



**APPLICATION FOR APPROVAL OF ELECTRICITY DISTRIBUTION RATES
EFFECTIVE MAY 1, 2012**

EB – 2011-0177

IN THE MATTER OF the Ontario Energy Board Act, 1998, Schedule B to the Energy Competition Act, 1998, c.15;

AND IN THE MATTER OF an Application by Kenora Hydro Electric Corporation Ltd. to the Ontario Energy Board for an Order approving just and reasonable rates and other service charges for the distribution of electricity as of May 1, 2012.

APPLICATION

The Applicant, Kenora Hydro Electric Corporation Ltd (“Kenora Hydro”) is a corporation incorporated pursuant to the Ontario Business Corporations Act with its head office in the City of Kenora, Ontario. Kenora Hydro carries on the business of distributing electricity within the City of Kenora as a licensed electricity distributor under license ED-2003-0030.

Kenora Hydro hereby applies to the OEB pursuant to Section 78 of the Ontario Energy Board Act, 1998 for approval of these proposed distribution rates and other charges, on a 2012 Incentive Regulation Mechanism Application, with rates effective May 1, 2012.

The applicant’s notice will be appearing in the Kenora Daily Miner & News, a paid publication, with readership and circulation of approximately 3,500.

Requests for further information on this application should be made to:

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Dated in Kenora, Ontario, October 14, 2011.

MANAGER'S SUMMARY

Kenora Hydro is applying for rates and charges to be effective May 1, 2012. Kenora Hydro completed a full Cost of Service rebasing application, with rates effective July 1, 2011. This is Kenora's first application under the Board's 3rd Generation Incentive Regulation Mechanism (IRM3).

Price Cap Adjustment:

The Board's 3rd Generation IRM dictates that Kenora's model incorporates the following:

- Price escalator (GDP-IPI) = 1.3%
- Productivity Factor = 0.72%
- Stretch Factor = 0.4% (Proxy until LDC specific factor is made available)
- Resulting Price Cap Index = 0.18%

It is understood that the Board will update this rate application to reflect any required changes in the 2011 GDP-IPI.

Incremental Capital Module:

An Incremental Capital Model has not been filed by Kenora Hydro for this IRM application.

Z-Factor Claim:

A Z-Factor Claim has not been filed by Kenora Hydro for this IRM application.

Shared Tax Savings Rate Rider:

As part of this application, Kenora Hydro submits the 2012 IRM3 Tax Savings Workform. As calculated in the Workform, there will be no impact of the currently known legislated tax changes on Kenora Hydro. There are no Rate Riders calculated as a result of Shared Tax Savings model. The Model has been included as Appendix A.

Deferral and Variance Account Rate Rider:

Kenora Hydro has included in this IRM an analysis and proposed disposal of the “Group 1” Deferral and Variance accounts, as the net account balances exceed the preset disposition threshold of \$0.001/kWh. Included in the Rate Rider is disposition of the following accounts:

- 1580 RSVA Wholesale Market Service
- 1584 RSVA Transmission Network Service
- 1586 RSVA Transmission Connection Service
- 1588 RSVA Power (Including GA Account)
- 1590 Recovery of Regulatory Asset Balances
- 1562 PILs Account

Balances as at December 31, 2010, and anticipated carrying charges to April 30, 2012 are as follows:

Summary of Group 1 and Other Assets					
Account Description	Account Number	Closing Principal 31-Dec-10 **	Interest to 30-Apr-12	Total Claim Amount	
RSVA - Wholesale Market	1580	\$ (117,269)	\$ (5,160)	\$ (122,429)	
RSVA - Network Charge	1584	\$ (11,266)	\$ (190)	\$ (11,456)	
RSVA - Connection Charge	1586	\$ 30,646	\$ (3,371)	\$ 27,275	
RSVA - Power (Excl GA)	1588	\$ (11,220)	\$ 934	\$ (10,286)	
RSVA - Global Adjustment	1588	\$ (21,658)	\$ 100	\$ (21,558)	
Recovery of Regulatory Asset	1590	\$ 111,414	\$ (107,037)	\$ 4,377	
PILs	1562	\$ (112,909)	\$ (21,355)	\$ (134,264)	
TOTAL		\$ (132,262)	\$ (136,079)	\$ (268,341)	
** Dec 2010 Balances adjusted for 2011 Disposal					

Account 1521 – Special Purpose Assessment – will not be disposed of in this application, as collections are in progress during 2011. Any resulting variance in this account will be disposed of in a future filing.

Account 1595 – 2011 Recovery of Regulatory Assets - will not be disposed of in this application, as it is currently active with the disposal of balances from the 2011 COS Rate Application process.

As the calculated claim per kWh is (\$0.00123), the threshold has been met and a one year rate rider has been proposed for the disposition of the Group 1 Accounts (Tab 12 of the IRM Generator).

