Supplementary Interrogatories from Board staff

59. Ref: VECC IR # 8 b) – Load Forecast.

Please provide the load forecast for 2011 and 2012, with and without the CDM adjustment, that would have resulted from using the regression equation estimated in the response to VECC IR # 8 b) (i.e. omitting Intermediate customer consumption for all historical periods).

60. Ref: VECC IR # 15 – OM&A

a) The updated table 4-7 shows unaudited actuals for 2011 for operations expense of $273,927. This is materially lower than the 2011 bridge year forecast of $332,112. This is also below the historical actuals that range at or above $300,000 for each of 2008 to 2010, and below the 2012 test year forecast of $418,349. It appears that the decrease is related to lower than expected expenses in Account 5020 – Overhead Distribution Lines/Feeder Labour. Please provide an explanation for the reduced actuals for 2011.

b) Given the lower unaudited actuals for 2011, please explain the higher level for the 2012 expense forecast of $265,093 for Account 5020.

c) The updated table 4-9 shows unaudited actuals for 2011 for Account 5315 of $80,777. This is lower than the 2011 bridge year forecast of $94,693 shown in E4/T2/S2/Table 4-9. Please provide an explanation for the reduced actuals for 2011.

d) Based on the lower unaudited actuals for 2011, please explain the higher 2012 expense forecast of $97,060 for Account 5315?

e) In the updated Table 4-10, Atikokan shows an unaudited 2011 actual for Total General and Administrative Expenses of $540,342, compared to the 2011 bridge year forecast of $488,394 in E4/T2/S2/Table 4-10 in the original Application. The increase appears largely due to increases in Account 5610 – Management Salaries and Expenses ($146,406 2011 unaudited actual versus $119,084 bridge year forecast) and Account 5615 – General Admin Salaries and Expenses ($179,362 2011 unaudited actual versus $127,518 bridge year forecast), partially offset by reductions in Account 5630 – Outside Service Employed ($106,674 2011 unaudited actual versus $124,766 bridge year forecast) and Account 5665 – Miscellaneous Expense ($21,509 2011 unaudited actual versus $40,376 bridge year forecast). Please provide explanations for the variances of the 2011 unaudited actuals from the bridge year forecasts for these accounts and for Total General and Administrative Expenses.

61. Ref: VECC IR # 16 b) and VECC IR #15 – Bad Debt Expense

In its response to VECC IR # 16 b), Atikokan states that it has assumed a 2.5% increase in bad debt expense for 2012 versus the 2011 bridge year forecast.

However, in its response to VECC IR #15, in the updated Table 4-9, Atikokan shows an unaudited actual for 2011 for Account 5335 of $3776, below its 2011 bridge year forecast of $5311 shown in E4/T2/S2/Table 4-9 in its original Application.

a) In light of its unaudited 2011 actuals, please explain why Atikokan has forecasted a Bad Debt Expense of $5444 for 2012..
b) Implementation of smart meters and TOU billing can provide more information on customers' consumption patterns and help to detect anomalous consumption patterns. This data may assist in early detection and addressing of potential bad debt situations. In light of this, please provide Atikokan's explanation for assuming a 2.5% increase in bad debt expense for 2012.

62. Ref: Board staff IR # 5 – Specific Service Charges

In its response to Board staff IR # 5, Atikokan documents that the $32,896 under Specific Service Charges in 2009 is composed of $5,322 for Specific Service Charges and $26,152 for inventory sold.

a) Please describe the inventory that was sold.
b) Why were the proceeds from the sale of inventory documented under Specific Service Charges in 2009? Please identify where proceeds from the sale of inventory were recorded in other years.

