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June 28, 2013

VIA MAIL and E-MAIL

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

Dear Ms. Walli:

Re: Vulnerable Energy Consumers Coalition (VECC)
Final Submissions: EB-2012-0165
Sioux Lookout Hydro Inc. 2013 Electricity Distribution Rate Application

Please find enclosed the submissions of the Vulnerable Energy Consumers Coalition (VECC) in the above noted proceeding.

Yours truly,

Michael Janigan
Counsel for VECC

cc: Sioux Lookout Hydro Inc. - Deanne Kulchyski - dkulchyski@tbaytel.net

EB-2012-0165

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Sch. B, as amended;

AND IN THE MATTER OF an Application by Sioux Lookout Hydro Inc. pursuant to section 78 of the *Ontario Energy Board Act* for an Order or Orders approving just and reasonable rates for electricity distribution to be effective May 1, 2013.

FINAL SUBMISSIONS

On Behalf of The

VULNERABLE ENERGY CONSUMERS COALITION (VECC)

June 28, 2013

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Vulnerable Energy Consumers Coalition (VECC)

Final Argument Sioux Lookout Hydro Inc. EB-2012-0165

1 THE APPLICATION

1.1 Sioux Lookout Hydro Inc. (SLHI or Sioux Lookout) filed for 2013 rates on February 22, 2013. The last cost of service filing for this Utility was for 2009 rates.[1]

1.2 Sioux Lookout's Conditions of Service currently include a number of construction charges. These charges include material costs and charges for overhead. It is clear from the list of charges that these are in fact rates that should be regulated[2]. For example, a fixed $90.00 rate is charged for "Guarding" for underground development work.

1.3 The revenues of approximately $37,000 in 2012 and $11,000 are not material. In VECC's submission the standard charges which recoup overhead costs are rates and should be removed from the conditions of service, approved (or not) by the Board, and the included on the tariff sheet[3].

Service Reliability

Service Reliability Statistics[4]			
	SAIDI	SAIFI	CAIDI
Excluding loss of Supply			
Total 2012	0.47	0.17	2.77
Total 2011	1.71	0.77	2.23
Total 2010	0.90	0.56	1.60
Total 2009	0.32	0.33	0.99
Including loss of Supply			
Total 2011	7.44	1.77	4.39
Total 2010	10.99	3.57	3.08
Total 2009	0.32	0.33	0.99

[1] EB-2008-0212
[2] 1-VECC-38/Appendix A
[3] 1-VECC-38
[4] Exhibit 2, Appendix 2-D / 2-Staff-10

1.4 VECC believes that a review of reliability indices is an important consideration in a cost of service application. Reliability trends indicate, among other things, whether the capital program of the utility is sufficient and whether the monies are directed toward the greatest need.

1.5 In response to 2-VECC-8, SLHI provided details on the causes of outages. They explained that the customer hours of interruptions for 2011, 2010 and 2009 due to weather/lightning related outages were 74%, 51% and 43% respectively.[5] It is also clear from the reliability statistics that SLHI is highly dependent on, and susceptible to, Hydro One supply interruptions.

1.6 In VECC's submission the reliability statistics do not indicate any trend or concern with undercapitalization or maintenance of distribution plant.

2 RATE BASE

2.1 Sioux Lookout is seeking approval of $6,147,305 in 2013 rate base costs. This includes $4,934,794 in average net fixed assets. This compares to average net book value of $4,626,547 in 2008.[6]

2.2 One (albeit rough) check to the growth of fixed assets during the IRM period is to compare capital additions to customer growth during the same period. In this case Sioux Lookout's slow customer growth since 2008 (0.5%) correlates closely with the slow growth in average net fixed assets (0.66%).

2.3 In VECC's submission the asset additions from 2008 to 2012 appear reasonable and within what would be expected for a slow growth utility.

