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 the Vulnerable Energy Consumers Coalition.

PDF 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

2 Sackville Road, Suite A • Sault Ste. Marie, Ontario P6B 6J6
Tel: 705-759-7600 • Fax: 705-253-9896 • www.algomapower.com

Algoma Power Inc.
Responses to
VECC Interrogatories
EB-2011-0152

VECC Question # 1

Reference: Preamble, Page 7

Preamble: Algoma Power Inc. (API) indicates that it is proposing a form of incentive regulation that combines aspects of the Incentive Regulation Mechanism ("IRM") with the adjustment of electricity distribution rates contemplated on O. Reg. 442/01.

a) Please confirm if API is proposing a form of incentive regulation based on IRM2 (per page 10 of the Manager's Summary) or IRM3 (per the Incentive Regulation Price Cap Metrics provided on Page 26 of Appendix C).

b) Regardless of whether the values are based on IRM2 or IRM3, please update the values to IRM3 based on the Board's letter of November 10, 2011.

Response

a) On May 25, 2011, API circulated a proposal to all intervenors of record in the matter of EB- 2009-0278 and to Board staff. On the basis of the comments received from the intervenors and from Board staff, API modified its proposal and met with intervenor representatives in Toronto on August 11, 2011. The price cap and rate setting methodology used in this Application is premised on the outcome of that meeting and the previous discussions. VECC together with the School Energy Coalition ("SEC") contributed significantly to the development of the form of the incentive regulation put forth in this Application.

   From the point of view of the price cap index formula, the Application conforms to the methodology employed in IRM3.

b) API acknowledges that the Board has announced the price escalator (or inflation index) for the 3rd Generation Incentive Regulation mechanisms for adjusting electricity distribution rates effective January 1, 2012. API also agrees that the Board may update API's Application using this information.

Shown on the following page is a reproduction of the "Allocated Revenues" Tab from the Rate Design Module file as part of the Application. This shows the effect that a price escalator to 1.7% has on the current application before the Board. Until such time as the Board produces the 2011 RRRP Adjustment Factor it would be premature to complete the entire rate design.

Board Approved EB-2009-0278
Equivalent Distribution Rates

2011 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%	20.41	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**

Incentive Regulation Price Cap Metrics	
RRRP Adjustment Factor (estimated)	1.75%
Implicit Price Index (estimated)	1.70%
Productivity Factor	0.60%
Stretch Factor (mid point)	0.40%
Price Cap Index (calculated)	0.70%

Application of Incentive Regulation Price Cap to Equivalent Distribution Rates
Price Cap Index (Estimated) 0.70%

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%	20.55	0.1182	1,982,591	12,545,377	14,527,969
Residential - R2	kW	48		151,952	12.0%	88.0%	600.29	16.6718	345,769	2,533,312	2,879,081
Seasonal	kWh	3660	12,622,297		43.8%	56.2%	24.17	0.1081	1,061,386	1,364,287	2,425,673
Street Lighting	kWh	1052	791,996		0.0%	100.0%	-	0.1702	-	134,810	134,810
									3,389,746	**16,577,786**	**19,967,532**

VECC Question # 2

Reference: Chapter 3 Filing Guidelines, Section 2.1, Price Cap Index Adjustment, Page 8

Preamble: The value of the stretch factor is specific to each distributor for each rate year, and will be one of the following values: 0.2%; 0.4%; or 0.6%. The Board will determine each distributor's stretch factor.

a) Please indicate the cohort/stretch factor value that applies to API for 2012. If not available, please provide API's latest stretch factor ranking.

Response

a) API (or its predecessor) has not previously participated in incentive regulation so there is no latest stretch factor that has been applied to API.

API serves over 11,500 electricity distribution customers in an area of more than 14,200 square kilometers in a remote area of Northern Ontario, north and east of the City of Sault Ste. Marie. API has less than one customer per square kilometer of service territory. To give this some perspective, the driving distance from Sault Ste. Marie to Dubreuilville to service one customer is in excess of 300 kilometers or approximately 4 hours driving in fine weather with favourable road conditions. As a result, API is required to maintain long lengths of distribution lines which traverse the Boreal Forest of northern Ontario.

