Ontario Energy Board

Commission de l'énergie de l'Ontario

EB-2008-0014

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 Atikokan Hydro Inc. for an order approving or fixing just and reasonable rates and other charges for the distribution of electricity to be effective May 1, 2008.

BEFORE: Paul Sommerville
Presiding Member

Ken Quesnelle
Member

DECISION

August 21, 2008

BACKGROUND

Atikokan Hydro Inc. ("Atikokan" or the "Applicant") filed an application with the Ontario Energy Board (the "Board") received on January 17, 2008, under section 78 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, (Schedule B), seeking approval for changes to the rates that Atikokan charges for electricity distribution to be effective May 1, 2008.

Atikokan is one of over 80 electricity distributors in Ontario that are regulated by the Board. In 2006, the Board announced the establishment of a multi-year electricity distribution rate-setting plan for the years 2007-2010. In an effort to assist distributors in preparing their applications, the Board issued the *Filing Requirements for Transmission and Distribution Applications* on November 14, 2006. Chapter 2 of that document outlines the filing requirements for cost of service rate applications, based on a forward test year, by electricity distributors.

On May 4, 2007, as part of the plan, the Board indicated that Atikokan would be one of the electricity distributors to have its rates rebased in 2008. Accordingly, Atikokan filed a cost of service application based on 2008 as the forward test year.

Atikokan requested a revenue requirement of $1,093,297 to be recovered in new rates effective May 1, 2008. The application indicated that the existing rates would produce a revenue deficiency of $280,108 for 2008. The resulting requested rate increase was estimated as 6.5% on the electricity bill for a residential customer consuming 1,000 kWh per month.

The Board assigned the application file number EB-2008-0014 and issued a Notice of Application and Hearing dated February 5, 2008. The Vulnerable Energy Consumers Coalition ("VECC") intervened in the proceeding. The evidence in the application was tested through written interrogatories from Board staff and VECC. Board staff and VECC filed written submissions and Atikokan filed written reply submissions. The submissions phase was completed on May 12, 2008.

The full record of this application is available at the Board's offices. The Board has chosen to summarize the record to the extent necessary to provide context to its findings.

THE ISSUES

The following issues were raised in the submissions filed by Board staff and VECC and are addressed in this decision:

- Load Forecast
- Operating, Maintenance & Administrative Expenses
- Payments in Lieu of Taxes
- Capital Expenditures and Rate Base
- Cost of Capital
- Cost Allocation and Rate Design
- Deferral and Variance Accounts
- Smart Meters

LOAD FORECAST

Atikokan based its load forecast on the 2004 Hydro One data for weather normalized average use and Atikokan's forecast of customer numbers for 2008. Board staff submitted that Atikokan's forecast is likely somewhat higher as a result of using a single year of weather normalized data rather than a forecast that incorporates weather normalized data from 2002 to 2006. VECC concurred but concluded that it is not clear that a better alternative method exists in the short term.

The forecast of customer numbers was based on the trend in customer reductions in 2002-2006. The forecast shows 1.1% annual reduction between 2006 and 2008 compared to 1.0% reduction over the period 2002-2006. Board staff concluded that the forecast was consistent with the input data used. VECC submitted that the number of residential customers in 2008 should be increased.

With respect to the resulting load forecast, it was noted that the loss of the one large customer in the GS 3000-4999 kW class in 2007 had a substantial impact on the resulting kWh load. The data were adjusted for this impact.

Board Findings

The Board accepts Atikokan's load forecast. The Board finds that the use of utility-specific weather normalized average use data, albeit from only one year, is a better method than using the province-wide weather normalized data for a longer period.

OPERATING, MAINTENANCE & ADMINISTRATIVE ("OM&A") EXPENSES

The following table is derived from Board staff's submission and sets out amounts contained in Atikokan's evidence and confirmed by Atikokan to be accurate:

Table 1: Controllable OM&A Expenses

	2006 Board Approved	2006 Actual	2007 Bridge	2008 Test
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**

The test year total controllable OM&A expenses (Operations, Maintenance, Billing & Collection and Administration & General Expenses) forecast is $798,045, an increase of 22%, or $143,369, from 2006 actual spending. Controllable OM&A expense in 2007 was 16% higher than the 2006 actual. The forecast increase from 2007 to 2008 is 5%.

Board staff and intervenors highlighted three main areas of concern with the increases including outside services employed, regulatory expenses, and employee compensation.

Outside Services Employed

In its reply submission, Atikokan requested a 2008 test year recovery amount of $106,935 for outside services employed. Atikokan noted that this amount included $52,340 for regulatory and rates consulting relating to the preparation and support process for the 2008 cost-of-service ("COS") application, which is further discussed under regulatory costs, and the remainder of $54,595 being costs for other outside services.

