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Michael Buonaguro
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December 08, 2011

VIA MAIL and E-MAIL

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge St.
Toronto, ON
M4P 1E4

Dear Ms. Walli:

Re: Vulnerable Energy Consumers Coalition (VECC)
Algoma Power Inc. EB-2011-0152
Final Submissions of VECC

Please find enclosed the submissions of VECC in the above-noted proceeding. We have also directed a copy of the same to the Applicant.

Thank you.

Yours truly,

Michael Buonaguro
Counsel for VECC
Encl.

cc: Algoma Power Inc.
Mr. Douglas R. Bradbury
Mr. R. Scott Hawkes

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EB-2011-0152

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15 (Schedule B), as amended;

AND IN THE MATTER OF an Application by Algoma Power Inc. for an order or orders approving or fixing just and reasonable distribution rates to be effective January 1, 2012.

FINAL SUBMISSIONS

On Behalf of The

Vulnerable Energy Consumers Coalition (VECC)

December 8, 2011

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Vulnerable Energy Consumers Coalition (VECC)

Final Argument

1 The Application

1.1 Algoma Power Inc. ("API", "the Applicant", or "the Utility") filed an application ("the Application") with the Ontario Energy Board ("the Board" or "the OEB"), under section 78 of the *Ontario Energy Board Act, 1998* for electricity distribution rates effective January 1, 2012. The Application was filed in accordance with the OEB's guidelines for 3rd Generation Incentive Regulation which provides for a mechanistic and formulaic adjustment to distribution rates between cost of service applications.

1.2 The applied for rates include the impact of the Rural and Remote Rate Protection funding, pursuant to Ontario Regulation 442/01, and adjustments to revenue to cost ratios. The following sections set out VECC's final submissions regarding these two aspects of the application.

2 Revenue to Cost Ratios

2.1 In EB-2009-0278, the Board approved revenue to cost ratios. In the current application, API proposes to modify these ratios. Specifically, 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.

2.2 The Board's updated Chapter 3 of the Filing Requirements for Transmission and Distribution Applications dated June 22, 2011 provides guidance on adjustments to revenue to cost ratios during the IRM3 process. The guidelines state:

The process The IRM application process is intended to streamline the processing of a large volume of rate adjustment applications, and is therefore mechanistic in nature. For this reason, the Board has determined that the IRM process is not the appropriate venue by which a distributor should seek relief on issues which are substantially unique to an individual distributor or more complicated and potentially contentious. The following are examples of specific exclusions from the IRM rate application process:

Prudence Review of Smart Meter Cost;
Rate Harmonization, other than that pursuant to a prior Board decision;
Changes to revenue-to-cost ratios, other than pursuant to a prior Board decision;
Loss Factor Changes;
Loss Carry Forward Adjustments to PILs/taxes; and

Loss of Customer Load.

Exclusions from the IRM process are to be addressed in the distributor's next cost of service application with the exception of distributors seeking a prudence review of smart meter costs which should be addressed in a separate (or stand alone) application.

2.3 The Guidelines also state:

The Supplemental Filing Module and Rate Generator will include schedules for a distributor to effect revenue to cost ratio adjustments previously approved by the Board. The process will adjust base distribution rates before the application of the price cap adjustment.

2.4 In response to VECC interrogatory # 3, API confirms the Board did not make an order with respect to the revenue to cost ratios in its Decision and Order in EB-2009-0278. API indicates it will follow the Board's direction regarding its proposed adjustments.

2.5 In response to Board Staff Interrogatory # 5 (b), API indicates it is not relying on any prior decisions that specifically approve or prescribe a phase-in period to adjust API's revenue-to-cost ratios.

2.6 API indicates in response to VECC interrogatory # 5 that it 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.

2.7 VECC submits that in order to be consistent with IRM3 principles in this application, API should not be proposing adjustments to revenue to cost ratios and the calculation of 2012 rates should not include any revenue to cost ratio updates.

3 Incentive Regulation Price Cap Metrics

3.1 In its initial application, for the purposes of rate design, API estimated the Incentive Regulation Price Cap Metrics.

3.2 On November 10, 2011 the Board established the price escalator (inflation index) for IRMs for adjusting electricity distribution rates effective January 1, 2012. The updated annual percentage change in Gross domestic Product Implicit Price Index for Final Domestic Product (GDP-IPI) to 1.7%.

3.3 On November 10, 2011 the Board released the stretch factor rankings for each LDC for 2012. The stretch factor assigned to API is 0.6%.

3.4 On December 7, 2011, the Board advised the Rural and Remote Rate Protection Adjustment factor to be reflected in the final calculation of 2012 rates is 2.81%.

3.5 The table below shows the initial and revised price cap metrics.

Incentive Regulation Price Cap Metrics	**Initial**	**Revised**
RRRP Adjustment Factor (estimated)	1.75 %	2.81 %
Implicit Price Index (estimated)	1.80 %	1.70 %
Productivity Factor	0.60 %	0.72 %
Stretch Factor	0.40 %	0.60 %
Price Cap Index (calculated)	0.80 %	0.38 %

3.6 VECC notes that in its initial application API references a Productivity Factor of 0.72% in the Manager's Summary (Page 10) but a 0.60% Productivity Factor of 0.60% as shown in the Incentive Regulation Price Cap Metrics is used in the derivation of proposed distribution rates for 2012 (Pages 27-29). The Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributor's (EB-2007-0673) dated September 17, 2008 states on Page 12, "Accordingly, the Board has determined that the appropriate value for the TFP trend for 3rd Generation IR is 0.72 percent." VECC submits that API should use a Productivity Factor of 0.72 in its 2012 distribution rate calculations.

4 <u>Rate Design – Derivation of 2012 Proposed Distribution Rats & 2012 Rural and Remote Rate Protection (RRRP)</u>

4.1 In response to Board Staff Interrogatory # 7 (a), API calculated the resulting rates on the basis that there are no changes to the revenue to cost ratios in 2012.

4.2 In terms of the process to calculate rates, VECC agrees with API that the starting point for 2012 electricity distribution rate design is the fully allocated Board approved 2011 revenue requirement ($19,828,731) from rates in EB-2009-0278.[1]

4.3 VECC submits the revised Incentive Regulation Price Cap Metrics shown above should be used to update API's proposed 2012 distribution rates and 2012 RRRP funding amount.

[1] EB-2011-0152 Page 26

5 **Recovery of Reasonably Incurred Costs**

5.1 VECC submits that its participation in this proceeding has been focused and responsible. Accordingly, VECC requests an order of costs in the amount of 100% of its reasonably-incurred fees and disbursements.

All of which is respectfully submitted this 8th day of December 2011.