Ontario Energy Board

Commission de l'énergie de l'Ontario

Ontario

EB-2013-0130

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 Fort Frances Power Corporation for an order approving just and reasonable rates and other charges for electricity distribution to be effective May 1, 2014.

BEFORE: Cathy Spoel
Presiding Member

Marika Hare
Member

DECISION AND ORDER
August 14, 2014

Fort Frances Power Corporation ("FFPC") filed a complete cost of service application with the Ontario Energy Board (the "Board") on February 14, 2014 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 FFPC charges for electricity distribution, to be effective May 1, 2014. The Board issued a Notice of Application and Hearing dated February 25, 2014*.*

On March 20, 2014, the Board issued Procedural Order No. 1 and Order for Interim Rates granting requests for intervenor status and cost award eligibility to the Vulnerable Energy Consumers Coalition ("VECC") and making FFPC's current approved rates interim effective May 1, 2014 pending the outcome of this proceeding. .

The Board held a written hearing preceded by interrogatories and a non-transcribed teleconference among the parties to allow for the clarification of interrogatory responses.

The following issues are addressed below in considering FFPC's application:

- Effective Date for Rates;
- Foundational Issues
- Performance
- Operating Revenue (Customer Forecast, Load Forecast and Other Distribution Revenue);
- Operating, Maintenance & Administration Expenses;
- Depreciation;
- Rate Base and Capital Expenditures;
- Cost of Capital and Financial Performance;
- Cost Allocation and Rate Design (Cost Allocation, Monthly Service Charges and Specific Service Charges);
- Deferral and Variance Accounts; and
- Implementation.

Unless specifically addressed in this Decision and Order, the Board finds that the evidence filed by FFPC on the issues in this proceeding is sufficient to support the application.

EFFECTIVE DATE FOR RATES

FFPC applied for rates effective May 1, 2014. In Procedural Order No. 1, the Board declared FFPC's current rates interim effective May 1, 2014.

Board staff submitted that an effective date of July 1, 2014 would be appropriate as a complete version of FFPC's application was not filed with the Board until February 14, 2014 which was a delay of four and a half months from the filing date of October 1, 2013. However, Board staff also noted that subsequent to the filing of the application, FFPC filed all materials by the dates set out in the Board's Procedural Orders.

VECC agreed with Board staff that based on the late filing date the requested effective date of May 1, 2014 should not be granted. VECC submitted that rates should be declared on a forward basis subsequent to the issuance of the Board's final rate order.

FFPC agreed with Board staff's submission that an effective date for rates of July 1, 2014 would be appropriate.

The Board finds that a September 1, 2014 effective and implementation date is appropriate given the delay in filing the application, the standard time required for the Board to process a cost of service application (185 days) and the timing of the Board's Decision and Order. Under these circumstances, the Board finds that the first day of the month after the issuance of the Board's final rate order, September 1, 2014, is an appropriate effective date and is consistent with a number of previous decisions.

FOUNDATIONAL ISSUES

FFPC stated that it had organized its Distribution System Plan ("DSP") according to the expected format contained within the March 28, 2013 "Chapter 5 Consolidated Distribution System Plan Filing Requirements Guide".

FFPC stated that it is dedicated to providing services in a manner that responds to customer preferences and that during the summer of 2013, it had conducted an extensive customer satisfaction survey that was instrumental in gauging satisfaction, identifying improvement opportunities and assessing future customer needs.

FFPC further stated that the feedback gathered has helped it to shape its capital expenditures, and has allowed it to devote operational resources over the planning period to aligning service offerings with the needs of its customer base.

Board staff submitted that the planning undertaken by FFPC and outlined in the Application, as clarified by interrogatory and teleconference responses, supported the appropriate management of the applicant's assets, subject to the disallowances recommended by Board staff.

Board staff further submitted that the customer engagement activities undertaken by FFPC are commensurate with the approvals requested in the Application considering that 2014 is a transitional year. Board staff also argued that FFPC should obtain more specific customer feedback on its next DSP.

VECC submitted that while it was generally supportive of the customer engagement of FFPC, it considered that there were two deficiencies: The first was that as with most other utility surveys, no effort was made to engage customers as to the cost effectiveness of the utility. The second is that FFPC did not attempt to understand its customers' preferences or interests with respect to its capital budget.

The Board finds that FFPC has appropriately addressed the foundational issues raised by the application and its customers have been adequately engaged, given that 2014 is a transitional year. The Board agrees with Board staff and VECC that FFPC's next cost of service application should be based on customer engagement activities that will provide customers with more specific information as to the costs of its proposals.

PERFORMANCE

FFPC expressed its concern that its current performance scores derived from historic RRR reported OM&A cost data are flawed, as they include costs associated with the upkeep of the 1905 Historical Power Agreement (the "Agreement"), as well as costs associated with the upkeep and operation of a High Voltage Transformer Station, which prior to 2012 was improperly classified as a Distribution Station.

