Algoma Power Inc.
A FORTIS ONTARIO Company

November 23, 2011

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

Dear Ms. Walli:

RE: 2012 ELECTRICITY DISTRIBUTION RATE APPLICATION FOR ALGOMA POWER INC. ("API") – EB-2011-0152
INTERROGATORY RESPONSES

Please find accompanying this letter two (2) copies of API's responses to the interrogatories submitted to the Board by Board Staff. In addition, electronic copies of the EXCEL and PDF format files requested in the interrogatories accompany the interrogatories.

PDF and XLS versions of these responses will, coincidently with this written submission, be filed via the Board's Regulatory Electronic Submission System.

If you have any questions in connection with the above matter, please do not hesitate to contact the undersigned at (905) 994-3634.

Yours truly,

Original signed by:

Douglas R. Bradbury
Director, Regulatory Affairs

Enclosures

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Algoma Power Inc.
Responses to
Board Staff Interrogatories
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.

Response

a) API can not categorically say that 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 ("IRM3") save for RRRP Adjustments. There has been an attempt made in the Application to mimic the 3rd Generation IRM and where possible abide with the filing requirements. API worked with the intervenors of record in EB-2009-0278 to develop this incentive regulation model.

The application if the price index is consistent with IRM3. In order to apply the price index effectively in API and to maintain O. Reg. 442/01 integrity the price cap must be applied to the revenue requirement with rates for RRRP and Non-RRRP customer classes developed separately. The IRM3 model applies the price index to the most recently approved rates to produce the IRM3 distribution rates.

The Application also deviates from the filing requirements with the development of the RSTR rates. API implemented RTSRs approved in EB-

2009-0278 effective December 2010. Therefore, the approved corrections made in API's cost of service application to adjust its RTSR revenues to match the Uniform Transmission Rates ("UTR") invoicing from the IESO and to account for changes to the UTR were not reflected in the 2010 RTSRs invoiced to its customers. Had API completed and submitted the Board's 2011 RTSR Adjustment Workform, it would propose additional adjustments to those RTSRs approved by the Board and implemented in December 2010. This would have the effect of compounding adjustments based historical trends in the RTSR variance and introduce future variances.

Accordingly, API will utilize the Board's RTSR Adjustment Workform in a future application when current transmission rates charged by the IESO are aligned with the most recent RTSRs charged by API.

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 its 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.

Response

a) In its decision in the matter of EB-2007-0744, the Board describes the circumstances faced by API on pg 3.

GLPL presents a unique challenge for the Board. In reviewing the record for this case and examining the history of this applicant before the Board it has become clear 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 ratepayer's point of view.
This circumstance arises directly out of the characteristics of the Applicant's

service area. The Applicant's service area is more than twice the area of the greater Toronto area. It has less than 12,000 customers and has the lowest customer/kilometer ratio in Ontario with only 6.7 customers per kilometer on average. 99.9% of its service area is rugged and sparsely populated wilderness. Its service area is characterized by long runs of distribution wire between customers.
This is a high cost, low revenue service area.

The circumstances can be summarized as:

1. API has a large service territory 14,000 sq km. This is a land mass that represents approximately 1.5% of the total land mass in Ontario.
2. API has a low number of customers relative to its size. Less than 9/100ths of 1% of Ontario's population resides in this area of the province.
3. API requires a large asset base in order to service this population, with over 1,800km of distribution line and numerous distribution substations.
4. Traditional rate making would result in a set of rates that would not be reasonable from a ratepayer's perspective.

The application in the matter of EB-2007-0744, API described, and justified its cost of service and it was understood by the Board to be a high cost utility. In that application the use of regulations 442/01 and 445/07 were proposed and accepted. The purpose of the regulations was to ensure that rates to a majority of customers would be reasonable.

b) Prior to EB-2009-0278, API (or its predecessor) understood that conventional rate making could not address the issues that faced API. During the EB-2007-0744 proceeding, the company answered a number of questions regarding the application of IRM. At that time, it understood that the way rates would be adjusted was through the use of a cost of service application and use of methodology described in regulation 442/01. All efforts made by the company in regards to rates were to see the implementation of the RRRP regulations. API did not believe that IRM would be applicable to the utility and did not pursue an adjustment to its grouping or its stretch factor allocation.

