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Ontario

BY E-MAIL

February 2, 2010

Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Board Staff Submission on Sioux Lookout Hydro Inc.
2010 Electricity Distribution Rates Application
Board File Number EB-2009-0249**

Please see attached Board staff's submission for the above proceeding. Please forward the attached to Sioux Lookout Hydro Inc. and any intervenors in this proceeding.

Sioux Lookout Hydro Inc. reply to submissions is due February 23, 2010.

Yours truly,

Original Signed By

Martin Benum
Advisor, Applications and Regulatory Audit

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2010 ELECTRICITY DISTRIBUTION RATES

Sioux Lookout Hydro Inc.

EB-2009-0249

February 2, 2010

Board Staff Submission
Sioux Lookout Hydro Inc.
2010 IRM3 Rate Application
EB-2009-0249

Introduction

Sioux Lookout Hydro Inc. ("Sioux Lookout") filed an application with the Ontario Energy Board (the "Board"), received on October 21, 2009, under section 78 of the Ontario Energy Board Act, 1998, seeking approval for changes to the distribution rates that Sioux Lookout charges for electricity distribution, to be effective May 1, 2010. The application is based on the 2010 3rd Generation Incentive Regulation Mechanism.

The purpose of this document is to provide the Board with the submissions of Board staff based on its review of the evidence submitted by Sioux Lookout.

Board staff makes submissions on the following matters:

- Disposition of Deferral and Variance Accounts as per the Electricity Distributors' Deferral and Variance Account Review Report (the "EDDVAR Report");
- Treatment of Smart Meter Funding Adder;
- Adjustments to the Revenue to Cost Ratios;
- Adjustments to the Retail Transmission Service Rates; and
- Accounting for the implementation of the Harmonized Sales Tax ("HST").

DISPOSITION OF DEFERRAL AND VARIANCE ACCOUNTS AS PER THE EDDVAR REPORT

General Background

For purposes of 2010 IRM applications, the EDDVAR Report requires a distributor to determine the value of its December 31, 2008 Group 1 Deferral and Variance account balance and determine whether the balance exceeded the preset disposition threshold of $0.001 per kWh using the 2008 annual kWh consumption reported to the Board. When the preset disposition threshold is exceeded, a distributor is required to file a proposal for the disposition of Group 1 account balances (including carrying charges) and include the associated rate riders in its 2010 IRM Rate Generator for the disposition of the balances in these accounts. The onus is on the distributor to justify why any account balance in excess of the threshold should not be cleared.

Any distributor exceeding the preset disposition threshold was required to file a Deferral and Variance Account Workform.

Sioux Lookout Specific Background

Annual Disposition

Sioux Lookout is not requesting to dispose of its Group 1 account balances since the preset disposition threshold of $0.001 per kWh was not exceeded.

Global Adjustment

In response to Board staff interrogatory # 1a, Sioux Lookout stated it had reviewed the Regulatory Audit & Accounting Bulletin 200901 and confirmed that it had accounted for its Account 1588 RSVA Power and Global Adjustment sub-account in accordance with this Bulletin. In response to Board staff interrogatory # 1b, Sioux Lookout confirmed that it made adjustments subsequent to its initial application to comply with the Regulatory Audit & Accounting Bulletin 200901 with respect to account 1588 and the Global Adjustment sub-account.

In response to Board staff interrogatory # 2a, Sioux Lookout disagreed that a separate rate rider be prospectively applied to non-RPP customers to dispose of the global adjustment sub-account balance would be appropriate. Sioux Lookout indicated that it did not believe that a separate disposition rate rider would be fair to all customers since the balance in the global adjustment sub-account has accumulated variances since 2005 and that it would be difficult to justify charging the rate rider to Non-RPP customers only when there is continuous activity through customers leaving the RPP due to Retailers or most recently the MUSH sector.

In response to Board staff interrogatories # 2b, Sioux Lookout stated that it did currently have the billing capability to prospectively have a separate rate rider applicable to non-RPP customers to dispose of the global adjustment sub-account balance. Sioux

Lookout however indicated it would not have the billing capability to apply the rate rider to customers who are now on RPP but were not on RPP at December 31, 2008.

As of November 1, 2009 the MUSH sector (Municipalities, Universities, Schools and Hospitals) and other designated institutional customers that remained as RPP customers were required to switch to non-RPP customer status as per O. Reg. 95/05 of the Ontario Energy Board Act, 1998. In response to Board staff interrogatories # 4d, Sioux Lookout indicated that the rate rider should not apply to the MUSH sector as they were on RPP until the end of 2008. Sioux Lookout further indicated that it would not have the billing capability to exclude MUSH sector customers without the exercise becoming a manual and labour intensive process.

Submission

Sioux Lookout reported an updated disposition value of (0.001083) per kWh for its Group 1 accounts. Board staff notes that Sioux Lookout's Group 1 account balance exceeded the preset disposition threshold of $0.001 per kWh. While Board staff acknowledges that the preset disposition threshold was marginally exceeded, Board staff notes that 1588 global adjustment sub-account balance is a debit amount of $222,205. The total balance of the Group 1 accounts, excluding the 1588 global adjustment sub-account is a credit of $305,352. These amounts include interest, using the Board's prescribed interest rates, up to April 30, 2010. Board staff is mindful of the importance of a timely disposition of deferral and variance account balances and does not believe that the disposition should be delayed. Board staff suggests that the Board consider directing Sioux Lookout to dispose of its Group 1 account balance.

Board staff suggests that the Board may wish to consider establishing a separate rate rider for the disposition of the global adjustment sub-account balance. The rate rider would apply prospectively to non-RPP customers, and would exclude the MUSH sector and other designated customers that were on RPP. Board staff submits that recovering the global adjustment sub-account balance solely from non-RPP customers would be more reflective of cost causality since it was that group of customers that were undercharged by the distributor in the first place.

Board staff however notes that Sioux Lookout's current billing system may not be capable to effect such a change for MUSH sector customers. The Board may wish to consider, as an alternative, to recover the allocated global adjustment sub-account balance from all customers in each class. This approach would recognize the customer migration that might occur both away from the non-RPP customer group and into the non-RPP customer group.

In addition to the decision on whether a separate rate rider should be established for the disposition of the global adjustment sub-account, the Board must decide on the time period over which the rate riders should apply. As previously noted, customer migration might occur in the low volume group. For this group of customers, there would be a benefit to dispose of the global adjustment sub-account balance over a relatively short period of time in order to reduce inter-generational inequities. Board staff submits that a disposition period no longer than one year would be appropriate. These balances have been accumulating over the last four year period and to delay immediate action is not in the customer's best interest. Board staff recognizes that some volatility in electricity bills may result. That aside, Board staff believes that a one year disposition period would be in the interest of all parties.

In order to reduce inter-generational inequities, Board staff submits that the disposition period for all Group 1 accounts should not exceed one year.

Board staff notes that the reported account balances may no longer reconcile with previously audited balances nor with Sioux Lookout's RRR filings. Board staff has reviewed the balances and notes that the changes do not result in material differences. Board staff notes that Sioux Lookout stated in response to staff's interrogatory # 5d that Sioux Lookout has complied with the Board's accounting policies and procedures. As previously noted, Board staff is mindful of the importance of a timely disposition of deferral and variance account balances and does not believe that the disposition should be delayed. Board staff suggests that the Board consider approving the proposed deferral and variance account balance disposition rate riders on a final basis.

TREATMENT OF SMART METER FUNDING ADDER

Background

Sioux Lookout has a current Board-approved smart meter funding adder of $1.00 per month per metered customer. In its application, Sioux Lookout is requesting an increase in its rate adder to $2.91 per month per metered customer. Sioux Lookout is authorized for smart meter deployment under the amended Regulation pursuant to and in compliance with the London Hydro RFP process. In its application, Sioux Lookout filed supporting documentation in accordance with section 1.4 of the Smart Meter Guideline.

Sioux Lookout is not seeking approval for capital and operating costs incurred to date or in 2010 in this application, but will track actual costs, and revenues received from the funding adder, in the established deferral accounts for review and disposition in a subsequent application.

Submission

Board staff submits that Sioux Lookout has complied with the policies and filing requirements of the Smart Meter Guideline. Actual smart meter expenditures will be subject to review when Sioux Lookout makes application for disposition of the account balances in a subsequent proceeding. Hence, Board staff takes no issue with Sioux Lookout's proposal to increase its smart meter funding adder to $2.91 per month per metered customer.

ADJUSTMENTS TO THE REVENUE TO COST RATIOS

Background

The Board's Decision (EB-2007-0785) for Sioux Lookout's 2008 cost of service rate application prescribed a phase-in period to adjust revenue to cost ratios. The 2010 Supplemental Filing Module included schedules for Sioux Lookout to complete to address this matter. The process adjusts base distribution rates before the application of the price cap adjustment.

Submission

Board staff submits that Sioux Lookout has complied with the filing requirements of the 2010 Supplemental Filing Module. Board staff takes no issue with Sioux Lookout's revenue to cost ratio adjustments.

ADJUSTMENTS TO THE RETAIL TRANSMISSION SERVICE RATES (RTSR)

General Background

Electricity transmitters in Ontario charge Uniform Transmission Rates (UTR) to their transmission connected customers. These UTRs are charged for network, line connection and transformation connection services. Based on the Decision and Rate Order of the Board in the EB-2008-0272 proceeding, the new UTRs effective July 1, 2009 were as follows:

- Network Service Rate was increased from $2.57 to $2.66 per kW per month, a 3.5% increase;
- Line Connection Service Rate remained unchanged at $0.70 per kW per month; and
- Transformation Connection Service Rate was decreased from $1.62 to $1.57 per kW per month, for a combined Line and Transformation Connection Service Rates reduction of 2.2%.

On July 22, 2009 the Board issued an amended "Guideline for *Electricity Distribution Retail Transmission Service Rates*" ("RTSR Guideline"), which provided electricity distributors with instructions on the evidence needed, and the process to be used, to adjust Retail Transmission Service Rates ("RTSRs") to reflect the changes in the UTRs effective July 1, 2009. The Board set as a proxy at that time an increase of 3.5% for the Network Service Rate and reduction of 2.2% for the combined Line and Transformation Connection Service Rates. The Board also noted that there would be further changes to the UTRs in January 2010.

Based on the Decision and Rate Order of the Board in the EB-2008-0272 proceeding, a Rate Order issued January 21, 2010 revised the UTRs effective January 1, 2010 as follows:

- Network Service Rate has increased from $2.66 to $2.97 per kW per month, an 11.7% increase over the July 1, 2009 level or 15.6% over the rate in effect prior to July 1, 2009;
- Line Connection Service Rate has increased from $0.70 to $0.73 per kW per month; and
- Transformation Connection Service Rate has increased from $1.57 to $1.71 per kW per month, for a combined Line and Transformation Connection

Service Rates increase of 7.5% over the July 1, 2009 level or 5.2% over the rate in effect prior to July 1, 2009.

Sioux Lookout Specific Background

Sioux Lookout has applied for an adjustment to its RTSR rates based on the July 22, 2009 RTSR Guideline proxy rate adjustments. Sioux has requested an increase of 3.5% for its Network Service Rate and no adjustment for its Line and Transformation Connection Service Rate since the latter charge it is not applicable to Sioux Lookout.

Submission

Board staff notes that very few distributors, including Sioux Lookout, effected in their 2009 rates the July 1, 2009 level of UTRs since for most of them, distribution rates would have been implemented on May 1, 2009. Therefore, in accordance with the July 22, 2009 RTSR Guideline, Board staff submits that the revisions to the RTSRs ought to reflect the changes from the current level to the January 1, 2010 level, that is an increase of about 15.6% to the RTSR Network Service rate.

Board staff has reviewed the evidence provided by the applicant and submits that the proposal by Sioux Lookout may no longer be reasonable, based on the January 1, 2010 level of the UTRs. Board staff submits that the applicant's proposed rates be revised to reflect the January 1, 2010 values.

ACCOUNTING FOR THE IMPLEMENTATION OF THE HARMONIZED SALES TAX

General Background

The Ontario provincial sales tax ("PST") (currently at 8%) and the Federal goods and services tax ("GST") (currently at 5%) will be harmonized effective July 1, 2010, at 13%, pursuant to Ontario Bill 218 which received Royal Assent on December 15, 2009.

The PST is currently an incremental cost applied to the price of goods purchased by an electricity distributor and is included in a distributor's OM&A expenses and capital expenditures. The PST is therefore included in the distributor's revenue requirement and is recovered from ratepayers through the application of distribution rates.

When the PST and GST are harmonized, distributors will pay the HST on purchased goods and service but will now claim an input tax credit for the PST portion. The mechanics of HST as a value added tax means that the distributor will no longer incur that portion of the tax that was formerly applied as PST (i.e. the 8%) on goods purchased. However, the current rates as applied will continue to effect cost recovery as if the PST was still in place. If no action is taken, the distributor will realize a savings in the cost of goods purchased while applying rates which do not reflect those savings.

Sioux Lookout Specific Background

In response to Board staff interrogatory # 8a which asked if Sioux Lookout agrees that a deferral account should be established to capture the reductions in OM&A and capital expenditures, Sioux Lookout stated that "there may be system restrictions to consider if not all items for which PST is now being charged as of July 1, 2010 could be identified and flowed to the variance account."

In response to Board staff interrogatory #8b which asked if there were other alternatives that the Board might consider to reflect the reductions in OM7A and capital expenditures, Sioux Lookout noted that " since we know that the amount would be a an 8% decrease to all capital and OM&A expenditures, maybe it would be possible to develop a formula to capture the decrease and apply it now rather than track it in a variance account."

Submission

Board staff notes that many distributors' comments on the administrative burden and costs of sales tax harmonization are at odds with the provincial and Federal governments' pronouncements regarding the stimulative and competitive results of harmonization. Because the costs and savings are not clear at this point, Board staff submits that tracking of these is warranted at this point to quantify, per government pronouncements, that the potential savings for corporations like Sioux Lookout could be significant. Accordingly, Board staff submits that the Board may wish to consider establishing a deferral account to record the amounts, after July 1, 2010 and until Sioux Lookout's next cost-of-service rebasing application, that were formerly incorporated as the 8% PST on capital expenditures and expenses incurred, but which will now be eligible for an HST Input Tax Credit ("ITC"). The intention of this account would be to track the incremental change due to the introduction of the HST that incorporates an ITC from the 5% to the 13% level. To qualify for this treatment, the cost of the subject items must be in the category of distribution revenue requirement. Tracking of these amounts would continue in the deferral account until Sioux Lookout's next cost of service application is determined by the Board or until the Board provides guidance on this matter, whichever occurs first.

Sioux Lookout would apply to clear the balance in the account as a credit to customers at the next opportunity for a rate change after the account balance information becomes available and is supported by audited financial statements.

In response to Sioux Lookout identified alternative to develop a formula that would apply across distributors, Board staff notes that the PST does not apply to all OM&A expenses and capital expenditures and that the composition of the costs elements for which PST currently applies does vary across distributors.

All of which is respectfully submitted