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BY EMAIL

October 17, 2014

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: Algoma Power Inc. ("API")
2015 Electricity Distribution Rates
Board Staff Submission
Board File No. EB-2014-0055

In accordance with Procedural Order #2, please find attached Board Staff's submission in the above noted proceeding. API and the intervenors have been copied on this filing.

Yours truly,

Original Signed By

Suresh Advani

Encl.

ONTARIO ENERGY BOARD

BOARD STAFF SUBMISSION

2015 ELECTRICITY DISTRIBUTION RATES

Algoma Power Inc.

EB-2014-0055

October 17, 2014

Board Staff Submission
Algoma Power Inc.
2014 Electricity Distribution Rates
EB-2014-0055

Introduction

Algoma Power Inc. ("API") filed an application on May 12, 2014 with the Ontario Energy Board seeking approval for an order approving just and reasonable rates and other charges for electricity distribution to be effective January 1, 2015. On October 10, 2014 API filed a Settlement Proposal with respect to its application.

The parties to the Settlement Proposal are API and all the Board-approved intervenors in the EB-2014-0055 proceeding: the Vulnerable Energy Consumers Coalition, Energy Probe Research Foundation and the Algoma Coalition.

The Settlement Proposal represents a complete settlement of all issues except the unsettled issues outlined below.

- Is the applicant's proposal to seek recovery of the RRRP funding variance from the 2002 to 2007 period appropriate?
- Are the proposed revenue-to-cost ("R/C") ratios appropriate?
- Are the proposed fixed/variable splits appropriate?

The parties agreed that the three unsettled issues will be addressed by way of an oral hearing for determination by the Board. The parties noted that an oral hearing is the most appropriate forum to address these unsettled issues because the Board will be privy to discussions made during witness examination, and an oral hearing will give the Board the opportunity to ask API's witnesses and the intervenors questions should any arise.

This submission reflects observations which arise from Board staff's review of the evidence and the settlement proposal, and is intended to assist the Board in deciding upon APIs Application with respect to the issues laid out in the Settlement Proposal and in setting just and reasonable rates.

Board staff notes that there have been a number of updates to the evidence in the course of this proceeding. This submission is based on the status of the record as of API's Settlement Proposal.

Submission

Board staff has reviewed the Settlement Proposal in the context of the objectives of the Renewed Regulatory Framework for Electricity, other applicable Board policies, relevant Board decisions, and the Board's statutory obligations. While parties considered the issues and API's planning in the limited context of the test year, Board staff is of the view that the proposed settlement reflects a careful evaluation of the distributor's planned outcomes in this proceeding, and appropriate consideration of relevant issues. Except for the submissions outlined below, Board staff submits that the Board's approval of the Settlement Proposal as filed would adequately reflect the public interest and would support the setting of just and reasonable rates for customers.

Revenue Requirement

Issue 2 i: "Have all elements of the Base Revenue Requirement been appropriately determined in accordance with Board policies and practices?"

Background

API's Fixed Asset Continuity Schedule (Appendix 2-BA) shows allocations of costs from CNPI to API for computer hardware and software for the period 2012 through the 2015 test year. These are included as part of API's Property Plant & Equipment ("PP&E"). These assets are not owned by API[1] and are not reported by API as their assets under the annual trial balance Reporting and Record-keeping Requirements ("RRR") 2.1.7 filing.

API has indicated that they were allocated computer hardware and software assets by CNPI in the last cost of service proceeding as well. Board staff notes that the allocation in 2011 was $92K or 1% of CNPI's cost. It is now 33.5% of CNPI's computer system capital costs, and the amount of gross cost allocated is $4.6 M for 2015. According to the evidence[2], the allocations increased because previously there were components of computer hardware and software, i.e. SAP, that were not being used by API.

[1] Technical conference transcript dated August 20, 2014, page 59.
[2] Technical conference transcript dated August 20, 2014, page 61.

The table below shows the allocated costs to API beginning in 2012, the first year that these costs jumped significantly from $92k in 2011 to $3.3M in 2012.

Allocations - Appendix 2-BA

Year	Cost	Accumulated Depreciation	Net
2012	3,282,428	-1,985,441	1,296,987
2013	3,838,341	-2,303,720	1,534,621
2014	4,331,701	-2,749,624	1,582,077
2015	4,601,376	-3,099,909	1,501,467

Discussion and Submission

For the purpose of the current proceeding, Board staff submits that it has no concerns with respect to the impact of the allocated assets on revenue requirement. Staff recognizes that API would have otherwise recovered the costs as part of its OM&A, and assumes it could have done so in a manner that would have had no incremental effect on the revenue requirement.

Board staff objects to the manner and method by which the applicant has accounted for these costs. Board staff submits that the allocations of assets from one entity to another do not meet the recognition principle per the Accounting Procedures Handbook (APH, Article 410, page 6) because CNPI has not billed Algoma, and Algoma has not paid for the capital costs associated with these computer systems.

Board staff also submits that the inconsistent allocations from year to year are not readily verifiable and do not easily permit the scrutiny that appropriately supports the examination of an applicant's costs.

Board staff submits that it is willing to accept the quantum of these costs for this proceeding within the context of this Settlement Agreement. However, Board staff submits that going forward, API should bring its regulatory accounting practices in line with the APH and to provide clearer information regarding the continuity of these costs. There are two options to achieve this outcome:

1. Costs related to computer hardware and software be recovered through an affiliate transaction as part of API's OM&A, or

2. Using a "Contributions in Aid of Construction" approach (as described in Article 410 and 430 of the APH), under which API would make capital contributions to CNPI, and include the amount of contribution as part of its Intangible Assets.

Board staff invites API to comment on this issue and on its plans to bring its regulatory accounting and reporting practices in line with the APH. If the Board is satisfied that a change to accounting practices is warranted, the Board may wish to consider including such an instruction in its Order.

Mitigation of Bill Impacts

Issue 3 v: The parties note that there are no bill impacts which exceed 10% and therefore API is not proposing rate mitigation.

Board staff notes that since revenue to cost (R/C) ratios are unsettled, rates and bill impacts are subject to change. Board staff further notes that the Board's filing requirements[3] state that a distributor must file a mitigation plan if total bill increases for any customer class exceed 10%. Board staff therefore submits that in the event the bill impacts for any customer class exceeds 10% after API's R/C ratios are finalized, API ought to propose a mitigation plan.

Accounting

Issue 4 ii: "Are the applicant's proposals for deferral and variance accounts and their disposition appropriate?"

Background

API has stated[4] that it does not track the variances in Account 1518, Retail Cost Variance Account for Retail Services, and Account 1548, Retail Cost Variance Account for Service Transaction Requests (RCVAs).

[3] Chapter 2, page 58, dated July 18, 2014
[4] Exhibit 1/Tab 1/Schedule 10, Exhibit 9/Tab 5/Schedule 1; IRR 9Staff36

According to the API, the reason that they do not track the RCVA variance is "due to the non-significant dollars associated with these types of revenues and expenditures". In response to a Board staff interrogatory to estimate the balance that would have been recorded in these accounts as of December 31, 2013, API stated that there would have been a net credit of $2,847 in these accounts.

Discussion and Submission

While every rate regulated LDC should follow the procedures outlined in the APH, Board staff accepts that any balances recorded in the accounts would have been immaterial and therefore no disposition is warranted.

All of which is respectfully submitted