November 10, 2014

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

Dear Ms. Walli:

RE: 2015 ELECTRICITY DISTRIBUTION RATE APPLICATION FOR ALGOMA POWER INC. ("API") – EB-2014-0055
FINAL SUBMISSION

Please find accompanying this letter, two (2) copies of the API's Final Submission in the matter of EB-2014-0055. Co-incidentally with the submission, an electronic copy of these have been 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

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EB-2014-0055

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15, (Schedule B);

AND IN THE MATTER OF an application by Algoma Power Inc. for an order approving just and reasonable rates and other charges for electricity distribution to be effective January 1, 2015.

Algoma Power Inc.

Final Submission

November 10, 2014

1 Introduction

1.1 This is the Final Submission of Algoma Power Inc. ("Algoma Power" or "API") in regard to the following unsettled issues in this proceeding:

- Is the applicant's proposal to recover the RRRP funding variance from the 2002 to 2007 period appropriate?
- Are the proposed revenue-to-cost ratios appropriate?
- Are the proposed fixed/variable splits appropriate?

1.2 API filed its Argument in Chief on October 24, 2014.

1.3 Submissions were received from

- Vulnerable Energy Consumers Coalition ("VECC")
- Energy Probe Research Foundation ("Energy Probe")
- Board Staff

1.4 VECC and Energy Probe have introduced a new issue; Algoma Power's pro-rated Service Charge and introduced new evidence after the evidentiary phase of the proceeding had ended. In any event, API's legacy billing system was replaced in 2012 and since that time billing is based on a 365 day pro-rating methodology.

1.5 This Submission is organized by the unsettled issues.

2 Issue No. 1: Is the applicant's proposal to recover the RRRP funding variance from the 2002 to 2007 period appropriate?

2.1 API's submission on the RRRP recovery issue is set out in two parts. The first describes key considerations for the Board on this issue. The second addresses specific arguments made by Board staff and the intervenors.

Part 1: Description of key considerations for the Board on this issue.

2.2 Key Consideration No. 1: API's method of allocating the RRRP credit to its customers was appropriate.

2.3 It has become apparent to API that Board staff and the intervenors believe that API wrongfully over-credited RRRP funding to its customers. As explained by API at the oral hearing, API's billing system allocated the RRRP credit to its customers on a 30 day basis, such that the $28.50 credit was divided by 30 days, resulting in a daily credit allocation of $0.95. For months that had 31 days, API's customers were allocated a RRRP credit of $29.45 ($0.95 x 31 = $29.45). This is the cause of API's under-compensation for lost revenues related to the RRRP credit.

API was required by the Board in its 2002 Rate Order to provide a $28.50 credit to its customers, which is why the residential monthly service charge in API's rate order was $28.50 lower than it would have been in the absence of RRRP funding.

Although API would have avoided being under-compensated by allocating the RRRP credit in the manner proposed by Energy Probe in its submission (i.e. on a 365-day basis), doing so would have resulted in API allocating less than a $28.50 credit in all months with fewer than 31 days, contrary to the API's rate order.

To illustrate, Energy Probe suggested that the proper way for API to have allocated the RRRP credit was to multiply $28.50 by 12 months, and then divide that number by 365

days. This would result in a daily RRRP credit allocation of $0.937.[1] API's monthly RRRP credit allocations using Energy Probe's methodology would have been as follows:

- for 31 day months ---> $29.05 RRRP credit allocation ($0.937 x 31 = $29.05)
- for 30 day months ---> $28.11 RRRP credit allocation ($0.937 x 30 = $28.11)
- for February ---> $26.24 RRRP credit allocation ($0.937 x 28 = $26.24)

It would have been inappropriate for API to credit its customers less than the required $28.50 during the 30-day months, contrary to the Board's 2002 Rate Order. With the exception of February, API allocated at least $28.50/month, which resulted in API being under-compensated.