Summary of Deferral & Variance Rate Riders			
Rate Class	Allocated Based on	Rate Rider per unit	Additional RRider for Non-RPP Customers
Residential	kWh	(\$0.00103)	(\$0.00058)
GS < 50 kW	kWh	(\$0.00198)	(\$0.00058)
GS > 50 kW	kW	(\$0.63766)	(\$0.22482)
Unmetered Scattered Load	kWh	(\$0.00320)	(\$0.00058)
Streetlights	kW	(\$0.76190)	\$0.00000

Input Sources for Tab 9: EDDVAR Continuity Schedule

- Tab 9: - Inputs into column AV – Adjustments during 2009 – Other, are the closing 2009 balances of the Group 1 Accounts. Column AY is the 2009 closing interest on these balances.
- Column BD and BL are inputs for the change in the accounts during 2010.
 - Column BP and BQ contain inputs of the approved amounts for disposal from the 2011 COS Application. Columns BT and BU contain estimates of the carrying charges to accrue on the closing 2010 principal balances.
 - Column BW was input from the 2010 2.1.7 RRR filing. Note that there are no variances from the 2010 balances to the 2010 RRR filing.
- Tab 10: - The metered kWh and kw, as well as the kWh for Non-RPP customers, was taken from the 2011 COS Application for forecasted metered kWh to use as the allocator for the Group 1 account disposal calculation.
- Distribution Revenue column K was also taken from the 2011 COS Application.
 - Account 1590 is proposed to be allocated to each customer class for recovery based on the metered kWh by class as a percentage of the total metered kWh of 109,263,876.

Revenue-to-Cost Ratio Adjustments:

As a result of the final OEB Decision for Kenora Hydro's 2011 COS Rate Application, there is a required adjustment to the revenue-to-cost ratio for the Unmetered Scattered Load class. Page 21 of Kenora Hydro's submission in response to the comments from the OEB and VECC on the OEB's Draft Rate Order (included in the table below) indicates the final ratios by class. The distribution revenue balancing of this adjustment will impact the General Service over 50 kW class. As detailed in the submitted Revenue/Cost Ratio Model, the change occurs in the USL class, with an adjustment from 138% in 2011 to 129% in 2012. The rebalancing occurs in the GS>50 kW class. The adjustment in 2012 moves the USL class half way to the desired ratio of 120%, which will be accomplished by a further adjustment to the USL class in the next IRM, for the 2013 rates.

The proposed shift in Revenue-to-Cost ratios will result in a re-allocation of \$459 in distribution revenue collection, reducing the total USL and increasing the GS>50 kW revenues for the year.

Input Sources for Revenue-Cost Ratio Adjustment Workform

Tab 3: Customer count and load forecasts taken from final 2011 COS Application. Rates from final OEB Rate Order dated July 6, 2011.

Tab 6: From 2011 COS Application – June 21/11 Reply from Kenora Hydro, page 21, proposed revenue to cost ratios.

From 2011 COS Rate Application – Final Revenue to Cost Ratios

Cost Allocation Based Calculations													
Class	Revenue Requirement - 2011 Cost Allocation Model	2010 Base Revenue Allocated Based on Proportion of Revenue at Existing Rates	Miscellaneous Revenue Allocated from 2011 Cost Allocation Model	Total Revenue	Revenue Cost Ratio	Check Revenue Cost Ratios from 2011 Cost Allocation Model	Proposed Revenue to Cost Ratio	Proposed Revenue	Misc Revenue	Proposed Base Revenue	Board Target Low	Board Target High	
Residential	1,811,876	1,613,184	222,677	1,835,860	101.3%	101.32%	101.16%	1,832,947	222,677	1,610,270	85%	115%	
GS < 50 kW	673,195	449,806	75,495	525,301	78.0%	78.03%	80.00%	538,556	75,495	463,061	80%	120%	
GS > 50	515,396	597,544	56,043	653,586	126.8%	126.81%	125.00%	644,245	56,043	588,203	80%	180%	
Street Lighting	73,468	51,144	5,157	56,301	76.6%	76.63%	76.63%	56,299	5,157	51,141	70%	120%	
USL	4,969	7,311	545	7,855	158.1%	158.08%	138.00%	6,857	545	6,313	80%	120%	
TOTAL	3,078,904	2,718,988	359,916	3,078,904	100.0%	100.0%		3,078,904	359,916	2,718,987			

Tab 7: Column D = information from the 2006 COS Informational Filing. Column F = total from the 2011 COS Application.

Tab 8: Transformer allowance kW taken from 2011 COS Filing. Approved Transformer Allowance rate from 2011 Rate Schedule.

The Revenue-Cost Ratio Model is included in Appendix B.