[5] 2-Staff-10
[6] Exhibit 2, Tab 1, Schedule 1, Table 1.1 / RRWF Excel V3 20130604

Capital Expenditures

Chapter 2 Appendices Excel Filing Source: Filed June 3, 2013	2008 CGAAP	2009 CGAAP	2010 CGAAP	2011 CGAAP	2012 Bridge (Original Filing)	2012 Bridge (Updated) CGAAP	2013 Test Year CGAAP
Overhead **Sub-Total**	159,361	171,493	198,120	183,763	*131,381*	190,598	61,341
Underground **Sub-Total**	61,620	37,922	47,265	43,199	*31,763*	27,754	94,152
Transformers **Sub-Total**	135,197	6,590	78,948	52,050	*46,948*	88,816	59,767
Meters **Sub-Total**	2,047	95,936	57,207	6,478	*7,381*	11,628	1,680
Vehicles **Sub-Total**	68,430	31,183	0	0	*89,116*	35,425	0
Power Operated Equipment **Sub-Total**	0	0	23,400	0	*0*	0	86,000
Computer Hardware/Software **Sub-Total**	0	21,865	0	22,500	*5,381*	5,381	0
Miscellaneous	16,981	21,768	5,526	9,740	*22,720*	17,346	17,000
Contributed Capital	-83,680	-96,209	-112,799	-73,975	*-92,000*	-84,053	-92,000
Total	**359,956**	**290,548**	**297,666**	**243,754**	***242,692***	**292,895**	**227,940**

2.4 SLH's 2012 forecast capital budget underestimated spending by approximately $50k. The reasons for this upward adjustment are provided at 2-Staff-33s. No adjustment was made to the 2013 capital spending for the change in 2012 spending.[7]

2.5 Board staff have raised questions as to the appropriateness of the purchase of a backhoe with a "brush hog". While the amount is proportionately large for this purchase as compared to other vehicles additions, in our submission the Applicant

[7] 2-VECC-3

has adequately explained the prudence of this acquisition[8].

2.6 In VECC's submission the 2013 capital program of the Utility is consistent with past expenditures and consistent with the needs to maintain service quality.

Working Capital

2.7 Sioux Lookout proposes to use the 13% of controllable costs default allowance set by the Board. VECC submits that a rate of 12% of controllable costs should be used instead.

2.8 SLH performs monthly billing to its customers. The Board's default rate was established when most utilities offered bi-monthly billing. Utilities that perform monthly billing have a larger cash flow than bi-monthly billing utilities and therefore a lower need for working capital. Monthly billing Utilities, such as London Hydro, which have recently completed lead-lag studies have shown much lower working capital requirements of 11.4% of controllable costs.[9]

2.9 VECC is mindful of the recent decision for Center Wellington Hydro Ltd. EB-2012-0113 in which the Board expressed its concern in adopting results of another utility's lead-lag study[10]. However, we continue to hold that a working capital allowance of between 11 to 12% of controllable costs provides adequate coverage for utilities which bill on a monthly basis. We would encourage the Board to review the default working capital policy so as to consider the cash requirement difference between monthly and bimonthly billing utilities.

[8] 2-Staff-7
[9] See London Hydro EB-2012-0146
[10] EB-2012-0113, pg.4

LOAD FORECAST

2013 Forecast Customer Count

2.10 In the initial Application, the forecast customer count for each class is determined by applying the historical geometric mean growth rate (2003-2011) to the actual 2011 customer count[11].

2.11 In response to 3-VECC-13 Sioux Lookout provided the actual 2012 year-end and 2012 average customer count by class. The total actual 2012 average customer count is marginally higher than the forecast for 2012[12] (3287 versus 3284). In response to 3-VECC-40 Sioux Lookout indicated that its 2013 customer count forecast should be revised for the GS<50 and GS>50 classes so as to match the average actual customer count for 2012 and proposed to do so when rates were finalized. This would increase the forecast 2013 customer count for GS<50 from 374 to 386 and decrease the forecast 2013 customer count for GS>50 from 56 to 51.

2.12 VECC notes that for the GS>50 class both the 2012 average and year-end customer count values are 51. As a result, VECC agrees that it is reasonable to revise the 2013 customer count forecast down to 51 as proposed by Sioux Lookout. However, in the case of GS<50 the 2012 year-end customer count is higher than the average annual number (391 versus 386)[13]. In this case, VECC submits it would be more reasonable to base the 2013 customer count on the 2012 year-end value. Finally, VECC notes that customer count for the USL class has declined to one by 2012 year-end, as Sioux Lookout has been installing meters on these connections[14]. As a result, the 2013 customer count for the USL class should be revised to one.

[11] Exhibit 3, Tab 2, Schedule 1, page 12
[12] Sioux Lookout's forecasts are baaed on average annual values - Exhibit 3, Tab 2, Schedule 1, page 3
[13] VECC #13
[14] Staff 12 and Staff 35s

2.13 The following table summarizes the 2012 actual customer count and the 2013 forecast customer count by class as filed in the initial application, as revised by Sioux Lookout during the IR process and as recommended by VECC.

