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**BY EMAIL**

February 22, 2012

Kirsten Walli  
Board Secretary  
Ontario Energy Board  
P.O. Box 2319  
27th Floor  
2300 Yonge Street  
Toronto ON M4P 1E4

Dear Ms. Walli:

**Re: Algoma Power Inc.  
2012 IRM Distribution Rate Application  
Board Staff Submission- Motion to Review and Vary  
Board File No. EB-2011-0152**

In accordance with the Notice of Motion and Procedural Order No. 1, dated February 3, 2012, attached is the submission of Board staff. Please forward the attachment 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

Encl.

## **Board Staff Submission**

### **Algoma Power Inc. 2012 IRM Application EB-2011-0152 Motion to Review and Vary and Revised Draft Rate Order**

#### **Introduction**

On February 2, 2012 Algoma filed a Motion to Review and Vary ("Motion") with respect to the Board's January 20, 2012 Decision on Algoma's 2012 IRM Application (EB-2011-0152) ("Decision"). In the Decision the Board approved certain deferral and variance account balances for disposition and ordered Algoma to file a draft Rate Order reflecting the Board's findings. Algoma filed its draft Rate Order on January 27, 2012.

Prior to the Board's issuance of the final Rate Order, Algoma requested that the Board review and vary its Decision to reflect certain corrections to the deferral and variance account balances upon which the Decision was based and to stay the proceeding until the account balances are confirmed. Algoma indicated, pursuant to section 44.01(a)(i) of the Board's *Rules of Practice and Procedure*, that the ground for the Motion is an error in fact.

Specifically, the error pertained to the balances for the year ended December 31, 2010 for account 1588 RSVA Power excluding the Sub-account Global Adjustment ("1588 Power") and account 1588 RSVA Power Sub-account Global Adjustment ("1588 Global Adjustment").

On February 3, 2012 the Board issued a Notice of Motion and Procedural Order No. 1 which stayed the implementation of the Decision, including the issuance of the Rate Order, pending the Board's review of the Motion. The Board also directed Algoma to file the revised balances for the year ended December 31, 2010 for account 1588 Power and account 1588 Global Adjustment, including any other supporting material on the Motion and a revised draft Rate Order reflecting the relief sought by the Motion.

On February 15, 2012 Algoma filed the balances, supporting material and a revised draft Rate Order.

### **Relief Sought by the Motion**

Algoma requested that the Decision be varied to reflect the following corrections and that the Board declare the corrected balances final as at December 31, 2010. The corrected total for the 1588 Power account is a credit in the amount of \$1,418,258 and the corrected total for the 1588 Global Adjustment account is a debit in the amount of \$353,951. The corrections and resulting Group 1 revised totals are shown in the table below.

#### **CORRECTED GROUP 1 RSVA - BALANCES**

<b>For the Year Ended December 31, 2010</b>	<b>*Total Reflected in the Decision</b>	<b>Correction</b>	<b>* Corrected Total</b>
<b>RSVA excluding 1588 Global Power sub-Account</b>			
1580 Wholesale Market Service Charge	\$ (209,895)	\$ -	\$ (209,895)
1584 Retail Transmission NetWork Charge	\$ (27,921)	\$ -	\$ (27,921)
1586 Retail Transmission Connection Charge	\$ (113,415)	\$ -	\$ (113,415)
1588 Power excluding Global Adjustment	\$ 93,176	\$ (1,160,203)	\$ (1,067,027)
<b>Total (1588 Power)</b>	<b>\$ (258,055)</b>	<b>\$ (1,160,203)</b>	<b>\$ (1,418,258)</b>
<b>RSVA - only Global Adjustment sub-Account</b>			
1588 Power - Global Adjustment sub-Account	\$ (816,657)	\$ 1,170,608	\$ 353,951
<b>Total (1588 Global Adjustment sub- Account)</b>	<b>\$ (816,657)</b>	<b>\$ 1,170,608</b>	<b>\$ 353,951</b>
<b>Total Group 1 RVSA</b>	<b>\$ (1,074,712)</b>	<b>\$ 10,405</b>	<b>\$ (1,064,307)</b>

\* Note: includes interest to December 31, 2011

Board staff's submission on the Motion and on the revised draft Rate Order, and on a number of other findings in the Decision which are affected by the corrections, are set out below.

