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ONTARIO ENERGY BOARD

STAFF SUBMISSION

2012 ELECTRICITY DISTRIBUTION RATES APPLICATION -

Board Staff Submission

Atikokan Hydro Inc.

EB-2011-0293

July 10, 2012

This is the submission of Ontario Energy Board (the “Board”) staff on Atikokan Hydro Inc.’s (“Atikokan’s”) draft Rate Order (“DRO”) filing with respect to Atikokan’s application for rates effective May 1, 2012 (the “Application”). On June 18, 2012, the Board issued its Decision and Order with respect to the Application, and ordered Atikokan to file its DRO for proposed rates to implement the Decision and Order. Atikokan filed its DRO on July 3, 2012.

The submission follows the order of exhibits in Atikokan Hydro’s Application and as documented in the Board’s current *Filing Requirements for Transmission and Distribution Applications*, issued June 22, 2011 (the “Filing Requirements”). The order is as follows:

1 Administration
2. Rate Base and Capital Expenditures
3. Operating Revenues and Load Forecast
4. Operating Expenses
5. Cost of Capital
6. Revenue Requirement and Sufficiency/Deficiency
7. Cost Allocation
8. Rate Design
9. Deferral and Variance Accounts
10. Other Matters

Administration

Effective Date for Rates

In its Application, Atikokan Hydro requested an effective date for rates of May 1, 2011. In Procedural Order No. 2, issued March 16, 2012, the Board made Atikokan Hydro’s current approved rates interim pending a determination on this proceeding. In the Decision and Order, the Board approved an effective date of July 1, 2012, which Atikokan has reflected in its DRO. As is noted later in this submission, this later effective date shortens the recovery period for certain rate riders to recover approved amounts of deferral and variance accounts to 46 months (i.e., from July 1, 2012 to April 30, 2016).

Board staff submits that Atikokan has complied with the Board’s Decision and Order on this matter.

Rate Base and Capital Expenditures

In its original Application, Atikokan proposed a 2012 test year rate base of $2,913,786. Through interrogatories, Atikokan revised the rate base to $3,041,625. In its Reply Submission, Atikokan accepted a proposed reduction in terms of its 2012 capital expenditures of $8500 as proposed by VECC.

In the Board's Decision and Order, the Board accepted the rate base less the $8500 reduction accepted by Atikokan in its Reply Submission. The Board approved a rate base of $3,033,125, but this was also subject to updating to reflect the approved load forecast (through the Cost of Power) and OM&A, both affecting the Working Capital Allowance ("WCA").

In its DRO, Atikokan has noted that the $8500 reduction in capex would have a $4250 reduction in the rate base due to the "half year" rule, and has reflected this adjustment, in addition to the adjustment in the WCA discussed below.

Board staff submits that Atikokan's interpretation on this is reasonable, and that Atikokan has complied with the Board's Decision and Order in its DRO.

On another matter, Board staff notes that the 2012 approved rate base includes the full amount of smart meter capital assets deployed both historically and in the test year. In its Decision and Order, the Board approved half of the applied for smart meter costs, with the remainder subject to an audit of smart meter costs. This means that capital assets approved in the 2012 rate base could potentially be disallowed as result of the ordered smart meter audit and subsequent smart meter cost application. Should any costs be disallowed, it would mean that the 2012 rate base is overstated, and Atikokan would be over-recovering with the current rates.

As discussed later in this submission, Atikokan has reflected the 50% of approved costs for smart meters through the SMDR, and has assumed it evenly between capital and operating expenses. Board staff submits that the 2012 rate base should similarly be adjusted to reflect only the 50% of smart meter capital costs approved in the Decision and Order. Board staff notes that the Decision does not explicitly address ongoing annual OM&A. However, Board staff assumes that all remaining smart meter costs not approved in this application (i.e. capital and OM&A) will be subject to the audit and notes that Accounts 1555 and 1556 will remain open, subject to the results of the smart meter audit and the Board's decision in a subsequent smart meter application, rate riders.

Working Capital Allowance

In the Decision and Order, Atikokan was approved to continue to use the default 15% formula, whereby the WCA is calculated as 15% of the sum of the cost of power plus controllable expenses. However, the WCA was to be updated to reflect the change in the cost of power due to the change in the approved load forecast, as well as the lower approved operations, maintenance and administrative ("OM&A") expenses.

Atikokan has documented this in its DRO, calculating an updated WCA of $478,942. Board staff submits that Atikokan has appropriately recalculated the WCA in compliance of the Decision and Order, and has reflected this in the DRO.

Transition from CGAAP to MIFRS

In its Decision and Order, the Board noted Atikokan's acceptance of the proposal in Board staff's submission relating to the transition from CGAAP to MIFRS, with respect to the closing principal of $34,002, to be amortized over 4 years and the calculation on the return on capital of the closing PP&E balance. The Board approved the proposal and directed Atikokan to provide for recovery of the PP&E adjustment over a 46 month period, and to document the reflection of the return on capital of the PP&E adjustment in the RRWF filed with the DRO.

Board staff submits that Atikokan has correctly calculated the numbers and complied with the Board's Decision and Order on this matter.

Operating Revenues and Load Forecast

Load Forecast

In the Decision and Order, the Board accepted a lower load forecast arising out of a model filed in response to VECC IR # 59. The Board also accepted Atikokan's approach to reflecting the CDM targets that are a condition of its distribution licence. Finally, the Board accepted Atikokan's estimate of the number of customers, in aggregate and by customer class.

Atikokan has used the load forecast estimated by the model from VECC IR # 59, and has then adjusted the load forecast to reflect the estimated reductions (reductions of 10% of 2011-14 CDM target in 2011 and 20% of the target in 2012). Atikokan has used the customer forecast as proposed and approved. The load forecast has been reflected in the calculation of the cost of power, and also as the denominators for determining rates and rate riders.

Board staff submits that Atikokan's approach is compliant with the Board's Decision and Order.

Other Revenues

In its Application, Atikokan Hydro has forecasted Other Operating Revenues as $125,235 for the 2012 test year. The Board approved this amount, and Atikokan has reflected this in its DRO. Board staff submits that Atikokan's DRO is compliant with the Board's Decision and Order in this matter.

Operating Expenses

OM&A

Atikokan Hydro forecasted $1,175,151 for Operations, Maintenance and Administration ("OM&A") expenses for the test year. This represented a 45.25% increase over its 2008 Board-approved OM&A of $809,045. During the course of the proceeding, Atikokan revised its OM&A to a proposed amount of $1,220,380.

In its Decision and Order, the Board approved an envelope OM&A expense of $1,030,000. Board staff submits that Atikokan has appropriately reflected the Board-approved OM&A in the DRO, including the associated impact on the WCA.

Depreciation

In its Application, Atikokan Hydro followed the Accounting for Municipal Electric Utilities in Ontario and the *2006 Electricity Distribution Rate Handbook*, and also adjusted the depreciation rates for various classes of assets in accordance with the change to IFRS. Atikokan estimated a depreciation expense of $168,793 in the updated RRWF filed on April 11, 2012.

In its DRO, Atikokan has documented a revised depreciation expense of $168,424, an adjustment downwards of $370 reflecting the change in the PP&E amortization period from 4 years (i.e. 48 months) to 46 months.

It is not clear in the DRO whether Atikokan has reflected in the revised depreciation expense the reduction of $8500 of 2012 capital expenditures agreed to by Atikokan and approved by the Board in the Decision and Order. Board staff submits that Atikokan should confirm or correct this in its reply.

PILs

In its Application, Atikokan originally proposed a grossed-up PILs expense allowance of $17,914. In the updated RRWF filed in response to Board staff supplemental IR # 78, Atikokan documented an updated grossed-up PILs expense of $14,087. While the PILs expense allowance approach was approved by the Board in its Decision and Order, it was subject to adjustment for findings in the Decision and Order.

In the DRO, Atikokan has reflected an adjusted PILs expense allowance of $13,898, reflecting the approved cost of capital and the findings on the approved rate base and operating expenses. Board staff submits that Atikokan's adjusted PILs expense allowance is compliant with the Board's Decision and Order.

Cost of Capital

Atikokan has complied with the Board's policy and practice with respect to the cost of capital, as documented in the *Report of the Board on Cost of Capital for Ontario's Regulated Utilities*, issued December 11, 2009.

In the Decision and Order, the Board approved the following cost of capital parameters:

Cost of Capital Parameter	**Rate**
Return on Equity	9.12%
Deemed Short-term Debt Rate	2.08%
Long-Term Debt Rate	4.22%

Board staff submits that Atikokan has complied with the Decision and Order in its DRO.

Cost Allocation

As part of its Application, Atikokan Hydro conducted an updated Cost Allocation study between all customer classes. The cost allocation results and proposals were updated during the proceeding.

In the Decision and Order, the Board approved the following revenue-to-cost ratios by customer class:

Customer Class	**Revenue-to-Cost Ratio**	
	VECC IR # 5, approved in Decision and Order	**DRO**
Residential	97.3%	98.26%
GS < 50 kW	120%	120%
GS > 50 kW	90.6%	88.01%
Streetlighting	90.6%	88.01%

Atikokan has deviated from the ratios explicitly stated in the Decision and Order, but has documented its reasons for doing so. In summary, Atikokan has reflected the impacts of the load forecast on the cost allocation model and the class-specific revenue deficiency or sufficiency. The adjusted revenue-to-cost ratios in the DRO still result in the ratio for the GS < 50 kW customer class being reduced to the threshold of 120%. This is offset by slightly smaller revenue-to-cost ratios for the Streetlighting and GS > 50 kW classes, and a slightly higher revenue-to-cost ratio for the Residential customer class.

While Board staff understands the rationale of Atikokan's proposal, Board staff submits that this update in the DRO is non-compliant with the Board's Decision and Order on this matter. The results that came from the response to VECC IR # 5 were defined explicitly in VECC's submission and in Atikokan's reply submission, and the Board explicitly approved the results deriving from VECC IR #5. While it is understandable that the results would change due to other results such as a change in the customer or load forecast, this was not documented by any party.

Board staff notes that the results have not changed in any great manner. While adherence to the VECC IR # 5 revenue-to-cost ratios would put upward pressure on the streetlighting rates, which already show bill impacts over 14% (discussed below), Board staff also observes that the revenue-to-cost ratio has been below and remains below unity.

Board staff therefore submits that Atikokan should re-file the calculation of the proposed rates using an adjustment to arrive at the approved load forecast that retains the exact revenue-to-cost ratios approved in the Board's Decision and Order.

Rate Design

Elimination of Unmetered Scattered Load and Sentinel Lighting Customer Classes

Atikokan proposed the elimination of the Unmetered Scattered Load ("USL") and Sentinel Lighting classes, on the basis that it no longer has any customers in these classes. The Board accepted this in its Decision and Order, and Board staff submits that Atikokan has complied with this in the DRO.

Fixed/Variable Split

Atikokan proposed to retain the existing fixed/variable split for all remaining customer classes, as documented in Table 8-3 of the Application. This is approximately 80% fixed and 20% variable for each class, reflecting the percentage of distribution revenues collected through the fixed and volumetric rates respectively.

The Board approved Atikokan's proposal in the Decision and Order. Board staff submits that Atikokan has reflected this appropriately in the DRO.

Retail Transmission Service Rates

In its Application, Atikokan filed for adjusted Retail Transmission Service Rates ("RTSRs") based on the Board's *Guideline G-2008-0001: Electricity Distribution Retail Transmission Rates*, and based on an analysis of historical trends/patterns for over- or under-collection in the RSVAs and the approved Uniform Transmission Rates ("UTRs") effective January 1, 2011, using the Board-issued model. In response to VECC interrogatory # 22, Atikokan submitted revised proposed RTSRs reflecting the updated UTRs effective January 1, 2012.

The Board approved the updated RTSRs in its Decision and Order. Board staff submits that Atikokan has correctly reflected these in its proposed rates in the DRO.

Transformer Ownership Allowance

The Transformer Ownership Allowance ("TOA") credit is paid to those customers within an applicable class that own their own transformation facilities. The estimated credit to be paid is then factored as addition to the revenue requirement to be recovered through distribution rates.