	SIOUX LOOKOUT CUSTOMER COUNT				
	2012 Actual		2013 Average		
	Average	Year End	Application	Revised (per IRs)	VECC Recommendation
Residential	2316	2312	2323	2323	2323
GS<50	386	391	374	386	391
GS>50	51	51	56	51	51
Street Lights	532	532	531	531	531
USL	2	1	2	2	1
Total	3287	3287	3286	3293	3297
Sources:	2012 Actual - VECC #13				
	2013 Application - Exhibit 3, Tab 2, Schedule 1, page 4				
	2013 Sioux Lookout Revisions - VECC #40				

Volume Forecast (Prior to CDM Adjustments)

2.14 Sioux Lookout's load forecast is prepared on a total purchase basis using regression analysis. The utility attempted to develop its load forecast on customer class basis but found that the individual class approach did not provide a prediction formula that was as good as the power purchased model[15]. The purchased power model used weather, Ontario GDP and a Pulp Mill flag as explanatory variables. This last variable was meant to capture whether a major pulp mill customer in its service area was either not operating or operating at half capacity during parts of the historical period. The mill is not expected to be in operation during the 2013 test year. The overall regression model proved to be robust with a reasonably high Adjusted R Square and with all the coefficients for the explanatory variables being statistically significant and having the intuitively correct signs[16].

[15] Exhibit 3, Tab 1, Schedule 1, page 1
[16] Exhibit 3, Tab 2, Schedule 1, pages 7-8

2.15 The resulting forecast for 2013 power purchases is 77.6 GWh, based on weather normal 12 year average[17]. This translates into 74.3 GWh of billed energy prior to any adjustment for CDM[18].

2.16 During the interrogatory process Sioux Lookout updated its regression analysis to include the actual GDP values for 2011 and the most recent GDP projection for 2012 and 2013. The results proved to also be robust and the projected purchases for 2013 increased slightly to 77.7 GWh[19].

2.17 During the interrogatory process Sioux Lookout also provided the results for a number of other model specifications such as excluding the pulp mill load entirely and/or excluding an intercept value from the specification[20]. In each case the results proved to be unsatisfactory[21].

2.18 Overall, VECC submits that the Board should adopt the results of Sioux Lookout's updated power purchase model as submitted in response to VECC #11 and the resulting 2013 power purchase value of 77.7 GWh (prior to any CDM adjustments). VECC also submits that it is appropriate to convert this to billed kWh using the average historical load factor of 1.0466 as done by Sioux Lookout[22].

Volume Forecast (Including CDM Adjustment)

2.19 In its initial Application, Sioux Lookout included in its CDM adjustment the (full year) net impacts anticipated from 2012 and 2013 CDM programs (1,024,760 kWh). SHLI assumed that the impact of 2011 and prior years' programs were already captured in the regression analysis underling the power purchase

[17] Exhibit 3, Tab 2, Schedule 1, pages 7-10
[18] Exhibit 3, Tab 2, Schedule 1, page 11
[19] VECC #11
[20] VECC #12, Staff #11 and Staff #34s
[21] As noted in the referenced IRs, either the resulting equation was not as robust or the results were viewed as being "too good to be true".
[22] Exhibit 3, Tab 2, Schedule 1, page 11

prediction[23].

2.20 During the interrogatory process Board Staff questioned[24] whether:

a) The adjustment should recognize that CDM programs do not have a "full year's" impact in the year they are implemented. This would lead to incorporating only ½ of the anticipated impact from 2013 programs in the 2013 CDM adjustment.

b) The adjustment should be based on gross as opposed to net CDM savings.

2.21 In its responses[25], Sioux Lookout took the position that:

a) Since the LRAMVA amount is the amount that represents the level of adjustment made to the load forecast for CDM and it is based on the OPA results which are annualized values the actual CDM adjustment included in the load forecast should be similarly calculated (i.e. no ½ year adjustment).

b) The CDM adjustment should be based on "net" programs results.