63. Ref: Board staff IR # 10 – Average Annual Consumption – Streetlighting

In response to part a) of Board staff IR # 10, Atikokan states that it is unaware of any initiatives that it has undertaken, or that it plans to undertake in 2012, to reduce the power consumption per streetlighting connection. However, in part b) of the interrogatory response, Atikokan has filed average annual consumption per customer class, including unaudited 2011 actuals. Atikokan shows an average annual consumption per streetlighting connection of 740 kWh for 2011 actual, lower than 2010 actual of 779 kWh and even lower than the bridge year forecast of 768 kWh.

a) Are streetlights metered or unmetered services?

b) If streetlights are unmetered, how has Atikokan calculated the “actual” average annual consumption per streetlighting connection in each year?

c) If there are no initiatives to reduce consumption, such as switching to lower wattage or higher efficiency bulbs, then why would the average annual consumption per streetlight connection decrease over time, as shown in updated tables 3-10 and 3-11 in that interrogatory response?

64. Ref: Board staff IRs # 18 and # 37 – Taxes/PILs and “going concern”

In its response to Board staff IR # 18 a), Atikokan states that it anticipates having a loss for the 2011 bridge year. Atikokan’s external auditors included a “going concern” note in the utility’s 2010 Audited Financial Statements, and this was the subject of Board staff IR # 37.

Please provide further information on this expected loss for the 2011 year. Has this been confirmed yet in the preparation of tax filings and audited financial statements for 2011? If yes, please explain the reasons and drivers for this loss in 2011.

65. Ref: Board staff IR # 19 – Long-term debt

a) Board staff IR # 19 a) requested that Atikokan file a copy of the loan between Atikokan with the Town of Atikokan, with a December 31, 2010 principal of $1,282,096. This is in accordance with section 2.8.2 of Chapter 2 of the *Filing Requirements for Transmission and Distribution Applications*, issued June 22, 2011. A copy of the executed legal agreement is required to understand the terms and conditions so as to assess how the instrument should be treated in accordance with policy guidelines in the *Report of the Board on the Cost of Capital for Ontario’s Regulated Utilities*, issued December 11, 2009. Atikokan has filed a copy of a letter from the CAO/Treasurer of the Town of Atikokan. The letter does not contain all details of the loan. Please file a copy of the executed loan between Atikokan and the Town of Atikokan, as requested in Board staff IR # 19 a).

b) In the copy of the loan agreement between Atikokan and Atikokan Enercom filed in response Board staff IR # 19 b), it is stated that the loan “is for interim financing of capital projects carried forward from last year [i.e. 2008] and smart meters. … The loan will be repaid with interest at the above noted rate upon completion of the above items.” Atikokan’s evidence notes that there is no fixed maturity to the note. With Atikokan having completed its smart meter deployment and seeking disposition of the balances of Accounts 1555 and 1556 in this

Application, please provide Atikokan's estimate of the repayment schedule for this note.

66. Ref: Board staff IR #38 – Smart Meter OM&A costs.

In its response to Board staff IR # 39, Atikokan documented updated OM&A expenses for the years 2009, 2010 and 2011. Board staff has prepared the following summary table:

Year	Application	Board staff IR # 39	Difference
2009	$48,942	$61,874	$12,932
2010	$30,741	$84,080	$53,339
2011	$69,453	$78,253	$8,800
Total	$149,136	$224,207	$75,071

It appears that Atikokan has increased its deferred OM&A expenses that it seeks recovery for, by 50%.

a) Please confirm the above statement.
b) Please reconcile the revised numbers against what Atikokan has reported in Account 1556.
c) If these amounts differ from the account balances that were previously reviewed as part of the preparation of Audited Financial Statements for 2009 and 2010, please explain why these amounts are only coming to light now.
d) Where were these expenses previously recorded in the Uniform System of Accounts?