Therefore, API was in the untenable situation of either: i) violating its 2002 Rate Order by allocating less than the $28.50 RRRP credit for all 30-day months; or ii) allocating at least the $28.50 RRRP credit (with the exception of February) and being under-compensated.

Given that there were only five Februaries during the relevant 2002-2007 period, API's submits that its methodology was appropriate.

There appears to be disagreement (or confusion) among the intervenors and Board staff as to what, in hindsight, API should have done. For example, VECC stated the following in its submission:

> "The Utility was only authorized to credit $28.50... GLPL/API made an error in the amount it should have credited customers by using a prorated monthly credit which varied between $29.45 and $28.50 rather than a fixed monthly credit of $28.50."[2]

[1] Last paragraph of page 3 of Energy Probe's submission.
[2] VECC submission, paragraph 2.5.

Similarly, Board staff wrote:

> "Board staff further submits that the Applicant is not entitled to recover any amount in excess of the $28.50 / month per customer, which is the amount that the Board authorized."

However, both Energy Probe[3] and VECC[4] wrote that what API should have done was allocate the RRRP credit based on 365 days. This would have resulted in a daily RRRP allocation of $0.937. Had API done so, during every 31-day month it would have exceeded the $28.50 amount by allocating $29.05 ($0.937 x 31 = $29.05).

Therefore, on one hand parties believe that API should not have allocated more than $28.50/month, and on the other they say that API should have used a methodology that would result in an allocation of more than $28.50/month. These conflicting views demonstrate that, even in hindsight, it is not obvious what API should have done.

Accordingly, API submits that its method of allocating the RRRP credit was appropriate.

2.4 Key Consideration No. 2: API is not seeking a rate to recover the $173,000 in compensation it is entitled to. Therefore, arguments about retroactive ratemaking are beyond the scope of this proceeding.

2.5 As stated in API's October 27, 2014 submission, API is not seeking a rate order from the Board regarding the RRRP issue. The rates that were proposed by the Parties in the Settlement Proposal will not be affected by the Board's determination on this RRRP issue.

Because a rate has not been requested by API to recover its compensation for lost revenues associated with RRRP, API submits that all retroactive ratemaking arguments put forward by Board staff and intervenors are outside the scope of this proceeding.

[3] Last paragraph of page 3 of Energy Probe's submission.
[4] VECC submission, paragraph 4.12.

The only time that a rate is set in regard to RRRP is when the Board establishes the rate to be collected by the IESO for each kilowatt-hour of electricity drawn from the IESO-controlled grid. Currently, that rate is 0.13 cents per kilowatt-hour, as set by the Board in EB-2013-0396; a separate proceeding.

Even if the Board believes that this proceeding is the appropriate forum for addressing retroactive ratemaking (despite the fact that no rate has been requested), API submits that its proposal would not violate the rule against retroactive ratemaking.

As written by Board staff in its submission, deferral and variance accounts are exceptions to the rule against retroactive ratemaking.[5] API submits that Board staff is correct on this point.

Hydro One's variance account records the variance between: i) the RRRP benefit eligible consumers receive; and ii) the revenues collected by the IESO through the RRRP rate. Any determination by the Board on additional RRRP compensation for API would be appropriately recorded by Hydro One in its RRRP variance account as a RRRP benefit for eligible consumers.

The Board can, and regularly does, adjust variance account balances, even after the fact. The Board did so on numerous occasions for distributors' Account 1562 balances (deferred PILs). In the Board's Decision dated December 18, 2009 in EB-2008-0381, the Board addressed the issue of whether it could adjust Account 1562 balances retroactively. The Board decided that it could:

> "The Board cannot adjust the PILs amount included in any final rates – during or after the rate freeze period. The Board is prohibited from changing rates retroactively or retrospectively. No parties disputed this limitation on the Board's jurisdiction.

[5] Board staff submission, page 11.

> However, the Board finds that it can review the balances in Account 1562 across the entire time period, including during the Bill 210 period, and dispose of those balances. Some parties have described this as a prudence review. It is not a prudence review in the sense of determining whether expenditures were prudently incurred; rather it is a prudence review in the sense of ensuring the accuracy of the accounts and whether the amounts placed in the accounts were calculated in a manner consistent with the Board's methodology as it was established at the time."[6]

The Board applied this logic by reviewing the accuracy of distributors' Account 1562 balances. In some cases, distributors applied to recover Account 1562 balances from their customers, but were ordered to adjust their Account 1562 balances resulting in refunds being given to customers.

API has acknowledged that it did not have its own Board-approved deferral or variance account to record its under-compensation. It is API's position that it did not need one. The source of API's entitlement to compensation for lost revenues is subsection 79(3) of the OEB Act. That legislative entitlement has existed since 2002, and so has Hydro One's RRRP deferral account.

All compensation for RRRP credits API provided its customers, regardless of whether recorded in an API deferral or variance account, is appropriately recorded in Hydro One's RRRP variance account. The purpose of Hydro One's RRRP variance account has been to track the variance between RRRP benefits received by eligible customers (i.e. RRRP credits provided by API to its customers) and RRRP revenues collected by the IESO. Adjusting Hydro One's RRRP variance account to accurately derive the correct balance of that account (even after the fact) would not violate the rule against retroactive ratemaking.

[6] We note that Hydro One uses Account 1508 to record RRRP variances, as stated in Hydro One's letter at Attachment 1 to this submission. Account 1508 was deemed by legislation to be a regulatory asset, just as Account 1562 was.

2.6 Key Consideration No. 3: API is entitled by law to be compensated for its lost revenues resulting from the RRRP rate reduction.

2.7 Subsection 79(3) of the OEB Act provides:

> A distributor is entitled to be compensated for lost revenue resulting from the rate reduction provided under subsection (1).

Subsection (1) provides:

> The Board, in approving just and reasonable rates for a distributor who delivers electricity to rural or remote consumers, shall provide rate protection for those consumers or prescribed classes of those consumers by reducing the rates that would otherwise apply in accordance with the prescribed rules.

In accordance with Subsection 79(1) of the OEB Act, the Board did reduce API's residential fixed monthly service charge by $28.50. API billed its residential customers based on that reduced monthly service charge - the charge approved by the OEB. Therefore, API is entitled under subsection 79(3) to be "compensated for lost revenue resulting from the rate reduction provided under subsection (1)".

Part 2: Reply to specific arguments made by Board staff and the intervenors.

Reply to specific Board staff arguments.

2.8 The Applicant was not the 'distributor'.

2.9 According to Board staff, "API was not the 'distributor' during the period of time when the overpayment occurred and did not sustain 'lost revenue' such that the Applicant cannot avail itself of section 79(3) of the Act for the period in question."[7]

[7] Board staff submission, page 3.

API submits that Board staff's position is incorrect. Because FortisOntario purchased the shares of GLPD, FortisOntario owns GLPD, including all receivables and liabilities that were not expressly excluded in the share purchase agreement. It was stated by API at the oral hearing that compensation related to RRRP was not excluded from the share purchase agreement.[8] Therefore, FortisOntario owns the company that is entitled to be compensated for lost revenues under subsection 79(3) of the OEB Act.

Board staff stated in its submission that, "The Applicant's evidence confirmed that the Applicant was not the 'distributor' at the time of the over-payment to customers of its predecessor, GLPL."[9] The reference provided by Board staff to support this assertion was page 99, lines 16 to 28 of the transcript. API submits that the reference provided by Board staff does not confirm that "API was not the distributor at the time of the over-payment to customers of its predecessor GLPL".

In the transcript lines immediately before Board staff's reference, API stated that GLPL and API are one and the same company:

> "MS. DJURDJEVIC: ...So part of the confusion throughout the material, there is references to, you know, that it's API's or Algoma's customers that were overpaid or over-credited, and I just want to, you know, make it clear that it was actually GLP. It was GLP's business, while they ran the utility, it was their customers that received the benefit, not Algoma's.
>
> MR. KING: Well, yes and no. It was GLP's and Algoma Power, which are one and the same, the same company. It's just that the shareholders happen to be different."

The following lines of the transcript referenced by Board staff in its submission are primarily an opinion given by Board counsel, followed by API's counsel stating that GLPL was the licensed distributor, and now API is the licensed distributor:

[8] Transcript, page 101, lines 8-14 for context, lines 15-20 for API's response.
[9] Board staff submission, page 5.

> "MR. TAYLOR: GLPL was the licensed distributor, and now Algoma is the licensed distributor. And I think that when Algoma obtained its license to distribute, GLPL's was extinguished."[10]

API does not deny that GLPD (referred to as "GLPL" at the hearing) held a distribution license and now API does. That fact is irrelevant to the issue of whether API entitled to compensation under subsection 79(3) of the OEB Act.

According to Board staff, its research of the Board's licensing records indicates that the legal name on the licence ED-2009-0072 was changed from GLPD to "Algoma Power Inc." on January 11, 2010.[11] A new distribution licence was not issued to API; the name on GLPD's licence was replaced with API's. This fact supports API's position that API is GLPD, but operating under a different name.

For these reasons, Board staff's argument that API was not the distributor and is therefore not entitled to compensation under subsection 79(3) of the OEB Act should be rejected.

2.10 API is effectively asking the Board to amend a final rate order.[12]

2.11 API is not asking the Board to effectively amend its 2002 Rate Order or any other final rate order. API is neither asking the Board to amend any rate orders, or issue new rates. API is asking for the Board to confirm API's entitlement to compensation for its lost revenues resulting from its reduced rates. This will "effectively" (in a future proceeding) require Hydro One to correct its RRRP variance account which, as discussed in Part 1 above, and will therefore not violate the rule against retroactive ratemaking.

[10] Transcript, pages 99 and 100, lines 26-28 and 1 respectively,
[11] Board staff submission, page 4.
[12] Board staff submission, page 8.

2.12 API should have applied to the Board before 2007 to resolve the under-compensation issue.

2.13 Although Board staff did not expressly state this argument, it was implied in its submission:

> "Despite subsequent changes in legislation that may have enabled it to do so, GLPL did not make a cost of service application between 2003 and 2007. As a consequence, the Board was unable to determine GLPL's revenue requirement or calculate the shortfall between GLPL's revenue requirement and forecasted revenues, in accordance with the Regulation during this period."[13]

API believes that it is important for the Board to understand the true context of its historic rate activities. The rate freeze imposed by Bill 210 prevented API from filing a rate application until 2006. API delayed filing a rate application until 2007, because in 2006 API was working with the Ministry of Energy to obtain more RRRP funding for its customers and knew that more funding would be made available which would impact rates. Ultimately, RRRP funding for API's customers was increased in 2007 by Regulation 442/01, which limits the rate increases of API's residential customers to the average of any adjustment to rates approved by the Board for other distributors.

Therefore, API takes exception to the implication that it should have applied to the Board prior to 2007 to resolve the under-compensation issue.

2.14 The variance is a result of an error for which the distributor should not be reimbursed.*[14]*

2.15 API disputes the allegation that it made an error. For the reasons set out in Part 1 paragraph 2.3 above, API's actions were appropriate in that it complied with the Board's 2002 Rate Order.

[13] Board staff submission, page 10.
[14] Board staff submission, page 13.

In any event, even if API had made an error (which it did not), it is still entitled to compensation under subsection 79(3) of the OEB Act. The OEB Act does not include an exception to subsection 79(3) for errors. Rather, distributors are, without exception, entitled to be compensated for lost revenues resulting from RRRP rate reductions.

API is aware of the Board decisions in which the Board stated that distributors are responsible for their own errors. Those decisions, however, were made in the context of rate issues, which this is not. Further, the section 79 of the OEB Act is clear and cannot be diminished by the Board's policy on distributor errors.

2.16 There is an absence of evidence indicating a balance in the RRRP pool for distribution.[15]

2.17 API submits that it does not matter whether there is a positive or negative balance in Hydro One's RRRR variance account. Balances in variance accounts, by their nature, vary from year-to-year and can be positive or negative. The fluid nature of Hydro One's RRRP variance account was made apparent by the following excerpt from the Board's Decision and Order in the 2013 RRRP rate proceeding:

> "In accordance with Ontario Regulation 442/01, the total RRRP benefit in 2014 is estimated to be $175.5 million. This amount includes an estimated RRRP under collection of $4.1 million for the 2013 calendar year including carrying charges. The IESO's applicable 2014 Demand Forecast, filed with the Board 60 days prior to year end, is 137.9 TWh. Any over or under recovery of the total RRRP amount in 2014 will be tracked in a variance account held by Hydro One Networks Inc."[16]

[15] Board staff submission, page 15.
[16] EB-2013-0396, Decision and Rate Order dated December 19, 2013.

As illustrated by the Hydro One letter at Attachment "A",[17] the balance in Hydro One's RRRP variance account was projected to be deficient by approximately $4 million in 2013, but had a $6 million and $8 million surplus in 2011 and 2012.

If the Board finds that API is entitled to the $173,000 compensation at issue, Hydro One would adjust its RRRP variance account accordingly and the $173,000 would be recovered from all ratepayers in Ontario, just as any other deficiency in Hydro One's RRRP variance account would be.

Reply to specific VECC arguments.

2.18 The matter has been dealt with.[18]

2.19 API submits that this issue has not been dealt with, and does not understand the basis for VECC's assertion. As stated at the oral hearing, although this issue was raised in API's last cost of service application, the settlement agreement was silent on it and the Board did not rule on it. Further, there is no language in the settlement agreement to the effect of, "Anything requested by API that is not addressed in this settlement agreement is deemed to be foregone by API."

Similarly, API is not suggesting that because the settlement agreement was silent on the RRRP issue, the intervenors implicitly agreed to it. The Board has not decided on this RRRP issue, and therefore the issue has not been dealt with.

2.20 Too late.*[19]*

2.21 According to VECC, "API is simply too late to be claiming for purported variance that occurred 7 years ago." API submits that there is no statute of limitations on its entitlement under subsection 79(3) of the OEB Act. In terms of adjusting a deferral

[17] EB-2013-0396: Hydro One's November 25, 2013 letter to the Board.
[18] VECC submission, page 5.
[19] VECC submission, page 5

account after the fact, there is also no limitation on the Board's jurisdiction. The Board made a number of adjustments to Account 1562 balances dating back more than 7 years.

API submits that all other relevant VECC arguments on the RRRP issue have already been addressed by API above.

Reply to specific Energy Probe arguments.

2.22 API has addressed all of Energy Probe's relevant arguments on this issue above.

3 Issue No. 2: Are the proposed revenue-to-cost ratios appropriate?

3.1 API has proposed to maintain the status quo revenue to cost ratios as presented in the Proposed Settlement Agreement, Attachment B, Appendix 2-P and reproduced below.