2.22 VECC understands Sioux Lookout's interest in maintaining consistency between the values used for the LRAMVA amount and the values used for the load forecast CDM adjustment. However, in this case, it is clear that, for the initial year of a CDM program's implementation the OPA's reported results do not reflect the actual savings for that year but rather an "annualized" amount. VECC also appreciates the Board's desire to rely on these reported results in the ultimate LRAM calculations and the need, thereby, to base the LRAMVA amounts on these values. However, it is clear that these values will overstate the actual CDM impacts in the first year of a programs implementation. VECC submits that "two wrongs do not make it right" and that the CDM adjustment for the load forecast should incorporate the ½ year rule. VECC notes that use of the ½ year rule was adopted by the Board in its recent Decision regarding Centre Wellington's 2013 rates[26].

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[23] Exhibit 3, Tab 2, Schedule 1, page 15
[24] Staff #13 and Staff 36s
[25] Staff #13 and Staff 36s
[26] Board Decision, EB-2013-0113 page 6

2.23 VECC agrees with Sioux Lookout that the CDM adjustment should reflect “net” CDM program impacts. This view is based on the following observations:

- First, the difference between the net and gross CDM savings represents savings from participation in CDM programs by those customers who would have undertaken the CDM activity even if the program/program incentive had not been provided. Indeed, this “difference” represents only a portion of the total conservation activity that would have and will be undertaken by Sioux Lookout’s customers even if there were no CDM programs (commonly referred to as “natural conservation”). The calculated “difference” net and gross arises only because there are CDM programs, it does not represent additional CDM that will actually occur because the CDM programs are offered. As a result, there is no logical basis for adjusting the load forecast for this “difference”.
- Second, similar types of activities have taken place historically and impacted the actual energy usage data used to develop the load forecasts for each customer class. As a result, it can be concluded that the power purchased forecast developed by Sioux Lookout already reflect the impacts and trends associated with such “natural” conservation activities (i.e. CDM activity that would have occurred without the benefit of CDM programs and/or incentives).
- Third, even if there was assumed to be a demonstrated difference between the past and future trends in natural conservation, the difference between the net and gross impacts associated with assumed 2012 and 2013 CDM programs will not, in any way, reflect this change in “natural” conservation. By definition “natural” conservation is independent of the level of CDM programing and, therefore, future levels cannot be linked to the level of CDM programming. Indeed, it could well be the case that the level of natural conservation is declining, but the net versus gross difference could still be increasing if the assumed level of CDM programming increased.
- Fourth, in its Decision regarding Centre Wellington’s 2013 rates the Board specifically concluded[27] that the CDM adjustment should be based on “net” as opposed to “gross” results. Similarly, in various Decisions issued by the Board

[27] Board Decision, EB-2013-0113 page 7

for 2011, 2012 and 2013 cost of service rate applications the CDM adjustment to the load forecast was based on the assumed net impact of CDM programs:

- o Kenora Hydro’s 2011 Rates (EB-2010-0135 Decision, page 11)
- o Parry Sound Power’s 2011 Rates (EB-2010-0140 Decision, page 8)
- o Atikokan Hydro’s 2012 Rates (EB-2011-0293 Decision, page 8)
- o Chapleau Public Utilities’ 2012 Rates (EB-2011-0322 Decision, page 7)
- o Espanola Regional Hydro’s 2012 Rates (EB-2011-0319 Decision, page 4)
- o Hydro 2000’s 2012 Rates (EB-2011-0326 Decision, page 5)
- o Enersource Hydro Mississauga’s 2013 Rates (EB-2012-0033 Decision, pages 27-29).

2.24 Finally, VECC agrees with Sioux Lookout that the predicted purchase forecast developed using the regression model already incorporates the impact of 2011 CDM programs.

2.25 Overall, VECC submits that the CDM adjustment for 2013 should be 768,570 kWh based on the anticipated full year impact of the 2012 CDM programs (512,380 kWh) plus ½ the anticipated impact of the 2013 CDM programs (512,380 x ½ = 256,190 kWh)[28].

2.26 With respect to the LRAMVA amount,, VECC submits that it should be based on the 1,086,257 kWh as agreed to by Sioux Lookout in response to Board Staff 13 c) which reflects the 2013 persisting savings from the 2011 programs (61,496 kWh) plus the assumed impact in 2013 from the 2012 and 2013 programs (512,380 X 2 =1,024,760 kWh)[29].

[28] Staff 13
[29] Staff 13

3 REVENUE OFFSETS

3.1 The projected 2013 revenue offsets in Sioux Lookout's Application are $129,025[30]. This value has remained unchanged throughout the interrogatory process.

