and, therefore, FFPC is not assigned global adjustment costs on that amount by the IESO.

Because of the way RPP is set, FFPC's RPP customers, like all others, initially pay global adjustment costs on the full volume of power they consume. As is clear from the Global Adjustment Regulation, however, an adjustment must be made because they should not pay global adjustment costs on 2.984 Megawatts. Therefore, when truing-up with the IESO each month, FFPC ought to be recovering from the IESO the full amount of the global adjustment costs paid by RPP customers, not simply a portion of FFPC's global adjustment amount. The difference (ie. the global adjustment cost savings on 2.984 Megawatts) should then to be credited to eligible FFPC customers as part of the credit received for the 1905 Agreement.

FFPC is dismayed that, since 2005, with respect to global adjustment costs, it appears to have inadvertently defeated the spirit of the 1905 Agreement of which it is the steward on behalf of the Town residents. FFPC would appreciate having a chance to meet with Board staff to discuss the problem. It is admittedly a complex accounting error. FFPC hopes that, once Ms. Cain has been able to discuss and explain the error, the OEB will recognize that eligible customers of FFPC have been inadvertently deprived of a benefit to which they are legally entitled. If OEB staff deems it advisable, FFPC would welcome an IESO representative at such meeting as, ultimately, the IESO will have to be called upon to rectify the problem in an appropriate manner if agreement is reached with the OEB.

I would appreciate hearing from you at your earliest convenience to set up a meeting to discuss the foregoing.

Please be advised that I will be moving my practice to Davis LLP effective November 8th, and I will be continuing to act for FFPC on this matter. My new contact information will be as follows:

kfriedman@davis.ca
Direct tel 416.369.5263
Direct fax 416.777.7418

Yours very truly,

Kelly Friedman

Kelly Friedman

c.c. Joerg Ruppenstein, President & CEO, Fort Frances Power Corporation