### **Submission**

#### Corrected Group1 RSVA balances

Algoma explained in its motion material that the errors came to light while it was processing the various adjustments to the IESO form 1598. Algoma indicated that the Board's Regulatory Audit Group ("Regulatory Audit") had relied upon these adjustments to perform their audit and that Algoma was preparing the required journal entries to comply with Regulatory Audit's findings.

Motion To Review and Vary and Revised Draft Rate Order

With respect to the balances at issue, Board staff notes that the Board's Regulatory Audit Group filed a letter on February 21, 2012. The letter indicated that the Regulatory Audit Group has completed its review of Algoma's updated 1588 Power and 1588 Global Adjustment balances resulting from the Motion and that the review has found no issues from Regulatory Audit's perspective that would materially impact the updated 2010 balances for the two accounts. On this basis, Board staff submits that the corrected numbers should replace the original numbers on the record in this proceeding and that the Decision should be varied in light of these corrections.

Revised Group 1 Account Balance Threshold Test

Board staff calculates that the Group 1 balance total of a credit of \$1,064,307 equates to \$0.006 per kWh. Since this exceeds \$0.001 per kWh threshold, Board staff confirms that the threshold test is met.

Term of the Revised Rate Riders for Recovery of Group1 Accounts (excluding Global Adjustment sub-Account)

In the Decision the Board determined that the total credit of \$258,055, including interest, should be disposed over 1 year since there was no compelling reason to deviate from the default disposition term of year.

In light of the corrected balance, Algoma in its Motion proposed to change the term of the rate rider from 12 months (or 11 months based on the original February 1, 2012 implementation) to 15 months (March 1, 2012 to May 31, 2013). Algoma noted that the sunset date of a rate rider with a 15 month term will coincide with that of the existing rate rider (for the Group 1 RSVA account disposition re: 2009 balances) approved by the Board in a previous proceeding (EB-2009-0278 /EB-2010-0400)<sup>1</sup>. Algoma submitted that this approach would minimize rate volatility and reduce the frequency of rate changes.

Board staff has prepared the table below which presents the bill impact of the two sets of rate riders with coincident sunset dates. For context, the table also

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<sup>1</sup> EB-2009-0278 is the last base rates case and EB-2010-0400 is the related Motion to Review and Vary to address a miscalculated rate rider for Residential R-2 customers.

Motion To Review and Vary and Revised Draft Rate Order

includes Board staff's calculation of the revised rate rider but maintaining a sunset date of December 31, 2012 as well as the total bill for a typical customer in each customer class.

**Rate Rider & Term**

<b>Rate Rider</b>	<b>Existing Rate Rider</b> (2009 balances) Dec. 2010-May 2013	<b>Motion</b> (2010 corrected balances & new term) Mar. 2012-May 2013	<b>Term in Original Decision</b> (2010 corrected balances) Mar.2012-Dec. 2012	<b>Draft Rate Order (original)</b> (2010 balances) Feb. 2012-Dec. 2012
RESIDENTIAL-R1	\$ 0.0046	\$ (0.0061)	\$ (0.0091)	\$ (0.0015)
RESIDENTIAL-R2	\$ 2.2664	\$ (2.8219)	\$ (4.2329)	\$ (0.7002)
SEASONAL	\$ 0.0046	\$ (0.0061)	\$ (0.0091)	\$ (0.0015)
STREET LIGHTING	\$ 0.0048	\$ (0.0061)	\$ (0.0091)	\$ (0.0015)
<b>Bill Impact</b>				
RESIDENTIAL-R1	\$ 3.68	\$ (4.86)	\$ (7.29)	\$ (1.20)
RESIDENTIAL-R2	\$ 509.94	\$ (634.94)	\$ (952.40)	\$ (157.55)
SEASONAL	\$ 1.32	\$ (1.74)	\$ (2.61)	\$ (0.43)
STREET LIGHTING	\$ 12.00	\$ (15.18)	\$ (22.77)	\$ (3.75)

	<b>RESIDENTIAL-R1</b>	<b>RESIDENTIAL-R2</b>	<b>SEASONAL</b>	<b>STREET LIGHTING</b>
<b>TOTAL Bill (existing rates)</b>	\$ 128.05	\$ 12,573.51	\$ 94.78	\$ 7,984.43