FFPC concluded that a fair assessment of its performance would be based upon its costs without the Agreement and the Transformation Station Costs or, alternatively, at the Total Bill level.

FFPC submitted that it was seeking in this proceeding an order directing Board staff and FFPC to work with the Pacific Economic Group ("PEG") to ensure that the calculations that support the scorecard and efficiency ratings for FFPC are adjusted to exclude capital and OM&A costs associated with the transformer station and the administration of the Agreement.

Board staff argued that most of the concerns expressed by FFPC either relate to costs that would have been incurred in the absence of FFPC's particular circumstances, or are already taken into account by the analysis used in determining the benchmarking categories. Accordingly, Board staff submitted that it was not necessary for the Board to provide the direction requested by FFPC upon this matter.

Board staff noted that FFPC's efficiency benchmarking performance is below average, but accepted that the beneficial effects of the Agreement offset this to some extent and considered that overall FFPC's performance supports the application.

VECC submitted that FFPC's service quality indicators are demonstrative of a well maintained utility. Where FFPC's benchmarking performance is concerned, VECC argued that as noted by Board staff, the costs related to FFPC's transformation station are a relatively small part of the overall costs of the utility and notwithstanding this fact, the FFPC benchmark performance is below average for its cohort. VECC concluded that this argued for a close examination of the proposed OM&A costs.

The Board understands that there may be some confusion as to the extent that the data sets used to determine FFPC's efficiency are appropriate. The Board directs FFPC and Board staff to work together to ensure that appropriate inputs are used for future benchmarking, if they have not already done so.

OPERATING REVENUE

Customer Forecast

FFPC forecast 4,754 customers and connections (including street lighting connections) for 2014. The forecast was derived from a review of historical customer/connection data which was used to determine growth with a geometric mean approach used to determine the 2013 and 2014 forecasts.

Board staff accepted FFPC's customer forecast. VECC submitted that the forecast customer counts by class for 2014 were reasonable, except that for the Streetlighting class, VECC submitted that the actual 2013 connection count of 1,030 should be used for 2014 in place of the forecast count of 1,006.

FFPC submitted that it is not appropriate to single out one customer class for adjustment in this way and that while using the 2013 number for Streetlighting connections happens to result in an expected decrease in rates, using the 2013 numbers for other classes will result in an expected increase in rates.

The Board approves FFPC's proposed customer forecast for 2014. The Board does not accept the adjustment proposed by VECC as it is selective and also unlikely to be material.

Load Forecast

FFPC developed its load forecast by using a multifactor regression model to determine the relationship between historic load with weather data and calendar related events.

FFPC made further adjustments to the 2014 forecast to account for the impact of Conservation and Demand Management ("CDM") activity totaling 1,148,562 kWh to the 2014 test year forecast which has been broken down by rate class. This is determined as one half of the savings from 2012 programs, a full year of savings from 2013 programs and a half year of savings from 2014 programs.

FFPC's proposed load forecast for 2014 is as follows:

Table 1: Load Forecast

Rate Class	kWh
Residential	37,751,518
GS < 50 kW	13,617,679
GS 50 to 4,999 kW	26,376,324
Street Lighting	366,947
Unmetered Scattered Load	48,552
TOTAL	**78,161,019**

VECC submitted that overall FFPC's purchased power forecast model was reasonable, but that the forecast variables for 2014 will need to be adjusted to reflect any changes approved by the Board in its 2014 forecast customer count. VECC also agreed with FFPC's CDM adjustment. Board staff also accepted FFPC's load forecast as reasonable.

The Board finds that FFPC's load forecast is appropriate. The Board notes that no party opposed the load forecast.

Other Distribution Revenue

FFPC forecast total other distribution revenue of $108,033 for 2014. FFPC also proposed the removal of unused specific service charges and a revision of some existing charges to recover current business costs.

VECC noted that FFPC's actual Other Revenues for 2013 were materially higher than FFPC's forecasts for both 2013 and 2014. VECC argued that while FFPC claimed that some of the difference could be attributed to one-time events such as Non-Utility Rental, there was Non-Utility Rental Income in each of the previous four years averaging $24,184 per year, whereas the forecast for 2014 is nil. VECC made a similar argument regarding Retail Service Revenues and submitted that it would accordingly be reasonable to increase the forecast for 2014 Other Revenues by at least $10,000 resulting in an Other Revenue Forecast for 2014 of $118,033.

Board staff noted that the proposed changes in FFPC's Other Revenues were well below its materiality threshold and accepted FFPC's evidence on this matter. Board staff also accepted the request by FFPC to remove the eight specific service charges and to increase six others, although Board staff did note that the eight charges which FFPC is requesting be removed are ones that normally appear on distributor tariffs.

FFPC submitted that its forecast Other Revenue is slightly reduced for 2014 relative to 2013 actuals to reflect realistic income levels as a result of minimal anticipated street lighting related maintenance work and customer capital projects.

