FFPC

FORT FRANCES POWER CORPORATION

July 18, 2014

Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 26th Floor
Toronto, Ontario M4P lE4
Attn: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: Fort Frances Power Corporation
Reply Submission, Application Board File EB-2013-0130

In response to both the Board Staff and VECC Submission, the Board issued a directive to Fort Frances Power Corporation to submit its Reply Submission to the Board and all registered Intervenors on or before July 18, 2014.

In accordance with the Procedural Order No. 2, two hard copies of the Reply Submission are enclosed. Electronic copies of the complete response in PDF format, as well as, revised Excel Work Sheets have also been submitted through the Board's Regulatory Electronic Submission System ("RESS").

All of which is respectfully submitted for the Board's consideration.

Sincerely:

Jörg Ruppens

Joerg Ruppenstein
President and CEO

cc: Intervenors on Record (by email)

- Vulnerable Energy Consumers Coalition - c/o Michael Janigan
- Vulnerable Energy Consumers Coalition - c/o Mark Garner
- Vulnerable Energy Consumers Coalition - c/o Bill Harper

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15. Sch. B, as amended;

AND IN THE MATTER OF an Application by Fort Frances Power Corporation pursuant to section 78 of the *Ontario Energy Board Act, 1998* for an Order or Orders approving just and reasonable rates for electricity distribution to be effective January 1, 2014

REPLY SUBMISSION OF FORT FRANCES POWER CORPORATION

FILED JULY 18, 2014

1. Fort Frances Power Corporation ("FFPC") carries on the business of distributing electricity within the municipal boundaries of the Town of Fort Frances pursuant to Electricity Distribution Licence No. ED-2003-0028. FFPC is governed by a six member Board of Directors whose mandate is overseeing the management of the corporation's business and affairs, including planning, risk identification and risk management, succession planning, and the stewardship of a 1905 historic power agreement between the Town of Fort Frances and the owner of hydroelectric generating station assets along the Rainy River in Fort Frances, Ontario (the "Historic Power Agreement").

2. In accordance with Procedural Order No. 2 dated May 21, 2014 in this proceeding, FFPC is pleased to provide is Reply Submission.

3. By way of summary, FFPC makes three primary submissions:

    1) **OM&A Costs.** FFPC agrees with Board staff's proposal that the only adjustment to its 2014 OM&A should be the disallowance of the $25,681 proposed expenses related to the Long Term Load Transfer ("LTLT") capital project. FFPC submits that VECC's model for determining expected OM&A costs is entirely unworkable.

    2) **Performance Benchmarking.** FFPC submits that the data sets used to determine FFPC's benchmarks unintentionally understate FFPC's efficiency. For use in future benchmarking exercises, FFPC plans to engage a third party financial advisor to formally

quantify and classify expenses related to its High Voltage Transformer Station and the Historic Power Agreement.

3) **Capital Expenditures.** FFPC agrees with the proposal of Board staff, outlined at page 21 of Board staff's Submission, that 2014 capital expenditures be reduced from $820,316 to $402,929. FFPC proposes to bring forward the issue of its LTLT project in a future application, once the Board has completed its policy review on the topic.

4. Below, FFPC has replied to certain submissions made by Board staff and the Vulnerable Energy Consumers Coalition ("VECC") in their respective Final Submissions. Where FFPC does not comment on an issue, it relies solely on its Application.

I. FFPC's OM&A expense

5. FFPC agrees with Board staff's proposal that the only adjustment to its 2014 OM&A should be the disallowance of the $25,681 proposed expenses related to the LTLT capital project.

6. VECC is critical of FFPC's requested OM&A costs and uses its own modelling to dispute the necessity of FFPC's projected costs.

a. VECC's modelling of OM&A expenses

7. The modelling exercise performed by VECC is unsuitable and leads to conclusions which are entirely unrealistic.

8. At a minimum, in order to place FFPC in its industry context, a comparison of the industry "actual versus expected" needs to be made.

9. OM&A cost trends are published in the OEB's annual yearbooks. In the Application, FFPC provided the actual reported OM&A costs for the industry as a whole, for the period 2005 to 2012, as available from the OEB yearbooks (see page 70 of the Distribution System Plan (DSP), PDF page 335). This data illustrates the true costs that LDCs incurred. In 2006, the industry reported an aggregate annual OM&A cost of $1,079,540,064, which increased to $1,513,210,665 by 2012. This is a reported industry increase of over 40% by 2012, over a 6 year time frame, yet VECC is proposing that FFPC's "expected" OM&A costs for 2014 should be between $1,142,238 and $1,274,475, which is an increase of only 1.5% to 13.3% relative to FFPC's 2006 actual OM&A expense incurred.

10. The following comparisons of VECC's expected costs with FFPC's actual historical costs further illustrate that VECC's calculations do not accord with industry reality:

(a) VECC's proposed 2014 OM&A allowance would have been barely adequate for FFPC if it was still operating in 2008. In 2008, FFPC's actual OM&A expense was $1,267,201. VECC's expected values for 2014 are between $1,142,238 and $1,274,475 (VECC Submission, para. 4.2.4). Therefore, the maximum end of VECC's 2014 OM&A budget for FFPC would have just covered FFPC's actual expense in 2008 of $1,267,201 with a margin of +$7,274.

(b) Even with VECC's supported staffing increase allowance of $150,000, VECC is proposing that FFPC's 2014 OM&A cost be between $1,292,650 and $1,424,650, which is an increase between 14.9% and 26.6% from 2006 figures. The maximum proposed figure for 2014 is lower than the actual OM&A costs that FFPC has incurred from 2012 forward. In addition, the proposed rate of increase is significantly less than requirements demonstrated by the industry as a whole (40% increase by 2012) (See the Table comparing of industry increases to FFPC increases at Application, PDF, p.335, DSP, p.70-71 and the discussion at PDF, p338-339, DSP, p.73-74).

11. VECC's approach does not take into consideration that FFPC is adjusting its business needs to align with the requirements of the Board's Renewed Regulatory Framework for Electricity Distributors (RRFE). VECC's analysis is a backward-looking analysis. In contrast, FFPC has carefully crafted a data-driven 5-year business plan that is forward looking, based upon solid evidence, thorough analysis and industry experience.

12. FFPC makes the following submissions on some of the specific expenses addressed by VECC:

(a) FFPC estimated an expense of $265,200 for 2014 associated with meeting all new government and OEB obligations established since 2006 (FFPC's response to Interrogatory 5.1- VECC-21). VECC provides only for $87,800, being $72,800 under "Incremental Regulatory Requirement Costs" and $15,000 for "Smart Meter Adjust". VECC's 2014 estimate is clearly insufficient to meet FFPC's regulatory demands.

(b) With respect to compensation for full time employees, VECC's suggested $150,000 is not adequate to fund both full time compensation packages through the time span covered by this Application. The lineman hired in 2012 will reach full journeyman status in 2016, at an estimated annual cost of at least $105,000 including benefits. The estimated annual compensation package of a Technical Customer Service Representative, who will require specific post-secondary education (knowledge of electricity, electrical systems, mathematics, and sciences), is estimated to be $90,000 per year, including benefits.

(c) FFPC entirely disagrees with VECC's position on training expenses. FFPC proposed training-related expenses are critical in order for FFPC to be able to adequately address the upcoming staffing changes and continue to maintain an efficient, safe, well-trained workforce, and achieve the planned operational efficiency and effectiveness gains. FFPC notes that the job scope for small LDC employees is significantly larger than for employees at large LDCs, as a small number of employees look after all business needs, whereas a larger LDC can spread the duties across a much larger employee pool. As such, continued education and training for small LDCs is critical (see response to Interrogatory 4.2-VECC-38).

(d) VECC's assertion that OM&A costs should be reduced if the Board agrees that FFPC's proposed capital plan is over-ambitious is counter-intuitive. The opposite of VECC's assertion is true. Capital intensive years help to reduce OM&A costs, as aging assets typically require more maintenance than newer assets.