Atikokan also stated that the proposed recovery was higher than the level contained in its application, as it had significantly understated the 2008 amount of recovery required for these costs and, accordingly, would appreciate it if the Board would consider adjusting upwards the allowed recovery for outside services contained in Account 5630. The requested 2008 recovery of $106,935 was $41,915 higher than the amount contained in its application of $65,020. The majority of this increase was related to costs incurred for the preparation of the 2008 COS application with only $9,037 of the increase due to outside service costs not related to the COS application.

Regulatory Costs

Atikokan claimed $14,000 for ongoing non-2008 COS application related costs and $96,587 to prepare and support the review process of the 2008 COS application. This included costs incurred in 2007 and 2008 of $44,247 and $52,340 respectively. Furthermore, the Applicant noted that it expected another $10,000 to be incurred in 2008 to complete the review process of the 2008 COS application, which is not included in the proposed 2008 recovery of $52,340. In response to Board staff interrogatory #1, Atikokan noted that all regulatory costs appear to be ongoing in nature.

In its submission, Board staff invited the Applicant to explain why all 2008 test year regulatory costs are classified as on-going in nature, as well as why it does not believe that the costs of preparing the 2008 COS application would be one-time in nature.

VECC stated in its submission that without further clarification the Board should reduce total 2008 Regulatory Expenses and Outside Services costs by at least $20,000.

In its reply submission, Atikokan noted that other regulatory costs will replace the cost of preparing the 2008 application. These include the preparation of the long term business plan, the preparation of a smart meter application or the preparation of a 3rd generation rate application using the capital adder feature. As a result, all regulatory costs are considered ongoing in nature.

Board Findings

Outside services Employed

Outside services do not include expenses related to regulatory costs, which are dealt with below.

It is clear that the Applicant faces challenges related to its ability to file a rate application that contains a well considered and confidently accurate proposal. As a result, portions of its claim were not finalized until the reply submission stage. This circumstance is very problematic from the Board's point of view. It results in proposals that have not been considered, let alone genuinely tested by any of the parties. In this case, an additional

$9,000 emerged as part of the Applicant's proposal with respect to the outside services category of expense.

The Board will approve the amount of $54,595, which includes an increase of $9,037 over that which was originally requested.

Regulatory Costs

The Applicant asserts that it expects to be engaged in cost of service applications in 2009 or 2010, related to smart meter activities. This approach is not consistent with the Board's rate plan, and the Board does not anticipate that the Applicant will be obliged to file cost of service applications before 2011.

Accordingly it is appropriate to reduce the Applicant's claim of $106,587 by two thirds. The Board will approve regulatory costs associated with the 2008 application in the amount of $35,529. On the expectation that the 2008 approved revenue requirement will remain in place for three years, the Applicant will have recovered the full amount by the time it re-bases in 2011. The Applicant should provide specific information that this reduction has occurred in the draft Rate Order it files.

The Applicant included an additional $14,000 in this category of costs to cover ongoing regulatory requirements during the incentive rate mechanism. While the Applicant did not provide explicit support for this additional amount, the Board is concerned that the Applicant not be unnaturally restrained from making continuous improvement in its ability to meet the regulatory requirements imposed by the Board, and other regulators. The Board will approve $14,000 for ongoing regulatory costs. In making this award the Board expects the Applicant to be able to demonstrate at the time of its next rate proceeding that it has the ability to complete all of its filings including its rate applications in a manner that is consistent with good utility practice and competent management. The Board expects the Applicant to improve its ability to prepare rate applications and make a transition to meeting its regulatory requirement responsibilities in a more cost effective manner.

Employee Costs

Atikokan stated that in 2006 it had one executive employee and seven unionized FTEs, generating total compensation costs of $549,796. For the 2008 test year, a drop of one unionized FTE from the 2006 actual level was anticipated, along with an overall increase in cost recovery to $557,680, or 1.4%, relative to the 2006 actual level. Atikokan identified two main cost drivers of this increase: an annual union rate increase of 3% and additional overtime costs of 10%.

VECC, in its reply argument, stated that while compensation per FTE has increased substantially, more than half the increase is due to overtime costs. VECC further noted that in 2007 the staff complement was reduced by one. VECC stated that overall, it had no submissions regarding compensation costs.

In its submission, Board staff noted that the evidence filed on total compensation costs versus the evidence filed on the split of total compensation costs between that charged to OM&A and the amounts capitalized was not consistent. Staff included two tables derived from Atikokan's evidence to demonstrate this inconsistency, which contained significantly different compensation numbers.

In its reply submission, Atikokan stated that the differential between the amounts was due to the fact that employee benefits, director costs and costs assigned to Atikokan Enercom were not included in one of the tables which provided the breakdown of compensation costs between those capitalized and charged to OM&A.