In its Application, Atikokan Hydro proposed to maintain the current approved TOA credit of 10% of the distribution volumetric rate for the GS > 50 kW class.[1] In fact, Atikokan Hydro documented this as ($0.17)/kW. The TOA was updated during the course of the hearing. In its Reply Submission, Atikokan proposed a TOA credit of ($0.29)/kW, based on the theoretical "avoided cost" per kW due to customer-supplied transformation from sheet O3.1 of the updated cost allocation model.

[1] The Board approved a TOA credit of 10% of the applicable volumetric rate for the customer class in its decision for Atikokan's 2006 EDR rates application (RP-2005-0020/B-2005-0338) to remedy a historical issue since unbundling where the previous credit of ($0.60)/kW was larger in magnitude than the volumetric rate for one class. With some reclassification and an updated cost allocation study in its 2008 cost of service rates application, the small volumetric rate disappeared but the TOA credit was maintained at 10% of the applicable volumetric rate in a class.

The Board approved this TOA credit in its Decision and Order. Board staff submits that Atikokan has complied with this in its DRO.

Loss Factor

In its Application, Atikokan proposed updates to its approved loss factors as follows:

Description	Loss Adjustment Factor
Supply Facility Loss Factor	1.0045
Distribution Loss Factors	
Secondary Metered Customer < 5000 kW	1.0730
Secondary Metered Customer > 5000 kW	1.0623
Primary Metered Customer < 5000 kW	1.0778
Primary Metered Customer > 5000 kW	1.0671

The Board approved Atikokan's proposed loss factors, but directed Atikokan to address its system losses are part of its next cost of service application.

Board staff submits that Atikokan has correctly reflected the approved loss factors in its DRO.

Deferral and Variance Accounts

In its Application, Atikokan Hydro filed the Deferral and Variance Continuity Schedule for the deferral and variance accounts ("DVA") balances as at December 31, 2010. Board staff noted that Atikokan Hydro did not include a credit balance of $7,716 for Account 1592 Sub-account HST / OVAT Input Tax Credits (ITCs) as a part of its DVA balances. During the interrogatory process, Atikokan Hydro changed the balances for the DVA to include the omitted balance, and filed revised figures with the Board.

In its Decision and Order, the Board directed the disposition of the Group 1 and Group 2 DVA balances, with recovery over a 46-month period (from July 1 to April 30, 2016) to help mitigate rate impacts on Atikokan's ratepayers. The Board also denied DVA balances related to OEB cost assessments for the period 2006 to 2009 and OMERS contributions from 2006 to 2011, as these were accounting errors of the utility and were out-of-period. The responsibility for these errors resides with Atikokan's management.

The Board accepted an amount of $7,716 as 50% of the credit balance of Account 1592 Sub-account HST / OVAT Input Tax Credits (ITCs) for disposition. The Board also accepted that the amounts to be disposed of with respect to Account 1562 – deferred PILs should be a principal balance of $8,222 plus carrying charges to April 30, 2012 of $2,260.

Atikokan has reflected these in the DVA amounts to be disposed, and has calculated rate riders to recover the amounts over a 46 month period, ending on April 30, 2016. As such, Board staff submits that Atikokan has complied with the Board's Decision and Order on this matter.

Smart Meters

Atikokan is seeking approval for disposition of its smart meter costs recorded in Accounts 1555 and 1556 in this Application. In light of the submissions of VECC and Board staff regarding the level of Atikokan's smart meter costs, which were revised during the course of the proceeding, the Board approved 50% of Atikokan's smart meter costs for recovery at this time. Atikokan's smart meter costs will be audited by the Board's Regulatory Accounting and Audit group, and Atikokan will be able to make a subsequent application for recovery of the remaining smart meter costs subject to the results of the audit.

The Board did not differentiate between capital and operating costs. Board staff notes that Atikokan has applied the 50% factor uniformly to capital and operating costs in all historical years.

