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January 15, 2016

Kirsten Walli
Board Secretary
Ontario Energy Board,
2300 Yonge St.
Suite 2700, P.O. Box 2319
Toronto, Ontario
M4P 1E4

Dear Ms. Walli:

**Re: Atikokan Hydro Inc.
2016 IRM Distribution Rate Application
Vulnerable Energy Consumers Coalition (VECC) Interrogatories
OEB File No. EB-2015-0052**

Please find attached Atikokan's responses to VECC interrogatories.

The responses have been filed electronically using the Board's e-filing system and emailed.

Two paper copies of Atikokan Hydro's responses are being mailed to the OEB office as instructed.

Should there be any questions, please contact me.

Thank you,

A handwritten signature in cursive script that reads "jenifer wiens".

Jen Wiens
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Atikokan Hydro Inc.
2016 IRM Distribution Rate Application
EB-2015-0052

VECC Interrogatories

Earnings Performance in 2014

VECC #1

Ref: OEB Letter regarding overearnings dated December 17, 2015

Preamble: OEB Audit and Performance Assessment staff concluded Atikokan’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) Please provide Atikokan’s return on equity and compare to the Board’s approved return on equity for the years 2011, 2012, 2013, 2014 and forecast for 2015.

Response:

The table below compares Atikokan’s return on equity to the Board approved return on equity for the years 2011 through 2014 and the forecast for 2015.

Year	Atikokan Return on Equity %	Board Approved Return on Equity %
2011	-5.3	6.72 ¹
2012	-24.7	9.12 ²
2013	11.5	9.12
2014	28.33	9.12
Forecasted 2015	14.7	9.12
¹ EB-2008-0014		
² EB-2011-0293		

b) Please summarize the drivers for the over-earning in 2014.

Response:

Atikokan Hydro's Inc. 2014 over-earnings as outlined in OEB Letter regarding overearnings dated December 17, 2015 are summarized below.

Revenues + \$172,010

- *Other revenue (Merchandise revenue) \$40,839*
 - For 2014, Atikokan believes Cost & Exp of merchandising in other revenue to be understated (\$57,418.35). This misclassified entry contributes to portraying other revenue to have increased from the previous year. Another main driver in the revenue of merchandising was a onetime request from Atikokan's new industrial customer for installation and upgrade of power line to accommodate the new customer.

	2012 Approved per 2012 CoS Final Rate Order (A)	Per 2014 AFSs & RRR 2.1.5.6 (B)	Variance
Other Revenue			
Distribution Service Revenue 4080	4,200	0	-4,200
Retailer Service Revenue 4082	4,000	4,649	649
Str Processing Revenue 4084	1,000	1,800	800
Rent from Elect Prop 4210	34,911	31,625	-3,286
Late Pay/Interest 4225	6,024	8,072	2,048
Misc Service Revenues 4235	7,100	6,640	-460
Revenue of Merchandising 4325	75,000	128,340	53,340
Cost & Exp of merchandising 4330	-20,000	-29,597	-9,597
Miscellaneous Revenue 4390	4,000	6,755	2,755
Interest Revenue/Dvdnd Income 4405	9,000	7,789	-1,211
Total Other Revenue	\$ 125,235.00	\$ 166,074.20	\$ 40,839.20

- *Distribution revenue \$131,171*
 - Increase in distribution revenue from GS>50 and Street lighting, offsetting by decrease in distribution revenue from GS>50 and Residential due to actual loads or actual customer numbers increase and decrease as compared to 2012 approved. The sum of differences results in an increase of \$32,415 to distribution revenue.

- Smart Meter revenues; totalling \$98,756
 - Smart meter disposition rate riders (SMDR) (one rider is effective from Sept 1, 2012 to Aug 31, 2015; one rider is effective from July 1, 2013 to Aug 31, 2015); totalling \$74,275 earned for 2014.
 - Smart meter incremental revenue requirement rate rider (effective from July 1, 2013 to next rebasing which is 2017); totalling \$24,481 earned for 2014.

The below table summarizes the above stated distribution revenue increases when comparing Atikokan’s 2012 Approved Distribution revenue per 2012 CoS EB 2011-0293 to the year 2014.

		<u>Distribution Revenue by Rate Class</u>					
Distribution Revenue		Residential	GS <50	GS>50- Regular	Street Light	Smart Meter	
2012 Approved Per 2012 CoS	\$1,232,815	\$746,244	\$287,448	\$115,030	\$84,093		
Per 2014 AFSs & RRR 2.1.5.6 (B)	\$1,363,986	\$719,070	\$262,085	\$171,672	\$112,403	\$98,756	
	\$131,171	-\$27,174	-\$25,363	\$56,642	\$28,310	\$98,756	
	Variance						
		<i>Residential</i>	<i>GS <50</i>	<i>GS>50</i>	<i>Street Light</i>		
		<i>Variance by Rate Class</i>					

Expenses **-\$71,835**

- *Amortization Increase*
 - +\$46,487; smart meter capital cost approved from EB-2013-0019 moved to rate base and increase in capital spending.
- *OM&A -\$130,049*
 - Distribution operation -\$25,037
 - Only 3 lineman First Quarter of 2014. Hired an Apprentice beginning of quarter 2. Apprentice lower wages and employer grant subsidies received from hiring an apprentice.
 - Distribution Maintenance and Billing and collecting +\$23,256
 - Atikokan Hydro, as part of the northwest group of LDCs, collaborated to provide TOU web portal for customers allowing e-billing to occur. A One time setup fee for the TOU web portal was required.
 - Collective Agreement and classification (posting) of employee benefits and overheads to departments as opposed to directly to Administration.
 - Admin & General -\$131,783
 - Greater expenses allocated to outside professional services for audits, consulting for MIFRS and Advanced Metering Infrastructure and security audit during the 2012 CoS compared to 2014 showing a decline; -\$40,712
 - Atikokan included one-time regulatory costs in the 2012 CoS Rate Application. These one-time regulatory costs did not exist in 2014; -\$50,000.
 - General Admin salary expense are down. Part-time employee wages are now 100% recovered from affiliated company Atikokan Enercom; -\$22,942.
 - Miscellaneous general expenses are down. Less meetings for the implementation and use of smart meters. Overall, less travelling has been occurring in efforts to cut expenses; -\$18,128

- c) Please explain why Atikokan feels it is reasonable to apply an increase to its base rates given the over-earning in 2014.