However, the Applicant did not indicate where these remaining labour costs were charged.

Board Findings

In this, as in several other elements of the application, the Applicant's evidence appeared to be internally inconsistent and could not be definitively reconciled. The Applicant must improve its abilities in this area materially.

In recognition of this Atikokan has indicated that it intends to improve its filings in the future and to put appropriate checks and balances in place to ensure that the subsequent applications and Board filings are more confidently and competently effected.

In consideration of all the evidence, including this undertaking, the Board is prepared to accept the Applicant's proposal with respect to employee costs.

PAYMENTS IN LIEU OF TAXES (PILs)

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.

Board Findings

While the Applicant's decision to forego a claim for PILS expense, given the effect of the loss carry forward in the test year is understandable, the Board is mindful that such losses may not be available in subsequent years. It is expected that rate adjustments for the next few years will be set using an incentive rate mechanism. If no allowance is made for PILS expense in the test year, rates in subsequent years will not reflect an adequate provision for this category of expense.

Accordingly, the Board will allow a provision for PILS in the test year revenue requirement, as if the loss carry forward were not applied to the test year taxable income calculation. The Board directs the Applicant to file all relevant calculations with respect to the PILs provision and submit them with its Draft Rate Order.

CAPITAL EXPENDITURES AND RATE BASE

Capital Expenditures

Atikokan's application requests a large increase in capital expenditures for 2008. The amount sought is $482,400, excluding Smart Meters, as is shown in the following table.

Table 2: Capital Expenditures by Year

	2002	2003	2004	2005	2006	2007 Bridge	2008 Test
Capital expenditures (excluding smart meters)	$106,994	$85,206	$212,120	$225,759	$238,861	$130,560	$482,400
% change from previous year		-20.4%	148.9%	6.4%	5.8%	-45.3%	269.5%

Based on Atikokan's application, the major driver for the large increase in 2008 expenditure (+269.5% compared with 2007, and more than double any single previous year on record) is due to the need to acquire a new bucket truck and, associated with this acquisition, to upgrade garage facilities.

There were some inconsistencies identified by Board staff in Atikokan's application and interrogatory responses. In its reply submission Atikokan identified that the correct number for 2008 capital expenditures was $486,682 or $482,400 (when smart meters are excluded) as indicated in the response to Board staff interrogatory #20b.

Atikokan explained in its reply submission that it had incorrectly included $143,662, which is only that part of the capital which would be provided through operating cash. The difference between $486,682 and $143,662, equal to $343,020 is the amount of 2008 capital expenditures to be met by raising of debt. This is confirmed in Atikokan's reply submission, in the last paragraph at page 12, under "Cost of Capital", where Atikokan identifies new third party debt of $343,020 being negotiated to finance the new truck and garage facilities.

VECC submitted that Atikokan had explained the need for the new truck and the expanded equipment storage facilities.

Board Findings

As noted above, this is another instance where material changes appeared in the reply submission of the Applicant resulting in inconsistent evidence being filed with the Board. These types of anomalies must be addressed in advance of future filings with the Board.

As the material above demonstrates, the capital spending practice of Atikokan has been characterized by significant fluctuations from year to year. This phenomenon appears to be a consequence of the uncertainty surrounding Atikokan's financial performance over this period. In a number of cases, the Board has considered the historic spending patterns as a key indicator of the reasonableness of the Applicant's current spending proposal. In this case, historic spending is evidence of a measure of financial uncertainty, and cannot be relied upon as a reasonable guide for the consideration of the Applicant's proposal.

The extraordinary increase applied for is, in the Board's view, supported by the Applicant's evidence. The Board notes that the intervenor in this case also takes this view. The addition of the new truck and the associated facilities appears to be a reasonable step in the Applicant's effort to maintain an appropriate level of service for its customers.

Rate Base

VECC noted several discrepancies in Atikokan's rate base as stated in the application and in response to various interrogatories. VECC noted that the original application stated a rate base of $2,965,972.30, while the amount used in the determination of rates, provided in response to VECC interrogatory #4 j), is $2,745,532. VECC pointed out that the difference between these two figures is not the $211,640 which is the difference documented by Atikokan in its response to Board staff interrogatory #26.

VECC stated that there were other inconsistencies in the depreciation expense, and requested that Atikokan clarify the appropriate numbers in its reply.

In its reply submission, Atikokan stated that the rate base value used in the response to VECC interrogatory 4 j) should be $2,754,332 and that this value was used to determine the revenue requirement and proposed rates but that this amount is $211,640 lower than it should be. Atikokan stated that the correct rate base amount should be $2,965,972. The corrected depreciation expense for 2008 should be $169,736 as documented in Exh 9 / Tab 1 / Sch 1. The correct opening and closing balances for net fixed assets are, respectively, $2,242,304 and $2,483,926, as documented in Exh 2 / Tab 1 / Sch 2.

Board Findings

The Board accepts the Applicant's proposal with respect to rate base, as amended in its reply submission with the observation that the Applicant needs to improve its understanding of the appropriate method to determine rate base. Elsewhere in this decision the Board has approved funds related to regulatory costs, and it is the Board's expectation that such funding will result in considerably improved filings in the future.

Working Capital

In its submission, VECC noted that the Applicant had used a cost of power of $57.04/MWh, based on the April 2007 Navigant study for the Regulated Price Plan ("RPP") in calculating the Working Capital Allowance ("WCA") instead of the most current (at the time of filing) forecast of $54/MWh available from the Navigant study.

VECC also noted that Atikokan included retail transmission costs that did not reflect recent Board-approved Retail Transmission Rate reductions in the derivation of the WCA.

VECC did agree with Atikokan's proposal that the usage volume used for determining the cost of power should be lowered to reflect the recent loss of Atikokan's Intermediate customer.

Atikokan did not respond to these matters in its reply submission.

Board Findings

The Board concludes that the most accurate data should be used in the calculation of working capital. For this reason, the Board directs Atikokan to update the cost of power to reflect the price contained in the April 2008 RPP price report, $0.0545/kWh. Atikokan is also directed to recalculate its working capital allowance to reflect current Board-approved retail transmission rates. (This adjustment is further described below in the section Retail Transmission Rates.)

The Board accepts the Applicant's evidence with respect to the loss of the intermediate customer, and authorizes it to reflect this adjustment in the load component of this calculation.

In accordance with other findings and directions from the Board elsewhere in this Decision, Atikokan is directed to recalculate its working capital allowance to also reflect changes in approved operating expenses.

Reliability Performance

Board staff identified numerous problems with Atikokan's service reliability data. In addition, staff pointed out that the service reliability figures for 2007 do not fall within the bounds of the previous three years. VECC supported Board staff's concerns, stating that "there is a lack of a consistent picture with respect to [Atikokan's] service reliability performance." Atikokan responded that it was not possible, in the past, to separate out the influence of service interruptions in Hydro One's supply, but since 2007 Atikokan has been implementing a process improvement which will measure indices with and without supply outages.

Atikokan asserts, in its reply submission, that the 2007 figures available appear to indicate that reliability is within guidelines, and that more years of data should be collected under the new method before steps are taken to improve the targets.

Board Findings

From the information provided, the Board does not have a sense of how the Applicant is performing in regards to maintaining customer service reliability. It is not clear on what basis the Applicant asserts that the data obtained in 2007 and which excludes the upstream outages, is within guidelines, given that guidelines are established on the basis of historical data which includes upstream outages.

The Board is concerned that reliability has not been used by the Applicant as a tool for driving improved performance. For example, it does not seem to have a role in determining where investment in assets should be made. Nor does it seem to have played a role in examining generic or area specific problems. The reliability measures should be an active tool for maintaining and improving performance going forward.

The Board concurs that more years of data are required before there is an adequate dataset to use as a standard for the future. However, the Board expects that, in its next rate application, Atikokan should provide updated data and some indication of how they have reviewed and plan to use the data as part of an appropriate program to ensure good monitoring of the historical performance, and how that measurement will contribute to the Asset Management Plan discussed below.

Assessment of Asset Condition and Asset Management Plan

In response to Board staff interrogatory #20 c), Atikokan stated that it "… does not have a long term Capital Project or Asset Management Plan. However, once the 2008 rate application process is complete Atikokan has committed to the Ontario Energy Board to complete a long term business plan which will include a long term Capital plan."

In its submission, Board staff suggested that 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 under which Atikokan operates. Board staff further observed that "any suitable Asset Management Plan should support the proposed rate base and proposed capital and operating expenditures." Board staff did acknowledge that, based on its relatively small size, Atikokan might not warrant implementing an expensive Asset Management Plan as might be employed by a larger distributor.

VECC expressed surprise in its submission that Atikokan has indicated that the utility "had no long term Capital or Asset Management Plan nor an Asset Condition Assessment", given that Atikokan has also stated, in its application, that "rebuild and conversion projects are planned within a three-year time."

The Applicant stated, in its reply submission, that it "maintains its distribution plant according to a thorough assessment that uses a combination of time based and condition based methodology. This assessment is completed each year by Atikokan staff walking the system and observing which assets will need attention in the upcoming year. In addition, any major rebuild and conversion projects are planned within a three-year time to ensure project is completed within three years." Atikokan stated its view that this did not constitute a full Asset Management Plan as has been completed by other distributors.

Atikokan further stated that it would not be prudent for Atikokan to implement an expensive Asset Management Plan as might be employed by a larger distributor. It reiterated its commitment to develop a long-term business plan which would include a long-term capital plan. It suggested that, in developing its plan, it "should once again conduct a thorough assessment of the assets that uses a combination of time based and condition based methodology." The plan would also take into account Atikokan's circumstances. Atikokan submitted that this "would constitute an acceptable Asset Management Plan … for a distributor the size of Atikokan."

Board Findings

The Board concurs with the Applicant that it would not be prudent for Atikokan to implement an expensive Asset Management Plan as might be done by a larger organization, but the Board also believes that an appropriate integrated plan is called for. The Board would expect that such a plan would integrate a suitable and methodical asset condition assessment, would include observations of reality such as assessments by experienced staff, and also make use of technical indicators of performance such as reliability, all of which would be used as a basis for establishing and justifying programs for investment in the coming period, as well as for evaluating the effectiveness of programs already undertaken, thereby "closing the loop". The Board expects that as part of its next rate application that Atikokan will provide evidence of such a systematic process of review of the condition of its assets, drawing conclusions for future planning.

COST OF CAPITAL

The Board's guidelines for the cost of capital are set out in its *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors* (the "Board Report"). The Board Report sets out the formulas and policy guidelines to be used to determine the return on equity and the deemed costs of long term and short term debt and sets out the process by which these figures will be updated.

In its original application, Atikokan used a deemed capital structure of 53.33% debt (49.33% long-term debt and 4.00% short-term debt) and 46.67% equity. It initially used a forecasted long-term debt rate of 6.00%, a forecasted short-term debt rate of 4.77% and an ROE of 8.68%. Atikokan illustrated the derived weighted average cost of capital ("WACC") of 7.20% in Exhibit 6 of its application.

In its response to Board staff interrogatories #27 b) and #28 b), Atikokan acknowledged that the short-term debt rate and ROE would be updated in accordance with the methodologies documented in the Board Report based on January 2008 data from Consensus Forecasts and the Bank of Canada. The Board announced updated cost of capital parameters on March 7, 2008.

As noted above, Atikokan initially proposed a long-term debt rate of 6.00% pertaining to long-term debt owed to the municipal shareholder. However, Board staff and VECC questioned this rate as it showed that the rate of the affiliated debt owed to the municipality was 5.00%. In reply to Board staff interrogatory #29, Atikokan corrected the rate to 5.00%.

Board staff and VECC agreed that the 5.00% long-term debt rate was compliant with the policies in the Board Report and appropriate for setting Atikokan's revenue requirement and rates.

As mentioned in the Capital Expenditures section of this Decision, Atikokan stated in its reply submission that it expects to raise new debt to finance its purchase of a new bucket truck and new garage facilities amounting to $343,020. Atikokan stated that discussions with its bank indicated that the expected interest rate for this new debt will be prime plus 1%, giving an expected interest rate on this new debt of 5.75%. Atikokan therefore proposed that the 2008 forecasted debt rate be changed to 5.15%, which is a weighted average of the existing municipal debt at 5.00% and the new forecasted debt of 5.75%.

In its 2006 EDR rates application, Atikokan had noted that it had negotiated a "payment holiday" on the principal and interest owed to the municipal shareholder due to financial constraints. In its response to Board staff interrogatory #29 b), the Applicant confirmed that it was still under the payment holiday. In the interrogatory, Board staff had noted that the details of Atikokan's debt, by year, shown in Exh 6 / Tab 1 / Sch 3, show the principal and interest increasing over time. In the interrogatory response, Atikokan stated that "[t]he increase in debt is probably due to the inclusion of the loans for mobile equipment in the reporting."

In its submission, Board staff expressed concern that, based on this evidence, "the Applicant may find itself facing loan repayment charges well in excess of the deemed interest expense allowed for in rates." VECC supported this view, stating that it "is surprised and concerned that [Atikokan] is unable to fully explain the reason for the steady increase in the amount owing to its shareholder … particularly in view of its current financial situation."

Board Findings

In this, as in so many other elements of this application, the Applicant materially changed its evidence in its reply submission, denying the Board the benefit of a review of the evidence by the intervenor and Board staff.

The Board is prepared to accept the Applicant's proposal to set the long-term debt rate at 5.15%, representing a weighted average between the existing debt to the municipality and the anticipated debt to be held by a financial institution. The Board has concerns respecting the accumulation of debt load by Atikokan, and the effect that any repayment may have on its ability to maintain its plant appropriately and to continue to provide service to its customers safely and reliably.

The table below sets out the Board's updated costs for the various components of the capital structure, which reflects the Board's recently published cost of capital parameters. Atikokan's weighted average cost of capital for 2008 is 6.72%.

Board-approved 2008 Capital Structure and Cost of Capital

Capital Component	% of Total Capital Structure	Cost (%)
Short-Term Debt	4.0	4.47%
Long-Term Debt	49.3	5.15%
Equity	46.7	8.57%
Preference Shares	-	
Total	**100.0**	**6.72%**

COST ALLOCATION AND RATE DESIGN

The following issues are addressed in this section:

- Line Losses
- Customer Classes
- Revenue to Cost Ratios
- Fixed/Variable Split & Monthly Service Charge
- Retail Transmission Service Rates

Line Losses

Atikokan is seeking approval for a total loss factor ("TLF") of 1.0753. Since their transmission assets are considered a part of their distribution system, TLF is also the distribution loss factor ("DLF"), i.e. the supply facilities loss factor ("SFLF") is 1.0. The proposed DLF for 2008 is based on an averaging of actual DLFs for the 5-yr period 2002 to 2006.

In its submission, Board staff noted that in its response to interrogatory #50, Atikokan stated that there are no steps contemplated to reduce its distribution losses. In its reply submission, Atikokan has reasserted its earlier position and rationalized it on the basis that its distribution system is loaded to less than 50% of its capacity and hence it is not possible to make a business case to rebuild the system to a higher voltage that would provide lower losses.

Board Findings

The Board approves a TLF of 1.0753. However, the Board does note that a system rebuild to a higher voltage is not the only opportunity to lower system losses. The routine end of life replacement of distribution transformers is another example of an opportunity the Applicant has to ensure it is improving system efficiency. The Board expects the Applicant to consider economic analysis that includes loss calculations when replacing any of its key current carrying infrastructure components.

Customer Classes

Atikokan has applied for approval of distribution rates for a single class of General Service customers with billing demand above 50 kW, whereas it currently has approved rates for two classes, 50 – 2499 kW and 2500 – 4999 kW. There is no longer any customer in the latter size category. Atikokan is not applying for distribution rates for the latter class. The remaining class is referred to by various names in the application, one being “GS > 50 – Regular”.

Board staff submitted that the new tariff should refer to the class as General Service > 50 kW. The implication is that a customer could be served under the rates to be approved even if its demand was larger than 2499 kW.

Board Findings

The Board approves the application, and directs that the customer class will not limit the eligibility to a ceiling of 2499 kW. The Board expects that Atikokan will inform the Board in future applications if it regains customers in this size range, and may submit evidence on whether this single customer classification remains suitable.

Revenue to Cost Ratios

Atikokan submitted a modified version of the Informational Filing, in which ratios are calculated for all remaining classes allowing for the absence of the Intermediate class which had previously provided approximately 9% of its revenue. The modified rates are shown in the following table in column 1. For convenience, the Board’s target ranges are shown in column 2, based on the Board report “Application of Cost Allocation for Electricity Distributors”, November 28, 2007.

Atikokan had applied to increase all of its distribution rates by a uniform percentage, so (in the absence of updated cost allocation results) the ratios that result from the proposed rates are the same as those in column 1.

Table 3: Atikokan Revenue to Cost Ratios

	Revenue to Cost Ratios	**Target Range**
Customer Class	Col 1 (%)	Col 2 (%)
Residential	125.1	85 – 115
GS < 50 kW	107.7	80 – 120
GS > 50 kW	22.8	80 – 180
Street Lights	22.8	70 – 120
Sentinel Lights	12.0	70 – 120
Unmetered Scattered Load	15.3	80 – 120

VECC submitted that the ratio for the Residential class is 10% above the target range, and suggests that at least 3% of the revenue proposed by Atikokan should be re-assigned to the four classes with ratios below 100%. Of these, VECC noted that the ratios for Sentinel Lights and USL are lower than the former two, and as a result the re-balancing should be proportionally more from the latter.

Atikokan submitted that increasing the bills of customers in the GW > 50 kW class may create economic pressure on these customers and could produce more layoffs.

<u>Board Findings</u>

The Board recently conducted a lengthy consultative exercise on cost allocation that culminated in a Board report entitled *Application of Cost Allocation for Electricity Distributors*. The report articulates the Board's policy position on cost allocation and reiterates the Board's support of a central tenet of rate making. That being; the allocation of revenue requirements should be aligned with the allocation of costs. Said differently; a customer's financial payments for the use of the electrical distribution system should be based on the costs they cause, (cost causality). The report provides the supporting rationale for taking a measured migration approach to correct for existing cost allocation inequities.

Therefore, the Board directs the Applicant 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. The Applicant is also directed to ensure that the increased revenue has the primary effect of decreasing the revenue requirement of the Residential class.

Fixed/Variable Split and Monthly Service Charge

Atikokan has proposed to increase all distribution rates by the same percentage, which results in the relative proportions of fixed and variable revenue staying constant for each class. Board staff noted that the charges approved in 2006 were above the ceiling amounts for three classes: Residential, GS < 50 kW, and USL. Staff submitted that the charges should be held at their current approved amounts. VECC submitted that the charge for Residential should be held at its current amount, which (net of the Smart Meter adder) is $26.93.

Atikokan submitted that the Board report does not establish a ceiling, and that a ceiling has not been imposed in other re-basing applications.

Board Findings

The Board accepts 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.

Retail Transmission Service Rates

Atikokan is directly connected to the Hydro One transmission grid. In its application, Atikokan proposed for each rate class a decrease of approximately 20% in its Retail Transmission Rate – Network Service ("RTR-N"), and an increase of approximately 18% in its Retail Transmission Rate – Line and Transformation Connection Service ("RTR-C").

As Atikokan is directly connected to the Hydro One transmission grid, its wholesale cost of transmission service will be affected by the changes approved in November 2007 in the wholesale transmission rates comprising a reduction of approximately 18% for the network rate, a reduction of approximately 28% for the line connection rate and an increase of approximately 7% for the transformation connection rate. In response to Board staff interrogatory #48, Atikokan stated that it is only charged for transformation connection services as line connection services are not needed from Hydro One to service Atikokan.

In its reply submission, Atikokan stated that an analysis of costs and revenues associated with retail transmission service revealed that their transmission network costs were 2.1% lower than revenues prior to November 2007. They justified their approximately 20% decrease in the RTR-N by coupling the 2.1% cost/revenue disparity with the 18.4% decrease in the wholesale network rate. Atikokan also stated that their transmission connection costs were 10.1% higher than revenue for the same time period. They justified their approximately 18% increase in the RTR-C by coupling the 10.1% cost/revenue disparity with the 7.33% increase in the wholesale transformation connection rate.

Board Findings

The Board finds that Atikokan's proposal is acceptable.

DEFERRAL AND VARIANCE ACCOUNTS

As noted in Board staff's submission, the Applicant withdrew its request to seek recovery of any deferral and variance account balances, in a communication to the Board subsequent to Atikokan's original application.

VECC did not express concerns regarding the Applicant's withdrawal of its request to seek recovery of any deferral and variance account balances, except for account 1508 and account 1555. These concerns are noted below.

In its reply submission, the Applicant confirmed that it is not seeking recovery of most deferral and variance account balances. However, the Applicant agreed with Board Staff and VECC to seek disposition of 1508 in its reply submission.

Accounts 1518, 1548, 1580, 1584, 1586, 1588

The Applicant withdrew its request to dispose of these accounts including account 1588, RSVA Power. Board staff noted in its submission that this account (1588) is part of the Board's ongoing "Bill 23" process. The Board has recently announced (by letter dated February 19, 2008) that it intends to launch an initiative for the review and disposition of Account 1588 and that it will consider the use of "disposition triggers". In this letter, the Board also indicated it will consider whether to extend this initiative to all of the RSVA and RCVA accounts.

Atikokan did not directly respond to concerns raised by Board staff in regards to this initiative.

Board Findings

The Board is of the view that it is appropriate to defer the disposition of the RCVA and RSVA accounts until the completion of the announced generic review of these accounts. Accordingly, the Board finds it appropriate for Atikokan to withdraw its request to dispose of these accounts.

Account 1508

Board staff noted that the Applicant had requested disposition of a debit balance of $70,091 in account 1508 in its original application, but subsequently withdrew this request. This amount represents the balances in sub-account OEB Cost Assessments and sub-account OMERS Pension Contributions for the period up to April 30, 2006. Board staff noted that this account was closed after the 2006 EDR proceeding.

Board staff questioned 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 ratepayers that incurred them).

VECC agreed with Board staff's comments regarding this account and did not object to Atikokan clearing this account at this time, subject to the Board's CRA confirming the balance in this account. VECC noted that not only are there intergenerational issues, but given Atikokan's financial position, it would be prudent to clear such balances where possible.

Atikokan agreed with Board Staff and VECC on this issue in its reply submission. Atikokan stated that it will include the recovery of account 1508 in 2008 rates if so directed by the Board.

Board Findings

The Board does not find it appropriate Atikokan to withdraw the request to dispose of 1508 due to the intergenerational issues of clearing regulatory assets long after the event that created the asset has occurred. Therefore the Board directs the Atikokan to include in its rate order a rate rider and supporting rate schedules to clear the balance in account 1508 over a one year period.

Account 1555

Board staff noted that the Applicant had requested disposition of a credit balance of ($3,868) in account 1555 in its original application, but subsequently withdrew this request. Board staff noted 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 been authorized to proceed with the installation of smart meters and has not started installing smart meters, Board staff noted that it was questionable whether the Applicant should return this funding to ratepayers at this time.

VECC agreed with Board staff and noted that Atikokan should not return the balance in account 1555 to customers at this time, based on the assumption that Atikokan will eventually be authorized to proceed with smart meter installations.

Atikokan did not comment specifically on account 1555 in its reply submission, however, it is included in the general request to withdraw its application regarding clearance of this account.

Board Findings

The Board finds it is appropriate for Atikokan to withdraw the request to dispose of 1555.

SMART METERS

Atikokan is not one of the 13 distributors currently authorized by the Government to undertake smart meter activities and is not named in the combined smart meter proceeding, EB-2007-0063. Atikokan does not intend to install smart meters until authorized to do so. In this application, Atikokan is proposing to retain the existing approved smart meter rate adder of $0.25 per month per metered customer, and has stated that no costs associated with smart meters are included in its application. However, the Applicant, in its reply submission, stated that it is seeking approval to record expenditures of $540 in 2006 and $4,282 in 2007 in the smart meter deferral/variance account 1555.

VECC supported Atikokan's proposal to continue with the existing smart meter rate adder.

Board Findings

The Board notes that guidance has already been provided on recording amounts in account 1555. When the Applicant applies, in a future application, for disposition of the balance in the account, cost records will be subject to a prudence review for their reasonableness. The Applicant should be prepared to support any costs that it has recorded in the account as part of its request for disposition of the account balance.

The Board approves the continuation of the smart meter rate adder of $0.25 per month per metered customer.

IMPLEMENTATION

The Board has made findings in this Decision which change the revenue deficiency and change the deferral and variance account balances for disposition, and therefore the proposed 2008 distribution rates. These are to be reflected in a Draft Rate Order prepared by Atikokan. This Draft Rate Order is to be developed assuming an effective date of May 1, 2008, but the Board will not implement new rates on May 1, 2008. As Atikokan was late in filing its application, the Board has determined that an effective date as of June 1, 2008 is appropriate in the circumstances of the case. The revised rates will be implemented October 1, 2008. As a result of this approval, there is a period of time starting on June 1, 2008 and ending on September 30, 2008 that Atikokan will have charged customers according to its currently approved rates rather than the Board approved 2008 rates. In order to recover this foregone distribution revenue, the Board is prepared to accept the implementation of a rate rider or rate riders to be in effect until April 30, 2009.

In filing its Draft Rate Order, it is the Board's expectation that Atikokan will not use a calculation of the revised revenue deficiency to reconcile the new distribution rates with the Board's findings in this Decision. Rather, the Board expects Atikokan to file detailed supporting material, including all relevant calculations showing the impact of this Decision on Atikokan's proposed revenue requirement, the allocation of the approved revenue requirement to the classes and the determination of the final rates. Atikokan should also show detailed calculations of the revised retail transmission rates and variance account rate riders reflecting this Decision.

A Rate Order and a separate cost awards decision will be issued after the processes set out below are completed.

THE BOARD DIRECTS THAT:

1. Atikokan shall file with the Board, and shall also forward to VECC and Schools, a Draft Rate Order attaching a proposed Tariff of Rates and Charges reflecting the Board's findings in this Decision, within 14 days of the date of this Decision. The Draft Rate Order shall also include customer rate impacts and detailed supporting information showing the calculation of the final rates.

2. Atikokan shall file with the Board as part of its Draft Rate Order, the draft rate riders(s) it proposes, and supporting materials to justify the rate rider(s) and satisfy the Board that the revenues received would adequately recover the foregone revenues for the period between June 1, 2008 and September 30, 2008.

3. VECC and Schools shall file any comments on the Draft Rate Order with the Board and forward to Atikokan within 20 days of the date of this Decision.

4. VECC and Schools shall file with the Board and forward to Atikokan their respective cost claims within 26 days from the date of this Decision.

5. Atikokan shall file with the Board and forward to VECC and Schools responses to any comments on its Draft Rate Order within 26 days of the date of this Decision.

6. Atikokan shall file with the Board and forward VECC and Schools any objections to the claimed costs within 40 days from the date of this Decision.

7. VECC and Schools shall file with the Board and forward to Atikokan any responses to any objections for cost claims within 47 days of the date of this Decision.

8. Atikokan shall pay the Board's costs incidental to this proceeding upon receipt of the Board's invoice.

DATED at Toronto, August 21, 2008

ONTARIO ENERGY BOARD

Original signed by

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Paul Sommerville
Presiding Member

Original signed by

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Ken Quesnelle
Member