Class	Previously Approved Ratios Most Recent Year: 2011	Status Quo Ratios (7C + 7E) / (7A)	Proposed Ratios (7D + 7E) / (7A)	Policy Range
	%	%	%	%
Residential - R1	114.10	111.63	111.63	85 - 115
Residential - R2	59.80	111.71	111.71	80 - 120
Seasonal	115.00	54.97	54.97	80 - 115
Street Lighting	43.00	25.04	25.04	70 - 120

API's proposed solution is to maintain status quo R/C ratios for the Test Year. In 2015, API will bring forward an application for 2016 electricity distribution rates proposing a methodology consistent with 4th Generation Incentive Rate-setting. As part of that application, API will present a cost allocation study using the approved customer and load forecast and approved costs for 2015, arising from the Board's decision and order in this Application; EB-2014-0055. API has proposed to work with Board staff and the intervenors of record to produce an appropriate Cost Allocation Study for API. API further proposed that the results of this Study may be used by the Board to establish the appropriate class specific revenue to cost ratios through the balance of the incentive rate-setting period beginning with the 2016 rate year.

3.2 In paragraph 3.13, VECC acknowledges that there may be improvements that could be made to the current cost allocation as it applies to API.[20] In this regard, VECC supports API's proposal to undertake a review of its cost allocation and to file the results with its 2016 rate application. Further, VECC stated that this should not preclude minor adjustments in the revenue to cost ratios for 2015. Similarly, it should not preclude the Board establishing a preliminary pattern for future revenue to cost ratios during the IRM period subject to revision based on future filings by API and Board decisions.

[20] VECC Final Submissions, EB-2014-0055, dated November 3, 2014 paragraph 3.13

3.3 VECC has submitted that for 2015 the Board should direct API to implement revenue to cost ratios for Street Lighting and Seasonal of 25.04% (i.e. status quo) and 60% respectively. Further, VECC has submitted that API should:

- Increase the revenue to cost ratio for Seasonal to 66%, 72%, 78% and 85% in each of the respective IRM years 2016-2019.
- Increase the revenue to cost ratio for Street Lighting in each year of the IRM period, subject to a 10% total bill impact (based on the 2015 test year filing).

And, given that the status quo revenue to cost ratios for the R1 and R2 classes are virtually the same, any revenue surplus generated by these increases should be used to reduce revenue to cost ratios for the R1 and R2 classes to the same value.

3.4 Energy Probe has acknowledged API's proposal to file an updated cost allocation study with its 2016 electricity distribution rate application and has not expressed an opposition to the proposal. However, Energy Probe has expressed concerns related to API's ability to complete a comprehensive detailed cost allocation study in time for the application to the 2016 rates[21].

3.5 The position taken and the submission made by Energy Probe in the matter of the appropriate revenue to cost ratios for the test year and IRM period is substantially the same as that taken and submitted by VECC.

3.6 API submits that the positions taken by VECC and Energy Probe are a reasonable solution to the implementation of appropriate revenue to cost ratios.

3.7 API submits that for the 2015 Test Year the appropriate revenue to cost ratio for the Street Lighting classification be set at 25.04% and the Seasonal classification be set at 60%. The Residential – R1 and Residential – R2 customer classifications will benefit equitably from the re-assignment of costs between the customer classes.

[21] Energy Probe Argument, EB-2014-0055 dated November 3, 2014 page 5 1st paragraph

3.8 API submits that for the incentive period of 2016, subject to paragraph 3.9, the revenue to cost ratio for the Seasonal and Street Lighting customer classifications would be adjusted as follows:

- For the Seasonal customer classification, the revenue to cost ratio will be adjusted in equal increments as described by VECC (66%, 72%, 78% and 85% in each of the respective IRM years 2016-2019) but are subject to a 10% total bill impact cap. Any limitation introduced by the 10% total bill impact cap to the quantum of the adjustment will be deferred to the following rate year.
- Increase the revenue to cost ratio for Street Lighting in each year of the IRM period, subject to a 10% total bill impact.

3.9 Paragraph 3.8 would remain in effect for the duration of the ensuing Incentive Rate-setting period, described here as 2016 to 2019 inclusive, unless, the Board in a subsequent decision alters the increases needed based on the results of a new cost allocation study that is accepted by the Board in a future application by API.

3.10 In the Board Staff Submission, Board staff has taken a position on API's interpretation of the Decision and Order in the matter of EB-2013-0110. Board staff wrote[22]:

> Board staff notes that the Board clearly stated that its decision is not intended to "set a precedent by which Algoma can rely upon in future applications". The Board noted that it "is providing Algoma with sufficient time to decide on the appropriate course of action for future incentive rate setting". The decision went on to state that:
>
> > "As Algoma is scheduled to file a cost of service application in 2015 (or a 5-year custom incentive regulation plan), Algoma could avail itself of other rate making options with the expiry of its current Settlement Agreement. Algoma could file a different plan for 2015 or select the Price Cap IR option and accept the PEG model's updated stretch factor assignment. In general, if the PEG model does not apply to a distributor's circumstances, the Price Cap IR option is probably not a viable option".

3.11 Further, on the same page, Board staff wrote[23]:

[22] Board Staff Submission (Unsettled Issues), EB-2014-0055, dated November 3, 2014, page 20

> Board staff notes that not only does the foregoing bear no relation to the R/C ratio discussion, but **also** submits that **API's witness has, in fact, mischaracterized the Board's findings**. [Emphasis added]

3.12 API finds the statement made by Board staff to be offensive and invites Board staff to withdraw the statement from the record of this proceeding; EB -2014-0055.

3.13 API acknowledges that it was identified on the Board's "2015 Rebasing List" issued on February 20, 2014 as stated by Board staff.[24]

3.14 As acknowledged by Board staff, the Decision and Order in the matter of EB-2013-0110 was also issued by the Board on February 20, 2014.[25] The same date as the issuance of the 2015 Rebasing List.

3.15 The Board's letter accompanying the 2015 Rebasing List stipulated a filing date of April 25, 2014; API filed its Application on May 12, 2014.

3.16 The timing of the Decision and Order in the matter of EB-2013-0110, February 20, 2014, afforded API very limited time to carefully weigh the merits of an alternative form of Application in 2015. API was aware before February 20, 2014 that it would be identified on the Board's 2015 Rebasing List and work was well underway to accommodate the anticipated Board's filing date.

The decision to avail of other rate making options, as was afforded by the Board's Decision and Order, EB-2013-0110, for 2015 was significant. API had already begun work in preparation of a 2015 Cost of Service; to change mid-course to a five year custom incentive regulation plan was in API's opinion, neither prudent for the company or its customers.

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[23] Board Staff Submission (Unsettled Issues), EB-2014-0055, dated November 3, 2014, page 20
[24] Board Staff Submission (Unsettled Issues), EB-2014-0055, dated November 3, 2014, page 18
[25] Board Staff Submission (Unsettled Issues), EB-2014-0055, dated November 3, 2014, page 20, Ref. # 45

3.17 In the Board's Decision and Order, EB-2013-0110, where the Board wrote and that has been acknowledged in the Board staff submission in this matter:

> "Algoma **could** avail itself of other rate making options with the expiry of its current Settlement Agreement"[26] [Emphasis added]

API's interpretation of the word "could" meant that the 2015 rate application was not API's only recourse as is suggested by Board staff.

3.18 API's interpretation of the Renewed Regulatory Framework for Electricity ("RRFE") is that it does not prohibit API from filing a 5-year custom incentive regulation plan, as was suggested in the Decision and Order, EB-2013-0110 when it files for its 2016 electricity distribution rates.

3.19 API is not aware of any prohibition or regulation which limits its right or ability to, at any time, subject to prudence, make an application before the Board, including an application to review the revenue to cost allocations.

3.20 At no point in this proceeding has API's witness deliberately or otherwise attempt to mischaracterize the Board's findings in the matter of EB-2013-0110. API has interpreted the findings as it had the option ("could') to submit an alternative form of application for 2015 electricity rates but this was not the only option available.