Retail Transmission Service Rates:

Based on the most recent Uniform Transmission Rates (UTR) approved by the Board (EB_2010-0002) effective January 1, 2011, the current UTR's applicable to Kenora Hydro are:

- Network Service \$3.22 / kW
- Line Connection \$0.79 / kW

Once the January 1, 2012 UTR rates have been announced by the Board, it is understood that the Board will adjust Kenora Hydro's IRM to incorporate any changes to these rates.

Input Sources for RTSR Adjustment Workform

Tab 3: Current rates from most recent Tariff of Rates and Charges.

Tab 4: The most recent RRR billing determinants are taken from the 2010 RRR filing. The total 2010 kWh delivered, without losses and with an adjustment for unbilled kWh, is the 2.1.5 "Delivery" amount, 105,584,412 kWh. Amounts reported in the "Customers, Demand and Revenues" table in the 2010 RRR included the kWh uplifted for line losses.

Tab 6: The charges for Network and Line Connection to the LDC were taken from the monthly IESO invoices as issued to Kenora Hydro.

The 2012 RTSR Workform is included as Appendix C.

LRAM Rate Rider:

Kenora Hydro has included in this application a request for the establishment of a rate rider to recover lost revenues from the introduction of the OPA's conservation programs. The rate rider has been calculated based on the OPA's final LDC specific results for the years 2006 through 2010. Please note that as the OPA did not provide cumulative historical results in the 2010 Results, historical kWh savings

from 2006-2009 were assumed and applied in the 2010 year, with the exception of any kW based savings, i.e. the Demand Response programs, as the OPA had historically only included savings in the year of the program launch. Kenora Hydro did not make a claim for LRAM amounts in the 2011 COS Rate application. A one year rate rider is proposed for this LRAM claim. A summary of the total claim by class and the proposed rate rider is provided in the following table:

LRAM Rate Rider By Class					
Customer Class	Total LRAM + Carrying Charges	Unit	2011 OEB Approved kWh or kW	Proposed Rate Rider May 2012	
Residential	\$ 78,070.32	kWh	39,677,024	\$ 0.001968	
GS Under 50 kW	\$ 399.82	kWh	24,025,485	\$ 0.000017	
GS Over 50 kW	\$ 2,491.82	kW	112,043	\$ 0.022240	

Input Sources for LRAM Model

Tab = OPA Results: All inputs to Kenora Hydro's LRAM Model come directly from the OPA's e-mailed spreadsheets. These have been included in the Appendix D.

The working papers to support the LRAM Rate Rider are included as Appendix D.

Late Payment Class Action Recovery:

Kenora Hydro's application for a Rate Rider in its 2011 COS Application to recover this one-time expense was approved, and as the rate rider is being applied until April 30, 2012, no claim for a Rate Rider will be made in this application.

Transition to IFRS:

Kenora Hydro has maintained financial records consistent with CGAAP and will present financial information under IFRS in the next Cost of Service Application.

2012 IRM Rate Generator:

The proposed Tariff of Rates and Charges May 1, 2012, is included as Appendix G.

Input Sources for 2012 IRM Rate Generator

Tabs 3 thru 8: Info taken from the latest Board Approved Tariff of Rates and Charges EB-2010-0135 effective July 1, 2011. Included as Appendix F.

Tab 9: As detailed in the above section “Deferral and Variance Account Rate Rider”.

Tab 10: Column F & G - Source is 2011 COS Application – final 2011 load data. Column K is also from the 2011 COS Application, distribution revenue as adjusted by the Board.

Tab 14: The LRAM Rate Rider is the only Rate Rider proposed for this 2012 IRM. Inputs from the LRAM Model are included as Appendix D.

Tab 15 & 16: Inputs from the RTSR Workform sheets, Appendix C.

Tab 17: Column H inputs are from the results of the Revenue-Cost Ratio Model, Tab 14 - Column M, N & O.

Tab 18 & 19 are taken from the most recent Tariff of Rates & Charges, EB-2010-0135, included as Appendix F.

Rate Impacts:

The rate impact sheets generated from the IRM are included in Appendix E. In summary:

- Residential at 800 kWh: Decrease \$1.61, a 1.47% decrease
- General Service Under 50 kW at 2,000 kWh: Increase \$4.37, a 1.79% increase
- General Service Over 50 kW – Error on Bill Impact Sheet – does not pick up the LRAM kW based Rate Rider.
- Unmetered Scattered Load at 12,500 kWh: Increase \$49.81, a 3.87% increase
- Streetlights – errors on Bill Impacts Sheet. Notified OEB Oct 13, 2011. Rate Model will be corrected and Kenora Hydro will update the Streetlight bill impacts as soon as possible.

The Full 2012 IRM3 Rate Generator is included as Appendix E.