Response:

Atikokan does not feel it is reasonable to apply for an increase to its rate base. In review of Atikokan's position and management changes at Atikokan Hydro, at this time, Atikokan does not believe it is reasonable to request an increase.

- d) Does Atikokan expect that the over-earning was a one-time occurrence or will it continue?

Response:

The level of over earnings for 2014 is believed to be a one-time occurrence. Many of the drivers are no longer applicable and not expected to continue in 2015 and 2016.

- e) Please discuss the drivers for over-earnings in 2015, if applicable.

Response:

Atikokan is forecasted to be an over-earner for 2015. The forecasted ROE for 2015 is 14.7%. This is only 2.5% above the allowable 3% dead band. A driver to Atikokan's 2015 over earnings is increased distribution revenue in GS > 50 customer class.

- f) Please provide Atikokan's pro forma for the 2014 and 2015 year illustrating the ROE for 2014 and expected ROE for 2015.

Response:

The pro forma's for 2014 are from Atikokan's Audited Financial Statements. 2015 is audited and forecast based on best evidence. 2014 illustrates Atikokan's ROE of 28.33% and 2015 illustrates an ROE of 14.7%.

ATIKOKAN HYDRO INC.			
INCOME STATEMENT			
For the Period Ending	31-Dec-14	31-Dec-15¹	
Revenue			
Sale of energy	\$ 2,688,445	\$ 3,885,163	
Distribution revenue	1,363,986	1,386,958	
Rent from electric property	31,625	31,625	
Late payment charges	8,072	8,272	
Miscellaneous revenue	118,588	43,042	
Demand management program revenue	94,025	167,585	
Interest and dividend income	7,789	9,442	
	<u>4,312,530</u>	<u>5,532,087</u>	
Expenses			
Administration	309,327	419,996	
Amortization ²	196,885	196,885	
Billing and Collecting	180,534	161,607	
Distribution expense operation	256,339	314,872	
Distribution expense maintenance	153,751	109,754	
Energy Cost	2,688,445	3,885,163	
Interest on long-term debt	20,580	18,704	
Other interest expense	2,835	3,548	
Demand management program expense	94,025	167,585	
	<u>3,902,721</u>	<u>5,278,114</u>	
Net gain / loss before the following	409,809	253,973	
Loss on disposal of assets	- 7,788	- 1,032	
Provision for PIL	- 12,719	- 5,185	
Net Gain / (Loss) for the End of Period	<u>\$ 389,302</u>	<u>\$ 247,756</u>	
Deficit, beginning of period / year	- 544,951	- 155,649	
Deificit, end of period / year	<u>- 155,649</u>	<u>92,107</u>	
¹ Unadited Financials [2015]			
² Amortization 2015, assumed to be same as 2014			

ATIKOKAN HYDRO INC.			
BALANCE SHEET			
For the Period Ending	31-Dec-14	31-Dec-15¹	
ASSETS			
Current			
Bank	\$ 321,373	\$ 540,953	
Accounts Receivable	466,001	340,866	
Unbilled revenue	392,027	428,046	
Inventory	102,639	148,531	
Prepays	16,847	44,247	
Payments in lieu of Corporate taxes receivable	-		
	1,298,887	1,502,642	
Property, plant and equipment	2,652,650	2,664,341	
Regulatory Assets	321,624	239,131	
Other assets	-	-	
Future income tax assets	103,679		
	\$ 4,376,840	\$ 4,406,114	
Liabilities			
Current			
Accounts Payable	826,512	949,485	
Customer deposits	11,567	11,467	
Payments in lieu of Corporate taxes payable	5,185	5,185	
Current portion of long-term debt	117,722	117,722	
	960,986	1,083,859	
Regulatory liabilities	280,096	175,081	
Customer deposits	104,102	103,207	
Long-term debt	647,342	411,898	
	1,992,526	1,774,045	
Shareholders equity			
Share capital ¹	2,539,963	2,539,963	
Surplus / (Deficit)	- 155,649	92,107	
	2,384,314	2,632,070	
	\$ 4,376,840	\$ 4,406,115	
¹ Unaudited Financials [2015]			

- g) Please discuss Atikokan's rationale for applying to adjust its base rates given its over-earnings in 2014.

Response:

Atikokan does not have a justifiable rationale for applying to adjust its base rates given its over-earnings. In review of Atikokan's position and management changes at Atikokan Hydro, Atikokan does not believe it is reasonable to request an increase.

- h) Please explain why Atikokan is not applying for an off-ramp as part of this application.

Response:

An off-ramp was not advised by management at the time of the original submission of the application.

- i) Please discuss if Atikokan considered filing only for disposition of Group 1 deferral and variance account balances in accordance with Board policies, without applying for adjustments to its base rates. If not, why not?

Response:

Atikokan did not consider filing only for disposition of Group 1 deferral and variance account balances in accordance with Board policies. At this time, Atikokan believes this would be most appropriate; filing for disposition of Group 1 deferral and variance account balances only.