API maintains that it has no valid comparator amongst the group of LDCs in Ontario. API has put forth a rate design utilizing the midpoint, 0.4% as the stretch factor. It may very well be true that the proper choice should be 0.2%.

This matter is discussed in more detail in the response to Board Staff Interrogatory No. 2.

VECC Question # 3

Reference: Manager's Summary, Page 14

Preamble: API proposes to incrementally move the Residential R-2 and Street Lighting customer classes toward the lower boundary of the range in four equal steps; 25% of the gap between the current revenue to cost ratio to the respective lower boundary.

a) Please provide the prior Board approval regarding API's proposed adjustments to these revenue to cost ratios, or confirm that API is proposing these adjustments as part of this Application?

Response

b) The Board did not make an order with respect to the revenue to cost ratio in its Decision and Order in the matter of EB-2009-0278.

API had proposed revenue to cost ratio adjustments as part of its Application. API will follow the Board's direction in this matter.

VECC Question # 4

Reference 1: Chapter 3 Filing Guidelines, Section 3.2, Page 19

Reference 2: Appendix C, Page 27 to 28

Preamble: The Chapter 3 Filing Requirements indicate that the Board's Supplemental Filing Module and Rate Generator include schedules for a distributor to effect revenue-to-cost ratio adjustments previously approved by the Board. The process adjusts base distribution rates for revenue to cost ratio changes before the application of the price cap index.

On pages 27 and 28 of Appendix C, API calculates a price capped revenue requirement for 2012 prior to adjusting the revenue to cost ratios.

a) Please provide the rationale for applying the price cap index prior to adjusting the revenue to cost ratios.

b) Please re-do the calculations with the revenue to cost ratio adjustment prior to applying the price cap index.

Response

a) Ontario Regulation 442/01 requires that the Residential R1 and R2 rates be adjusted in accordance with the RRRP Adjustment Factor as determined by the Board. As a result of implementation of the RRRP Adjustment Factor, which adjusts the previously approved rates, it is necessary to return to the equivalent rates in the previous Board approved cost of service application in order to effect a change in the revenue to cost ratios of the individual customer classes.

   This was the agreed upon methodology arising from the face to face discussions between API, VECC and SEC.

b) As explained in part a) of this interrogatory adjusting revenue to cost ratio prior to applying the price cap index will alter the previously approved rates in invalidate the application of the RRRP Adjustment Factor.

VECC Question #5

Reference: 2012 IRM Revenue to Cost Ratio Adjustment Workform

Preamble: The Board's practice has been to calculate and adjust revenue to cost ratios to the proposed values using the re-based Service Revenue Requirement allocated to each class and the Total Revenues (i.e., base revenues plus revenue offsets) allocated to each customer class. The revenue offsets are then removed and the resulting base revenue requirement is used to calculate rates based on the fixed and variable component applicable to each rate class.

a) Please provide the rationale for using the re-based base revenue requirement in the revenue to cost ratio adjustment calculation.

b) Please re-calculate the impact of the revenue to cost ratio adjustments using the total Service Revenue Requirement as the basis for the adjustments and provide the resulting rates and RRRP.

c) Please provide a second version of this calculation where (per Question #4) the revenue to cost ratio adjustment is performed prior to applying the price cap index.

Response (To All Parts)

As explained in Question # 4, Ontario Regulation 442/01 is a predetermining and overriding consideration in rate design for API.

In Question # 1, VECC asked if it was an IRM2 or IRM3 application and the answer is neither. It should be recognized that the current form of IRM will not produce rates for API that satisfy O. Reg. 442/01. This is why API worked with the intervenors of record in EB-2009-0278 to propose a form of incentive regulation ("IR") that was consistent with IRM3 principles but would produce rates that are compliant with O. Reg. 442/01 and would allow the Board to apply the RRRP Adjustment Factor on an annual basis be it either cost of service or incentive regulation.

The methodology proposed is the outcome of discussions initiated by API with the intervenor community to produce an IR application for API. VECC was an active participant in those deliberations. What is being suggested here was discussed at these stakeholder sessions and ruled out because of the requirements of O. Reg.442/01. Applying revenue to cost revenue adjustments in the conventional manner alters base rates in a manner not contemplated in O. Reg. 442/01.