During EB-2009-0278, it became evident that both intervenors and the Board staff desired the application of IRM for API. As a result of the settlement process, API agreed to propose an application using the principle of incentive regulation and seek input from the intervenors prior to filing. API turned its mind for the first time to the implementation of incentive regulation in the context of its non traditional rate making during 2011. API is now suggesting that the stretch factor that had been assigned is not appropriate. Using cost based information, the benchmarking study results in API being a high cost utility.

The Board has previously recognized that due to circumstance of its geography, API is a high cost utility. This recognized high cost has not been associated with productivity; it is a function of geography, customer density and rugged heavily forested terrain.

The remedy afforded by regulation 442/01 and 445/07 is a remedy that addresses rates; it has no effect on the costs incurred by API to maintain its distribution system and deliver energy to its customers.

Given the Boards conclusions regarding API's high cost, it would prejudice the utility and set it at a disadvantage to suggest that it should have the highest productivity stretch factor. Given no other alternative at this time, seeking a mid point productivity factor is both reasonable and appropriate given the unique circumstances of API.

c) All else being equal, the impact on proposed rates and RRRP Funding is provided below:

Customer Class	**Rate Component**	**Stretch Factor**	
		0.4%	**0.6%**
Residential R1	Fixed per customer	21.29	21.29
	Variable per Kwh	0.0299	0.0299
Residential R2	Fixed per customer	596.12	596.12
	Variable per kW	2.6574	2.6574
Seasonal	Fixed per customer	25.85	25.80
	Variable per kWh	0.0994	0.0992
Street Lighting	Fixed per connection	.0.97	0.97
	Variable per kWh	0.1815	0.1812
RRRP Funding	$	11,465,810	11,431,205

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.

Response

a) The 2012 combined income tax rate of 26.25% does not reflect the Ontario Small Business Deduction ("OSBD").

   API is a wholly-owned subsidiary of FortisOntario Inc. who is a wholly-owned subsidiary of Fortis Inc. Fortis Inc.'s shares are listed on the Toronto Stock Exchange and traded under the symbol FTS and thus, Fortis Inc. is considered a public corporation under the Income Tax Act. API is considered a corporation controlled by a public corporation under the Income Tax Act. API is not considered a Canadian-controlled private corporation (CCPC) because it is owned indirectly by a public corporation. To be eligible for the OSBD a corporation must be a CCPC. Algoma Power Inc. does not qualify for the OSBD.

   In any event, should have API been eligible for the OSBD, the surtax re: OSBD would have fully clawed back the OSBD as API's taxable income is greater than $1.5 million.

b) The Excel spreadsheet filed with API's Application is an edited version of the Board's IRM3 Tax Savings Workform. It was necessary to file an edited Tax Savings Workform because the Board's IRM 3 Tax Savings Workform does not accommodate circumstance described in part a) above.

   API is providing an unedited IRM3 Tax Savings Workform, in both pdf and live excel format together with these responses. Note that the unedited form of the Board's 2012 IRM3 Tax Savings Workform does not properly accommodate API's customer classes; the legend provided below is intended to assist.

Tab 3. Re-Based Bill Det & Rates

Tax Savings Workform		**API Rate Order**
Rate Group	**Rate Class**	**Rate Class**
RES	Residential	Residential R1
GSGT50	General Service 50 to 4,999 kW	Residential R2
RES	Residential Suburban Seasonal	Seasonal
GSLT50	General Service Less Than 50 kW	Street Lighting

Further, the Board's 2012 IRM3 Tax Savings Workform selects "Customer" has the fixed metric for API's Street Lighting Class; the proper metric is "Connection".

API did not file the Board's 2012 IRM3 Tax Savings Workform as evidence in its Application because it does not properly calculate the Corporate Tax Rate for API and subsequently does not determine the correct rate rider. API has detailed the reason for this in part a) of this response. The correct 2012 Corporate Tax Rate for API is 26.25%.

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?

Response

API will have audited 2011 smart meter costs midway through the first quarter and will file for a final prudence review late in the first quarter or early in the second quarter of 2012.

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 indentified 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.

Response

a) API confirms that the entries in the table above accurately reflect Algoma's evidence in this proceeding.

b) No, API is not 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.

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.

Response

a) The benefit was allocated between Residential R1 and Seasonal classes as both of these classes have revenue to cost ratios exceeding unity. The benefit was applied evenly on a percentage basis.

b) The actual calculation was performed using the Goal Seek function in EXCEL.

Rate Class	Starting Point	Proposed	Change
Residential R1	114.1%	112.3%	1.8%
Seasonal	115.0%	113.2%	1.8%

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.

