



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2008 ELECTRICITY DISTRIBUTION RATES

ATIKOKAN HYDRO INC.

EB-2008-0014

April 29, 2008

INTRODUCTION

Atikokan Hydro Inc. (“Atikokan” or the “Applicant”) is the licensed electricity distributor serving a customer base of approximately 2,293 within the Township of Atikokan.

Atikokan submitted an application for 2008 electricity distribution rates on January 17, 2008. The application was based on a future test year cost of service methodology. On April 8, 2008, Atikokan submitted its response to interrogatories from Board staff and the Vulnerable Energy Consumers Coalition (“VECC”).

These submissions reflect observations and concerns which arise from Board staff’s review of the pre-filed evidence and interrogatory responses made by the Applicant, and are intended to assist the Ontario Energy Board (the “Board”) in evaluating Atikokan’s application and setting reasonable and just rates.

THE APPLICATION

Atikokan has requested a revenue requirement of \$1,093,297 to be recovered in new rates effective May 1, 2008.

Interim Rates from Previous Board Decisions

Atikokan’s distribution rates have been approved on an interim basis from May 1, 2006 as per the Board’s Decision and Order in RP-2005-0020/EB-2005-0335. The Board cited Atikokan’s financial situation, as documented on the record of the proceeding, and the potential consequences for the distributor’s customers. The Board also expressed concern over the quality of Atikokan’s application, noting extensive discovery to complete and clarify the record. By way of its decision, the Board informed its Chief Regulatory Auditor (the “CRA”) of Atikokan’s financial situation and suggested that the CRA launch an investigation.

At the time of the Board’s decision in EB-2007-0505 on Atikokan’s 2007 distribution rate application, the investigation by the CRA was underway but not completed. The Board stated:

“If the result of the CRA’s review would necessitate a reconsideration and adjustment to finalize 2006 rates, the rates for 2007 would also have to be adjusted. As the review by the CRA of Atikokan is not complete, the Board finds it appropriate to approve Atikokan’s rates for 2007 on an interim basis. Upon completion of the CRA’s review, the Board will finalize Atikokan’s 2006

and 2007 distribution rates. The details of that process will depend on the Board's assessment of the conclusions of the review."

Board staff understands that the review was completed in July 2007, close to the time that distributors such as Atikokan were to file their 2008 Cost of Service ("COS") applications. Given the timing, the Board did not initiate a process to finalize Atikokan's 2006 and 2007 rates at the time. The Board decided to address Atikokan's interim rates in the proceeding dealing with the distributor's 2008 COS rate application.

In its response to VECC interrogatory #6, Atikokan acknowledged that its current rates are still approved on an interim basis. Board staff invites parties to provide comments on the finalization of Atikokan's 2006 and 2007 interim distribution rates.

OM&A

Background

Atikokan's Summary of Operating Costs is found at Exh 4/ Tab 1/ Sch 2 of its application ("Summary"). The 2008 Total Controllable OM&A Expenses forecast is \$798,045, which is a 22% (or \$143,369) increase compared to the 2006 actual level.

Discussion and Submission

Using the Summary as its base, Board staff created two different tables and asked interrogatories concerning each table to clarify the drivers of this increase. Atikokan confirmed the accuracy of each of the tables through its response to Board staff interrogatory #4a.

Table 1 summarizes the key components of Atikokan's operating costs for the 2006 Board approved and actual, 2007 Bridge and 2008 Test years.

Table 2 highlights the significant sources of variance for controllable expenses.

Table 1

	2006 Board Approved	2006 Actual	2007 Bridge	2008 Test
OM&A Expenses				
Operations	258,051	284,184	262,800	311,895
Maintenance	38,224	26,278	79,500	38,800
Billing & Collecting	139,572	152,849	158,550	167,950
Community Relations	-	1,956	-	-
Administrative and General Expenses	284,294	187,469	258,000	277,000
General Advertising Expense	1,714	1,940	2,200	2,400
Total Controllable Expenses	721,855	654,676	761,050	798,045
Bad Debt	(466)	1,948	2,500	3,000
Property Insurance	6,345	7,208	7,500	8,000
Taxes other than income	-	-	-	-
Amortization Expense	145,951	155,617	145,996	168,510
Total Distribution Expenses	873,685	819,449	917,046	977,555
LCT, OCT & Income Taxes	-	-	-	-
Total Operating Costs	873,685	819,449	917,046	977,555

Table 2

	2006 Board Approved	Variance 2006/2006	2006 Actual	Variance 2007/2006	2007 Bridge	Variance 2008/2007	2008 Test	Variance 2008/2006
OM&A Expenses								
Operations	258,051	26,133 3.6%	284,184	- 21,384 -3.3%	262,800	49,095 6.5%	311,895	27,711 4.2%
Maintenance	38,224	- 11,946 -1.7%	26,278	53,222 8.1%	79,500	- 40,700 -5.3%	38,800	12,522 1.9%
Billing & Collecting	139,572	13,277 1.8%	152,849	5,701 0.9%	158,550	9,400 1.2%	167,950	15,101 2.3%
Community Relations	-	1,956 0.3%	1,956	- 1,956 -0.3%	-	-	-	1,956 -0.3%
Administrative and General Expenses	284,294	- 96,825 -13.4%	187,469	70,531 10.8%	258,000	19,000	277,000	89,531 13.7%
General Advertising Expense	1,714	226 0.0%	1,940	260 0.0%	2,200		2,400	460 0.1%
Total Controllable Expenses	721,855	- 67,179 -9.3%	654,676	106,374 16.2%	761,050	36,795 4.8%	798,045	143,369 21.9%

Board staff notes that the most significant area of increase contained in the above table is in Administrative and General Expenses which accounts for \$89,531 of the increase from 2006 to 2008. The two main items responsible for this increase are Outside Services Employed and Regulatory Expenses. These cost drivers account for 45% (or \$65,117) of Atikokan's requested increase of \$143,369. Table 3 below summarizes the increases.

Table 3

Cost Drivers	Sum of 2007 and 2008 Increases
Outside Services Employed	\$59,788
Regulatory Expenses	\$5,329
Total	\$65,117

Outside Services Employed and Regulatory Expenses

Atikokan is requesting Board approval of an expenditure on Outside Services of \$65,000 for the 2008 test year, an increase of \$59,788 from the 2006 actual. In response to Board staff interrogatory #3, Atikokan stated that the increase was “to ensure resources are available to deliver the quality of reporting and filing for the OEB”.

In addition, the following explanation was provided in its application:

“As a result of the regulatory compliance audit, it became abundantly clear that we would need to build in funds to allow us to hire professional consultants on an as needed basis to complete the increasingly complex and time consuming requests of the OEB. The 2008 rebasing is included in 2007 and we will probably need to rebase again in 2009 or 2010 to support the Smart Meter Project.”[Exh 4/Tab 3/ Sch 3]

With respect to Regulatory Expenses (Account 5655), Atikokan is requesting an expenditure of \$14,000 for the 2008 test year, an increase of \$5,329 from the 2006 actual. Based on the evidence provided in its application and interrogatory responses, it is not clear what the Applicant’s total cost was for the preparation of its 2008 COS application and Board staff invites the Applicant to provide clarification of this matter in its reply submission.

Board staff invites the Applicant to explain in its reply submissions, its response to Board staff interrogatory # 1 that all 2008 test year regulatory costs are on-going in nature. Also, Board staff invites the Applicant to explain why it does not believe that the costs of preparing the 2008 COS application would be one-time in nature.

Employee Compensation and Benefits

The following Table 4 prepared by Board staff summarizes the information on labour costs provided in Exh 4/Tab 2/Sch 8.

Table 4

	2006 Board Approved	2006 Actual	2007 Bridge	2008 Test
Compensation	\$ 468,348	\$ 468,348	\$ 473,993	\$ 475,417
Pension and Benefits	\$ 81,725	\$ 81,448	\$ 81,854	\$ 82,263
Incentive Pay	\$ -	\$ -	\$ -	\$ -
Total Compensation	\$ 550,073	\$ 549,796	\$ 555,847	\$ 557,680

In Board staff interrogatory #18, the Applicant was asked to provide a breakdown of total employee costs charged to OM&A. The following Table 5 was prepared based on Atikokan's response.

Table 5

	2006 Board Approved	2006 Actual	2007 Bridge	2008 Test
Capitalized	\$ 42,163	\$ 39,695	\$ 47,026	\$ 48,026
OM&A	\$ 287,960	\$ 310,745	\$ 328,476	\$ 338,608
Total Compensation	\$ 330,123	\$ 350,440	\$ 375,502	\$ 386,634
Capitalized	13%	11%	13%	12%
OM&A	87%	89%	87%	88%

Board staff notes that the above percentage splits do not appear to match the total compensation amounts provided in Atikokan's application and no explanation of this differential was provided in the interrogatory responses. Board staff invites Atikokan to identify evidence filed in this proceeding that would clarify the discrepancy.

Board staff notes that the following analysis is based on the information provided in response to Board staff interrogatory #18, which, as noted above, appears to be inconsistent with the information provided in the application. In comparing the distributor's labour costs to Total Controllable OM&A, Board staff notes that Labour is approximately 43% of operating costs as indicated in the following Table 6.

Table 6

		2006 Board			
		Approved	2006 Actual	2007 Bridge	2008 Test
OM&A Labour	A	\$ 287,960	\$ 310,745	\$ 328,476	\$ 338,608
Total Controllable OM&A Expenses	B	\$ 721,855	\$ 654,676	\$ 761,050	\$ 798,045
Labour as a percent of OM&A	C = A / B	39.9%	47.5%	43.2%	42.4%

Board staff prepared Table 7 below to identify the final value of labour cost drivers to be used in the following cost driver analysis.

