ATIKOKAN HYDRO INC.

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September 16, 2008

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

Re: OEB File No. EB-2008-0014
Atikokan Hydro Inc.
2008 Electricity Distribution Rate Application
Atikokan Hydro Inc. Response to VECC's Comments on Draft Rate Order

Dear Ms. Walli,

Atikokan Hydro Inc. is pleased to file with the Board our reply submission to the Vulnerable Energy Consumers Coalition's comments on the Atikokan Hydro Inc draft rate order, received September 9, 2008. We have been instructed to file via e-mail because time is of essence.

If you have any questions, please contact the undersigned at (807) 597-6600.

Yours truly,

Wilf Thorburn

Wilf Thorburn
CEO/Secretary-Treasurer

EB-2008-0014

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

AND IN THE MATTER OF an application by Atikokan Hydro Inc. for an order approving or fixing just and reasonable rates and other charges for the distribution of electricity for the 2008 rate year.

RESPONSE BY ATIKOKAN HYDRO INC. TO VECC'S COMMENTS DATED SEPTEMBER 9, 2008 ON ATIKOKAN HYDRO DRAFT RATE ORDER

DELIVERED SEPTEMBER 16, 2008

Atikokan Hydro Inc. ("Atikokan" or the "Applicant") submits the following response to VECC's comments on Atikokan's Draft Rate Order submitted to the Ontario Energy Board (the "Board") on September 4, 2008.

VECC has requested that additional information be provided with regards to Atikokan's cost allocation and rate design.

As outlined in Page 9 and 10 of Atikokan's Draft Rate Order, the proposed rates reflect the Board's Decision on Revenue to Cost Ratios. The Board directed Atikokan to re-balance rates to yield ratios of: GS > 50 kW 50%, Streetlights 45%, Sentinel 40%, USL 45%, with the remainder in 2 equal increments in 2009 and 2010 to reach the bottom of the target range of the respective classes. Atikokan has applied the increased revenue from these classes to reduce the revenue to cost ratio for the Residential class as outlined in Table 1

Table 1
Revenue to Cost Ratios

Revenue to Cost Ratios		
Customer Class	Proposed (%)	Resulting (%) From Decision
Residential	125.1	113.6
GS < 50 kW	107.7	107.7
GS > 50 kW	22.8	50.0
Street Lights	22.8	45.0
Sentinel Lights	12.0	40.0
Unmetered Scattered Load	15.3	45.0

The revenue to cost ratios shown under the proposed column resulted from the updated cost allocation study provided in the Application. The updated cost allocation study reflected the loss of the Intermediate customer. In this case, the costs of distribution associated with the Intermediate customer were re-assigned to other classes. However, the lost revenue from the Intermediate class was not assigned to other classes since Atikokan has not had an opportunity to adjust rates to recover the lost revenue. In the Application, Atikokan proposed to maintain the revenue to cost ratios from the updated cost allocation study but increase revenues to all rate classes to replace the revenue lost from the Intermediate customer. As outlined in the Application and in response to VECC 24 e), Atikokan's proposal meant the base revenue requirement would be split to the various rate classes as shown in Table 2

Table 2
Proposed Split of Base Revenue Requirement in Application

Customer Class	Proposed Split
Residential	71.31%
GS < 50 kW	23.13%
GS > 50 kW	2.76%
Street Lights	2.27%
Sentinel Lights	0.0022%
Unmetered Scattered Load	0.53%
Total	100.00%

In order to achieve the revenue to cost ratios directed by the Board in it's Decision, the following outlines the required split of base revenue requirement.

Table 3
Split of Base Revenue Requirement to Achieve Revenue to Cost Ratios From the Decision

Customer Class	Decision Split
Residential	64.78%
GS < 50 kW	23.13%
GS > 50 kW	6.05%
Street Lights	4.48%
Sentinel Lights	0.0073%
Unmetered Scattered Load	1.55%
Total	100.00%

The above split of base revenue requirement results in the following allocation of revenue to each class.

Table 4
Split of Base Revenue Requirement
From the Decision

Customer Class	Decision Split
Residential	$741,014
GS < 50 kW	$264,563
GS > 50 kW	$69,214
Street Lights	$51,244
Sentinel Lights	$84
Unmetered Scattered Load	$17,730
Total	$1,143,849

In its Decision, the Board accepted Atikokan's proposal to maintain the current fixed/variable splits and to increase the Monthly Service Charge by no more than the volumetric rate for any class. As outlined in the Application the existing fixed/variable splits is as shown in Table 5

Table 5
Existing Fixed Variable Split

Customer Class	Fixed %	Variable %	Total%
Residential	79.87%	20.13%	100%
GS < 50 kW	80.29%	19.71%	100%
GS > 50 kW	77.21%	22.79%	100%
Street Lights	79.20%	20.80%	100%
Sentinel Lights	73.42%	26.58%	100%
Unmetered Scattered Load	99.10%	0.90%	100%

The following outlines the calculation of the fixed charge by rate class shown in the rate order

Table 6
Fixed Charge Calculation

Customer Class	Base Revenue Requirement (A)	Fixed % (B)	Number of Customers/ Connections (C)	Fixed Charge (A) X (B) / (C) / 12
Residential	$741,014	79.87%	1,421	$34.71
GS < 50 kW	$264,563	80.29%	232	$76.17
GS > 50 kW	$69,214	77.21%	20	$222.67
Street Lights	$51,244	79.20%	619	$5.47
Sentinel Lights	$84	73.42%	1	$5.11
Unmetered Scattered Load	$17,730	99.10%	7	$209.17
Total	$1,143,849			

Once the smart meter adder of $0.25 per customer is added to the appropriate classes the above fixed charge are the service charges shown in the draft rate order

The following outlines the calculation of the volumetric charge by rate class shown in the rate order

Table 7
Volumetric Charge Calculation

Customer Class	Base Revenue Requirement (A)	Variable % (B)	Volumetric Units (C)	UOM	Volumetric Charge (A) X (B) / (C)
Residential	$741,014	20.13%	10,918,134	kWh	$0.0137
GS < 50 kW	$264,563	19.71%	5,375,424	kWh	$0.0097
GS > 50 kW	$69,214	22.79%	18,599	kW	$0.8482
Street Lights	$51,244	20.80%	1693	kW	$6.2964
Sentinel Lights	$84	26.58%	0.5	kW	$44.3918
Unmetered Scattered Load	$17,730	0.90%	5,942	kWh	$0.0269
Total	$1,143,849				

For the GS > 50 kW classes, an additional $0.0188 is added the volumetric charge to adjust for transformation allowance. These rates are consistent with the volumetric rates shown in the draft rate order.

Based on the current approved practice for Atikokan, the transformer allowance for GS > 50 kW customers is 10% of the distribution volumetric rate (i.e. 10% of $0.8670/kW which is $0.0867/kW for transformer allowance). Consistent with other approved 2008 cost of service rate applications, $0.0188 has been added to distribution volumetric rate of all 20 GS > 50 kW accounts which allows Atikokan to pay the transformer allowance to the 4 accounts that receive it.