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BY EMAIL

February 3, 2011

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

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: Fort Frances Power Corporation
2011 IRM2 Distribution Rate Application
Board Staff Submission
Board File No. EB-2010-0128

In accordance with the Notice of Application and Written Hearing, please find attached the Board Staff Submission in the above proceeding. Please forward the following to Fort Frances Power Corporation and to all other registered parties to this proceeding.

In addition please remind Fort Frances Power Corporation that its Reply Submission is due by February 23, 2011.

Yours truly,

Original Signed By

Kelli Dobson
Analyst, Applications & Regulatory Audit

Encl.

Ontario

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2011 ELECTRICITY DISTRIBUTION RATES

Fort Frances Power Corporation

EB-2010-0128

February 3, 2011

Board Staff Submission
Fort Frances Power Corporation
2011 IRM2 Rate Application
EB-2010-0128

Introduction

Fort Frances Power Corporation ("FFPC") filed an application (the "Application") with the Ontario Energy Board (the "Board") on November 9, 2010 under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the distribution rates that FFPC charges for electricity distribution, to be effective May 1, 2011. The Application is based on the 2011 2nd Generation Incentive Regulation Mechanism.

The purpose of this document is to provide the Board with the submissions of Board staff based on its review of the evidence submitted by FFPC.

Staff has no concerns with the data supporting the updated Retail Transmission Service Rates proposed by FFPC. Pursuant to Guideline G-2008-0001, updated on July 8, 2010, staff notes that the Board will update the applicable data at the time of this Decision based on any available updated Uniform Transmission Rates.

Board Staff makes detailed submissions on the following matter:

- Smart Meter Funding Adder; and
- Review of Deferral and Variance Accounts.

Smart Meter Funding Adder

In its original application, FFPC proposed an increase in its smart meter funding adder from $1.00 to $4.00 per month per metered customer.

In its analysis of the smart meter model, and in interrogatories posed to FFPC, Board staff has identified the following errors in the smart meter model filed by FFPC:

- The model inadvertently ignores the short-term debt capitalization. This has been corrected on sheets 3 and 4.

- On sheets 3 and 4 the ROE has been updated to 0% and LT debt has been updated to 6.25%, corresponding to the approved cost of capital parameters in FFPC's last rebasing application.
- On sheet 4, the spreadsheet was calculating a revenue requirement for 2008, even though FFPC had no costs prior to 2009. This error has been corrected.
- On sheet 5 Board staff fixed an incorrect cell reference, as noted in the response to Board staff interrogatory #1, which affected the calculation of amortization expense in 2011.
- On sheet 6 the spreadsheet was linking to data from the wrong columns for 2008 and later years, for calculating UCC and average net fixed assets. On sheet 7, FFPC did not estimate funding adder revenues from August 2010 to April 2011. Staff addressed this issue in interrogatory #2. FFPC subsequently sent updated actuals/estimated for the period from August 2010 to April 2011, and Board staff has updated the model.

Board staff has revised the model to address these issues, which results in a revised smart meter funding adder of $3.90 per month per metered customer. The revised model is attached to this submission. Board staff invites FFPC to review the model and confirm its understanding of the revisions made when filing its reply submission.

One outstanding issue that staff still does not understand is the negative entries for funding adder revenues for certain months. In response to Board staff interrogatory #2a), FFPC explained that, "the funding adders are correct and that the negative revenues for Mar-08, Jan-09 and Feb-10 are a result for unbilled revenue adjustments for the previous year." This response would seem to indicate that FFPC made an accrual on the unbilled revenue and had overstated the amount of revenue they would receive from their customers. The negative entries appear to have corrected the overstatement. FFPC may wish to confirm this in its reply submission.

Board staff notes the total bill impact attributable to this proposed change alone (keeping all other proposals in the application as filed) is 3.2% for the residential class. While the Board has previously approved smart meter adders as high as $3.50 per meter per month for other LDC's, the Board may wish to consider whether an impact of greater than 2% is appropriate given that the funding adder is only a temporary funding tool to bridge the gap leading up to the next rebasing application or a stand-alone application involving a prudence review of the incurred costs for the installed meters.

Staff notes as an alternative, a $2.75 per metered customer per month adder would lead to a bill impact of under 2% for the residential class. In its reply submission, FFPC may wish to identify any implications if a lower funding adder from the level applied for, were approved.