3.2 VECC's only concern with Sioux Lookout's Revenue Offset forecast is that it appears the $20,002 in Interest and Dividend Income may include Interest Revenue associated with Variance Accounts[31]. Sioux Lookout should clarify this in its Reply Submissions.

4 OPERATING COSTS

Source: June 3 Chapter2 Appendices V1.1 20130603	**Last Rebasing Year (2008 BA)**	**Last Rebasing Year (2008 Actuals)**	**2009 Actuals**	**2010 Actuals**	**2011 Actuals**	**2012 Bridge Year**	**2013 Test Year**
Reporting Basis	**CGAAP**	**CGAAP**	**CGAAP**	**CGAAP**	**CGAAP**	**MCGAAP**	**MCGAAP**
Operations	421,827	426,324	396,303	493,191	479,053	584,640	628,363
Maintenance	87,281	91,130	94,702	116,678	106,053	320,616	201,605
Billing and Collecting	349,826	365,700	381,340	310,460	265,561	298,102	316,965
Community Relations							
Administrative and General	260,892	263,826	267,718	240,621	319,541	391,805	407,460
Total	**1,119,826**	**1,146,980**	**1,140,063**	**1,160,950**	**1,170,208**	**1,595,163**	**1,554,393**

4.1 We have reproduced above SHLI's historical and forecast OM&A costs. No change was made to the initial filing. Since 2009 OM&A has grown between 35% and 38% depending on whether one starts from Board approved or actual 2009 OM&A spending respectfully.

[30] Exhibit 6, Tab 1, Schedule 1, page 2
[31] Appendix 2-F

4.2 It has been VECC's practice to perform an "expected growth test" on a utility's OM&A costs. The purpose of this analysis is to understand the reasonableness of the increase in costs since the since the last cost of service application (in this case 2009 Board approved). The first part of this test is to consider what OM&A might have increased by for the cost of new customer additions and inflation. From this are subtracted productivity assumption based on the Board's IRM policies. The second part of the test examines what, if any, incremental responsibilities the utility has had to take on since the time of the last rebasing. The cost of these new incremental responsibilities is added to the expected growth results to provide a final expected OM&A estimate for the test year.

4.3 As discussed in paragraph 2.2 above VECC has calculated customer growth for Sioux Lookout as less than 0.05% (half a percent) since 2009.

4.4 As an inflation factor VECC has used an estimate of an average of 1.9% per annum or 7.6% for the four year period 2009 to 2013.[32]

4.5 The combined expected growth for the customers increase and inflation would be approximately 8% or a dollar increase of $90,000 (rounded up).

4.6 The increase of $90,000 does not impute any savings that should have occurred due to productivity increases during the IRM period. If one applies the productivity offsets of 0.72% as provided by the Board's IRM policy over the four year period this would reduce the expected growth by approximately 3% (300 basis points). A related Board IRM adjustment is a "stretch factor". Sioux Lookout falls in cohort 2 and has had a stretch factor of 0.4% in previous years.[33] This would adjust downward the expected growth by an additional 1.5% (150 basis points). The combined result is that the expected growth when offset for productivity assumptions should be 3.5% (8% - 4.5%).

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[32] This amount has been used by VECC in previous 2013 rate cases and more recently in the Centre Wellington Hydro Ltd. EB-2012-0113 where the Board adopted the same methodology.

[33] See the Ontario Energy Board commissioned, Third Generation Incentive Regulation Stretch Factors (Fenrick) various reports / OEB Letter to Licensed Distributors November 28, 2012.

4.7 A 3.5% expected increase in OM&A would yield an increase from the 2008 Board approved OM&A of $40,000 (again, rounded up).

4.8 In moving from GCAAP to MIFRS (or in this case modified CGAAP) changes to capitalization policy can impact OM&A. In this Application the change in capitalization policy accounts for an upward adjustment of approximately $40,000 in OM&A costs[34]

4.9 Adding together the expected growth results with the impact of the new capitalization policy would result in an $80,000 increase in OM&A from the Board Approved amount.

4.10 VECC holds that utilities should be able to recover costs for any responsibilities that have arisen since the time of their last cost of service rebasing. In this Application the only incremental responsibility identified was that related to smart metering.

4.11 The total incremental costs related to ongoing use of smart meters is $78,832 whereas the offsetting cost reductions related to reduced meter reading expenses is $75,800.[35] The result is that the net incremental OM&A costs of smart meters is $3,032. In VECC's experience this is nominal change is much lower than many of the 2012 and 2013 cost of service filers.

4.12 It is not clear that SHLI has not incurred higher costs in the transition to smart metering. It appears that Sioux Lookout may not have been able to achieve the FTE savings related to lower meter reading costs. SHLI has also increased costs due to succession planning. These costs are detailed in our submission at paragraph 5.18 below. The Applicant has also proposed only modest increases related to the Green Energy Act, CDM and other regulatory costs incurred since 2009. In light of these factors VECC submits that a further $150,000 upward

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[34] Exhibit 4, Tab 2, Schedule 3, Table 4.5 shows a cost driver in 2012 of $39,127 related to the change in capitalization policy. However, Exhibit 4, Tab 4, Schedule 1, pg.3 Table 4.4.1 shows an adjustment of only 12k for 2012. We have chosen to use the higher of the two figures.

[35] 4-VECC-16, 4-VECC-44

adjustment should be added to the expected growth results.

4.13 The net result of this analysis is to add $230,000 to the 2008 Board approved OM&A. This would result in a 2013 OM&A figure of $1,349,826 or rounded up to $1.35 million. As such it represents a reduction in the OM&A sought by the Applicant of $204,567.

4.14 While this amount may seem high in comparison to the total OM&A costs VECC invites the Board to consider the significant increase in OM&A costs from 2011 to 2012. If the Board were to approve an OM&A amount of $1.35 for 2013 this would still represent an increase of more than 15% from 2011 OM&A spending.

4.15 In support of the proposed OM&A reduction VECC makes a number of observations below. The purpose of these additional submissions are not to argue for specific changes to the OM&A budget. VECC supports an envelope approach which leaves to utility management the discretion to adjust its OM&A budget as it sees fit. Rather we hope the analysis provides comfort to the Board that the Applicant should be able to make the proposed OM&A reductions without adversely affecting plant investments or utility service.

HR Costs

4.16 SLHI is seeking to recover $84,746 in confidential human resource costs incurred in 2012. The amortized value of this is $21,187. No explanation was given as to why these past costs are appropriately recovered in the test year[36]. In VECC's submission these are out of period costs and not recoverable in 2013 rates.

Regulatory Costs

4.17 Sioux Lookout identified $77,245 in costs related to the 2013 rate application. However they also stated that the actual consulting costs to-date for the Application were $7,415 due to the completion of much of the Application

[36] Exhibit 4, Tab 1, Schedule 1, pg.6 / 4-VECC-18

internally[37]. In VECC's submission SLHI could reduce its regulatory budget by a minimum of $15,000 per annum.

Membership Costs

4.18 EDA Membership costs (shown below) should not, in VECC's submission be an allowable OM&A expense[38]. Membership in this association is, in VECC's submission to advance the interest of the shareholder of the Utility. As such they are not costs appropriately borne by ratepayers.

	2009	2010	2011	2012	2013
EDA Membership Fees	$ 6,850	$ 7,150	$ 7,380	$ 7,800	$ 8,200

Other factors arguing for a reduction in OM&A costs

4.19 The table below shows that Sioux Lookout is a high cost utility as compared to its cohort[39].

OM&A Per Customer and FTE For 2011							
	Sioux Lookout Hydro Inc.	Atikokan Hydro	Chapleau Public Utilities	Espanola Regional Hydro	Fort Frances Power	Kenora Hydro	Hearst Power
Number of Customers	2,755	1,661	1,293	3,299	3,775	5,572	2,817
Total recoverable OM&A	$1,170,206	$937,444	$549,332	$1,075,948	$1,325,587	$2,016,125	$869,260
OM&A Cost per Custom	**$424.76**	**$564.39**	**$424.85**	**$326.14**	**$351.15**	**$361.83**	**$308.58**
Number of FTEEs	8	7	5	5	9	15	6
Customers/FTEEs	**344**	**237**	**259**	**660**	**419**	**371**	**470**
OM&A Cost per FTEE	**$146,275.75**	**$133,920.57**	**$109,866.40**	**$215,189.60**	**$147,287.44**	**$134,408.33**	**$144,876.67**

4.20 Finally, we would draw the Board's attention to the fact that Sioux Lookout has managed to achieve healthy returns since 2010. This includes 2012 with the higher OM&A costs and under which the LDC achieved actual ROEs of 9.22% (see paragraph 6.1 below).

