



February 13, 2013

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
2300 Yonge Street, 27<sup>th</sup> Floor  
Toronto, ON M4P 1E4

Dear Ms. Walli:

**RE: 2013 ELECTRICITY DISTRIBUTION RATE APPLICATION FOR ALGOMA POWER  
INC. ("API") – EB-2012-0104  
REPLY SUBMISSION**

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Please find accompanying this letter two (2) copies of API's Reply Submission in the above captioned proceeding.

A PDF version of this Reply Submission will, coincidentally with this written submission, be filed via the Board's Regulatory Electronic Submission System.

If you have any questions in connection with the above matter, please do not hesitate to contact the undersigned at (905) 994-3634.

Yours truly,

Original signed by:

Douglas R. Bradbury  
Director, Regulatory Affairs

Enclosures

Algoma Power Inc.

Reply Submission

2013 Electricity Distribution Rates  
Application

EB-2012-0104

February 13, 2013

## Preamble

Algoma Power Inc. ("API") filed an application (the "Application") with the Ontario Energy Board (the "Board") on October 22, 2012 under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the distribution rates that API charges for electricity distribution, to be effective January 1, 2013. The Application is based on the 2013 3<sup>rd</sup> Generation Incentive Regulation Mechanism ("IRM") and also includes the impact of the Rural and Remote Rate Protection funding, pursuant to Ontario Regulation 442/01.

Both the Vulnerable Energy Consumers Coalition ("VECC") and Board staff made submissions to the Board. VECC's participation and submission was limited to the prudence and recovery of smart meter costs. Board staff's submission was related to the following matters:

- Retail Transmission Service Rates ("RTSR") Adjustments;
- IRM and Rural and Remote Rate Protection ("RRRP") Adjustment Factors;
- Deferral and Variance Accounts ("DVAs");
- Smart Meter Cost Recovery; and
- Effective Date of the Rate Change.

This is API's Reply Submission in the matter of its Application for 2013 Electricity Distribution Rates and RRRP funding.

## RSTR Adjustments

Board staff submitted that API has appropriately completed the RTSR Workform in its Application. API has no further submissions related to this matter. API confirms that it will update the RTSR Workform in the Draft Rate Order to recognize the approved 2013 UTRs.

1    **IRM and RRRP Adjustment Factors**

2  
3    Board staff submitted that API has calculated the rate adjustments for the R-1, R-2, Seasonal  
4    and Street Lighting rate classes in accordance with the methodology approved in the EB-2011-  
5    0152 proceeding. API acknowledges that RRRP Adjustment factor will be updated by Board  
6    staff for inclusion in the pending Draft Rate Order.

7  
8    **Deferral and Variance Accounts (“DVAs”)**

9  
10   Board staff submitted that subject to certain clarifications and based on the threshold test  
11   calculation of \$0.001 per kWh, the threshold for disposition of API’s Group 1 DVA balances had  
12   been met and Board staff supported API’s request to dispose of these balances over one year.

13  
14   In its submission, Board staff requested that API provide a reconciliation of the 2008 closing  
15   balance (principal and interest) in Account 1590 as shown in its continuity tables of \$899,952  
16   with its Draft Rate Order in EB-2007-0744 which contained a projected balance as at December  
17   31, 2008 of \$1,007,195. In API’s Draft Rate Order in the matter of EB-2007-0744 dated  
18   November 13, 2008, the balance of Account 1590 as at December 31, 2008 of \$1,007,195 was  
19   a projected period ending balance. The closing principal and interest balance of \$899,952 per  
20   the continuity schedule provided with this Application represents actual activity relating to OEB  
21   1590 for the period. This balance of \$899,952 agrees to EB-2009-0278 Board Decision.

22  
23   Board staff also requested clarification of the 2011 transaction in Account 1590 of \$87,359  
24   which was included in the continuity tables. The \$87,359 relates to customer billing activity  
25   recorded in 2011 but relating to pre 2011 consumption. This is particularly relevant for the  
26   Seasonal customer class which, in that time frame, were billed on an annual basis.

27  
28   Further Board staff noted that the 2010 closing principal balances as submitted in API’s original  
29   and revised continuity tables were consistent with the 2010 closing balances approved by the  
30   Board in API’s Motion to Vary the 2012 IRM Decision. The 2010 balances were approved on a

1 final basis. Board staff has requested that API clarify what year the additional adjustment of  
2 \$31,165 is related to in its reply submission.

3  
4 As noted in API's responses to interrogatories, the net credit difference from the RRR balances  
5 of \$31,165 relates to a combination of the 2009 and 2010 revised fixed price and global  
6 adjustment calculations that were completed (and remitted to the IESO) in January 2012 as part  
7 of API's Motion to Vary the 2012 IRM Decision. Given that the revised calculations occurred in  
8 January 2012, which is after API's financial year-end of December 31, along with the fact the  
9 API's RRR balances are filed based on the regulatory balances as at December 31, 2011 per  
10 the financial statements, the \$31,165 has been reflected in the "Other Adjustments during 2011"  
11 because the true 2011 ending balance of the Power and Global Adjustment regulatory accounts  
12 should reflect any adjustments for previously approved balances. The other variance from the  
13 RRR filing and the continuity schedule is a result of the 2011 fixed price and global adjustment  
14 calculations completed in 2012.

15  
16 Board staff had submitted that subject to these clarifications they supported API's request to  
17 dispose of these balances over one year period. API submits that for reasons related to  
18 updated bill impacts and the timing of this Application that the Board approve a sunset date of  
19 December 31, 2014 for the recovery of these Group 1 DVA balances.

## 20 21 **Smart Meter Cost Recovery**

### 22 23 ***Smart Meter Costs***

24  
25 Subject to the revisions to API's smart meter model which occurred in response to Board staff  
26 interrogatories as discussed in the Board staff submission, both Board staff and VECC consider  
27 the historical and forecasted costs to be prudent. Also, both Board staff and VECC have  
28 submitted that API's costs related to matters beyond the minimum functionality are justified and  
29 take no issue with the recovery sought.

30  
31 API has no further submissions related to this matter.  
32

1    **Cost Allocation**

2  
3    API has allocated the recovery of smart meter costs as per its customer class structure, i.e., the  
4    Residential – R1, Residential – R2, Seasonal and Street Lighting. The Application seeks to  
5    recover costs from the Residential – R1 and Seasonal customer classes as these classes  
6    encompass the traditional Residential and General Service less than 50 kW customer classes  
7    seen in other LDCs. In their respective submissions, both Board staff and VECC have accepted  
8    the appropriateness of this allocation. API has no further submissions related to this matter.

9  
10   **Cost Recovery**

11  
12   In its submission Board staff wrote,

13       *“API proposes to allocate the smart meter costs applicable to its R-1 customer*  
14       *class directly to its R-1 revenue requirement for the purposes of calculating RRRP*  
15       *funding. These costs are related to historical smart meter cost recovery net of*  
16       *Smart Meter Funding Adder revenues received (“the SMDR amounts”), as well as*  
17       *the 2013 incremental revenue requirement associated with smart meter*  
18       *implementation (“the SMIRR amounts”). In other words, API proposes not to fully*  
19       *recover these amounts from its R-1 customers through the SMDR and SMIRR rate*  
20       *riders, which has been the practice of smart meter cost recovery approved by the*  
21       *Board for all other LDCs to date, but to recover the total amounts largely from*  
22       *provincial ratepayers.”<sup>1</sup>*

23  
24   This is an accurate description of the proposal presented by API in its Application. It is also a  
25   reasonable representation of the manner in which the cost of any Board approved capital  
26   addition is recovered from the customers of API.

27  
28   Ontario Regulation 442/01 governs the manner in which distribution rates are set for the  
29   distribution customers at API. Following the determination of the appropriate service revenue  
30   requirement in a cost of service proceeding, the distribution rates for the Residential – R1 and

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<sup>1</sup> Board staff Submission, EB-2012-0104, dated January 30, 2013, page 8, paragraph 1

1 Residential – R2 will be set by indexing the most recently Board approved distribution rates by  
2 the RRRP Adjustment Factor. Any difference between the recovery of the service revenue  
3 requirement allocated to these customer classes at the indexed distribution rates and the  
4 allocation of service revenue requirement will be recovered through the RRRP or as stated by  
5 Board staff “*largely from provincial ratepayers*”.

6  
7 The Smart Meter Initiative is essentially a non-discretionary capital addition approved by the  
8 Board and the smart meter model has calculated the marginal impact on service revenue  
9 requirement associated with this non-discretionary capital addition. API asserts that its proposal  
10 in this Application which will see the Residential – R1 distribution rate indexed by the RRRP  
11 Adjustment Factor with the allocation of the smart meter cost being borne by the RRRP funding  
12 amount is the appropriate methodology. It is in keeping with Ontario Regulation 442/01 which  
13 recognizes that API is a high cost LDC for reasons that have been previously recognized.

14  
15 In their respective Submissions, both Board staff on page 9 and VECC on page 5 has  
16 recognized the challenges related to delivering the smart meter initiative in the API service  
17 territory. The unique nature of the API service territory including such attributes as expansive  
18 territory, rural and rugged terrain, low customer density and the required deployment of  
19 communication technologies have all contributed to the higher per meter cost of the smart meter  
20 initiative. This higher cost to implement and deliver the smart meter initiative mirrors the  
21 recognized higher per customer cost to deliver distribution services which has been  
22 acknowledged through the reliance on the RRRP funding to prevent unsustainable distribution  
23 rate increases.

24  
25 ***Modifications to the RRRP Adjustment Factor***

26  
27 Board staff has submitted that, in the event the Board decides to allow API to recover some of  
28 its smart meter costs through RRRP funding, it would be appropriate to revise the calculation of  
29 the RRRP Adjustment Factor to incorporate the average for provincial utilities including smart

1 meter cost recovery<sup>2</sup>. API appreciates the Board staff position on this matter however is not in  
2 agreement.

3  
4 There is a necessity and desire to maintain a consistent and fair manner in which the RRRP  
5 Factor is determined annually. During the review of API's last cost of service proceeding, EB-  
6 2009-0278, the Board turned its attention to the appropriate determination of an annual RRRP  
7 Adjustment Factor. At that time, Board staff prepared a proposal for submission to the Board  
8 and API together with the intervenors of record were afforded to opportunity to comment. The  
9 Board in its Decision accepted the appropriate methodology to determine the annual RRRP  
10 Adjustment Factor. The RRRP Adjustment Factor is an integral component of rate setting at  
11 API. API believes that allowing changes to the methodology of calculating the annual RRRP  
12 Adjustment Factor will diminish the integrity of the incentive rate making process in place for  
13 API.

14  
15 Further, API believes that it is not necessary to modify the methodology of calculating the  
16 annual RRRP Adjustment Factor. While it is true that the methodology does not include riders  
17 associated with smart meter cost recovery, it does recognize the contribution to distribution  
18 rates of those distributors that have rebased and are now collecting costs attributable to the  
19 smart metering initiative in their revenue requirement. This is true and will be true for  
20 determination of the RRRP Adjustment Factor for 2012, 2013 and 2014 incentive based rates  
21 for API; API is anticipated to rebase for 2015 rates. While not a "*perfect*" representation of  
22 annual rate increases resulting from the smart meter imitative combined with both rebasing and  
23 incentive rate making, it is no "*less perfect*" than the alternative contained in the Board staff  
24 submission<sup>3</sup>.

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<sup>2</sup> Board staff Submission, EB-2012-0104, dated January 30, 2013, page 9, paragraph 3

<sup>3</sup> Board staff Submission, EB-2012-0104, dated January 30, 2013, page 9, paragraph 3



1    **Recovery Period**

2  
3    Board staff has suggested that it would be appropriate for the Board to consider recovery of the  
4    portion of the Smart Meter Disposition Rider ('SMDR") amount applied to the RRRP over a two-  
5    year period until API's next cost of service proceeding<sup>4</sup>.

6  
7    API believes that this is a reasonable approach and is in agreement with recovery of the SMDR  
8    and the Smart Meter Incremental Revenue Requirement Rate Rider ("SMIRR") amount applied  
9    to the RRRP over a two-year period until API's next cost of service proceeding for 2015.

10  
11   **Effective Date of Rate Change**

12  
13   Board staff has submitted that API did not provided any reasons for filing its Application on  
14   October 22, 2012 as opposed to August 3, 2012 and therefore the effective date of the rate  
15   change ought to be the 1<sup>st</sup> of the month following issuance of the Board's Decision in this  
16   matter<sup>5</sup>.

17  
18   API acknowledges the Board staff position on this matter. API notes that the process for annual  
19   incentive rate making in API would normally be fairly straight forward, however in this instance it  
20   has been complicated by the application to recover smart meter costs. As evidenced in the two  
21   submissions and this reply submission, the manner in which smart meter costs ought to be  
22   recovered under API's incentive rate making regime has consumed much of the rate design and  
23   review process. Notwithstanding this complication, the Application was not filed per the Board's  
24   schedule.

25  
26  
27  
28                                   All of Which Is Respectfully Submitted

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<sup>4</sup> Board staff Submission, EB-2012-0104, dated January 30, 2013, page 9, paragraph 5

<sup>5</sup> Board staff Submission, EB-2012-0104, dated January 30, 2013, page 10, paragraph 1