Deferral and Variance Rate Rider

For purposes of 2011 IRM applications, the EDDVAR Report requires a distributor to determine the value of its December 31, 2009 Group 1 Deferral and Variance account total balance and determine whether the balance exceeds the preset disposition threshold of $0.001 per kWh using the 2009 annual kWh consumption reported to the Board. When the preset disposition threshold is exceeded, a distributor is required to file a proposal for the disposition of Group 1 account balances (including carrying charges) and include the associated rate riders in its 2011 IRM Rate Generator for the disposition of the balances in these accounts. The onus is on the distributor to justify why any account balance in excess of the threshold should not be cleared.

FFPC's total deferral and variance account balance as of December 31, 2009 is a credit balance of $348,403. The threshold calculation is $0.004220 /kWh. The outstanding balance is related to the period January 1, 2005 to December 31, 2009. Excluding the global adjustment sub-account, the total balance is a credit of $223,038. FFPC states in its manager summary that "FFPC has completed the Deferral and Variance Account workform to clear Group 1 accounts pursuant to the 2006 EDR Cost of Service application, with the exception of the Power 1588, Subaccount Global Adjustment as per Board recommendation for the Regulatory treatment of these assets as they relate to the Historical Mill Agreement, as directed by our counsel, Kelly Friedman, Davis LLP. An adjustment was made to remove the Global Adjustment Subaccount on workform D1.6 Deferral Variance – Continuity Schedule Final, Column B, $127,497, Column F, -$1232 with respect to Board direction. (Reference 1.7)"

Board staff notes that in response to Board staff interrogatory #3a), FFPC submitted a letter that FFPC sent to the Board's General Counsel in October 2010. The letter identified the basis for FFPC's request to defer the clearing of the global adjustment sub-account. The letter identified certain critical errors made by FFPC staff in recording amounts in the global adjustment sub-account for the period 2005 to 2009. Following its review of the letter, Board staff is in agreement with FFPC that the 1588 global adjustment subaccount should not be cleared at this time. Staff notes however that while Board staff advised to FFPC to request a deferral of the disposition of its global adjustment sub-account in its 2011 IRM application, the Board itself has not provided any recommendations or directions on this matter to FFPC.

Board staff also notes that the balances in the remaining Group 1 accounts do not reconcile to the Reporting and Record-keeping Requirements ("RRR") filed with the Board for the applicable years. The following is a table showing the differences in the accounts:

Account Description	Account Number	Total Closing Amounts as of Dec-31-09	RRR Filing Amount as of Dec-31-09	Difference
		A	C	D = A + B - C
LV Variance Account	1550	0		0
RSVA - Wholesale Market Service Charge	1580	(42,584)	(177,783)	135,199
RSVA - Retail Transmission Network Charge	1584	(62,602)	(73,008)	10,406
RSVA - Retail Transmission Connection Charge	1586	(537,224)	(698,397)	161,172
RSVA - Power (Excluding Global Adjustment)	1588	400,090	380,265	19,826
RSVA - Power (Global Adjustment Sub-account)	1588	(125,366)	(125,366)	0
Recovery of Regulatory Asset Balances	1590	21,897		21,897
Residual Balance Disposition and recovery of Def/Var Balances Account (2008)	1595	0		
Total		(345,788)	(694,289)	348,501

Staff notes that the total of the RRR balances is a credit of $694,289, as compared to the requested balance of a credit of $345,788. FFPC did not reconcile this difference in its application. Given the significant differences in the account balances and the concerns raised by FFPC with its accounting for the global adjustment sub-account, Board staff submits that the Group 1 accounts should not be disposed at this time. Staff notes that FFPC was scheduled to file a cost of service application for 2011 rates, but was granted a one year deferral by the Board. Based on a one year deferral, FFPC would be expected to file for a cost of service rate application for 2012 rates. Board staff submits that if the Board denies the disposition of balances, it should require FFPC to file a detailed reconciliation of its deferral and variance account balances and the balances that have been filed with the RRR.

Staff notes that if the Board denies the disposition of all Group 1 accounts and approves a smart meter funding adder of $2.75 per metered customer per month, the total bill impacts for a residential customer would be 2.5%, as compared to 1.5% in the original application.

Board staff notes that FFPC is requesting to clear the credit balance in the remaining Group 1 accounts over a 1 year period. Should the Board wish to dispose of the balances requested by FFPC, Board staff has no concerns with the time period requested for recovery.

All of which is respectfully submitted.