Ontario Energy Board

Commission de l'énergie de l'Ontario

Ontario

EB-2011-0293

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

AND IN THE MATTER OF an application by Atikokan Hydro Inc. for an order approving just and reasonable rates and other charges for electricity distribution to be effective May 1, 2012.

BEFORE: Paul Sommerville
Presiding Member

Marika Hare
Member

DECISION ON DRAFT RATE ORDER
August 2, 2012

Atikokan Hydro Inc. ("Atikokan") filed an application (the "Application") with the Ontario Energy Board (the "Board") on December 14, 2011 under section 78 of the *Ontario Energy Board Act, 1998, S.O. 1998, c. 15, (Schedule B)*, seeking approval for changes to the rates that Atikokan charges for electricity distribution, to be effective May 1, 2012.

The Board issued its Decision and Order (the "Decision") on the Application on June 18, 2012. The Board approved an effective date of July 1, 2012 for the new rates and ordered Atikokan to file a draft Rate Order comprised of a proposed Tariff of Rates and Charges and detailed supporting material including a completed version of the Revenue Requirement Work Form ("RRWF") in an Excel format.

Atikokan filed a draft Rate Order ("DRO") comprising a proposed Tariff of Rates and Charges, an updated RRWF and other supporting documentation on July 3, 2012.

On July 10, 2012, Board staff filed a submission commenting that Atikokan had appropriately reflected the Board's findings in all areas except for the following:

- Atikokan's rate base for 2012 included all historical smart meter assets, while the Board had only approved 50% of the historically claimed costs;
- While there was an adjustment to Atikokan's 2012 capital expenditures of ($8500) and reflected in the rate base, Atikokan had not made the related adjustment to the depreciation expense;
- Atikokan had adjusted the revenue-to-cost ("R/C") ratios as a result of updating the cost allocation study to reflect the changes to the revenue requirement and load forecast directed by the Board in the Decision. The R/C ratios approved in the Decision and filed by Atikokan in the DRO are shown in Table 1 below. While Board staff understood the reasons for Atikokan's proposal, staff submitted that the possibility of updating the cost allocation model had not been identified by any party and the Board had approved the specific R/C ratios documented in the Decision.
- For the calculation of the class-specific Smart Meter Disposition Riders ("SMDRs"), Atikokan had allocated the Smart Meter Funding Adder ("SMFA") revenues and associated interest in accordance with the revenue requirement. Board staff noted that Section 3.5 of Guideline G-2011-0001 indicates that SMFA revenues and interest should be directly allocated as they were collected from each customer class beginning in May 1, 2006, which approach has been accepted by the Board in recent applications for disposition and recovery of smart meter costs.

The Vulnerable Energy Consumers Coalition ("VECC') filed a submission on July 10, 2012, indicating that Atikokan had not filed an updated Cost Allocation model in support of the revised R/C ratios documented in the DRO.

In response to the submissions of Board staff and VECC, Atikokan filed a revised DRO comprised of a revised proposed Tariff of Rates and Charges and a revised RRWF and other supporting documentation on July 16, 2012. Atikokan agreed with the submissions of Board staff and VECC, and provided a revised DRO reflecting these changes, with the exception of Board staff's comment that the R/C ratios should be in accordance with the numbers as documented in the Decision.

As a result of changes made in the revised DRO, Atikokan filed revised R/C ratios as follows:

Table 1: Revenue-to-Cost Ratios

Customer Class	Revenue-to-Cost Ratio		
	VECC IR # 5, approved in Decision and Order	DRO (July 3, 2012)	Revised DRO (July 16, 2012)
Residential	97.3%	98.26%	99.3%
GS < 50 kW	120%	120%	120.0%
GS > 50 kW	90.6%	88.01%	85.4%
Streetlighting	90.6%	88.01%	85.4%

Atikokan explained that adhering to the R/C ratios documented in the Decision would move the Residential R/C ratio further away from unity, which in principle is inappropriate and against the Board's policy and practice. Atikokan stated that it had adhered to the methodology used to respond to VECC IR # 5 for setting the R/C ratios for rate setting, namely:

- Moving the GS < 50 kW R/C ratio to the class boundary of 120%;
- Holding the Residential R/C ratio unchanged from the results of the [revised] cost allocation model; and
- Calculating the common R/C ratio for the GS > 50 kW and Streetlighting classes to maintain overall revenue neutrality.