As can be seen from the table, extending the term of the disposition of the 2010 balances to May 31, 2013 reduces bill volatility; both when the rate riders for the 2010 balances are implemented and when the riders for 2009 and 2010 balances terminate. For a typical residential customer consuming 800 kWh/month, a rate rider with a term of March 1, 2012 to December 31, 2012, will reduce the total bill by 5.6% at the beginning of the term and will automatically result in an equivalent increase on January 1, 2013, when it is expected that any new rates for 2013 would also be implemented. In the alternative proposed by Algoma, timing the term of the rate rider to end with that of the 2009 balances rate rider reduces the stand-alone impact (decrease) on rates on implementation to 3.7% and also has a 0% impact on January 1, 2013. On June 1, 2013, when the two rate riders, one a credit and one a debit that largely offset each other, terminate, the total bill would increase by 1%.

Board staff submits that the six-fold increase in the 2010 balance and the significant impact this will have on the total bill during the term of its disposition, warrant a re-consideration of the term originally determined by the Board. In this regard, Board staff is of the view that the term suggested by Algoma and reflected in the revised draft Rate Order provides an acceptable degree of rate stability and predictably.

1588 Global Adjustment sub-Account Balance

In the Decision the Board noted that the Global Adjustment sub-Account balance for the year ended December 31, 2010, including interest, was a credit of \$816,657. However, the Board did not dispose of the account and directed Algoma to file an application for its disposition by June 1, 2012 with the proviso that if the billing system cannot differentiate between RPP and non-RPP consumers, the amount would be disposed to all consumers. The revised (corrected) balance for this account is a debit of \$353,951.

Other than for the revised amount, Algoma did not request any other changes or variances to the Board's Decision in this regard. Board staff concurs that no further changes to the Decision are warranted.

Tax Savings Rate Rider

On the understanding that the new rates for 2012 will be implemented on March 1, 2012, rather than February 1, 2012, Algoma recalculated the Tax Savings rate rider for disposition over 10 months rather than the 11 months anticipated in the Decision.

The revised rate riders and the original rate riders are presented in the table below.

Motion To Review and Vary and Revised Draft Rate Order

Tax Savings Rate Rider			
		Motion (Mar. 2012- Dec.2012)	Original (Feb. 2002- Dec.31 2002)
	Units		
RESIDENTIAL-R1		\$ (0.0002)	\$ (0.0002)
RESIDENTIAL-R2	kWh	\$ (0.0273)	\$ (0.0248)
SEASONAL	kW	\$ (0.0003)	\$ (0.0003)
STREET LIGHTING	kWh	\$ (0.0002)	\$ (0.0002)

Board staff has no concerns with the implementation of the revised rate riders.

Implementation Date and Foregone Revenue

As a result of the Motion there will be a delay in the issuance of the final Rate Order. The new rates will not be implemented until March 1, 2012 at the earliest. The Decision determined that the new rates would be effective January 1, 2012 and anticipated a February 1, 2012 implementation with the recovery of one month of foregone revenue.

Algoma requested that the Board approve the recovery of foregone revenue (related to the new variable base distribution rate and base monthly service charge) for the month of January as well as for February by way of rate riders with a term of March 1, 2012 to December 1, 2012. Algoma calculated the amount of foregone revenue to be \$14,585 for each of January and February. The proposed rate riders appear in the table below.

Foregone Revenue Rate Rider			
	Units	Motion (Mar. 2012- Dec.2012)	Original (Feb. 2002- Dec.31 2002)
RESIDENTIAL-R1	kWh	\$ 0.0003	0.0001
RESIDENTIAL-R2	kW	\$ 0.0272	0.0123
SEASONAL	kWh	\$ 0.0002	0.0001
STREET LIGHTING	kWh	\$ 0.0001	0.0001

While the Board ordinarily assesses the appropriateness and fairness of any foregone revenue proposed for recovery, Algoma did not provide reasons to

Motion To Review and Vary and Revised Draft Rate Order

support its request. However, Board staff notes that Algoma discovered significant errors in its reported balances and brought this matter to the attention of the Board, including the Regulatory Audit Group. Board staff is of the view that while Algoma should be accountable for the data it provides, the Board should not disallow the additional month of foregone revenue since this matter arose from a recently completed audit by the Board's Regulatory Audit Group.

Board staff also notes that the corrected balances result in higher refunds to the majority of Algoma's customers.

Revised Draft Rate Order

Other than the aforementioned, Board staff has no other concerns with the revised draft Rate Order.

All of which is respectfully submitted