Table 7

	2006 Board			
	Approved	2006 Actual	2007 Bridge	2008 Test
OM&A	\$ 287,960	\$ 310,745	\$ 328,476	\$ 338,608
Annual Labour Changes		\$ 22,785	\$ 17,731	\$ 10,132
% Change		7.3%	5.4%	3.0%

As shown in Table 7, the significant variance is the 7.3% increase in the 2006 actual year. One of the key components of this increase is total salary and wages, which have increased by 16% from 2006 to 2008. Atikokan responded to Board staff interrogatory #13, which asked for an explanation of this increase, stating that the increase represents an annual union rate increase of 3% and a 10% increase in overtime from 2006 to 2008. Board staff observes that the 10% increase in overtime appears inconsistent with the amounts provided by Atikokan in response to Board staff interrogatory #16. Atikokan states that its overtime compensation in 2006 was \$28,062 and is projecting a 58% increase to \$44,019 in 2007 and 2008, respectively. Board staff invites Atikokan to provide clarification of this differential with reference to evidence already filed in this proceeding.

Board staff notes that the 16% increase in total salary and wages is inconsistent with the 7.3% increase in employee compensation. The Applicant is invited to provide clarification of this matter in its reply submission.

Purchased Services

Background

Atikokan is owned by the Township of Atikokan. The Township also owns Atikokan Enercom, an affiliate of Atikokan, engaged in the cellular phone business in Northwestern Ontario.

Discussion and Submission

Purchased Services

In Exh 4/Tab 2/Sch 7, Atikokan provides a listing for 2006, 2007 and 2008 of its purchases of services which total \$72,805, \$98,152 and \$77,152, respectively. The 2007 and 2008 figures are identical except for a \$21,000 decrease in consulting fees paid to Elenchus.

Board staff interrogatory #9(i) asked Atikokan to explain why the components of the costs paid to Thunder Bay Hydro Utility Services did not match the total. In response, Atikokan provided a revised set of these costs which adjusted the above figures to \$68,700, \$98,727 and \$77,727, respectively.

Board staff interrogatory #9(iv) asked Atikokan to explain why its forecast of 2008 costs was identical to that of 2007 except for a decrease in the costs of Atikokan's regulatory consultant, Elenchus. Atikokan responded that "In 2008, Atikokan Hydro expects there will be additional OEB regulatory filings that will require assistance from a consultant." Board staff notes that this response, which appears to be discussing an increase, would appear to contradict the decrease in this item contained in the evidence. Board staff invites Atikokan to provide clarification of this matter in its reply submission.

It is also not clear to Board staff how the listing of Outside Services provided in response to Board staff interrogatory #6 and VECC interrogatory #16d, relates to the information provided in Exh 4/Tab2/Sch 7, as revised in response to Board staff interrogatory #9. Board staff invites Atikokan to provide clarification of this differential in its reply submission. Board staff also invites Atikokan to provide clarification as to how these numbers relate to the numbers provided for Outside Services Employed and Regulatory Expenses, which were discussed earlier in this submission.

RATE BASE

Background

Atikokan is projecting 2008 capital expenditure of \$482,400, excluding expenditures related to smart meters. This is more than twice the capital expenditure in each of the years from 2004 through 2006, and is almost four times the amount in 2007. The annual expenditures are shown in the table below:

Table 1

	2002	2003	2004	2005	2006	2007	2008
Capital expenditure	106,994	85,206	212,120	225,759	238,861	130,560	482,400.
% of previous year	-	79.6%	249%	106.4%	105.8%	64.7%	369%

Discussion and Submission

Board staff observes that the Applicant has responded to information requests and that the record is complete in many respects. Some of the Applicant's responses to interrogatories on matters of service reliability appear inconsistent, and Board staff submits that there is not a full set of information to assess the effectiveness of Atikokan's asset management plan. In responses to interrogatories posed by Board staff and intervenors, Atikokan provided a reconciliation of rate base amounts and clarified certain inconsistent material in the Application. These matters are further discussed below.

1. Increase in 2008 Capital Expenditures

Table 1 below is part of a table provided by the Applicant in response to Board staff interrogatory #20:

Table 2

Year	2002	2003	2004	2005	2006	2007	2008
Net Income (\$000)							
Actual ROE (%)	0	0	0	0	0	0	5
Allowed ROE (%)	9.88	9.88	9.88	9.88	9.88	9.88	8.97
Capital Expenditures excl Smart Meters	106,994	85,206	212,120	225,759	238,861	130,560	482,400.
Capital Expenditures – Smart Meters	0	0	0	0	540	4,282	4,282
Depreciation	200,548	20,480	143,082	156,430	181,721	155,573	160,000
Population served	3500	3500	3450	3400	3300	3200	3000

Capital expenditures have increased significantly in 2008 compared to 2007 and the average for the period from 2002 to 2005.

The Applicant has explained that expenditures in 2006 included work on sub-transmission lines. In 2007, limited capital expenditures continued with some minor upgrades, and purchase of a load breaker switch in anticipation of a configuration change in Atikokan's distribution system, although it is not clear if this was in fact installed. In 2008, Atikokan is continuing work on distribution upgrades, including insulators, poles and rearrangement of transformers. However, the acquisition of a new bucket truck and construction of new garage facilities are major reasons for the increase in 2008 capital expenditures.

Board staff acknowledges that Atikokan's operating and financial situation have influenced historical capital expenditures. Atikokan has documented negative customer growth, including the recent loss of its major customer which accounts for 40% of its load. It is thus reasonable that Atikokan's capital expenditures are largely restricted to sustaining capital, and to equipment (including vehicles) and building expenditures necessary to support the continued operation of its distribution system. Atikokan's financial constraints, addressed in this application and in previous applications as well as associated Board decisions, have contributed to the volatility in capital expenditures from year to year.

Board staff invites comments from parties, with reference to material on the record, regarding Atikokan's proposed 2008 capital budget in light of its circumstances and recent history.

Board staff observes certain inconsistencies in material provided by the Applicant. In response to Board staff interrogatory #20b, Atikokan provides a total capital expenditure for 2008 of just \$143,662, whereas in the table provided in response to interrogatory #20a(i), it provides \$486,682 for total capital expenditures, including smart meters in 2008. Further, in response to Board staff interrogatory #22, 2008 capital expenditures are documented as \$482,200. This last figure corresponds with its application, and seems to correspond with the response to Board staff interrogatory #20a, excluding smart meters.

Board staff invites the Applicant to clarify the inconsistencies noted above with reference to the material already filed in this proceeding. Board staff also invites comments from parties as to the reasonableness of Atikokan's proposed capital expenditures for 2008, which Atikokan is seeking to recover through its 2008 distribution rates.

2. Smart Meters

In response to Board staff interrogatory #20, Atikokan shows capital expenditures for smart meters as follows: \$540 in 2006 and \$4,282 in each year for 2007 and 2008. Atikokan is not a

named distributor under the Smart Meter Regulation¹ or party to the Board's combined smart meter proceeding EB-2007-0063("Combined Proceeding") and is therefore not authorized to undertake smart meter installations. In response to Board staff interrogatory #51b, Atikokan states that it has not installed any smart meters. Board staff invites comments from parties and clarification from the Applicant, with reference to the record of this proceeding, as to what smart meter-related capital expenditures Atikokan has incurred in 2006 and 2007 and what it proposes for 2008.

Other matters of smart meters are discussed elsewhere in this Board staff submission.

3. Evaluation of Asset Condition and Asset Management Plan

As a relatively small distributor, Atikokan does not warrant implementing an expensive asset management plan as might be employed by a larger distributor. The Applicant owns a 44 kV sub-transmission line connecting its distribution network to the Hydro One transmission station.

The Applicant advises, in response to Board staff interrogatory #20c, that it:

"... does not have a long term Capital Project or Asset Management Plan. However once the 2008 rate application process is complete Atikokan Hydro has committed to the Ontario Energy Board to complete a long term business plan which will include a long term Capital plan."

Parties may wish to consider whether or not an asset management plan should be developed in conjunction with the long-term business planning to which Atikokan is committed. A suitable asset management plan should include processes for evaluation of assets as well as a component for evaluating all assets in combination. Such a plan would also take into account the circumstances that Atikokan operates in, including size, environment (e.g. weather, forestation) cost of such a plan, load growth or decline, and the nature and age distribution of its assets. Board staff submits that any asset management plan should support the proposed rate base and proposed capital and operating expenditures.

4. Service Reliability

Reliability data was provided in response to Board staff interrogatory #24 f). Data has been extracted from that response to make up the table shown below:

¹ O. Reg. 427/06 ("Smart Meters: Discretionary Metering Activity and Procurement Principles,") ("Smart Meter Regulation"), section 3

	SAIFI	SAIDI	CAIDI
2002	Not available	Not available	Not available
2003	0.03	0.008	3.533
2004	0.209	0.072	2.901
2005	0.156	0.146	1.071
2006	1.406	1.340	1.049
2007	4.905	2.220	2.209
2007 (supply outages excluded)	0.902	1.004	0.898

The data appears to show that the SAIFI and SAIDI for 2007 do not fall within the bounds of the prior three years, and are in fact much higher than historical performance. However, Atikokan states that it "... has maintained the reliability performance for the time [period] questioned." Board staff submits that this statement appears to be contrary to the reported figures.