The Board accepts FFPC's justification for the 2014 forecast level of Other Revenue and finds that no adjustment is necessary. The Board also accepts FFPC's proposed revisions to its specific service charges. The Board agrees that the reduction proposed by VECC to Other Revenue is well below FFPC's materiality threshold, as is the impact of the changes to FFPC's specific service charges.

OPERATIONS, MAINTENANCE & ADMINISTRATION ("OM&A")

FFPC's proposed 2014 OM&A of $1,657,650 represents a 3.3% increase over the actual 2012 OM&A and a 66% increase over the 2006 Board approved OM&A level.

Table 2: OM&A Expenses $

	2006 Board Approved	2011 Actuals	2012 Actuals	2013 Bridge Year	2014 Test Year
Operations	142,165	195,697	213,851	209,500	371,000
Maintenance	106,651	169,076	377,219	213,000	304,000
Billing & Collection	144,547	213,984	255,946	235,500	268,000
Community Relations	4,712	6.024	5,978	4,750	37,150
Administrative & General	603,271	717,211	751,977	763,500	677,500
Total	1,001,346	1,301,992	1,604,971	1,426,250	1,657,650
% Change		30.02	23.27	-11.14	16.22

VECC submitted that based on benchmarking FFPC is a high cost utility with OM&A costs per customer much higher than most Ontario electricity distributors. VECC argued that if FFPC's 2006 Board Approved OM&A were adjusted only for customer growth, inflation and incremental responsibilities it would be expected to increase by between $140,892 and $273,129, rather than the $656,304 increase proposed by FFPC. VECC submitted that while it had taken an envelope approach to its analysis, it submitted that there are areas in which OM&A savings might be achieved. VECC made a number of specific suggestions for reductions.

Board staff submitted that FFPC's proposed 2014 OM&A level should be accepted subject to a disallowance of $25,681 for proposed expenses related to the Long Term Load Transfer ("LTLT") capital project which Board staff submitted should not be approved by the Board. Board staff stated that while it did consider FFPC to be a high-cost utility FFPC's rate minimization strategy, characterized by a zero return on equity, has resulted in long term savings for ratepayers and, therefore Board staff is not recommending further OM&A reductions.

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

FFPC submitted that VECC's model for determining expected OM&A costs is entirely unworkable, as VECC's proposed 2014 OM&A allowance would have been barely adequate for FFPC in 2008. FFPC noted that even with the staffing increase allowance of $150,000 supported by VECC, the level of increase in FFPC's 2014 OM&A cost would be lower than its actual OM&A costs from 2012 forward, and would be significantly less than requirements demonstrated by the industry as a whole. FFPC argued that VECC's approach also did not take into consideration FFPC's adjustment of its business needs to align with the requirements of the RRFE and was a backward-looking analysis, while FFPC's is forward looking.

The Board finds that the level of OM&A proposed by FFPC in its application is appropriate subject to any adjustments that may arise from the Board's findings in the Rate Base and Capital Expenditures section of this Decision and Order. The Board will not disallow the $25,681 of proposed expenses related to the LTLT capital project proposed by Board staff as the Board is approving the LTLT project as discussed in the Rate Base and Capital Expenditures section of this Decision and Order.

The Board agrees with FFPC that the adjustments to its OM&A proposed by VECC are unrealistic and therefore inappropriate for FFPC to undertake. The Board also agrees with Board staff that FFPC's rate minimization strategy has resulted in long term savings for ratepayers which allows for somewhat higher OM&A than might otherwise be the case.

DEPRECIATION

FFPC proposed a depreciation/amortization expense of $197,074 in 2014. FFPC stated that it had filed under Canadian Generally Accepted Accounting Principles ("CGAAP") for 2014, but had adjusted depreciation in 2012 to a Modified International Financial Reporting Standards ("MIFRS") calculation.

FFPC further stated that through its contracted services to the Town of Fort Frances, it did not use the Board depreciation policy of the "half-year" rule. FFPC stated that it realized its approach of using a full year of depreciation deviated from standard practice and would implement the half year rule methodology in 2014.

VECC and Board staff accepted FFPC's proposed depreciation expense.

The Board accepts FFPC's depreciation evidence and its proposed 2014 depreciation/amortization expense on the basis that FFPC will implement the half year rule methodology in 2014.

RATE BASE AND CAPITAL EXPENDITURES

FFPC proposed a rate base of $4,793,453, which would represent a 9% increase from the 2012 actual amount and a 7.5% increase from the 2006 Board approved amount. FFPC stated that the proposed increase in 2014 was primarily due to planned feeder expansions to eliminate LTLTs, new line transformers and transportation equipment.