67. Ref: Board staff IR # 45 – Rate Base under CGAAP and MIFRS

a) Please confirm the Summary of Rate Base for 2012 balances provided in the response to Board staff IR # 45 part a) supersedes the balances shown in column "2012 Test Year" of Table 2-1 Summary of Rate Base on Exhibit 2/Tab 1/Schedule 1/Page 1. Please explain the changes made.
b) Please confirm the 2012 Fixed Asset Continuity Schedules provided in the response to Board staff IR # 45 part f) supersedes Table 2-17 in Exhibit 2/Tab 2/Schedule 1/Page 10. Please explain the changes made.
c) Under the heading of the table provided in the response to part f) of this interrogatory, the following note is provided: "NTD [Note to Draft]: Will need to be updated with final run". Please explain what this note means. Is the table provided in the response accurate and final? If not, please update.

68. Ref: Board staff IR # 47 – Capitalization Policy under CGAAP and MIFRS

a) Please provide supporting calculation for Atikokan's estimate of a revenue requirement impact of $132,500 for 2012, as mentioned in the response to part b) of Board staff IR # 47.

b) For parts b) and c) of Board staff IR # 47, Atikokan was requested to provide the impacts for both the 2011 Bridge and 2012 Test Years. In its response, Atikokan only provided information for the 2012 Test Year. Please provide the impact on the 2011 revenue requirement of the change in capitalization policy and the transition to MIFRS, as requested in the Board staff IR # 47 parts b) and c). Please provide the supporting calculations for each part.

69. Ref: Board staff IR # 27 and page 6 of Revised Evidence for Accounts 1592 filed on December 14, 2011, Chapter 2 of Filing Requirements for Transmission and Distribution Applications, issued June 22, 2011 – Account 1592

a) Please confirm that the balance of $15,431 is a credit balance and is refundable to ratepayers.

b) Would Atikokan experience any cash flow problems in refunding the amount to ratepayers over one year?

70. Ref: Board staff IR # 31 – Deferral and Variance Account Continuity Schedule

a) Atikokan entered $65,809 in cell BE 31 and $54,701 in cell BM 31. However, Board staff observes that these amounts don't represent the residual balance in Account 1595 at the end of the disposition period (refer to footnote 10 of the continuity schedule).. Please explain Atikokan's reasons for these entries. In the alternative, please revise the Deferral and Variance Account Continuity Schedule and resubmit in working Microsoft Excel format.

b) Please provide explanation to the variances in cell BX 31 for Account 1595 as a result of changes from question a) above.

71. Ref: Board staff IRs # 31 and 34, Exhibit 9/Tab 1/Schedule 1/pages 3-4 – Account 1588

On pages 3 and 4 of E9/T1/S1, Atikokan states:

> The variance between RRR 2.1.7 Trial Balance and the Continuity Statement above is ($15,115). Adjustments were made to RPP and non-RPP balances as a result of the OEB [sic] 1598 Audit completed in 2010.

In response to Board staff IR # 34, Atikokan confirmed that the audit was conducted by the Ministry of Finance, and that the adjustments have been reviewed by Atikokan's external auditors.

In the updated continuity schedule filed in response to Board staff IR # 31, the variance for Account 1588 Power (excluding GA) is $(1,305) in cell BX 28 filed in response to Board staff IR # 31. However, Board staff has not been able to identify any adjustment in an amount of ($15,115) in 2010 adjustment columns (BF to BI) of the updated continuity schedule. Please identify in which cell the adjustment of $(15,115) has been accounted for in the updated continuity schedule.

72. Ref: Board staff IR # 36 – Account 1508

a) Please confirm that the amounts recorded in 1508 sub-account OEB cost assessment from 2006 to 2009 and sub-account OMERS from 2006 to 2011 were not recovered in approved rates.
b) Please confirm that the 2006 entries for the sub-accounts of Account 1508 referenced in a) do not duplicate operating expenses for OEB cost assessments in Account 5655 and OMERS pension cost contributions in Account 5645 as factored into Atikokan's approved revenue requirement and recovered in its 2006 EDR distribution rates approved in its RP-2005-0020/EB-2005-0335 application in that year.
c) Please confirm that the 2008 entries for the sub-accounts of Account 1508 referenced in a) do not duplicate operating expenses for OEB cost assessments in Account 5655 and OMERS pension cost contributions in Account 5645 factored into Atikokan's approved revenue requirement and recovered in distribution rates in that year.
d) If Atikokan has been recording these OEB cost assessments and OMERS pension cost contributions from 2008 to 2011 solely in Account 1508, please explain why Atikokan did not record these in operating expense accounts 5655 and 5645.