13. FFPC notes and agrees with VECC's comment at paragraph 2.1.2 of its Final Submission that FFPC's service quality indicators are demonstrative of a well maintained utility. FFPC has put forward a revenue requirement that will allow it to remain as such. However, FFPC is extremely concerned that the reduction in FFPC's test year OM&A proposed by VECC undermines FFPC's ability to continue to be well maintained going forward.

b. Performance Measures

14. FFPC takes this opportunity to clarify its positions with respect to efficiency benchmarking, which it believes were misstated by VECC in its Final Submission.

15. Contrary to the assertion at VECC's paragraph 2.1.3, FFPC does not argue against using efficiency benchmarking in considering its performance. Instead, FFPC asks that PEG's data sets used to determine FFPC's benchmarks be adjusted because they unintentionally understate FFPC's efficiency.

16. As an alternative, FFPC performed its own benchmarking, in accordance with the "Performance Measurement" section of its DSP, which was largely based on the OEB's Annual Yearbooks. We refer the Board to Exhibit 2, 5.2.3, "Performance measurement for continuous improvement". FFPC's OM&A cost comparison is located in Exhibit 2, 5.2.3.6.c.i.

17. FFPC fundamentally disagrees with VECC's position (stated at paragraph 2.1.4) that the Historic Power Agreement makes no difference with respect to its OM&A costs.

18. In this Application, FFPC has detailed the considerable effort expended to administer the Historic Power Agreement and the associated impact on staffing cost in E4/T1/S1/p.2-3;7-8 and DS Plan Appendix 5. Further details were also provided in response to Interrogatory 4.2-Staff-14, Ref: E1/T1/S1, pp. 4-7. This evidence suggests that FFPC's additional OM&A costs are material, and in the magnitude of $91,688 per year.

19. FFPC submits that the burden associated with administering the Historic Power Agreement is comparable to the effort that FFPC exerts towards CDM activities. FFPC submits that VECC's position is tantamount to an assertion that an LDC does not incur any additional OM&A costs in delivering CDM activities.

20. Indeed, the operation of the Historic Power Agreement is a distinct operating activity with measurable expenses as noted in E4/T1/S1/p.2-3;7-8 and DS Plan Appendix 5 of the Application.

21. The costs associated with the Historic Power Agreement are similar in structure to the USoA Account 4380, Expenses for Non-Rate Regulated Utility Operations, used to record expenses attributable to electricity generation, electricity transmission and CDM. The Historic Power Agreement has 'expenses applicable to operations that are non-utility in character', being the costs of staff and legal advice required to monitor, manage and safeguard the Historic Power Agreement. The difference from a typical Non-Rate Regulated Utility Operation is that FFPC does not receive offsetting revenue for this distinct operation. Without offsetting revenues for the Non Rate-Regulated Utility Operations expenses that FFPC incurs, FFPC has an irrefutable OM&A cost burden unique to FFPC.

22. Accordingly, FFPC is asking to receive an equitable adjustment to its benchmarking scores reflective of the uniqueness of its management of the Historic Power Agreement, as has been recognized in the course of implementing numerous province-wide programs under the *Ontario Electricity Act, 1998*, including the global adjustment, the Standard Supply Service Code, and the debt retirement charge.

23. There is another reason that FFPC says its benchmark performance is not reflective of its true efficiency level. PEG's benchmarking exercise did not remove FFPC's costs associated with owning and operating the Transformer Station (TS).

24. FFPC's historic RRR filings lumped HV TS costs into FFPC's distribution expense. FFPC has historically not allocated any non-union staff time towards the upkeep of the TS. The TS enjoys the use of all of FFPC's corporate resources, such as its line crew, fleet vehicles, tools, personal protective equipment, IT systems, and capital / maintenance / operating planning support, historically at minimal to no cost. The resources and cost burdens associated with operating the

TS are significant. FFPC understands that, for other LDCs, costs associated with owning transformer stations have been separately tracked and excluded from PEG's analysis. FFPC requests the opportunity to revise its RRR filings or data used for the PEG analysis.

25. PEG's benchmarking exercise also does not address the issue that, historically, many LDCs capitalized a significant portion of OM&A overhead, thereby reducing their reported OM&A costs. Historically, FFPC did not capitalize overheads. Had FFPC capitalized overhead, FFPC's performance scores would appear to be improved.

26. VECC comments, at paragraph 2.1.6 of its Submission, that even comparing its year-over-year performance, "FFPC shows significant increases in cost per customer notwithstanding its stagnant customer base". VECC misses the key point - it is precisely as a result of the decline (of 6.4%) in FFPC's customer base that FFPC sees an increase in cost per customer. Moreover, for the period 2006 to 2012, FFPC's average percentage increase in OM&A per customer was only slightly higher than that of the industry (See Application, PDF, p.75, 5.2.3.6.c.i.2.b). Again, FFPC submits that this perceived underperformance relative to the overall industry is the result of the 6.4% reduction in FFPC's customer base, a variable which is outside of FFPC's control. FFPC also notes that FFPC's OM&A costs were not adjusted to reflect that FFPC owns and operates a High Voltage TS, administers the obligations of the Historic Power Agreement and that FFPC did not historically capitalize overheads like many larger LDCs.

27. FFPC submits that it should be given the opportunity to have its data sets adjusted to reflect these issues, so that FFPC's Stretch Factor and efficiency rating for the 2015 to 2018 period can be accurately assigned. For use in future benchmarking exercises, FFPC plans to engage a third party financial advisor to formally quantify and classify expenses related to the TS and the Historic Power Agreement.

28. Figure 5.2.3.6.c.i.1.b, OM&A Performance Trend and Assessment, shows that over the period 2006 through 2012, FFPC's average annual increase in OM&A expense was 21.9%, and the average annual increase reported by industry was 29.7%. Accordingly, FFPC estimates that it was able to avoid $581,000 in OM&A expense, relative to the requirements of the industry as a whole. The savings are largely attributed to FFPC's approach of adjusting its business needs on a reactive basis, and upon the numerous major industry changes that occurred between 2005 and 2012 reaching their steady state. FFPC credits its staff and service providers for enduring significantly intensified short term workloads, which were necessary to successfully implement the numerous sector changes. However, as demonstrated in the Application, the current level of effort exerted by FFPC's staff is not sustainable and, therefore, FFPC must realign its revenue requirement in this Application to fund additional resources (the addition of a Technical Customer

Service Representative to staff, as well as more necessary services from third party service providers including Human Resources, Legal, IT, and Skills Development expertise).

29. Over the period 2005 to 2012, the most notable OM&A expense increase for FFPC occurred in 2012. The jump in expense occurred due largely to the recognition of approximately $392,000 in smart meter related expenses and from to the clearance of relevant variance accounts (Accounts 555 and 1556). Overall, FFPC is pleased with its OM&A performance trend and believes that it demonstrates wise spending in the best interest of consumers.

30. Indeed, according to the data cited at paragraph 2.1.8 of VECC's Submission, FFPC has the lowest OM&A costs relative to its neighbouring LDCs with similar characteristics. Sioux Lookout and Atikokan have OM&A costs that are 124% and 181% of FFPC's OM&A costs, respectively. While VECC claims that FFPC "shares an overall higher OM&A cost per customer as the cohort utilities that are (relatively) nearby", the data actually shows that FFPC is a better performer than these utilities.

II. FFPC's System Renewal Proposal

31. Both Board staff and VECC have commented in their Final Submissions that FFPC's capital plan with respect to transformers might be aggressive and would benefit from more specific customer feedback. FFPC generally agrees with this point and is committed to further improving its customer engagement activities.

32. FFPC accepts Board staff's recommended approach of pacing transformer replacements by only replacing "Very High", "High", "Failed" or "Not suitable for reuse" transformers upon them reaching their "Adjusted-End-of-Life". Utilizing this approach, FFPC currently has 35 transformers that will need to be replaced between 2014 and 2016 (as per the table provided on Page 18 of Board staff's submission). FFPC notes that, using this approach, FFPC would need to invest $56,831 in 2014, $123,326 in 2015 and $137,320 in 2016. This compares to the original budgeted amounts of $95,648 for 2014, $240,575 for 2015 and $184,080 for 2016.

33. At paragraph 1.1.3. of VECC's submission, VECC comments that FFPC has used newly developed Asset Management and Capital Planning Processes to develop its 2014 to 2018 Capital Investment Plan, and that using its Geographical Information System (GIS), over the period of the plan, FFPC estimates that it will realize $455,757 in costs savings through its improved asset oversight, enabling good planning.

34. While it is accurate that FFPC estimates cost savings of $455,757, FFPC underscores that these estimated saving are based on the assumption that FFPC's DSP is approved in its entirety and that FFPC's requested revenue requirement is granted. FFPC submits that the reduction in

OM&A costs proposed by VECC in its recommended revenue requirement would prevent FFPC from being able to implement the DSP and certainly eliminate the ability to achieve cost savings.

35. At paragraph 4.1.6 of its Submission, VECC notes that, even with eliminating the one-time costs of smart meters and the LTLT projects, FFPC's forecast spending over the next 5 years remains about twice the level of the previous 5 years, and states that "this is a significant commitment for a small utility with a stagnant to declining customer base".

36. FFPC submits that it is obliged to maintain its assets even if its customer base is declining. FFPC's investment plan was based on the results of FFPC's asset management and capital planning processes which suggest that FFPC has been underinvesting in its asset base. FFPC's current level of capital reinvestment is not keeping pace with the rate of asset deterioration. FFPC seeks to rectify that state of affairs with the relief sought in this Application.

37. At paragraph 4.1.7, VECC expressed that the lack of detailed information on existing FFPC plant augers for a more conservative capital investment approach. FFPC disagrees that there is a lack of detailed information on existing plant. FFPC has provided Board staff and VECC with an abundance of detailed asset information and characteristics throughout its DSP.

III. FFPC's System Access Proposal

38. FFPC notes that neither Board staff nor VECC supports its proposed LTLT capital project.

39. FFPC made the LTLT expansion proposal in the Application for two reasons:

    1) First, FFPC made the LTLT proposal in an effort to fall into compliance with the Distribution System Code by June 30, 2014.

    2) Second, FFPC made the LTLT proposal to be consistent with its honestly held belief that, under the Historic Power Agreement, all residents of the Town of Fort Frances, including the 14 residents who are currently served by Hydro One, are entitled to the benefits flowing from that Agreement.

40. With respect to the relationship between the LTLT project and the Historic Power Agreement, VECC has misunderstood FFPC's position. FFPC agrees that the 14 customers at issue are customers of Hydro One. According to the Historic Power Agreement and the Supreme Court of Canada decision interpreting it, entitlement to the benefits of the Agreement are not tied to the service provider, but to being a resident within the boundaries of the Town of Fort Frances. FFPC's licence already defines its service territory as being within those municipal boundaries. Accordingly, a service area amendment is not sought nor needed.

41. At paragraph 4.1.18, VECC rejects the notion that the 14 LTLT customers are entitled to the benefits of the Historic Power Agreement and suggests that, in any event, to provide them with its benefits FFPC would not have to physically connect them to FFPC's distribution system. FFPC submits that VECC's position demonstrates that it has not fully considered the legal questions which arise from the wording of the Historic Power Agreement and the Supreme Court of Canada's determinations on it.

42. The residents of the Town of Fort Frances benefit in the annual amount of approximately $2.5 million from the Historic Power Agreement. FFPC cannot be cavalier about the potential impact of its business decisions on this enormous benefit to its customers. FFPC respectfully asks the Board to be mindful that decisions about FFPC's operations and financial structure might impact the perpetuation of the Historical Power Agreement.

43. Assuming that the 14 LTLT customers are eligible for the benefits of the Historic Power Agreement according to its terms, FFPC submits that the real question to ask is whether it is equitable for all of FFPC's customers to bear a one-time expense of $371,737 so that the 14 Town residents who are presently not receiving a share of the $2.5 million on an annual basis can do so. A parallel might be drawn to the point in time when Ontario as a whole was electrified. Rural Ontario residents were electrified on the basis of having the right to electricity, the cost of which would be borne by all rate payers. Accordingly, the expense of the LTLT project should be weighed against the annual benefit provided by the Historic Power Agreement to the new customers, which FFPC has estimated to be $1,170 per annum per customer (See response to Interrogatory 1.1-Staff-40 part b).

44. Further, contrary to VECC's assertion, FFPC does not believe that all customers of FFPC are entitled to the credits under the Historic Power Agreement. For example, as set out in response to Interrogatory 9.1-Staff-36, FFPC has determined that attempting to pass the credits of the Historic Power Agreement through retailers, which are commercial, for-profit enterprises, might be seen as inconsistent with the wording and spirit of the Historic Power Agreement. Accordingly, retailer enrolled customers are ineligible to receive credits associated with the Agreement.

45. Potential development at the airport is another justification for the expenditure on the LTLT project. VECC assumes, incorrectly, that Hydro One could serve this potential development area. FFPC's transformer station has the capacity (after completion of REG investments) to accommodate the connection of a large scale generator, whereas Hydro One's station located in Fort Frances is deemed "capacity constrained". Given the current situation, any large renewable generation project that was to connect to Hydro One's feeder at the airport location would not

pass the “Distribution Availability Test” test, whereas if it was connected to FFPC’s distribution system, it would pass that test.

46. FFPC concedes that it did not engage its customers on whether it should undertake the LTLT project. However, as stated above, FFPC understood that the LTLT elimination project was a regulatory requirement, to meet the requirements of the DSC, and therefore was not looking to customer preference to guide this activity. More generally, FFPC believes that the customer engagement activities undertaken to date are sufficient. FFPC agrees that it can further improve the customer engagement process, and FFPC is committed to doing so in the future. FFPC notes that its customer engagement activities will improve through the hiring of a Customer Service Technician, as proposed in the Application. FFPC detailed in the table on E4/T2/S3/p5 that $20,000 is budgeted annually for Community Relations to fund the ‘Customer Service Technician’ position.

47. The foregoing being said, due to the timing of this Application and the current LTLT policy review, which may lead to a Board directive or policy, FFPC proposes that this issue be brought forward once the policy review has been completed. The costs of this project could perhaps be dealt with in a future Incremental Capital Module submission as part of FFPC’s annual IRM submission.

IV. Financial Performance and Capital Structure

48. FFPC operates with a 0% rate of return on equity and carries out a rate minimization strategy.

49. VECC advances the position that FFPC should be made to have a return on equity built into its capital structure, and is critical of the fact that it does not hold municipal debt. FFPC disagrees profoundly with these positions.

50. Under the Historical Power Agreement, the right of the Town to call for the delivery of power is expressed as being “for Municipal purposes and for public utilities, but not for commercial purposes” (section 5) (the “Commercialization Clause”). The Commercialization Clause underpins FFPC’s 0% rate of return and 0 debt strategies. More specifically, FFPC suspects that any activity that gives FFPC more of a commercial character (such as earning a “profit” or paying a dividend) carries with it the risk that the owner of the generating station will argue that the Historic Power Agreement has been breached, thereby relieving it of its obligation to deliver the financial credits it now provides.

51. With the Historic Power Agreement as its backbone, FFPC’s mission is to minimize rates in the context of a financially viable, reliable utility. FFPC finds it anomalous that VECC wants FFPC to incur debt and require its customers to bear the burden of the associated interest payments.

52. At paragraph 7.5.3 of VECC's Final Submission, VECC raises the fact that FFPC sought and was granted a 3% return on equity for its recovery of smart meter costs (EB-2012-0327). As FFPC discussed in its answer to interrogatory 7.5-Staff-27 part (c), FFPC requested the 3% return for this special project alone, and was supported by the Board Decision and Order EB-2012-0327. In that Decision, the Board stated that FFPC should have a choice, in special circumstances, for financial matters that arise due to special projects, such as smart meters. FFPC does not believe that any legitimate legal argument could be made that that project resulted in a breach of the Commercialization Clause or that that Decision signals that FFPC should be earning a positive rate of return on equity.

53. At paragraph 7.5.5 of VECC's Final Submission, VECC stated that "FFPC responded positively to the suggestion made by Board staff to use a reserve fund to stabilize funding requirements". By way of clarification, FFPC responded positively to the idea of examining and evaluating the reserve fund approach, about which it has no present knowledge or information, at some future point in time.

V. Accounting Issues

54. With respect to Deferral and Variance Account balances for disposition, at page 49-50 of Board staff's Final Submission, Board staff stated as follows:

> Board staff does not have any concerns with the balances proposed for disposition with the exception of the balance in the LRAM Variance Account 1568 which should only include the LRAMVA balance of $5,050, but which also includes the LRAM amount of $22,523 which Board staff submits should not be recorded in an account. All DVA balances as of December 31, 2012 matched the RRR 2.1.7 filed with the Board, except for Account 2425, Other Deferred Credits. In response to Board staff interrogatory,48 FFPC indicated that Account 2425 was used in error to record a credit amount of $105,480 in the RRR filing. In response to a Board staff Teleconference question, FFPC confirmed that it will correct the RRR 2.1.7 filing to show the correct credit balance of $6,144 amount. The amount requested for disposition is with respect to shared tax savings approved in FFPC's IRM proceedings EB-2011-0146 and EB-2012-0083.

55. FFPC confirms that it will amend the LRAMVA balance in Account 1568 to $5,050. FFPC proposes that the LRAM amount of $22,523 be covered in the proposed rate rider. The revised calculations for the proposed rate rider are attached hereto as Appendix A.

56. In respect of the IFRS Transition Costs, at page 51 of its Final Submission, Board staff stated as follows:

> Board staff does not have any issues with FFPC's proposal to dispose of the balance in Account 1508, Sub-account IFRS Transition Costs. However, it is not clear whether FFPC has any more costs booked in this account for the 2013 calendar year. As the balance being proposed for disposition is based on the December 31, 2012 balances, Board staff recommends that FFPC identify the 2013 costs, if any, in its reply submission and if the Board is satisfied with the nature and quantum of these costs, they can be added to the overall balance to be recovered on a final basis.

57. FFPC confirms that it did incur $12,000 in audited IFRS transition expenses in 2013, which FFPC would like to include as part of the account disposition. The 2013 expenses incurred were for the development of IFRS transition related position papers, accounting policies and a year-end asset continuity schedule processing tool.

58. FFPC does not foresee incurring any material expenses beyond 2013 related to the transition to IFRS. FFPC has built the foundation from which the formal transition to IFRS can be made with very little effort or expense.

59. While Board staff supports FFPC's approach, VECC proposed, at paragraph 9.1.1 of its Submission, that FFPC should either dispose of the 2012 actuals or defer the disposition until it has completed all IFRS related spending and has a final balance for the account. FFPC does not agree with VECC's position and submits that it should be permitted to include the audited 2013 Account 1508 IFRS Transition Costs in the disposition. FFPC has completed the majority of the IFRS transition in 2013 and, therefore, does not foresee incurring any material additional expense with formally completing the IFRS transition. Without the inclusion of the 2013 audited IFRS amounts for recovery, FFPC would carry the balance forward until its next COS application which may be 2018 or possible beyond.

<u>Other Matters</u>

60. At the outset of Board staff's Submission, Board staff noted some confusion with regard to the Total Service Revenue Requirement being requested as a result of Test Year revenue offsets. FFPC confirms that Board staff is correct in its assumption that FFPC's 2014 Other Operating Revenue should be increased from $103,033 to $108,033 to take into account the revenue generated from the category Sales and Water Power Revenues as indicated by Board staff. Accordingly, Board staff's breakdown of FFPC 2014 Test Year Revenue Requirement balances are accurate at the following:

FFPC 2014 Test Year Revenue Requirement	
OM&A Expenses	$ 1,657,650
Amortization/Depreciation	$ 197,074
Deemed Interest Expense	$ 135,041
Service Revenue Requirement	$ 1,989,765
Revenue Offsets	$ 108,033
Base Revenue Requirement	$ 1,881,732

61. In section 6.1, at page 27 of Board staff's Submission, Board staff asked FFPC to correct or clarify Board staff's understanding that FFPC is a 'for-profit' corporation that has chosen to earn a zero percent return. FFPC confirms the understanding of Board staff in this regard.

62. In section 8.1 at page 38 of Board staff's Final Submission, Board staff raised a question about FFPC's customer forecast, as follows:

> Board staff accepts FFPC's 2014 customer forecast. Board staff assumes that the reason FFPC's load is forecast to increase while its customer numbers are forecast to decline is because the average level of customer consumption will increase. Board staff would suggest that FFPC could clarify this matter in its reply submission.

63. FFPC confirms that average level of consumption is forecasted to increase in 2014. As shown in the data in response to Interrogatory 8.1-VECC-27, the average level of consumption has increased in 2013 with a decline in customer numbers. FFPC expects this trend to continue in 2014. FFPC understands that actual consumption levels are impacted by the weather, but submits that, even on a weather-normalized basis, the consumption levels will increase as households consume more electricity due to the continued addition of modern day luxuries such as big screen TVs and computers.

64. FFPC has proposed to maintain the existing fixed-variable splits for all rate classes. Board staff has accepted FFPC's decision (Board staff Submission page 45). However, VECC proposes to maintain the 2014 fixed charge at the 2013 level. FFPC submits that it would not be appropriate to hold the fixed charge to the 2013 level. The increase to the 2014 fixed charge is part and

parcel of FFPC's revenue requirement. Moreover, as business closures and housing vacancies increase in the Town of Fort Frances due to the recent mill closure, the 2014 fixed charge is an appropriate safeguard to protect the financial viability of FFPC.

65. VECC has also proposed that the number of connections to be used for the Streetlighting class should be the actual number in 2013, which is greater than the 2014 forecast. FFPC submits that it is not appropriate to single out one customer class for adjustment in this way. While using the 2013 number for Streetlighting connections happens to result in an expected decrease in rates, using the 2013 numbers for other classes will result in an expected increase in rates.

66. In VECC's Final Submission at paragraph 7.6.2. VECC stated as follows:

> In response to interrogatories FFPC provided its actual Other Revenues for 2013, which were materially higher than Application's forecasts for both 2013 and 2014. FFPC claims that some of the difference can be attributed to one-time events (e.g. Non-Utility Rental). However, VECC notes that there has been Non-Utility Rental income for each of the last four years ranging from $1,673 to $44,786 and averaging $24,184 per year. Even if the latest year's value of $44,786 is excluded the three year average for the prior years is $17,317 as compared to a 2014 forecast value of zero.

67. FFPC submits that its forecasts are valid. FFPC's predicted Other Revenue is slightly reduced for 2014 relative to 2013 actuals ($10,000) to reflect realistic income levels given FFPC's current operating environment. Throughout 2012 and 2013, FFPC's line crew converted all municipal street lights to LED fixtures, as well as constructed a new subdivision. The projects resulted in FFPC's line crew working on "customer capital" for close to 5 months. The LED fixtures have a projected life expectancy of over 20 years and, given the economic downturn in the community, the development of new subdivisions is very unlikely to occur over the 2014 to 2018 planning horizon. Accordingly, FFPC's projected "Other Revenue" earnings beyond 2014 are expected to be reduced as a result of minimal anticipated street lighting related maintenance work and customer capital projects.

68. FFPC agrees with Board Staff's submission that an effective date for rates of July 1, 2014 would be appropriate. FFPC notes that it has worked with its billing service provider to implement the proposed rates effective on July 1, 2014. At a technical level, system changes had to be made prior to July 1, 2014 to accommodate the effective date, and any proposed alteration to the July 1, 2014 effective date will risk billing inaccuracies. FFPC, therefore, respectfully requests that Board staff's recommended effective date of July 1, 2014 be accepted by the Board.

CONCLUSION

69. For clarity, in the table below, FFPC has set out the final numbers that accord with FFPC's acceptance of Board staff's proposals, which we put forward as FFPC's amended request on this Application.

FFPC 2014 Reply Submission Test Year Revenue Requirement	
OM&A Expenses	$ 1,639,063
Amortization/Depreciation	$ 192,417
Deemed Interest Expense	$ 129,526
Service Revenue Requirement	$ 1,961,006
Revenue Offsets	$ 108,033
Base Revenue Requirement	$ 1,852,973

70. FFPC is proud of the high level of service, superior reliability of electrical supply, and overall low rates that it provides to its customers, and hopes that the Board agrees that FFPC's Application, subject to some amendments confirmed in this Reply Submission, justifies the revenue requirement sought.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

FORT FRANCES POWER CORPORATION