Atikokan also advises, in response to Board staff interrogatory # 24c, that: "there are no improvement targets, and as evidenced by the 2007 data with supply outages removed, the reliability is well within guidelines." As the Applicant has provided data "with supply outages removed" only for 2007, it is not possible to assess whether Atikokan has maintained reliability of its own system (and hence, within its direct ability to control) within the range of historical performance; to do this would require similar data (excluding "loss of supply" service interruptions) for prior years.

Board staff invites comments from parties on data inconsistencies and on the adequacy of system reliability delivered by Atikokan to its ratepayers in light of the record of this proceeding.

COST OF CAPITAL

Background

The Applicant's proposed Cost of Capital was set out in Exh 6 and is summarized in the following table:

Cost of Capital Parameter	Applicant's Proposal
Capital Structure	53.3% debt (composed of 49.3% long-term debt and 4.0% short-term debt) and 46.7% equity. This deemed capital structure complies with the Board Report ² for transitioning to the long-run deemed capital structure of 60% debt and 40 % equity.
Short-Term Debt	4.77%, to be updated in accordance with section 2.2.2 of the Board Report.
Long-Term Debt	5.00%, as amended in responses to interrogatories, as the interest rate on long-term debt owed to the municipal shareholder. This is further discussed below.
Return on Equity	8.68%, to be updated in accordance with the methodology in Appendix B of the Board Report.
Return on Preference Shares	Not applicable
Weighted Average Cost of Capital	7.20% as proposed, but subject to change as the short-term debt rate and ROE are updated per the Board Report at the time of the Board's Decision.

The Applicant's approach to cost of capital, appears to be generally consistent with the policies in the Board Report although Board staff has some observations on Atikokan's long-term debt.

Discussion and Submission

Long-term debt

In its application, Atikokan used a long-term debt rate of 6.0%. However, in response to Board staff interrogatory #29 a), Atikokan amended this rate to 5.0%, corresponding to the rate documented in its 2006 Audited Financial Statements.

Atikokan notes that it is on a "payment holiday" with respect to principal and interest payments on the debt owed to the municipal shareholder. This "payment holiday" was noted in the Applicant's 2006 EDR application and the associated Board Decision and Order RP-2005-0020/EB-2005-0335, filed in response to VECC interrogatory #37.

² Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors, December 20, 2006 ("Board Report"), Section 2.

The Board is well aware of Atikokan's financial situation as it was the subject of an investigation by the Board's Chief Regulatory Auditor ("CRA"). Recovery of interest expense based on the deemed capital structure and the actual debt rate of 5.0% is reflected in the rates set by the Board. The Applicant is recovering amounts that should enable it to at least make the interest payments on the loan, but has not been doing so for several years. In response to Board staff interrogatory #29 b) (ii), the Applicant states that its current rates do not yield enough funds to pay the interest, due to the erroneous omission of 44kV sub-transmission assets from its rate base in an earlier application.

Exh 6/Tab 1/Sch 3 shows Atikokan's long-term debt over time, with both the balance and debt service costs increasing over time. In response to Board staff interrogatory #29 b) (iii), the Applicant stated that the increase "is probably due to the inclusion of loans for mobile equipment in the reporting." Board staff is concerned that the Applicant may find itself facing loan repayment charges well in excess of the deemed interest expense allowed for in rates. Board staff invites comments from parties on this matter.

SMART METERS

As discussed above, Atikokan is not a named utility in the Smart Meter Regulation or the Combined Proceeding and therefore not authorized to undertake smart meter activities. It currently has a Smart Meter rate adder of \$0.25 per month per metered customer embedded in its rates, and has proposed continuation of the Smart Meter rate adder at this level.

Atikokan notes that it has incurred some costs for investigating development of a smart meter plan, but has not developed a plan and or installed any smart meters. Atikokan states that it will proceed with smart meter installation when authorized to do so.

Discussion and Submission

In its application, Atikokan requested disposition of the balances in certain variance and deferral accounts, including Account 1555 – Smart Meter Capital and Recovery Offset Variance Account. In a subsequent communication to the Board, Atikokan stated that it will not be seeking recovery of any deferral and variance accounts. Board staff's submission on Account 1555 is set out in the deferral and variance accounts section.

LOAD FORECASTING

Background

In Exh 3 of the application, the development of the Applicant's customer count and load forecasts are discussed. The Applicant determined 2007 Bridge Year and 2008 Test Year customer count by class using 2002 to 2006 historical data. The kWh forecast, and the kW forecast for appropriate classes, was presented by customer class. Variance analyses were presented in support of the forecasts.

The Applicant provided additional information in response to interrogatories posed by Board staff and VECC.

Discussion and Submission

The data that the Applicant's methodology and model utilized was the historical customer count by class for 2002 to 2006 and the weather corrected load (kWh and kW) for 2004. Board staff has no concerns with the data that was used but notes that no pre-2004 load data was filed.

The Applicant explained briefly the trend in customer connections experienced during the 2002-2006 period and the extrapolation of that trend to 2007 and 2008. The Applicant noted that it had used a simple trend given the slow growth/decline and consistent trend in customer numbers in its service territory and the minor variations experienced over time. With the exception of the GS >3000-4999 class, the tabulated customer data supported the explanation.

In the GS>3000-4999 class the Applicant's sole customer which accounted for 40% of the Applicant's total load, made an assignment in bankruptcy. The Applicant stated that there was no indication that this customer would ever resume its original load.

With respect to kWh volume forecasts, the Applicant explained that for its weather sensitive load, it first developed the retail normalized average use per customer ("retail NAC") by customer class. The retail NAC value by class was based on the 2004 load values that had been weather-normalized for the Applicant by Hydro One. The Applicant briefly explained in Exh 3, and confirmed in response to Board staff interrogatory #31, that the 2004-based retail NAC was assumed to be applicable in the future and was used as the basis for the load forecasts. The forecasted kWh loads were determined by multiplying the 2004-based retail NAC by the forecasted number of customers in the forecast year.

Board staff observes that the methodology chosen utilizes only a single year of weather-normalized historical load to determine the future load. Board staff notes that assuming that the

retail NAC value remains constant over a number of years is an unreasonable assumption. This is the equivalent of stating that no CDM improvement has occurred during the past few years and none is expected in the immediate future. The effect of the constant assumption could be an error in the estimate of the weather sensitive load by a few percent and a correspondingly underestimation of the required rates.

The Applicant noted that Hydro One performed the weather normalization, albeit only for the year 2004. It is not clear whether Hydro One used the weather normalization method approved by the Board in the Distribution Cost Allocation Review (EB-2005-0317) and Hydro One's own 2006 Distribution Rate case (RP-2005-0020/EB-2005-0378). The Applicant may wish to clarify this in its reply submission.

The Applicant's forecast shows a negative 1.1% annual average change in customer numbers from 2006 to the 2008 Test Year, which is virtually identical to the historical 2002-2006 growth of negative 1.0% per annum. [Exh 3/Tab 2/Sch1, Table 1] Board staff observes that the forecasted change in customer numbers is consistent with what one might expect based on the input data.

The Applicant's forecast shows a negative 2.5% annual average kWh load change from 2006 to the 2008 Test Year when the GS>3000-4999 kW class is omitted. [Exh 3/ Tab 2/ Sch 1, page 6, unnumbered table]. This compares with an average annual kWh load change of negative 0.1% during the 2002 to 2006 period, provided in its response to Board staff interrogatory #37 a) i, again, when the GS>3000-4999 kW class is omitted.

As noted earlier, using the 2004-based retail NAC values for 2008 is likely to result in a less accurate load forecast. In response to Board staff interrogatory #37, the Applicant developed an alternative forecast that took weather normalization fully into account for each of the years 2002 to 2006. The difference between the two forecasts was less than 1%. The smaller-than-normal difference appears to be because of the essentially flat customer numbers and (intermediate class excepted) kWh load.

LINE LOSSES

Background

In response to Board staff interrogatory #49, Atikokan reaffirmed that the proposed distribution loss factor ("DLF") for 2008 is based on an averaging of actual DLFs for the 5-yr period 2002 to 2006 and is 1.0753. The Applicant further submitted that since its transmission assets are

considered a part of its distribution system, the total loss factor (“TLF”) is also the DLF. Hence its proposed TLF for 2008 is 1.0753, lower than the approved 2007 TLF of 1.0817.

Atikokan’s actual DLF has fluctuated during the 5-yr period from 2002 to 2006 as shown in the table below.

Year	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Actual DLF	1.0669	1.0811	1.0799	1.0655	1.0821

Discussion and Submission

As the TLF is also the DLF, the supply facilities loss factor (“SFLF”) is 1.0. Board staff is concerned that in its application, Atikokan has stated that its SFLF is 1.0045 and the underlying DLF corresponding to the proposed 2008 TLF of 1.0753 is 1.0705. Board staff invites the Applicant to clarify this matter in its reply submission.

Further, Board staff notes that in its response to interrogatory #49, Atikokan stated that there are no steps contemplated to reduce their distribution losses.

COST ALLOCATION AND RATE DESIGN

Customer Classes

Background

Atikokan’s current tariff includes rates for two classes: General Service 50 – 2499 kW class, and General Service 2500 – 4999 kW “Intermediate” class. In its application, Atikokan indicated that the only customer in the latter class is in bankruptcy proceedings and is not expected to resume operation.

Atikokan states in the application that it does not propose to make any changes to the existing classes. (Ref: Exh 9 / Tab 1 / Sch 5). However, the proposed tariff does not include proposed rates for the Intermediate class (Ref: Exh 9 / Tab 1 / Sch 6), and Atikokan has confirmed that it does not seek approval of rates for the class (Response to Board staff interrogatory # 41).

Discussion and Submission

Board staff notes that no customer is affected by the discontinuation of the General Service 2500 – 4999 kW class.

The tables and revised cost allocation submitted by Atikokan now make reference to a class “General Service > 50 kW”. Board staff submits that, to ensure consistency, the proposed tariff should use this title for the class as well, rather than restricting the tariff such that a new or existing customer cannot be connected or grow to require a load above 2499 kW.

REVENUE TO COST RATIOS

Background

Atikokan submitted its Cost Allocation Informational Filing (EB-2006-0247) with the classes that existed at the time, and later submitted in the application an updated cost allocation with the Intermediate class removed. The following table shows that the cost allocated to each class is increased in the update. The amounts shown are percentages of the total revenue requirement.

Customer Class	Proportion of Total Revenue Requirement		
	%	Informational Filing EB-2006-0247	Updated Filing *
Residential		50.2	54.0
GS < 50 kW		19.4	21.8
GS > 50 kW		11.4	14.3
Intermediate		9.2	0
Street Lights		9.4	9.4
Sentinel Lights		0.2	0.2
Unmetered Scattered Load		0.2	0.2

- Response to Board staff Interrogatory # 38

The Revenue to Cost Ratios found in the following table are the outcome of the latter submission. More specifically, the ratios are for Run 2, which includes the Unlettered Scattered Load as a separate class (Ref: Exh 8 / Tab 1 / Sch 3). For convenience the Board’s guidelines

presented in the Board Report *Application of Cost Allocation for Electricity Distributors*, EB-2007-0667, November 28, 2007 are also presented in the table.

Revenue to Cost Ratios (%)		
%	Informational Filing Updated Run 2	Range (Nov 28, 2007)
Customer Class		
Residential	125.06	85 – 115
GS < 50 kW	107.67	80 – 120
GS > 50 kW	22.76	80 – 180
Street Lights	22.81	70 – 120
Sentinel Lights	11.96	70 – 120
Unmetered Scattered Load	15.33	80 - 120

Discussion and Submission

Atikokan has requested that the Board take into consideration the loss of its sole Intermediate customer. Atikokan's proposed distribution rates are uniformly 35% higher than the existing approved rates, which were in turn a uniform adjustment from those approved in 2006. The Revenue to Cost Ratios table show the status quo amongst Atikokan's customers with the Intermediate customer removed. Staff submits that these ratios are also a reasonable representation of what the ratios would be in the future with the rates proposed by Atikokan. Parties are asked to comment on whether all the revenue to cost ratios that are currently outside the range established by Board policy should be adjusted to fall within the ranges.

RATE DESIGN

Monthly Service Charges

Background

The following table shows the results of Atikokan's Informational Filing, (pages 681 and 691 of the application). The model has been revised to exclude the Intermediate class.

The table also shows the approved rates currently in effect, and the proposed rates for 2008. (Ref: Exh 9 / Tab 1 / Sch 4 and 6). These rates include rate adder(s) that were not included in

the 2006 costs or rates. The charge for Unmetered Scattered Load (“USL”) is on a per-account basis.

Sheet - O2 Fixed Charge /Floor/Ceiling

Customer Unit Cost per month	Residential \$	GS<50k \$	GS>50kW \$	Street Lights \$	Sentinel Lights \$	U. S. L. \$
Avoided Cost	5.57	16.32	67.32	0.01	0.03	5.64
Directly Related	9.13	27.07	120.57	0.01	0.06	8.67
Minimum System with PLCC Adjustment	20.11	38.81	133.74	12.15	12.19	20.86
Fixed Charge per approved 2006 EDR	26.94	53.71	71.66	1.95	1.08	26.85
Fixed Charge per approved 2007 IRM	27.18	54.19	72.30	1.97	1.09	50.62
Fixed Charge per 2008 rate application	36.52	72.80	97.13	2.65	1.47	68.01

Discussion and Submission

The monthly service charges in the Informational Filing are above the ceiling for three classes: Residential, GS < 50 kW and USL. The approved rate for the USL class increased from \$26.85 in the approved 2006 EDR to \$50.62 as per the approved 2007 IRM - a significant increase as compared to the other rate increases for the other classes.

The Board’s November 28 Cost Allocation Report states that, in instances where the charge is above the ceiling amount produced by the Applicant’s Cost Allocation model, the monthly service charge should not be increased. The Cost Allocation Report states at pp. 12-13: “[T]he Board does not expect distributors to make changes to the MSC [monthly service charge] that result in a charge that is greater than the ceiling as defined in the Methodology for the MSC. Distributors that are currently above this value are not required to make changes to their current MSC to bring it to or below this level at this time.”

Board staff invites parties to comment on whether Atikokan should provide a revised rate proposal that would maintain the monthly service charge at its existing approved amount for the

three classes in question, and increase the energy rate in each case by an amount to raise the remainder of the respective class revenue requirements.

Transformer Ownership Credit

Background

Atikokan's currently approved credit is 10% of the volumetric charge applicable to the customer, and approval is sought to leave the credit unchanged in its percentage format.

Discussion and Submission

The format of Atikokan's credit was approved by the Board in 2006, in response to a situation in which a uniform volumetric credit was in place for all classes of all distributors, and the credit was larger than the volumetric charge to Atikokan's customers. Atikokan has completed a cost allocation study which shows a fully allocated cost of transformers at \$0.3615 per kW. The volumetric rate that Atikokan is applying for is \$0.3739 per kW.

Board staff submits that the fully allocated cost provides a sound basis for the transformer ownership credit in a general way. However, even though the proposed volumetric charge is no longer lower than the credit would be if it were based on the cost allocation result, the two amounts are very close and the net result would be a very low volumetric rate. Staff submits that Atikokan's proposal to continue the credit at 10% of the volumetric rate is reasonable.

RETAIL TRANSMISSION SERVICE RATES

Background

Atikokan's tariff currently makes a distinction within the General Service 50-2499 kW class on the basis of the customer's metering, with Network Service and Connection Service retail rates for "interval-metered" and "interval-metered > 1000 kW" customers that differ from those for other customers in the class. In the proposed tariff, this distinction is no longer proposed. The bill impact calculations are based on the lowest of the three rates, so the impacts not reported would be lower in percentage terms than the impacts shown in the application (Ref: Exh 9 / Tab 1 / Sch 9).

The proposed Retail Transmission Rates – Network Service are 18.5% lower than the existing rates for all classes. The proposed Retail Transmission Rates – Connection Service are 20.5% higher than the existing rates for all classes.

Atikokan clarified, in response to Board staff interrogatory #48(a), that its wholesale connection costs are due to transformation only and estimated that its wholesale cost has increased by 7.33% due to the change in wholesale rates in November 2007.

Discussion and Submission

Board staff notes that discontinuing the distinction within the GS > 50 kW class based on metering simplifies the tariff.

Board staff submits that the proposed changes in Retail Transmission Rates – Network Service mirror the change in the wholesale rate. .

From the information provided to date (response to Board staff interrogatory # 48(b)), Board staff is not able to replicate the calculation underlying the proposed increase of 20.5% and invites Atikokan to provide a more detailed explanation in its reply submissions (but without additional documentation) as to how the 7.33% change in the wholesale cost and the 40% disparity in revenues and costs are used together in the calculation.

PILs

Background

Payments in lieu of taxes (“PILs”) are proxies for capital and income taxes that, otherwise, would have to be paid if the distributor was not owned by a municipality or the Ontario government.

Discussion and Submission

Atikokan has provided evidence that shows that a loss carry-forward exists. The amount of this loss carry-forward is sufficient to eliminate any taxable income in the 2008 test year. Consequently, Atikokan has not applied to recover PILs in 2008 rates.

DEFERRAL AND VARIANCE ACCOUNTS

Background

Atikokan, in a recent communication to the Board, stated that it will not be seeking recovery of any deferral and variance account balances.

Discussion and Submission

Continuation of Deferral and Variance Accounts

The Board has already approved and defined, through the Accounting Procedures Handbook (“APH”) and associated letters, the period and functionality of deferral and variance accounts in the electricity distribution sector. Therefore, it is not necessary for the Applicant to request permission to continue using open deferral and variance accounts as per the APH.

Treatment of RCVAs and RSVAs

In its application, Atikokan had requested disposition of the balances in these accounts. Board staff notes that the Board recently announced that it intends to launch an initiative for the review and disposition of Account 1588. The Board also indicated that it might extend this initiative to include all the RSVA and RCVA accounts.

Account 1508

Board staff has the following comments with respect to Atikokan’s request to withdraw its application for the disposition of Account 1508. The Applicant had requested disposition of a balance of \$70,091 in this account. This amount represents the balances in sub-account OEB Costs Assessments and sub-account OMERS Pension Contributions for the period up to April 30th, 2006. This account was closed after the 2006 EDR proceeding. Board staff question whether it is prudent for the Applicant to maintain this debit owing to the distributor from ratepayers considering that there may be intergenerational issues about clearing this account at a later date (i.e., that the costs will not be paid for by the rate payers that incurred them). Parties may wish to comment on this matter in their submissions.

Account 1555

Board staff notes that Atikokan’s withdrawal of its request for disposition of this account is consistent with the intention of the Decision on certain generic 2006 EDR issues (RP-2005-0020/EB-2005-0529) to provide seed money to distributors for smart metering capital. As Atikokan has not started installing smart meters, it is questionable whether the Applicant should return this funding to ratepayers at this time. Parties may wish to comment on this matter in their submissions.