[26] Board Staff Submission (Unsettled Issues), EB-2014-0055, dated November 3, 2014, page 20

4 Issue No. 3: Are the proposed fixed/variable splits appropriate?

4.1 API had proposed that the fixed/variable split for the Residential – R1 class result solely from the indexing of current fixed and variable rates by the RRRP Adjustment Factor and the resultant fixed and variable revenues derived from the accepted customer and load forecast. The fixed monthly service charge and volumetric rate are purely a function of the RRRP Adjustment Factor; no attempt is made to modify the resultant fixed/variable split.

For the Residential – R2 class, API had proposed that the fixed monthly service charge be held at the current approved rate of $596.12. The intent was to hold the fixed charge constant, consistent with the standing rate design philosophy to maintain a fixed monthly service charge at $596.12.

For the Seasonal class, API had proposed to limit increases in the fixed monthly service charge component of the tariff while allowing increases to flow to the volumetric component. The rationale was to give individual consumers more ability to influence their overall costs.

Prior to the previous Application, EB-2009-0278, there was no fixed component in the tariff for the Street Lighting customer class. During the settlement proceedings of EB-2009-0278, the parties agreed to institute a nominal fixed monthly service charge of $0.96. Throughout the incentive rate-setting period, API has maintained a rate design philosophy consistent with the intent of the parties and has allowed the fixed to move only $0.02 to $0.98. API had proposed in this Application to maintain the current fixed charge amount.

4.2 Energy Probe has submitted that the Board should direct Algoma to maintain the fixed/variable splits for the Seasonal and Street Lighting classes.

4.3 Energy Probe has submitted that it has no issue with respect to the setting of the fixed

charge for the Residential - R1 class, as the fixed charge is increased at the same rate as is the variable charge.

4.4 Energy Probe has submitted that the fixed charge should be set for both the Residential - R1 and Residential - R2 class on the same basis, and that this basis is that both the fixed and variable rates should be increased by the RRRP adjustment factor.

4.5 VECC has submitted that it has no concerns regarding API's rate design as proposed for the Residential – R1 and Residential – R2 customer classes.

4.6 VECC has submitted that for the Seasonal class the Board should direct API to maintain the current fixed-variable split in setting 2015 rates. A similar approach to that taken by Energy Probe.

4.7 VECC has submitted that for the Street Lighting class the Board should direct API to maintain the class' fixed-variable split for 2015. A similar approach to that taken by Energy Probe.

4.8 API's alternative rate design for the Residential - R2 customer class is intended to maintain consistency with the rate design accepted in EB-2009-0278. API appreciates and sees merit in both the Energy Probe position that both the fixed and variable components should be linked directly to the RRRP Adjustment Factor and the VECC position that the fixed component be held at $596.12.

API submits that the position taken by Energy Probe, that being to allow both the fixed and variable charges to be indexed by the RRRP Adjustment Factor, maybe the more equitable solution for all customers within the Residential – R2 class.

4.9 The fixed component of the Street Lighting customer class tariff was introduced in 2011 and has been held relatively constant since that time. API's rate design had been to hold the value relatively consistent with the original amount accepted in EB-2009-0278.

Both Energy Probe and VECC have submitted that API ought to maintain the fixed/variable split and therefore not control for the fixed monthly charge.

API has no further submissions on this matter and will comply with Board direction.

4.10 API has held the fixed component of the Seasonal customer class at the 2014 approved level and has allowed the rate change to appear in the volumetric charge.

Both Energy Probe and VECC have submitted that API ought to maintain the fixed/variable split and therefore not control for the fixed monthly charge.

API had recognized some merit in holding the fixed charge constant and allowing the volumetric rate to absorb the increase; that being the customer has a measure of control on the volumetric component of the final bill. API had expressed concerns related to the Seasonal customers and felt this rate design was a reasonable response.

API has no further submissions on this matter and will comply with Board direction.

All of which is respectfully submitted. November 10, 2014

Algoma Power Inc.

By its Counsel: Andrew Taylor
The Energy Boutique