73. Ref: Board staff IRs #37 – 2010 Audited Financial Statements

What are the reasons for reducing the overdraft protection back to $250,000 at the end of Q3 2012, as discussed in the response to Board staff IR # 37 a)?

74. Ref: Board staff IRs #50 a) & b)

a) Board staff noted that the calculation of return on rate base is to multiply the PP&E deferral account balance ($34,002) by the rate of return (6.49%). Please provide the supporting calculation of the return on rate base of $1,931 on page 114 of the IR responses. If the amount is incorrect, please update the table.

b) Board staff noted that on page 103 of the IR responses, Atikokan recorded both the amortization and return on rate base as a credit to the amortization of 2012. Board staff also noted that on page 126 of the IR responses, Atikokan recorded both the amortization and return on rate base as a credit to Amortization expense and no impact to OM&A. Please update the impact to Amortization, OM&A and revenue requirement on page 126 of the IR responses related to the following adjustments for the PP&E deferral account:

  (1) A downward adjusting amount for the amortization to the 2012 depreciation expense, which would result in a reduction to Atikokan's 2012 total distribution expenses

  (2) A credit amount for the return on rate base as a refund to customers, which would be shown as a separate reduction line item to the 2012 revenue requirement.

75. Ref: Board staff IRs #53 - One-Time Administrative Costs of Transition to IFRS

In its response to Board staff IR # 53, Atikokan states that it is using Account 1575 to record one-time administrative costs of the Transition to IFRS. Board staff observes that Account 1575 is not a Board authorized account. Please explain Atikokan's use of Account 1575, and why One-Time Administrative Costs of Transition of IFRS should not be recorded in the Account 1508 IFRS sub-account that was established by the Board's IFRS Report. As necessary, please update the Deferral and Variance Account Continuity Schedule to reflect the balances recorded as of December 31, 2010.

76. Ref: Board staff IR # 54 – Account 1562

Preamble:

In its 2001 rates application, Atikokan requested delayed implementation of its unbundled rates until the date that subsection 26(1) of the *Electricity Act, 1998,* S.O. 1998, c.15, (Schedule A) came into force.[1] That date was May 1, 2002. The Board approved the request:

> By letter dated November 15, 2001, Atikokan Hydro proposed to implement the new unbundled rates on the date that ss 26(1) of the *Electricity Act, 1998,* S.O. 1998, c.15, (Schedule A) comes into force. The Board accepts the Applicant's proposal.

The following excerpts were taken from the Manager's Summary that formed part of the 2002 application to bill unbundled rates for the first time effective May 1, 2002.[2]

> 1.4 The Company recognizes the possibility of negative customer reaction as a result of the new rate adjustments identified through the RAM. For the purposes of this submission, the Company has determined that "significant bill impacts" means those customers who experience a bill increase greater than $20.00 or greater than 10%. This is discussed further in section three below. The Company intends to mitigate significant rate impacts through consumer education and its customer care program.
>
> …
>
> 2.1 <u>Sheet 1</u> **-** 2001 Approved Rate Schedule
>
> The Company is making this filing based on audited 2000 financial data and the 2001 RUD Model Rates with MARR prior to market opening. The approved OEB rates for the company were not used as they were "After Market Opening" rates. The Company intends to unbundle rates on May 1, 2002, being market opening.

In its PILs continuity schedule in the current Application, Atikokan recorded the entitlement to the PILs proxies for the fourth quarter 2001 and the whole year 2002 starting October 1, 2001 and January 1, 2002 respectively. This treatment

[1] RP-2000-0261/ EB-2000-0561/ EB-2001-0232, Decision with Reasons and Order, page 3.
[2] RP-2002-0028/ EB-2002-0037, Manager's Summary, March 28, 2002, page 1.

creates receivables from its ratepayers before the effective date of the rate adjustment on May 1, 2002.

