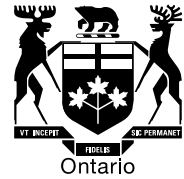


Ontario Energy Board
P.O. Box 2319
27th. Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416-481-1967
Facsimile: 416-440-7656
Toll free: 1-888-632-6273

Commission de l'énergie de l'Ontario
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone: 416-481-1967
Télécopieur: 416-440-7656
Numéro sans frais: 1-888-632-6273



BY EMAIL

January 29, 2016

Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4
Kirsten.Walli@ontarioenergyboard.ca

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Atikokan Hydro Inc.
2016 IRM Distribution Rate Application
OEB Staff Submission
OEB File No. EB-2015-0052**

In accordance with Procedural Order No.1, please find attached the OEB Staff Submission in the above noted proceeding. This document is being forwarded to Atikokan Hydro Inc. and to all other registered parties to this proceeding.

Atikokan Hydro is reminded that its Reply Submission is due by February 12, 2016, should it choose to file one.

Yours truly,

Original Signed By

Kelli Benincasa
Analyst, Electricity Rates & Accounting
Encl.



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2016 ELECTRICITY DISTRIBUTION RATES

Atikokan Hydro Inc.

EB-2015-0052

January 29, 2016

**OEB Staff Submission
Atikokan Hydro Inc.
2016 IRM Rate Application
EB-2015-0052**

Introduction

Atikokan Hydro Inc. (Atikokan Hydro) filed an application with the Ontario Energy Board (OEB) on September 23, 2015 under section 78 of the *Ontario Energy Board Act, 1998* (the Act), seeking approval for changes to the rates Atikokan Hydro charges for electricity distribution, effective May 1, 2016. The application is based on the 2016 Annual IR Index option.

The purpose of this document is to provide the OEB with the submissions of OEB staff based on its review of the evidence submitted by Atikokan Hydro.

Retail Transmission Service Rates

OEB staff has no concerns with the data supporting the updated Retail Transmission Service Rates proposed by Atikokan Hydro. Pursuant to the OEB's Guideline G-2008-0001, OEB staff will update the applicable data at the time of the OEB's Decision on the Application based on the Uniform Transmission Rates in place at that time.

Tax-Savings

OEB staff notes that the Shared Tax-Savings portions of the Rate Generator Model reflect the Revenue Requirement Work Forms from the OEB's cost of service decision (EB-2010-0125). OEB staff has no concerns with the information as filed.

Deferral and Variance Account Disposition

Atikokan Hydro completed the Deferral and Variance Account continuity schedule included in the 2016 IRM Rate Generator Model at Tab 3 for its Group 1 Deferral and Variance Accounts. Atikokan Hydro's total Group 1 Deferral and Variance Account balances amount to a debit of \$74,549. The balance of Account 1589 – Global Adjustment is a debit of \$56,994 and is applicable only to Non-RPP customers. These balances also include interest calculated to April 30, 2016. Based on the threshold test

calculation, the Group 1 Deferral and Variance Account balances equate to a debit of \$0.0032 per kWh which exceeds the pre-set disposition threshold, and as such, Atikokan Hydro requested disposition of these accounts over a one-year period.

OEB staff reviewed Atikokan Hydro's Group 1 Deferral and Variance Account balances and notes that the principal balances as of December 31, 2014 reconcile with the balances reported as part of the *Reporting and Record-keeping Requirements*. Also, the pre-set disposition threshold has been exceeded. Accordingly, OEB staff has no issue with Atikokan Power's request to dispose of its 2014 Deferral and Variance Account balances at this time over the requested one-year period.

Return on Equity

On December 17, 2015 the OEB issued a letter to Atikokan Hydro regarding regulatory return on equity. The letter stated, "OEB Audit and Performance Assessment staff concluded that 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". The regulatory ROE for 2014 was 1,921 basis points above the deemed ROE used to establish Atikokan Hydro's rates. According to the OEB's policy¹, a regulatory review may be initiated for an ROE 300 basis points over the deemed ROE. Such a review would be prospective only, and could result in modifications, termination or the continuation of the distributor's rate plan.

The letter also indicated that the OEB will assess the appropriateness of granting Atikokan Hydro's request for an incremental adjustment to its base rates for the 2016 rate year given the earnings performance measured in 2014. OEB staff has estimated that this level of over-earnings represents a cost to residential customers of roughly \$4.39 per month.

OEB staff and VECC asked Atikokan Hydro if it expects that the over-earning was a one-time occurrence or if it will continue and to explain why it is reasonable to apply for an increase to its base rates.

¹ Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors (EB-2007-0673) and Report of the Board Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach

Atikokan Hydro's responses indicated that it forecasted its 2015 return on equity to be 14.7% but stated the level of 2014 over-earning to be a one-time occurrence. Atikokan Hydro also stated it does not have a justifiable rationale for applying to adjust its base rates given its over-earning. Atikokan also noted, after reviewing its position and management changes, it does not believe it is reasonable to request an increase.

On January 26, 2016, the OEB received a letter from Atikokan Hydro stating it agrees with the OEB's regulatory review. Atikokan Hydro also noted, they will be an over-earner in 2015. For the reasons above, Atikokan Hydro requested it be permitted to forgo the annual adjustment to base rates.

OEB staff does not object to Atikokan Hydro's revised request to not apply the annual adjustment to its base rates as part of this Annual IR Index application. The OEB will continue to monitor the earnings results of Atikokan Hydro each year and OEB staff may address this matter again should the earnings continue to be more than 300 basis points above the approved ROE.

All of which is respectfully submitted