Atikokan has proposed the revised SMDRs by class in its DRO:

Customer Class	SMDR ($ per month for 36 months)
Residential	$0.55
GS < 50 kW	$0.63
GS > 50 kW	$1.09

The quantum of approved costs was addressed under the rate base section above. With respect to the methodology in calculating the rate riders, Board staff submits that Atikokan has not correctly calculated these. The spreadsheet provided with the DRO shows that Atikokan has allocated the SMFA revenues and associated carrying charges in proportion to the allocation of the deferred revenue requirement and carrying charges.

As documented in Section 3.5 of Guideline G-2011-0001: *Smart Meter Funding and Cost Recovery – Final Disposition,* issued on December 15, 2011, and approved by the Board in recent decisions regarding smart meter cost disposition, SMFA revenues and associated interest should be directly allocated. The SMFA was uniform across all metered customer classes, and the utility knows the number of customers by class at any point in time (as the information is documented in Exhibit 3 for the load and customer forecasting), and so the utility should be able to get a reasonable estimate of the SMFA revenues calculated by each customer class. Board staff submits that Atikokan should propose revised class-specific SMDRs in compliance of Section 3.5 of Guideline G-2011-0001.

Stranded Meters

Atikokan Hydro is proposing a Stranded Meter Rate Rider of $0.39 per month, to be effective for a period of three years, to recover the net book value of $23,375 for conventional meters stranded through replacement by smart meters. The Board approved this in its Decision and Order. Board staff submits that Atikokan has complied with this in its DRO.

Rate Mitigation

In its Application, Atikokan proposed to mitigate the impacts to customers by the significant increases that would result from proposed rates. It proposed to mitigate rate increases to no more than 10% for a typical Residential customer consuming 800 kWh per month through the following:

- Deferral of the disposition of all Group 1 and Group 2 DVAs, except for Smart Meter accounts 1555 and 1556, until 2013; and
- Approval for a credit rate rider to reduce the bill impact based on a consumption of 800 kWh in the month to no more than 10% over existing rates. The amount of the credit would be tracked in a DVA for which Atikokan Hydro was seeking approval, with the balance to be disposed of in a subsequent rates application.

In response to Board staff IR # 24, Atikokan acknowledged that a typical Residential customer in its service territory uses significantly less than 800 kWh. On average, monthly consumption for a residential customer is 581 kWh, and only about 33% of residential customers use at least 800 kWh per customer, as shown by consumption distribution data. Atikokan hence proposed to adjust the credit rate rider to mitigate rate impacts so that a customer consuming 581 kWh per month would have a total bill increase, after taxes and the Ontario Clean Energy Benefit, of no more than 10%.

In its Decision and Order, the Board denied Atikokan's proposed rate mitigation. As noted earlier, the Board considered that disposition and recovery of the DVAs should commence at this time, with a longer recovery period of 46 months (i.e. from July 1, 2012 to April 30, 2016) to mitigate impacts on customers. The Board also noted that its determinations with respect to OM&A, load forecast and smart meters would obviate the need for rate mitigation. However, the Board allowed Atikokan to make a proposal for rate mitigation if it should prove necessary.

The estimated bill impacts provided by Atikokan in the DRO demonstrate that rate mitigation is not necessary, with the possible exception of the streetlighting class. For a typical Atikokan Residential customer consuming 581 kWh per month, the increase in the bill is 5.32%. For the typical 800 kWh Residential customer, the estimated bill impact is 5.07%.

As noted by Atikokan, with its significant fixed/variable split (about 80% fixed), lower consumption customers face more significant impacts as the fixed monthly service charge is a proportionately greater amount of their bill.

Board staff observes that Atikokan has provided estimated bill impacts of 26.83% for a (hypothetical) single-connection streetlighting “customer” and 14.88% for the municipality as the customer for all existing streetlights in Atikokan’s service territory. The bill impacts exceed the 10% threshold and so could attract rate mitigation, but Atikokan has proposed no such mitigation.

Board staff observes that the increases in the streetlighting class reflect both the increase in the revenue requirement as well as the increase in the approved revenue-to-cost ratio for the streetlighting class. Per the evidence on record, the revenue-to-cost ratio for the streetlighting class is still below unity. Board staff takes no issue with the absence of a mitigation proposal for the streetlighting class.

– All of which is respectfully submitted –