Board staff's interrogatory #54 posed the following questions:

a) What regulatory reference supports starting the PILs entitlements earlier than May 1, 2002? Please explain.
b) Did Atikokan Hydro consider that its entitlement to the 2001 and 2002 PILs proxy should not begin before May 1, 2002 given the delay caused by filing a revised application?

Atikokan did not reply to the two questions posed. Instead, Atikokan reduced the calculation of the recoveries from customers, which increased the amount receivable from ratepayers. Atikokan made the following comments:

> In the Board's Decision RP-2002-0028; EB-2002-0037 for Atikokan Hydro's 2002 rates the Board approved the 2001 deferred Payments in Lieu of Taxes (PILs) of $7,668 and the 2002 Payments in Lieu of Taxes (PILs) of $32,754. However, Atikokan Hydro's rates did not become effective until May 1, 2002 and this was not reflected in the 1562 PILs Continuity Schedule filed originally filed. This oversight has been corrected and the revised 1562 PILs Continuity Schedule is provided below assuming collection of the approved PILs begins May 1, 2002.[3]

APH Article 220 was revised in December 20, 2001 and provided minimum guidance for the use of account 1562. FAQ April 2003 provided examples of the accounting entries related to account 1562 deferred PILs. The year selected for the example was the twelve month complete year of 2003. FAQ April 2003 did not deal with the complexities associated with periods of less than twelve months.

a) Please answer the two questions posed above which were originally submitted as Board staff's interrogatory #54; and
b) Please explain why Atikokan believes that the ratepayers should be responsible for the PILs proxies before May 1, 2002, the date that Atikokan voluntarily requested the Board to approve for implementation of the unbundled rates which included PILs.

[3] Atikokan Hydro_Cos_BdStf_IRs_20120302.pdf, page 119.

77. Ref: Board staff IRs # 54 and 55 – Account 1562

The sum of the 2001 PILs proxy of $7,668 and the 2002 PILs proxy of $32,754 is $40,422. The rates were determined based on a twelve month rate year which implies a monthly PILs proxy amount of $3,369 ($40,422 /12) for the period from May 1, 2002 to March 31, 2004, or 23 months. Using this monthly entitlement, the total PILs for the period shown is $77,487 ($3,369 x 23).

Recoveries of $75,245 for the same period of May 1, 2002 to March 31, 2004 can be found in Atikokan's PILs reconciliation schedule.[4]

a) Does Atikokan consider Board staff's PILs proxy entitlement calculation to reflect fairly Atikokan's application for delayed implementation? If Atikokan disagrees, please explain the rationale for selecting a different amount; and
b) Would this approach proposed by Board staff to determine the PILs proxy entitlement for the period from May 1, 2002 be fair to both the utility and its ratepayers? Please explain and include a discussion of the notion of potential "harm" to Atikokan.

78. Ref: Board staff IRs # 57 and 58 – Updating of Evidence

a) Upon completing all interrogatories from Board staff and intervenors, please provide an updated RRWF with any corrections or adjustments that Atikokan wishes to make to the amounts in the previous version of the RRWF included in the middle column. Board staff suggests that Atikokan may also wish to take into consideration the updated Cost of Capital parameters for rates effective May 1, 2012, as documented in the Board's letter of March 2, 2012. In that letter, the Board documented the following parameters:

Return on Equity:	9.12%
Long-term Debt Rate:	4.41%
Short-term Debt Rate:	2.08%

The column for the Original Application should remain unchanged.

b) Please provide an update to Board staff IR # 58 reflecting all changes in Atikokan's proposal for 2012 rates resulting from the changes to the two rounds of interrogatories.

[4] Atikokan_PILs_Reconciliation_2001-2012_20111214.XLS