Response

Schedule "C"

API 2012 Distribution Rate Indexing Methodology

Amended as per the Requirements Of Board Staff Interrogatory No. 7

The 2011 Board Approved Rate Design, EB-2009-0278

The starting point for 2012 electricity distribution rate design is the fully allocated Board Approved 2011 revenue requirement. The table shown below is the Board approved 2011 revenue requirement of $19,828,731[1].

Board Approved EB-2009-0278
Equivalent Distribution Rates

2011 Distribution Base Rate Determination											
Customer Class	Metric	Average # of Customers	Billing Determinant		F/V Split		Distribution Rates		Revenues		
			kWh	kW	Fixed Allocation	Variable Allocation	Monthly Service Charge	Variable Charge	Fixed	Variable	Total Revenue
Residential - R1	kWh	8039	106,119,297		13.6%	86.4%	20.41	0.1174	1,968,810	12,458,170	14,426,980
Residential - R2	kW	48		151,952	12.0%	88.0%	596.12	16.5559	343,365	2,515,702	2,859,067
Seasonal	kWh	3660	12,622,297		43.8%	56.2%	24.00	0.1073	1,054,008	1,354,803	2,408,811
Street Lighting	kWh	1052	791,996		0.0%	100.0%	-	0.1690	-	133,872	133,872
									3,366,183	**16,462,548**	**19,828,731**

[1] EB-2009-0278 Approved Draft Rate Order, November 22, 2010, Appendix B

The equivalent distribution rates shown in this table are those rates required to recover the revenue requirement in the absence of the RRRP funding and represent the full allocation to the customer classes.

Price Cap Indexing of Equivalent Distribution Rates

In order to price cap the current equivalent distribution rates assumption of key indices are required. API acknowledges that the Board will update these indices in a timely manner as appropriate data becomes available. For purposes of rate design, API has estimated the following metrics.

Incentive Regulation Price Cap Metrics	
RRRP Adjustment Factor (estimated)	1.75%
Implicit Price Index (estimated)	1.80%
Productivity Factor	0.60%
Stretch Factor (mid point)	0.40%
Price Cap Index (calculated)	0.80%

The following table provides the equivalent distribution rates for the 2012 rate year determined on the basis of these estimated metrics. The fixed and variable rate components have been indexed by the calculated price cap index of 0.8%. The customer counts, load volumes and respective revenue allocations to the classes are those approved by the Board for 2011 in EB-2009-0278. The resultant price capped revenue requirement for 2012 is $19,987,361.

Application of Incentive Regulation Price Cap to Equivalent Distribution Rates
Price Cap Index (Estimated) 0.80%

2012 Distribution Price Indexed Electricity Distribution Rates											
			Billing Determinant		F/V Split		Distribution Rates		Revenues		
Customer Class	Metric	Average # of Customers	kWh	kW	Fixed Allocation	Variable Allocation	Monthly Service Charge	Variable Charge	Fixed	Variable	Total Revenue
Residential - R1	kWh	8039	106,119,297		13.6%	86.4%	20.57	0.1183	1,984,560	12,557,836	14,542,396
Residential - R2	kW	48		151,952	12.0%	88.0%	600.89	16.6883	346,112	2,535,828	2,881,940
Seasonal	kWh	3660	12,622,297		43.8%	56.2%	24.19	0.1082	1,062,440	1,365,642	2,428,082
Street Lighting	kWh	1052	791,996		0.0%	100.0%	-	0.1704	-	134,943	134,943
									3,393,112	**16,594,248**	**19,987,361**

Revenue to Cost Ratio Update

In EB-2009-0278, the Board approved the following class revenue to cost ratios.

Customer Class	Board Approved Revenue to Cost Ratio
Residential R - 1	114.1%
Residential R - 2	59.8%
Seasonal Customers	115.0%
Street Lighting	43%

For 2012, API proposes no change to these ratios. The target revenue to cost ratios for the 2012 rate year are shown in the table below.

Customer Class	2012 Rate Year Targets
Residential R - 1	114.1%
Residential R - 2	59.8%
Seasonal Customers	59.8%
Street Lighting	43%

The following table outlines the derivation of the 2012 proposed revenue to cost ratios. The ratios are based on the Board approved 2011 cost allocation and are applied to the 2012 price capped revenue requirement shares of the four classes.

Adjustment to the 2011 Board Approved Revenue to Cost Ratios

2011 Cost Allocation Results									
	Cost Allocation Revenue Requirement	Revenue Requirement Allocation Percentage	Cost Allocation Misc.	Cost Allocation Misc. Percentage	2011 Service Revenue Requirement	2011 Misc. Revenue	2011 Base Revenue Requirement		
Residential - R1	12,066,293	63.7%	217,490	63.4%	12,876,372	234,623	12,641,749		
Residential - R2	4,569,290	24.1%	88,133	25.7%	4,876,052	95,075	4,780,977		
Seasonal	1,995,675	10.5%	32,431	9.5%	2,129,655	34,986	2,094,669		
Street Lighting	296,807	1.6%	5,003	1.5%	316,734	5,397	311,336		
	18,928,065	100.0%	343,057	100.0%	20,198,813	370,082	19,828,731		

Board Approved 2011 Base Distribution Rate Cost Allcation Design									
	2011 Approved Revenue @ 100% R|C	Revenue Proportions @ 100% R|C	Approved Proportion of Revenue	Base Revenue @ Approved Proportion	Over/(Under) Contributing	Approved Revenue to Cost Ratio	2011 Cost Allocation R|C	Board's Guideline	Target R|C Ratio
Residential - R1	12,641,749	63.8%	72.8%	14,426,980	1,785,231	114.1%	116.7%	85-115%	Beneficary
Residential - R2	4,780,977	24.1%	14.4%	2,859,067	(1,921,909)	59.8%	39.5%	80-180%	59.8%
Seasonal	2,094,669	10.6%	12.1%	2,408,811	314,142	115.0%	149.9%	85-115%	115.0%
Street Lighting	311,336	1.6%	0.7%	133,872	(177,464)	43.0%	15.9%	70-120%	43.0%
	19,828,731	100.0%		19,828,731					

Proposed 2012 Base Distribution Rate Cost Allocation Design									
	2012 Forecasted Revenue @ 100% R|C	Revenue Proportions @ 100% R|C	Proposed Proportion of Revenue	Base Revenue @ Proposed Proportion	Over/(Under) Contributing	Proposed Revenue to Cost Ratio	2010 Cost Allocation R|C	Board's Guideline	Target R|C Ratio
Residential - R1	12,742,883	63.8%	72.8%	14,542,396	1,799,513	114.1%	116.71%	85-115%	Beneficiary
Residential - R2	4,819,225	24.1%	14.4%	2,881,940	(1,937,285)	59.8%	39.52%	80-180%	64.9%
Seasonal	2,111,427	10.6%	12.1%	2,428,082	316,655	115.0%	149.94%	85-115%	Beneficiary
Street Lighting	313,827	1.6%	0.7%	134,943	(178,884)	43.0%	15.92%	70-120%	49.7%
	19,987,361	100.0%	100.0%	19,987,361					

The resultant class revenue to cost ratios are shown below.

Customer Class	Proposed 2012 Revenue to Cost Ratios
Residential R - 1	114.1%
Residential R - 2	59.8%
Seasonal Customers	59.8%
Street Lighting	43%

Derivation of 2012 Proposed Distribution Rates and 2012 RRRP Funding Amount

By virtue of O. Reg. 442/01, the Residential R – 1 and Residential R – 2 distribution rates are the currently approved rates adjusted by the RRRP Adjustment Factor, as determined by the Board.

In this rate design, API has estimated the RRRP Adjustment Factor for 2012 to be 1.75%. API acknowledges that the Board will apply the appropriate RRRP Adjustment Factor when the data becomes available.

Determination of Residential R1 & R2 2012 Distribution Rates and RRRP Funding

2012 Distribution Base Rate Determination											
			Billing Determinant		F/V Split		Distribution Rates		Revenues		
Customer Class	Metric	Average # of Customers	kWh	kW	Fixed Allocation	Variable Allocation	Monthly Service Charge	Variable Charge	Fixed	Variable	Total Revenue
Residential - R1	kWh	8039	106,119,297		13.6%	86.4%	20.57	0.1183	1,984,560	12,557,836	14,542,396
Residential - R2	kW	48		151,952	12.0%	88.0%	600.89	16.6883	346,112	2,535,828	2,881,940
									2,330,672	**15,093,664**	**17,424,336**
Application of Rate Indexing Methodology											
Delivery Charges Indexed by Simple Average of Other LDC Increases in Current Year											
Simple Average Increase in Delivery Charge for 2012 using the Board Determination											**1.75%**
			Billing Determinant		F/V Split		Distribution Rates		Revenues		
Customer Class	Metric	Average # of Customers	kWh	kW	Fixed Allocation	Variable Allocation	Monthly Service Charge	Variable Charge	Fixed	Variable	Total Revenue
Residential - R1	kWh	8039	106,119,297		39.3%	60.7%	21.29	0.0299	2,053,427	3,174,506	5,227,933
Residential - R2	kW	48		151,952	46.8%	53.2%	606.55	2.6178	349,374	397,784	747,158
Hold Residential - R2 Fixed Charge at $596.12					46.0%	54.0%	596.12	2.6574	343,365	403,792	747,158
									2,396,793	**3,578,298**	**5,975,091**
The Rural and Remote Rate Protection Amount Required for 2012											**$11,449,245**

The class revenue shares have been allocated on the basis of the updated revenue to cost ratios for these classes. The RRRP Funding amount for 2012 has been calculated at $11,449,245. It is the difference between the revenue allocated to these classes and the revenue recovered at the adjusted distribution rates.

Rates for the Seasonal and Street Light customer classes are determined on the basis of the revised revenue to cost ratios and the application of the Price Cap

Index. API acknowledges that the Board will apply the appropriate Price Cap when the data becomes available. The rate determination is shown below.

Determination of Seasonal and Street Lighting Distribution Rates

2012 Distribution Base Rate Determination											
			Billing Determinant		F/V Split		Distribution Rates		Revenues		
Customer Class	Metric	Average # of Customers	kWh	kW	Fixed Allocation	Variable Allocation	Monthly Service Charge	Variable Charge	Fixed	Variable	Total Revenue
Seasonal	kWh	3660	12,622,297		47.5%	52.5%	26.26	0.1010	1,153,339	1,274,743	2,428,082
Street Lighting	kWh	1052	791,996		0.0%	100.0%	-	0.1704	-	134,943	134,943
Street Lighting					9.1%	90.9%	0.97	0.1550	12,216	122,727	134,943
									1,165,555	**1,397,470**	**2,563,025**

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.

Response

a) API implemented RTSRs approved in EB-2009-0278 in December 2010. Therefore, the approved corrections made in API's cost of service application to adjust its RTSR revenues to match historical Uniform Transmission Rates ("UTR") invoicing from the IESO and to account for changes to the UTR were not reflected in the 2010 RTSRs invoiced to its customers. Should the Board elect to implement further changes using the Board's 2012 RTSR Adjustment Workform, these additional adjustments to those RTSRs approved by the Board and implemented in December 2010 will have the effect of compounding adjustments based historical trends in the RTSR variance and introduce future year variances. The only changes that ought to be made arising from this Application are those rate changes arising from changes in the UTR.

A completed 2012 RTSR Adjustment Workform, in both pdf and live excel format accompanies API's responses to Board Staff Interrogatories.

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.

Response

a) API confirms 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) API confirms 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) API has chosen not to dispose of account 1562 (Deferred Payments in Lieu of Taxes) in this application. For this reason it did not show the credit balance of $273,002.

d) The main consideration in API's choice to defer the matter stems from the Board's statement on page 28 of the Decision and Order of its Decision and Order in the matter of EB-2008-0381, the Deferred PILs Combined Proceeding, where the Board stated,

> *"If the distributor files evidence in accordance with all the various decisions made in the course of this proceeding, including the use of the updated model referenced above and certifies to that effect, the distributor may expect that the determination of the final account balance will be handled expeditiously and in a largely administrative manner.*
>
> *Distributors are of course able to file on a basis which differs from that which is contemplated by the decisions in this proceeding. In that event, the application can be expected to take some time to process, and therefore, **should not be made as part of an IRM application**."* [Emphasis Added]

API believes that it will be required to file on a basis which differs significantly from that which is contemplated by the decisions in the Deferred PILs Combined Proceeding. API is a corporation controlled by a public corporation and as such is subject to federal income tax rules. API does not pay PILs.

Subsequent to its acquisition by FortisOntario API has filed a federal income tax return. Prior to the acquisition, API (formerly Great Lakes Distribution) was affiliated otherwise. Disposition of account 1562 (Deferred Payments in Lieu of Taxes) will require examination of evidence which predates the acquisition. It is for these reasons that API will likely have to file evidence that differs significantly from that which was contemplated by the Board's Decision in EB-2008-0381.

API believes that disposition of its Account 1562, Deferred Payments in Lieu of Taxes, cannot be dealt with expeditiously in an administrative manner should not be made as part of this application.