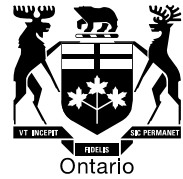


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BY EMAIL

February 17, 2012

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: Sioux Lookout Hydro Inc.
2012 IRM3 Distribution Rate Application
Board Staff Submission
Board File No. EB-2011-0102**

In accordance with the Notice of Application and Written Hearing, please find attached the Board Staff Submission in the above proceeding. Please forward the following to Sioux Lookout Hydro Inc. and to all other registered parties to this proceeding.

In addition please remind Sioux Lookout Hydro Inc. that its Reply Submission is due by February 27, 2012.

Yours truly,

Original Signed By

Georgette Vlahos
Analyst, Applications & Regulatory Audit

Encl.



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2012 ELECTRICITY DISTRIBUTION RATES

Sioux Lookout Hydro Inc.

EB-2011-0102

February 17, 2012

**Board Staff Submission
Sioux Lookout Hydro Inc.
2012 IRM3 Rate Application
EB-2011-0102**

Introduction

Sioux Lookout Hydro Inc. ("Sioux Lookout") filed an application (the "Application") with the Ontario Energy Board (the "Board") on November 25, 2011, 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, 2012. The Application is based on the 2012 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.

In the interrogatory phase, Board staff identified certain discrepancies in the data entered in the application model by Sioux Lookout. In response to Board staff interrogatories, which requested either a confirmation that these discrepancies were errors or an explanation supporting the validity of the original data filed with the application, Sioux Lookout confirmed that they were errors and provided the corrected data. Board staff will make the necessary corrections to Sioux Lookout's model at the time of the Board's Decision on the application.

Sioux Lookout completed the Tax-Savings Workform with the correct rates that reflect the Revenue Requirement Work Form from the Board's cost of service decision in EB-2007-0785. Board staff has no concerns with the workform as filed.

Board staff notes that in its application, Sioux Lookout has requested that the entire tax-savings amount be recorded in USoA 1595 as the calculated rate riders for one or more classes results in energy based kWh rate riders of \$0.0000 when rounded to the fourth decimal place and demand-based kW rate riders of \$0.00 when rounded to the second decimal place. Board staff agrees and submits that the credit of \$1,989 should be booked into USoA 1595 for future disposition.

Sioux Lookout completed the Deferral and Variance Account continuity schedule included in the 2012 IRM Rate Generator Model at Tab 9 for its Group 1 Deferral and

Variance Accounts. Sioux Lookout's total Group 1 Deferral and Variance Account balances amount to a credit of \$130,818 including a credit in the GA Sub-Account of \$63,206, as of December 31, 2010 which includes interest calculated to April 30, 2012. Based on the threshold test calculation, the Group 1 Deferral and Variance Account balances equates to \$0.00181 per kWh which exceeds the threshold, and as such, Sioux Lookout requested disposition of these accounts over a one year period.

Board staff has reviewed Sioux Lookout's Group 1 Deferral and Variance account balances and notes that the principal balances as of December 31, 2010 reconcile with the balances reported as part of the *Reporting and Record-keeping Requirements* ("RRRs"). Also, the preset disposition threshold has been exceeded. Accordingly, Board staff has no issue with Sioux Lookout's request to dispose of its 2010 Deferral and Variance Account balances at this time over the requested one year period.

Sioux Lookout provided a reconciliation of Account 1521 – Special Purpose Charge as requested by Board staff during the interrogatory phase.

Based on Sioux Lookout's reconciliation, Board staff supports Sioux Lookout's request to dispose of the updated balance in this account of a debit of \$2,176. Board staff submits that the Board should authorize the disposition of Account 1521 as of December 31, 2010, plus the amount recovered from customers in 2011, including the appropriate carrying charges to April 30, 2012. Board staff submits that if the Board decides to dispose of account 1521, the disposition should be on a final basis and account 1521 should be closed. Board staff notes that the usual practice by the Board is to dispose of audited deferral and variance account balances. Board staff notes that the Board has approved the disposition of unaudited balances in Account 1521 in both the Horizon (EB-2011-0172) and Hydro One Brampton (EB-2011-0174) 2012 IRM proceedings.

Board staff submits that Account 1521 should be disposed of over a period of one year as requested by Sioux Lookout.

In response to a Board staff interrogatory, Sioux Lookout confirmed that it is not requesting LRAM and/or SSM recoveries for CDM related activities.

Board staff makes detailed submissions on the following matters:

- Smart Meter Funding Adder (“SMFA”); and
- Payments in Lieu of Taxes – PILS 1562.

SMART METER FUNDING ADDER

Background

Sioux Lookout is requesting that the Board approve the continuation of its current SMFA of \$2.91 per metered customer per month on an interim basis only until Sioux Lookout’s stand-alone Smart Meter Application review is completed and final rates are established and approved by the Board.

Sioux Lookout completed 100% of its smart meter installations in 2010, and concluded the implementation of TOU in October of 2011¹. As such, Sioux Lookout intends to file a stand-alone application for the disposition and revenue requirement rate riders by April 30, 2012².

Submission

The Board may wish to consider that the cessation of the SMFA without replacement until the Board can render its decision on a utility’s application for final smart meter cost disposition would create rate fluctuations, and possibly result in customer confusion. Further, until a decision on smart meter cost disposition is rendered, the total deferred revenue requirement would continue to increase in the absence of even partial recovery through an SMFA. .

With this in mind, Board staff submits that the Board may wish to consider continuance of the SMFA with a specific termination date, or until it is replaced by an Smart Meter Disposition Rider and Smart Meter Incremental Rate Rider resulting from the Board’s decision in a stand-alone application seeking disposition of the utility’s smart meter costs. Board staff notes that the SMFA, if approved by the Board, could be continued on a permanent basis, as opposed to the interim basis requested by Sioux Lookout. Although Board staff notes that the SMFA is, by its very nature, an interim charge until a

¹ EB-2011-0102, Application, Sched. 2, Page 3

² EB-2011-0102, Interrogatory Responses, #7(A)

final review has taken place there is no significance as to whether the continuation of a SMFA is on a interim or permanent basis.

Board staff is of the view that there are two options for the Board's consideration if it decides to approve the continuation of Sioux Lookout's SMFA beyond April 30, 2012. Firstly, Board staff notes that establishing a termination date of October 31, 2012 may be reasonable. This will also allow sufficient time for the utility to prepare and file an application in accordance with *Guideline G-2011-0001: Smart Meter Funding and Cost Recovery – Final Disposition* and model, both issued December 15, 2011, and for the Board to process such an application. Board staff notes that if this option were to be approved by the Board, such an application should be filed by no later than May 31, 2012 to allow sufficient time for the application to be processed in time for a November 1, 2012 implementation.

Alternatively, Board staff notes that Sioux Lookout is expected to rebase its rates through a cost of service application for the 2013 rate year, which has been confirmed in the Board's letter issued on January 26, 2012 identifying those electricity distributors expected to file for cost of service applications for the 2013 rate year. Board staff is of the view that establishing a termination date of April 30, 2013 for the SMFA may also be reasonable. This will allow sufficient time for the utility to prepare and file an application in accordance with the guidelines and model noted above.

In its reply submission, Sioux Lookout may wish to discuss the practicality of each option with respect to the continuation of a SMFA beyond the April 30, 2012 sunset date if approved by the Board.

Board staff also notes that, in its decisions for many 2011 EDR applications, the Board capped the SMFA at \$2.50/month per metered customer. Taking into consideration the fact that Sioux Lookout has completed its smart meter deployment and the implementation of TOU, the Board may wish to reduce the SMFA, if approved, from the \$2.91 requested to \$2.50 per metered customer per month, or some lower amount. The SMFA was a tool designed to provide advanced funding and to mitigate the anticipated rate impact of smart meter costs when recovery of those costs is approved by the Board (G-2008-0002). It was not intended to be fully compensatory on a cumulative basis over the term the SMFA was in effect. Reducing the SMFA may help mitigate over-collection on the part of the utility and inhibit the risk of a credit SMDR once a final decision is

rendered for the utility's smart meter costs, while at the same time avoiding a significant increase in the deferred revenue requirement to be recovered by the SMDR when the Board finally approves an application for the disposition of smart meter costs.

PAYMENTS IN LIEU OF TAXES – PILS 1562

Background

The PILs evidence filed by Sioux Lookout in this proceeding includes tax returns, financial statements, Excel models from prior applications, calculations of amounts recovered from customers, SIMPIL³ Excel worksheets and continuity schedules that show the principal and interest amounts in the Account 1562 Deferred PILs balance. In pre-filed evidence, Sioux Lookout applied to refund to customers a credit balance of \$51,982 consisting of a principal credit amount of \$53,412 plus related debit carrying charges of \$1,430. In response to interrogatories, Sioux Lookout filed amended evidence that reflects a refund of \$110,555 consisting of a principal credit amount of \$94,862 plus related credit carrying charges of \$15,693.

History of the 2001 and 2002 Applications and Process

On December 21, 2001 the Board issued filing guidelines to all electricity distribution utilities for the March 1, 2002 distribution rate adjustments. Supplemental instructions were issued on January 18, 2002. The Board issued detailed instructions and several filing models created in Excel to make the application process easier for the distributors. The intent was to have the distributors file in January 2002 and the Board's Orders would be issued in February and March for rates effective March 1, 2002.

"The Board will be reviewing a large number of applications within a very short time period. The Board therefore intends to review first those applications that adhere to these filing guidelines. Applications that do not adhere to these guidelines or contain other proposed changes will be reviewed after those applications that have followed the filing guidelines and do not propose other changes."⁴

Sioux Lookout filed an application, dated January 25, 2002, for an order or orders under section 78 of the *Ontario Energy Board Act, 1998* approving or fixing just and

³Spreadsheet implementation model for payments-in-lieu of taxes

⁴Filing Guidelines for March 1, 2002 Distribution Rate Adjustments, December 21, 2001.

reasonable rates for the distribution of electricity, effective March 1, 2002. Sioux Lookout filed a revised application dated February 15, 2002 and a "Blue Sheet" update to its evidence on March 11, 2002 to eliminate the first tranche of market adjusted revenue requirement ("MARR") from the calculations of the 2002 rates to reflect the Board's 2001 decision described below. The Board issued its decision for this case on March 14, 2002 and approved final rates to be effective March 1, 2002.

In its 2001 application, Sioux Lookout chose to forego the first tranche of MARR.⁵ Due to an oversight caused by the number of revisions to the evidence in the case, the final version of the 2001 RUD Excel model inadvertently included the first tranche of MARR. The Board issued its interim decision with reasons and order on December 17, 2001. Board staff has provided excerpts from the decision:

"The Applicant chose to forego recovery of the first year incremental revenue of \$43,447, which is one third of the amount required to achieve the Target Rate of Return on Common Equity, exclusive of Payment in Lieu of Taxes ("PILS")."⁶

"As no Notice of Application was published, the unbundled rates are just and reasonable on an interim basis."

"THE BOARD ORDERS THAT:

1. The bundled rates declared interim by letter dated February 28, 2001 are hereby approved as final rates for the period March 1, 2001 to May 31, 2001.
2. The bundled rates set out in Appendix "A" of this Order, which include the June 1, 2001 cost of power increase, are hereby approved as final rates for the period June 1, 2001 to February 28, 2002.
3. The unbundled rates set out in Appendix "B" of this Order are hereby approved as interim rates effective March 1, 2002."⁷

⁵ Market Adjusted Revenue Requirement

⁶ RP-2000-0265/EB-2000-0565, Interim Decision with Reasons and Order, December 17, 2001, page 1.

⁷ RP-2000-0265/EB-2000-0565, Interim Decision with Reasons and Order, December 17, 2001, pages 2-3.

Accounting Procedures Handbook (APH) and Frequently Asked Questions (FAQs)

The APH and FAQs are guidelines. APH Article 220 was revised in December 20, 2001 and provided minimum guidance for the use of Account 1562. FAQ April 2003 provided examples of the accounting entries related to Account 1562 Deferred PILs. The year selected for the example was the twelve month complete year of 2003. FAQ April 2003 did not deal with the complexities associated with periods of less than twelve months.

Submission

Start date for recording the PILs proxy entitlement and the amount

As noted above, the Board issued filing guidelines on December 21, 2001 to notify that distributors were to file applications to receive the second tranche of MARR and PILs in January 2002. This application process and timeline were well known to distributors.

In interrogatory #8 Board staff asked why Sioux Lookout had billed customers fewer than eight months at the new rates in 2002 when the Board had ordered rates effective March 1, 2002. Sioux Lookout replied as follows:

“The rates approved for March 1, 2002 were not implemented by a decision made by the Sioux Lookout Hydro Board of Directors until May 1, 2002. This explains why the fixed charges were not calculated for ten months.”

At question is whether the instructions in the APH and FAQs to begin recording the PILs proxy entitlements as at October 1, 2001 and January 1, 2002 should apply to Sioux Lookout. In its December 17, 2001 decision, the Board approved interim unbundled rates to be effective March 1, 2002. The decision dated March 17, 2002 for the 2002 rate adjustment including PILs ordered rates to be effective March 1st and expected prompt implementation. There was no issue of lost revenue to be recovered since the decision date was so close to the effective date. Sioux Lookout voluntarily chose to wait until May 1st to implement the rate order.

Since Sioux Lookout voluntarily chose to implement rates on May 1, 2002, Board staff submits that Sioux Lookout should pro-rate its PILs proxy entitlements in the same time period as it billed its customers for the changed rates as described in the following section.

The 2001 PILs proxy included in 2002 rates was \$39,439. The 2002 PILs proxy was \$123,953 and the combined total was \$163,392.⁸ The period from May 1, 2002 through March 31, 2004 contains 23 billing months. The pro-rated PILs proxy for this 23-month period using the twelve-month total of \$163,392 is \$313,168 ($\$163,392/12 \times 23$). During this same period, Sioux Lookout billed its customers and recovered \$297,242 of PILs.⁹

Board staff submits that the alternative proffered by staff of calculating the PILs proxy with effect from May 1, 2002 is equitable to the ratepayers and to the shareholder. If Board staff's suggestion is accepted by the Board, the credit principal balance to be refunded to ratepayers would be approximately \$115,327. In arriving at this amount Board staff did not include the 2001 SIMPIL model variances, and also pro-rated the 2002 SIMPIL model variances for 8 months to reflect the implementation date of May 1, 2002. Board staff estimates credit interest carrying charges to be \$28,134 for the period up to April 30, 2012 based on the restated principal credit amount of \$115,327 for a total to be refunded of \$143,461.

Board staff submits that this revised credit amount of \$143,461 has been calculated in accordance with the regulatory guidance and the decisions issued by the Board in determining the amounts in Account 1562 Deferred PILs.¹⁰

Board staff invites Sioux Lookout's comments in its reply submission on this proposal and the Board staff's estimated revised credit balance of \$143,461 to be refunded to its customers. Board staff requests that Sioux Lookout file active Excel models with its reply submission to facilitate the final review of its evidence.

All of which is respectfully submitted

⁸ 2002 Application PILs proxy models; and 2002 RAM sheets 6 and 8; filed on December 15, 2011.

⁹ PILs billed to customers calculation_SiouxLookout_revised_20120126.xls. See Tabs 2002, 2003 & 2004.

¹⁰ Decisions in Combined Proceeding, EB-2008-0381 – August 12, 2011; June 24, 2011; December 23, 2010; December 18, 2009. Hydro One Brampton, EB-2011-0174, December 22, 2011. Whitby Hydro, EB-2011-0206, December 22, 2011. Staff Discussion Paper, August 20, 2008.