FFPC projected capital expenditures to be in the $660 to $700 thousand range in the 2015 to 2018 period in its DSP, as is shown below:[1]

Table 3: Distribution System Plan Forecast

	Forecast Period (planned) ($000)				
	2014	**2015**	**2016**	**2017**	**2018**
Category					
System Access	422	40	20	45	12
System Renewal	254	419	504	531	361
System Service	49	142	60	58	15
General Plant	97	76	76	33	311
Total Expenditure	820	676	660	667	698

[1] EB-2013-0130 *Fort Frances Power Corporation Application Filed December 20, 2013, Exh 2/Tab3/Sch 1, p.4*

Board staff's submission noted that FFPC's capital spending averaged about $269,000 in the 2006 to 2012 period, but is forecast to average about $704,000 in the 2014 to 2018 period which is close to a three-fold increase in the forecast period compared to in recent years.

Board staff submitted that FFPC's proposed 2014 LTLT project should not be approved at the present time, but that a phased development plan for the servicing of this territory would be appropriate.

Board staff also submitted that the $95,648 requested by FFPC in the category of overhead and pad-mounted transformers should be reduced to $50,000 as FFPC should only replace transformers that have customer impacts categorized by FFPC as "Very High" or "High" in addition to those reported as "Failed" or "Not suitable for reuse", rather than also replacing those in the "Medium" and "Low" categories as proposed by FFPC. This meant that for the 2014 Test year, funding should only be provided for 7 out of the 15 transformers proposed to be replaced.

Board staff suggested that where FFPC's DSP was concerned, while it was relatively comprehensive, the next DSP would benefit from more emphasis on specific customer feedback regarding the DSP. The DSP would also benefit from an attempt to monetize the savings to be achieved in FFPC's OM&A over the five year planning period as it moves from a maintenance mode to a proactive capital rebuild mode.

VECC expressed general agreement with Board staff with respect to the capital renewal program. VECC submitted that the relatively young vintage of the utility's plant and the lack of detailed information on existing plant argue for a more conservative approach. VECC noted that Board staff had suggested reducing the Overhead & Pad-Mounted Transformer Replacement Program by about 50% for 2014. VECC agreed and submitted that it would be reasonable for FFPC to reduce its anticipated spending on the program by 50% for the entire 5 year period.

VECC also argued that FFPC's LTLT proposal should not be approved as it was neither reasonable to its customers who would be faced with an inordinate cost burden and risk, nor is it economically efficient and in the public interest.

FFPC agreed with the proposal of Board staff that 2014 capital expenditures be reduced from $820,316 to $402,929 and proposed to bring forward the issue of its LTLT project in a future application, once the Board has completed its policy review on the topic. FFPC suggested that the costs of this project could be dealt with in a future Incremental Capital Module submission as part of FFPC's annual IRM submission.

FFPC stated that it made the LTLT expansion proposal both to be in compliance with the Distribution System Code by June 30, 2014 and to be consistent with its belief that under the Agreement, all residents of the Town of Fort Frances, including the 14 residents who are currently served by Hydro One, are entitled to the benefits flowing from that Agreement.

FFPC noted that both Board staff and VECC had commented in their final submissions that FFPC's capital plan with respect to transformers might be aggressive and would benefit from more specific customer feedback. FFPC expressed its general agreement with this point and stated that it was committed to further improving its customer engagement activities. FFPC also accepted Board staff's recommended approach for pacing transformer replacements.

Where FFPC's proposed LTLT is concerned, the Board first notes that the situation described by FFPC is not a typical load transfer arrangement because these 14 customers are not billed by FFPC which is the geographic distributor, nor do they pay FFPC's distribution rates. Hydro One is the physical distributor for these customers (i.e. owns and operates the assets that connect them) and has been billing them since the time they were connected. The Board also notes that in response to a Board staff teleconference question, FFPC confirmed that these customers are in FFPC's service territory.

FFPC was asked during this proceeding why it did not install its own meters for these customers. FFPC explained that at the time the LTLT homes were electrified, its distribution system was not in close proximity to most of the homes and the legal dispute over the Agreement was not resolved until 1983, when the Supreme Court of Canada issued its decision on the Agreement confirming FFPC's perpetual right to call for delivery of the low cost power.[2] FFPC stated that it does not believe that it has ever

[2] *Supreme Court of Canada Decision ([1983] 1 SCR 171)*

had the consent from stakeholders, including Hydro One and the Board, to proceed with replacing the metering assets of Hydro One with its own.

FFPC was asked during the proceeding to quantify the annual savings for these customers were they to begin paying FFPC's distribution and commodity rates. FFPC estimated that for a residential customer consuming 1,000 kWh monthly in 2013, the savings would be close to 50% of the total bill.

Given the magnitude of these savings, the Board does not consider it necessary to await the completion of its policy review of long-term load transfers before making a decision on FFPC's LTLT proposal. The Board also notes that the policy review would not cover the unique circumstances of FFPC, given this is not a load transfer agreement per se, that no amendment is required to the service area, as based on the evidence provided by FFPC these customers are already within FFPC's service area, and due to the existence of the Agreement with respect to commodity prices. In addition the Board notes that FFPC stated that the completion of this project will unlock access to approximately 25.4% of its service territory that is not developed, while also offering considerably improved access for potential renewable generation facilities. A further benefit would be that the implementation of this project would provide an alternate supply of electricity in close proximity to the Fort Frances Airport.

The Board agrees with FFPC that all the customers in its service area should have the benefit of the Agreement and accordingly finds that this project is approved with one qualification. The Board notes that FFPC has stated that it believes it could extend its plant to only 13 of the 14 customers by the end of 2014. The financial impact for FFPC if it is unable to connect one of the 14 customers by the end of 2014 is between $30,000 and $46,446. The Board will approve funding of this project sufficient to allow for the connection of 13 customers in 2014. Accordingly, the Board will disallow $40,000 from the proposed capital budget. As part of the draft rate order process, the Board will expect FFPC to provide adjusted capital expenditure and operating expense levels to reflect this adjustment along with all necessary explanations. Given the magnitude of the LTLT project compared to the total capital expenditures of FFPC, the Board will establish a variance account to track the expenditures to be reviewed in a future application. FFPC shall file a draft accounting order in its draft rate order to reflect this finding.

The Board considers that overall FFPC's proposed DSP may be somewhat aggressive and finds Board staff's recommended approach for pacing transformer investments is reasonable. The Board will accordingly approve $50,000 of 2014 capital expenditures for transformers.

The Board therefore finds that it will reduce FFPC's 2014 capital expenditures request from $820,316 to an approved level of $734,668.

Capital Contributions

VECC submitted that as FFPC was using a 'net' form of capital expenditure accounting it had not properly accounted for capital contributions.

The Board notes that in response to a Board staff teleconference question[3] FFPC confirmed that its treatment of capital contributions will be consistent with Article 430 of the *Accounting Procedures Handbook* (APH")*.*

The Board finds that FFPC's confirmation that its treatment of capital contributions will conform to the APH adequately addresses the concerns raised by VECC. FFPC should include in its draft rate order filing confirmation that the treatment of capital contributions in the 2014 Test year is in conformity with the APH*.*

Working Capital Allowance

FFPC proposed a $1.1 million Working Capital Allowance based on the Board's default rate of 13%.

VECC submitted that a rate of 12% would be more appropriate because FFPC bills its customers on a monthly basis. VECC submitted that the Board's default rate was established when most utilities offered bi-monthly billing and that monthly billing utilities have a lower need for cash than bi-monthly utilities. VECC referred to a lead-lag study completed by London Hydro, a monthly billing utility, which indicated a lower working capital requirement close to 11%. Board staff took no issue with FFPC's proposal.

[3] EB-2013-0130 *Fort Frances Power Corporation Response to Board Staff Teleconference on May 29, 2014 Filed on June 11, 2014*, p. 15, 4.2-Staff-43.

The Board has considered the arguments of VECC but finds no compelling reason to depart from its default rate. The Board does not consider it appropriate to adopt the results of a lead-lag study from another utility without a thorough analysis concluding that the two utilities are comparable.

Renewable Enabling Improvement ("REI") Plan

FFPC does not have any planned investments specific only to achieving smart grid objectives, but is proposing $50,000 in 2014 investments related to its development of a REI plan. This is stated by FFPC as being aimed at safely and reliably accommodating the connection of renewable energy generation facilities through improvement to its transformer station "FFMTS," which presently cannot accommodate 2-way or reverse electrical flow at any level.

FFPC is also proposing to recover $53,757 for all renewable energy generation ("REG") costs that FFPC incurred up to the end of the 2013 calendar year, including capital, OM&A and carrying charges booked in the Board established deferral accounts.

Board staff accepted FFPC's proposed REG plan as reasonable, along with the proposed allocation percentages, but expressed some concerns about the extent to which FFPC's proposed REI expenditures may also be considered as normal distribution system expenditures. Board staff argued that FFPC should provide a stronger rationalization in future applications as to how it distinguishes expenditures included in its REG plan from normal expenditures.

VECC supported the submissions of Board staff on this issue.

The Board accepts FFPC's proposals regarding its REI and REG costs as appropriate expenditures for recovery under these plans. The Board agrees with VECC and Board staff that FFPC should provide stronger rationalizations in future applications as to how it distinguishes expenditures included in its REG plan from normal expenditures.

FFPC should include in its draft rate order filing a draft accounting order for account 1533, Renewable Generation Connection Funding Adder Deferral account, "Sub-account Provincial Rate Protection Variances". In accordance with this Decision and Order, FFPC should also specify the amount that it would be expecting to receive from the IESO on a monthly and annual basis for the 2014 rate year commencing September 1, 2014.

COST OF CAPITAL AND FINANCIAL PERFORMANCE

FFPC's application included the following cost of capital parameters:

Table 4: Proposed Cost of Capital Parameters

Cost of Capital Parameter	FFPC's Proposal
Capital Structure	60.0% debt (composed of 56.0% long-term debt and 4.0% short-term debt) and 40.0% equity
Short-Term Debt	2.11%
Long-Term Debt	4.88%
Return on Equity (ROE)	0%
Weighted Average Cost of Capital	2.82%

FFPC stated that since it operates under a 0% rate-of-return, it does not have a profit margin buffer of up to 9.8% per year to absorb unforeseen expenses or the financial impact of not achieving expected efficiency gains. FFPC confirmed that it maintains a current cash investment level of $2.1 million for future capital expenditures, as a matter of policy at the direction of its Board of Directors.

Board staff submitted it would be desirable that any rate relief received by FFPC as a result of this Application be sufficient to allow it to avoid developing another accumulated deficit similar to the one that has precipitated this application during the normal 5-year period between cost of service applications.

Board staff supported FFPC's cost of capital proposal. It submitted that given FFPC's unique circumstances, including cash reserves presently exceeding $2 million, its proposed cost of capital parameters would be a sufficient buffer for FFPC in the years ahead, while resulting in considerable savings for its customers. Board staff also argued that its position is consistent with the Board's endorsement of FFPC's rate minimization strategy in 2006.

VECC submitted that nothing precluded FFPC from earning a rate of return sufficient to enable stable long-term operations. VECC argued that FFPC's proposed 0% return for rate-setting purposes was not prudent since simply based on variations in demand induced by weather a utility will over earn in some years and under earn in others. VECC submitted that while FFPC has been able to build up a considerable reserve, this is because rates recover the Board approved debt costs, while FFPC is actually debt free.

VECC submitted that it is unlikely the Agreement would be threatened by having rates calculated with the inclusion of a modest return (1-3%) since in the long run such a return would equate to zero. VECC also suggested that if FFPC was to do so under an order of the Board, it would have the added protection of a regulatory defence.

VECC argued that with respect to FFPC's long-term debt, it would be prudent for FFPC to restructure so as to have affiliated debt issued by its shareholder, through the declaration of a dividend which would then be lent back in whole or in part to FFPC. VECC pointed out that this was the common structure of municipally owned utilities in Ontario.

VECC concluded that since the overall cost of capital is significantly below the allowable amount, it supported the current cost consequences of FFPC's proposal.

The Board accepts FFPC's proposals with regard to its cost of capital as the Board is of the view that FFPC should not take any risks which could endanger the Agreement, which the Board understands is for the benefit of the residents of the Town of Fort Frances on condition power is distributed on a non-commercial basis. As noted above, the benefit to residential ratepayers who consume approximately 1000 kWh is that their total bills are approximately half of those in surrounding areas served by Hydro One. The Board does not believe that there is any reason to require FFPC to depart from its 0% rate of return policy.

COST ALLOCATION AND RATE DESIGN

Cost Allocation

FFPC stated that it has filed its application using the cost allocation model that reflects the findings in the *Report on the Review of Electricity Distribution Cost Allocation Policy,* *March 31, 2011.* ("Cost Allocation Policy Review") The following table summarizes FFPC's current and proposed revenue-to-cost ratios compared to the Board's target range for each customer class.

Table 5: Revenue-to-Cost Ratios

Customer Class	2006 Board Approved %	Cost Allocation Model %	Proposed 2014 %	Board Target Range %
Residential	91.60	83.44	97.50	85 – 115
GS < 50 kW	105.79	86.40	97.50	80 - 120
GS 50 to 4,999 kW	126.30	227.47	120.0	80 - 120
Street Lighting	89.56	94.69	97.50	70 - 120
Unmetered Scattered Load	117.05	119.68	119.31	80 - 120

VECC and Board staff accepted FFPC's cost allocation proposals as appropriate for the purposes of setting 2014 rates.

The Board finds that FFPC's proposed cost allocation is appropriate for the purpose of setting 2014 rates as all of the proposed 2014 ratios are within the Board target ranges.

Monthly Service Charges

FFPC is proposing to increase its monthly service charges as well as its volumetric charges for four of its five classes. The exception is the GS 50 to 4,999 kW class for which the fixed charge would decrease from $242.06 to $165.98 and the volumetric charge from $3.59 to $2.51.

The table below shows the current and proposed fixed charges for each class, along with the ceiling values:

Table 6: Monthly Service Charge

Rate Classes	Current	Proposed	Ceiling	Floor
Residential	$12.05	$18.79	$22.94	$9.18
GS < 50 kW	$29.03	$43.62	$33.19	$16.08
GS 50 to 4,999 kW	$242.06	$165.98	$72.00	$44.24
Street Lighting (per connection)	$1.17	$1.60	$8.93	$0.75
Unmetered Scattered Load (per customer)	$29.03	$38.24	$19.14	$7.00

VECC submitted that for a number of FFPC's customer classes, the current 2013 fixed charge is already higher than the "ceiling" as established by the cost allocation model and that for these classes, the Board should consider keeping the 2014 fixed charge at the 2013 level.

Board staff noted that the fixed charges for the GS<50kW and USL customer classes are proposed to either move further away from the ceiling or to exceed the ceiling having been below it before. In the case of the GS 50-4,999 kW class the existing monthly charge was already above the ceiling and the proposed charge moves it closer to the ceiling.

Board staff submitted that in the normal course, it would suggest to revise the fixed/variable splits in order to avoid raising the fixed charges in the GS<50 kW and USL classes. However, this would mean raising the variable component of the inter class allocation for each of these classes, one of which is a class which may continue to be impacted by the economic situation faced by the Town of Fort Frances.

Board staff accepted FFPC's decision to maintain the current fixed/variable splits at the present time noting that for typical rate class consumption levels, the total bill impacts for all rate classes are below the 10% level.

FFPC submitted that it would not be appropriate to hold the fixed charge to the 2013 level as proposed by VECC since as business closures and housing vacancies increase in the Town of Fort Frances due to the recent mill closure, the 2014 proposed fixed charge is an appropriate safeguard to protect the financial viability of FFPC.

The Board accepts FFPC's and Board staff's arguments and approves the fixed charges proposed in the application.

DEFERRAL AND VARIANCE ACCOUNTS

Balances Proposed for Disposition

FFPC is requesting disposition of the Group 1 and Group 2 deferral and variance account principal balances as at December 31, 2012 and the forecasted interest to April 30, 2014, over a two year period. FFPC stated that the default disposition term of one year would create hardship for FFPC.

Table 7: Proposed Group 1 and 2 Account Balances for Disposition

Account #	Account Description	Disposition Amount[4]
1580	RSVA – Wholesale Market Service Charge	($99,297)
1584	RSVA – Retail Transmission Network Charge	$1,588
1586	RSVA – Retail Transmission Connection Charge	($156)
1588 – Pwr	RSVA – Power (excluding Global Adjustment)	$56,077
1589 – GA	RSVA –Global Adjustment	($224,583)
1508	OEB Cost Assessment	$8,451
1508	IFRS Transition	$27,183
1531	Renewable Generation Connection	$1,966
1582	RSVA One Time	$6,891
2425	Other Deferred Credits	($6,144)
1568	LRAM Variance Account	$27,572
	Total Proposed for Disposition excluding Global Adjustment	**$24,131**
	Total Proposed for Disposition	**($200,454)**

With the exception of the balance in the LRAM Variance Account 1568 which Board staff argued should only include the LRAMVA balance of $5,050, Board staff stated that it did not have any concerns with the balances proposed for disposition. FFPC had also included an LRAM amount of $22,523 in this account relating to a period prior to the establishment of the LRAMVA which Board staff submitted it should not be recorded in the account.

[4] Debit amounts are recoverable from FFPC's customers and credit amounts are refunded by FFPC back to its customers.

FFPC confirmed in its reply submission that it would amend the LRAMVA balance in Account 1568 to $5,050, as proposed by Board staff and proposed that the LRAM amount of $22,523 would be recovered through separate rate riders.

Board staff noted that as part of the disposition request of -$200,454, FFPC had proposed disposition of its IFRS Transition Costs of $27,183 which includes forecasted interest to April 30, 2014. FFPC has also stated that it is deferring implementation of IFRS until January 1, 2015, and that costs may be incurred in the future as FFPC completes its transition to IFRS. FFPC has also requested continuation of IFRS transition costs sub-account 1508.

Board staff noted that the Board's general policy and practice is not to dispose of the Account 1508 Sub-account IFRS Transition Costs until the distributor has completed its adoption of IFRS for financial and regulatory purposes and so has a complete record of such costs to review. Board staff submitted that it did not have any issues with FFPC's proposal to dispose of the balance in Account 1508, Sub-account IFRS Transition Costs, but that it was not clear whether FFPC has any more costs booked in this account for the 2013 calendar year. Board staff recommended that FFPC identify the 2013 costs, if any, in its reply submission and if the Board was to be satisfied with the nature and quantum of these costs they could be added to the overall balance to be recovered on a final basis. FFPC confirmed in its reply submission that it did incur $12,000 in audited 2013 IFRS transition expenses which it wished to recover at this time.

VECC supported the submissions of Board staff except for the issue of disposition of Account 1508 Sub-account IFRS Transition Costs. VECC did not agree with Board staff's submission that 2013 amounts should be included in the disposition of this account. VECC submitted that FFPC should either dispose of the 2012 actuals or defer the disposition until it has completed all IFRS related spending and has a final balance for the account.

FFPC disagreed with VECC's position, submitting that it should be permitted to include the audited 2013 Account 1508 Sub-account IFRS transition costs for disposition, as it has completed the majority of the IFRS transition in 2013 and therefore, does not foresee incurring any material additional expenses related to completing the IFRS transition.

The Board accepts FFPC's proposals for disposition of the Group 1 and 2 deferral account balances. The Board agrees with Board staff that the APH should be followed, and cautions FFPC to this effect, but will accept the departures noted by FFPC in its application on the basis that the amounts involved are immaterial.

The Board will permit the disposition of the 2013 amounts in Account 1508 Sub-account IFRS Transition Costs as FFPC completed the majority of its IFRS transition in 2013 and if the balance is not disposed of now, it would be carried forward until FFPC's next cost of service application which could be in 2018 or even later.

Stranded Meters

FFPC is seeking disposition of its stranded meter costs. The net book value of the stranded conventional meters at December 31, 2013 was $80,186. FFPC proposed a one-year recovery of this amount from the Residential, GS<50 kW and GS>kW classes to align with the cost recovery approved in FFPC's EB-2012-0327 rate order. The proposed Stranded Meter Disposition Rate Riders ("SMRR") per customer are outlined in the table below:

Table 8: Proposed Stranded Meter Rate Riders

Rate Class	SMRR ($/month)
Residential	$0.86
GS < 50 kW	$6.99
GS > 50 kW	$19.63

Board staff and VECC supported FFPC's proposal for recovery of stranded meter costs.

The Board approves FFPC's proposal for the recovery of the stranded meter costs as it is aligned with the cost recovery approved in FFPC's EB-2012-0327 smart meter rate order.

CDM & LRAMVA

The Board's *Guidelines for Electricity Distributor Conservation and Demand Management* (the "CDM Guidelines") issued on April 26, 2012 outline the information that is required when filing an application for lost revenues in relation to both pre-2011 CDM activities (i.e. LRAM) and 2011-2014 CDM activities (i.e. LRAMVA). FFPC requested approval for an LRAM recovery in relation to pre-2011 CDM program savings of $22,523 arising from the recovery of lost revenues from persisting CDM savings from 2006-2010 CDM programs in 2011, 2012 and 2013.

FFPC also requested approval of an LRAMVA recovery in account 1568, specifically $5,050 in relation to energy savings from new programs deployed in 2011 and 2012 that will contribute to FFPC's 2011-2014 CDM Targets.

VECC and Board staff supported FFPC's requests.

The Board approves FFPC's requests for LRAM and LRAMVA recovery as they comply with the Board's CDM guidelines.

IMPLEMENTATION

The Board has made findings in this decision which change the proposed 2014 revenue requirement and therefore change the distribution rates from those proposed by FFPC. In filing its draft Rate Order, the Board expects FFPC to file detailed supporting material, including all relevant calculations showing the impact of this decision on FFPC's revenue requirement, the allocation of the approved revenue requirement to the classes of customer and the determination of the final rates. Supporting documentation shall include, but not be limited to, filing a completed version of the Revenue Requirement Work Form Excel spreadsheet. If as a result of these calculations the total bill increase for any customer class would exceed 10%, the Board requires FFPC to file a mitigation plan as contemplated by the Board's Filing Requirements.

THE BOARD ORDERS THAT:

1. FFPC's new distribution rates shall be effective and implemented on **September 1, 2014**.

2. FFPC shall file with the Board, and serve on VECC, 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 the issuance of this Decision.

3. VECC and Board staff shall file any comments on the draft Rate Order with the Board and serve them on the parties within **7 days** of the date of filing of the draft Rate Order.

4. FFPC shall file with the Board and serve on VECC responses to any comments on its draft Rate Order within **4 days** of the date of receipt of VECC's and Board staff's comments.

COST AWARDS

1. The Board may grant cost awards to eligible parties pursuant to its power under section 30 of the Act. In this proceeding VECC is eligible for a cost award. In determining the amount its cost award, the Board will apply the principles set out in section 5 of the Board's *Practice Direction on Cost Awards* and the maximum hourly rates set out in the Board's Cost Awards Tariff. VECC shall file with the Board and serve on FFPC, its cost claim within **7 days** from the date of issuance of the final Rate Order.

2. FFPC shall file with the Board and serve on VECC any objections to the claimed costs within **17 days** from the date of issuance of the final Rate Order.

3. VECC shall file with the Board and serve on FFPC any responses to any objections for cost claims within **24 days** of the date of issuance of the final Rate Order.

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

All filings with the Board must quote the file number EB-2013-0130, and be made through the Board's web portal at www.pes.ontarioenergyboard.ca/eservice/, and consist of two paper copies and one electronic copy in searchable / unrestricted PDF format. Filings must be received by the Board by 4:45 p.m. on the stated date. Parties should use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at www.ontarioenergyboard.ca. If the web portal is not available, parties may e-mail their documents to the attention of the Board Secretary at BoardSec@ontarioenergyboard.ca.

DATED at Toronto, August 14, 2014

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary