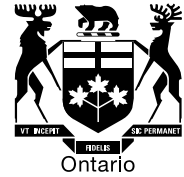


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BY E-MAIL

December 17, 2015

Jennifer Wiens
Atikokan Hydro Inc.
117 Gorrie Street
Atikokan ON P0T 1C0

Dear Ms. Wiens:

**Re: Atikokan Hydro Inc.
Regulated Return on Equity (ROE)
EB-2015-0052**

On September 30, 2015, the Ontario Energy Board publicly released scorecard results for all of Ontario's electricity distributors. These scorecards measure how well Ontario's electricity distributors are performing each year, and are designed to encourage electricity distributors to operate effectively, to continually seek ways to improve productivity and to focus on improvements that their customers value.

The scorecard includes a measure of each utility's regulatory return on equity (ROE). In the course of a sector-wide review of all distributors' ROE performance conducted in the summer of 2015, OEB Audit and Performance Assessment staff concluded Atikokan Hydro Inc.'s regulatory ROE measured 28.33% in 2014 – 1,921 basis points above the target ROE that was the basis upon which its rates were established. A summary of staff's assessment is attached. Staff also estimated that this level of overearnings represents a cost to residential customers of roughly \$4.39 per month.

Under OEB policy, a regulatory review may be triggered if a distributor's earnings are outside of a dead band of +/- 300 basis points from the OEB-approved return on equity. Any such review will be prospective, and could result in modifications, termination or the continuation of the respective Price Cap IR or Annual IR Index plan for that distributor.

Given the level of returns earned by Atikokan Hydro Inc. in 2014, it is appropriate that the OEB consider whether an amendment to Atikokan Hydro Inc.'s rate plan is warranted, in order to ensure that customers pay distribution rates that better reflect the value of the service provided to them.

Atikokan Hydro Inc. applied on September 23, 2015 for an adjustment to its rates based on the OEB's Annual Incentive Rate-setting (IR) Index plan. The 2016 application is the first application filed by Atikokan Hydro Inc. under the OEB's Annual IR Index method.

The OEB will assess the appropriateness of granting Atikokan Hydro Inc.'s request for an incremental adjustment to its base rates for the 2016 rate year given the earnings performance measured in 2014. In addition, given the level of returns earned by Atikokan Hydro Inc. the OEB may consider an amendment to Atikokan Hydro Inc.'s current Annual IR rate plan, which does not normally include a scheduled rebasing application. While an amendment to Atikokan Hydro's rate plan would take place outside of the current application, the OEB may nevertheless consider as part of the current proceeding whether Atikokan Hydro Inc.'s 2016 rates should be set on an interim basis pending consideration of such an amendment.

The evaluations respecting 2016 rates will form part of the application process in the current proceeding, and include the opportunity for Atikokan Hydro Inc. to present its position and bring forward relevant information to the OEB.

Yours truly,

Original signed by

Kirsten Walli
Board Secretary

Appendix A

2014 Return on Equity Sector Review

Atikokan Hydro Inc.

ROE Performance Summary

EB-2015-0052

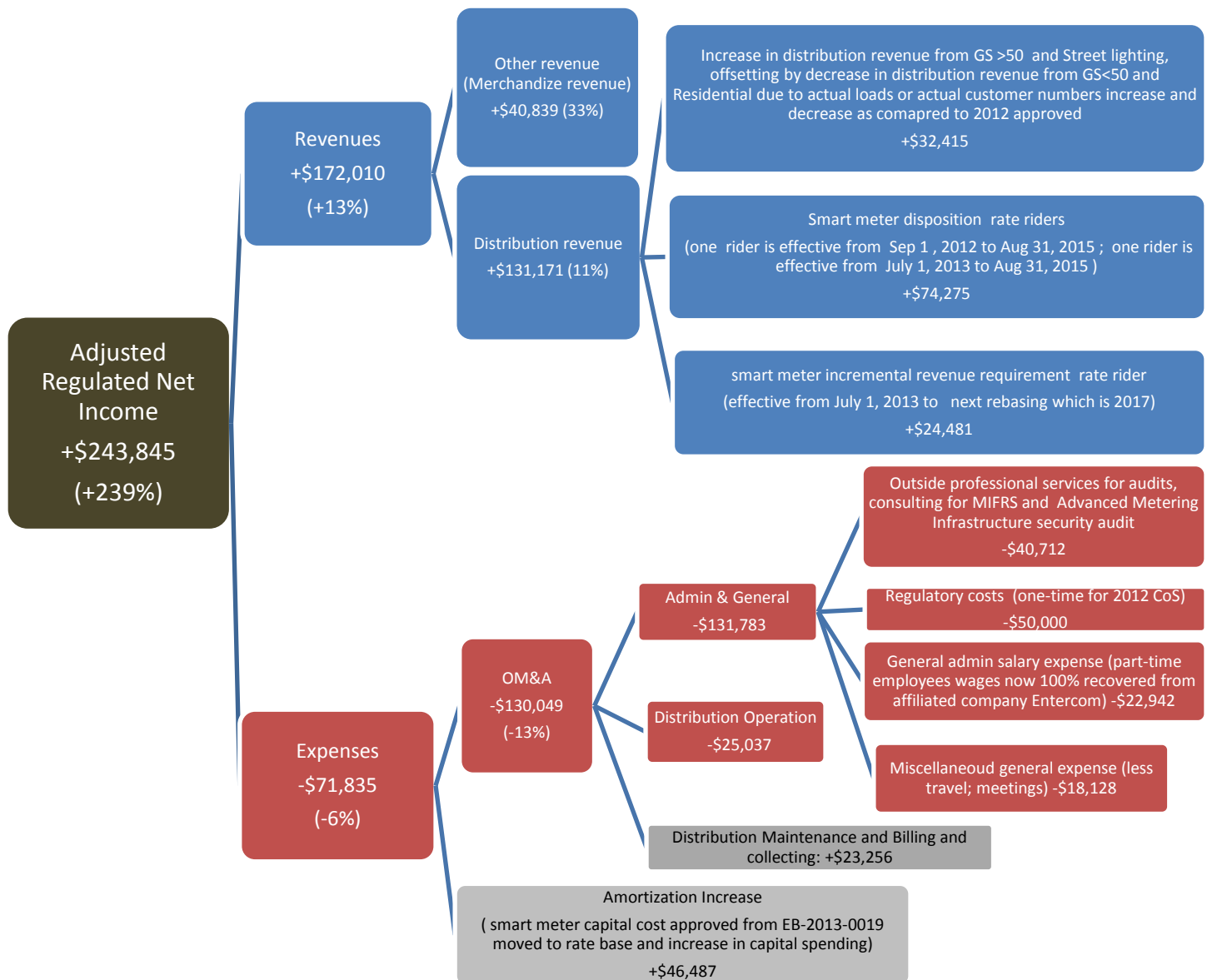
2014 ROE Over-Earner: [Atikokan Hydro Inc. \(Atikokan Hydro\)](#)

Atikokan Hydro is scheduled to file an IRM rate application for 2016 rates.

2014 ROE performance – 28.33% (1,921 basis points over deemed ROE)

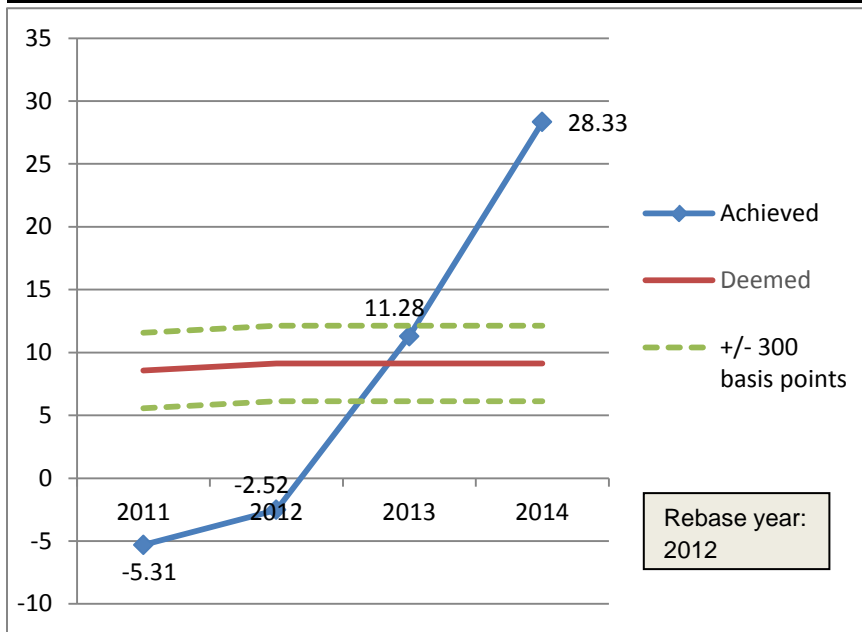
Components of the ROE calculation	Deemed 2012 CoS	Achieved 2014	Variance	Variance %
ROE\$ approved in CoS / Adjusted Regulated Net Income	\$102,126	\$345,971	\$243,845	239%
Regulated Deemed Equity	\$1,119,800	\$1,221,285	\$101,485	9%
ROE	9.12%	28.33%		19.21%

Main Drivers for Over-Earning in 2014



2014 ROE Over-Earner: [Atikokan Hydro Inc. \(Atikokan Hydro\)](#)

Historical ROE performance (2011 to 2014) – One Year Over-Earner



Based on the OEB Audit staff's review, it appears that Atikokan Hydro's achieved ROE increased since the rebasing year of 2012 because:

- The decreasing trend of the actual OM&A expense from 2012 to 2014 as compared to the 2012 approved OM&A (2012- 5% higher; 2013- 2% higher; 2014- 13% lower).