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BY E-MAIL

November 18, 2011

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

Dear Ms. Walli:

**Re: Algoma Power Inc.
2012 IRM Rate Application
Board Staff Interrogatories
Board File No. EB-2011- 0152**

Attached are the Board staff Interrogatories for the above mentioned proceeding.

Please forward the attached 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

**BOARD STAFF INTERROGATORIES
ALGOMA POWER INC.
2012 IRM RATE APPLICATION
EB-2011- 0152**

1) Ref: Managers Summary p.9 (Price Cap Adjustment)

The evidence states that “ Algoma is making this Application consistent with the Board's findings in its December 20, 2006 *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors*, the Board will use the annual percent change in the Implicit Price Index for National Gross Domestic Product (GDP-IPI) for Final Domestic Demand.”

- a) Please confirm that, save for RRRP related adjustments, the Application conforms with the Filing Requirements for Incentive Regulation Mechanism Rate Applications, dated June 22, 2011, and as such is filed as a 3rd Generation IRM Application.

2) Ref: Managers Summary p.9-10 (Price Cap Adjustment)

Algoma states that a 0.6% stretch factor, which is based on a comparison of operating costs per customer, is not valid for Algoma since it has the lowest customer density amongst the distributors save for Hydro One. Algoma also refers to the Board's EB-2007-0744 Decision where at p.3 the Board says that “.... conventional ratemaking practice cannot address the issues presented by this applicant...Conventional ratemaking cannot result in a rate that will cover the Company's costs, provide for a reasonable return on investment, while being reasonable from a ratepayers point of view....This is a high cost service area”. Algoma proposes that the midpoint value of 0.4% is the most suitable selection for a stretch factor.

- a) The above-noted excerpt from the EB-2007-0744 Decision is followed by the Board's observation that “The adoption of Regulation 445/07 (the “Reclassification Regulation”) and the amendment of Regulation 442/01 (the “RRRP Regulation”) were an effective response to the circumstances presented by Great Lakes Power Limited.” Please summarize the circumstances that Great Lakes Power Limited presented in the EB-2007-744 proceeding.

- b) Please provide a history, with outcomes, of the action Algoma, and its predecessor, took during the Board's development, consideration and determination of stretch factors to be utilized in the IR mechanism.
 - c) All else being equal, please calculate the impact on the proposed rates and level of RRRP, if a .6% as the stretch factor is utilized.
- 3) Ref: Managers Summary p.10 (Changes in Provincial and Federal Income Tax Rates, Schedule D and Excel spreadsheet)

Algoma uses a combined (Federal and Provincial) tax rate of 26.25% for 2012 to calculate its 2012 tax savings.

- a) Does the combined tax rate of 26.25% for 2012 reflect the Provincial Small Business tax reduction for the first \$500,000 of taxable income? If it does not, please explain why.
 - b) Is the filed Excel spreadsheet an unedited or unchanged version of the Board's IRM 3 Tax Savings Workform? If it is not an unedited or unchanged version, please provide a completed unedited IRM 3 Tax Savings Workform, in both pdf and live excel format.
- 4) Ref: Managers Summary p. 11 (Smart Meter Funding Adder)

Algoma proposes to maintain its existing Smart Meter funding Adder (\$1.00) with the addition of a sunset date of April 30, 2012 at which time Algoma states that it ought to be in a position to file for a final prudence review.

Please indicate by when (approximately) Algoma expects to file the application?

5) Ref: Managers Summary p.13 and Appendix C (Revenue-to-Cost Ratios)

Algoma proposes to adjust its class specific revenue to cost ratio in a manner consistent with IRM3 using the ranges for Ontario electricity distributors identified in the *Application of Cost Allocation for Electricity Distributors Report*, dated November 28, 2007. Algoma notes that those ranges were adapted to Algoma's customer class structure and approved by the Board in EB-2009-0278.

- a) Please confirm that the entries in the table below accurately reflect Algoma's evidence in this proceeding.

Revenue to Cost Ratios			
	2011 (EB-2009-0278)	Proposed 2012	Range
Residential R-1	114.1%	112.30%	85%-115%
Residential R-2	59.8%	64.85%	80%-180%
Seasonal	115.0%	113.20%	85%-115%
Streetlighting	43.0%	49.75%	70%-120%

The IRM3 filing requirements (Chapter 3 of the Filing Requirements for Transmission and Distribution Applications dated June 22, 2011) at page 24 state that "changes to revenue-to-cost ratios, other than pursuant to a prior Board decision" are to be excluded from the IRM application process.

- b) Is Algoma relying on any prior decisions of the Board that specifically approve or prescribe a phase-in period to adjust Algoma's Revenue-to-Cost Ratios so as to move them within range? If so, please provide the applicable excerpt.

6) Ref: p. 26 Schedule C (Distribution Rate Indexing Methodology)

The evidence states that the Residential-1 and Seasonal Classes are the co-beneficiaries of the proposed changes in 2012 to the Revenue to Cost ratios for Residential 2 and Street lighting classes.

- a) On what basis was the benefit (resulting decrease in revenue to be recovered in rates) allocated between the Residential 1 and Seasonal classes?
- b) Please provide the calculation details.

7) Ref: Schedule C (API Distribution Rate Indexing Methodology)

- a) The calculations, and resulting rates, presented in Schedule “C” reflect proposed changes in the Revenue to Cost ratios, as compared to the ones approved in the EB-2009-0278 Decision. Please redo Schedule C on the basis that there are no changes in the Revenue-to-Cost ratios in 2012.

8) Ref: Managers Summary p.13 (Retail Transmission Service Rates (“RTSR”)

Please complete and file the 2012 RTSR Adjustment Workform, in both pdf and live excel format.

9) Ref: Schedule F (Deferral and Variance Account Disposition) 2nd Amendment to Application dated October 13, 2011

- a) Please confirm that there is no amount recorded in the 2010 closing balance for account 1562 (Deferred Payments in Lieu of Taxes) as presented in the Continuity Schedule included in the evidence.
- b) Please confirm that Algoma’s RRR 2.1.7 filing for 2010 shows a credit of \$273,002 in D/V account 1562 (Deferred Payments in Lieu of Taxes).
- c) Please provide a complete explanation as to the nature of the \$273,002 credit, including the reason why it does not appear in the D/V account 1562 shown in the Continuity Schedule.
- d) In its letter dated September 9, 2011 Board staff provided further guidance to distributors related to clearing account 1562 deferred PILs balances with respect to the Board’s Decision and Order in the EB-2008-0381 Account 1562 Deferred PILS Combined Proceeding. Please explain why Algoma has not filed the tax deferral account reconciliations.