As a result of the adjustments made by the Board in the Decision, Atikokan updated the cost allocation model to reflect the adjustments to load forecast, OM&A and rate base. The changes in the R/C ratios from the DRO to the revised DRO primarily relate to the adjustments to rate base and depreciation expense due to reflecting only the 50% of allowed smart meter costs approved in the Decision. Some adjustments would have a differential impact on some classes relative to others (e.g. the 50% disallowance of smart meter costs would impact on metered customers but not on unmetered streetlights, and would even have a different impact on each metered customer class due to allocators and relative weights). Due to different allocators, and how Atikokan has decided to apportion adjustments, particularly the OM&A reduction of nearly $200K, the R/C ratios of the classes changed from those established at the close of the record.

Atikokan stated that it has adhered to the methodology for the R/C ratios stated in VECC IR # 5, and that "the [R/C ratios] outlined in the Decision can not explicitly be adhered to in any event with the changes arising from the Decision"[1] due to the updates to the cost allocation model as a result of the Decision.

Board Findings

With the exception of the updated cost allocation model and the associated adjusted R/C ratios, the Board is of the view that Atikokan has appropriately reflected the Board's Decision in the DRO filing, as revised and filed on July 16, 2012.

The Board notes Atikokan's reasons for the revisions to the R/C ratios. However, the Board approved specific R/C ratios in its Decision and Order, as reflecting the best information on the record, and did not provide an opportunity for revisions. The Board therefore directs that Atikokan shall submit a second revised DRO filing reflecting the first revised DRO filing of July 16, 2012 with the exception of the R/C ratios used for cost allocation and rate design. The R/C ratios to be used are those specifically approved in the Decision and Order of June 18, 2012, and replicated below.

Customer Class	2012 Revenue-to-Cost Ratios
Residential	97.3%
GS < 50 kW	120.0%
GS > 50 kW	90.6%
Streetlighting	90.6%

With this delay, the Board understands that Atikokan will not be able to implement new rates as of the approved effective date of July 1, 2012. The Board is of the view that an implementation date of September 1, 2012 is practical.

In its revised DRO filing, Atikokan should calculate foregone revenue rate riders to recover the incremental revenues for the two-month period of July 1 to August 31, 2012.

This delay in implementation also affects the determination of rate riders to recover the balances of deferral and variance accounts ("DVAs") approved to be disposed. In the Decision and Order, the Board approved a recovery of the DVA balances over a 46-month period from July 1, 2012 to April 30, 2016. With the delay in implementation, the

[1] Atikokan Hydro Inc., Draft Rate Order [Revised and Filed – July 16, 2012], p. 19

Board directs Atikokan to calculate the DVA rate riders to recover the balance over the 44-month period from September 1, 2012 to April 30, 2016. For the Smart Meter Disposition Rider, the recovery shall be from September 1, 2012 to August 31, 2015.

In filing its second revised DRO, the Board expects Atikokan to file detailed supporting material, including all relevant calculations showing the impact of the implementation of this Decision on its proposed revenue requirement, the allocation of the approved revenue requirement to the classes and the determination of the final rates and all approved rate riders, including bill impacts. Supporting documentation shall include, but not be limited to, the filing of a completed version of the Revenue Requirement Work Form Excel spreadsheet which can be found on the Board's website.

A Rate Order will be issued after the steps set out below are completed.

THE BOARD ORDERS THAT:

1. Atikokan Hydro Inc. shall file with the Board, and shall also forward to the Vulnerable Energy Consumers Coalition, a second revised draft Rate Order attaching a proposed Tariff of Rates and Charges and other filings reflecting the Board's findings in this Decision on Draft Rate Order **by August 10, 2012**.

DATED at Toronto, August 2, 2012
ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary