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BY E-MAIL

June 15, 2011

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

Dear Ms. Walli:

**Re: Kenora Hydro Electric Corporation Inc.
2011 Distribution Rates Application
Board Staff Comments on the Draft Rate Order
Board File No. EB-2010- 0135**

On June 7, 2011 Kenora Electric Corporation Inc. ("Kenora") filed a draft Rate Order as directed by the Ontario Energy Board (the "Board") in its EB-2010-0135 Decision dated May 25, 2011.

Board staff has reviewed Kenora's draft Rate Order and has the following comments.

Stranded Meters

In its Decision the Board directed Kenora to remove the Stranded Meters cost from rate base as of the opening balance for January 1, 2011. In making this adjustment, Kenora also revised its Capital Cost Allowance ("CCA") calculation by removing the net book value, in the amount of \$172,867, from the 2011 Undepreciated Capital Cost balance. All else being equal, this adjustment reduces the CCA utilized in the PILS calculation for 2011.

Board staff questions this treatment since it does not conform to tax rules applicable to situations when assets are disposed or retired from service. The Undepreciated Capital Cost tax balance should not be affected by the removal of the asset from plant accounting records. Any proceeds of disposition, such as scrap value, should be applied to reduce the applicable CCA class balance.

2011 Load Forecast

In its Decision, the Board approved a revised customer count and CDM target to be reflected in the 2011 load forecast. As compared to the prefiled evidence the customer counts for residential and GS<50 kW are to increase by 57 and 33 respectively and GS >50kW is to decrease by 5. The Decision determined that a CDM target reduction of 5.22 GWh was appropriate instead of the 1.23 GWh reflected in the prefiled evidence.

At page 3 of the draft Rate Order Kenora identified by rate class the adjustments to its 2011 load forecast to reflect the Board's findings. Board staff finds the quantum of some of the adjustments puzzling. For example, an increase of 1,223,757 kWh is associated with an additional 57 residential customers. This equates to an average use of 21,000 kWh per customer which is higher than would be expected. It is difficult to properly assess the reasonableness of the results and adherence with the Board's findings without knowing the actual calculations and/or steps that were used to calculate the adjustments. Board staff asks that Kenora review the adjustments shown on page 3 and include a step by step derivation and/or explanation in its reply.

Tariff of Rate and Charges

Board staff has reviewed the tariff sheet which was included with the draft Rate Order. Board staff suggests some wording changes to make it more consistent with tariff sheets currently approved by the Board for other utilities. Board staff also notes that the draft tariff sheet did not include a line under Specific Service Charges for Disconnect/Reconnect at customer's request (Meter). This was directed by the Board in its Decision.

A copy of the tariff sheet with the aforementioned edits indicated is enclosed. Board staff requests that Kenora review the attached tariff sheet and confirm the changes proposed by staff.

Other

For the record Board staff notes that the adjustment column in the Utility Income page of the Revenue Requirement Work Form, shown at page 33 of the draft Rate Order, contains what appear to be incorrect entries. For example, a reduction of \$717,162 is shown for Other Revenue. Board staff asks Kenora to confirm that this is typographical error with no impact on the resulting rates.

For the record, at page 18 line 2 of the draft Rate Order, the \$196,666 Smart Meter true-up balance is described as "originally filed". This amount is an updated number. The number originally filed was about \$137,000. Board staff asks Kenora to confirm that this is typographical error with no impact on the resulting rates.

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Please forward the attached to Kenora Hydro Electric Corporation Inc. and to all other registered parties to this proceeding.

Yours truly,

Original Signed By

Richard Battista
Project Advisor – Applications & Regulatory Audit