[37] 4-VECC-19
[38] 4-VECC-25
[39] 4-VECC-17

4.21 We also note that between 2009 and 2012 SLH has paid out dividends to its shareholder, the Municipality of Sioux Lookout in amount of $887,000.[40]

Compensation

4.22 While the FTE count of the Utility has changed by only 1 position it is clear that SLHI has undergone some significant challenges in relations to staffing. We have provided below an abridged version of Appendix 2-k showing the summary of compensation costs.

4.23 SLHI has hired one incremental Apprentice Lineman (2 linemen were actually hired but one was to replace a vacated position). The lineman was hired in 2012 for succession planning purposes and the overlap period for the two positions is 4-5 years[41]. The additional linesman accounts for $73,279 in incremental costs.[42] SLHI also reclassified the position of meter reader to a groundsman. While it is not explicitly stated as such it implies it is clear that savings from reduced meter reading costs have not actually occurred due to the retention of the former meter reader.

Source: Excel Chapter 2 Appendices V1.1 20130603	Last Rebasing Year (2008 Board-Approved)	Last Rebasing Year (2008 Actuals)	2009 Actuals	2010 Actuals	2011 Actuals	2012 Bridge Year	2013 Test Year
Reporting Basis	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP	MCGAAP	MCGAAP
Number of Employees (FTEs including Part-Time)[1]							
Executive	1	1	1	1	1	1.20	1
Management	1	1	1	1	1	1.00	1
Non-Union						0.42	1
Union	5	6	6	6	6	5.75	6
Total	7 (+1 partime)	8	8	8	8	8.37	9

40 0-Shields-1
41 4-VECC-28
42 4-Staff-17

Number of Part-Time Employees							
Total Salary and Wages							
Union	474,644	531,188	589,810	602,342	612,696	703,255	641,205
Total	474,644	531,188	589,810	602,342	612,696	703,255	641,205
Current Benefits							
Union	35,847	67,911	81,159	82,787	97,995	102,140	98,689
Total	35,847	67,911	81,159	82,787	97,995	102,140	98,689
Accrued Pension and Post-Retirement Benefits							
Union		84,458	82,964	88,222	82,521	48,240	45,551
Total	0	84,458	82,964	88,222	82,521	48,240	45,551
Total Benefits (Current + Accrued)							
Union	35,847	152,369	164,123	171,009	180,516	150,380	144,240
Total	35,847	152,369	164,123	171,009	180,516	150,380	144,240
Total Compensation (Salary, Wages, & Benefits)							
Union	510,491	683,557	753,933	773,351	793,212	853,635	785,445
Total	510,491	683,557	753,933	773,351	793,212	853,635	785,445
Compensation - Average Yearly Base Wages							
Union	62,563	66,399	73,726	75,293	76,587	84,021	71,245
Total							
Compensation - Average Yearly Benefits							
Union	5,121	8,489	10,145	10,348	12,249	12,203	10,965
Total							
Total Compensation	**510,491**	**683,557**	**753,933**	**773,351**	**793,212**	**853,635**	**785,445**
Total Comp Capitalized (CGAAP)		54,788	75,782	73,964	94,913	99,595	94,779
Comp to OM&A CGAAP/MCGAAP 2013	510,491	628,769	678,151	699,387	698,299	754,040	690,666

4.24 VECC is sympathetic to the issues faced by SHLI in dealing with the issues of succession and redundancy in a small utility and small rural community. We also note that Sioux Lookout has managed to maintain its labour complement to the equivalent of 1 of 1.5 FTEs. We note that many, if not most electric LDCs in the province have shown equal if not greater increases due to larger regulatory burden they faced since 2009. For this reason we think it reasonable and prudent to allow SHLI to increase its OM&A for an increased compliment. We would avoid spurious accuracy of these costs and consider something in the range of $150,000 to be a reasonable adjustment for upward FTE pressures.

LEAP Funding

4.25 Sioux Lookout is forecasting an expense of $2,455 for the LEAP program. Based on the latest filed Service Revenue Requirement before revenues of $2,107,083 the LEAP amount should be $2,500 (rounded).

Green Energy Plan

4.26 SLHI has stated that its GEA plan has no forecasted capital or OM&A costs for the test year[43]. VECC has no submissions on this issue.

Depreciation/Amortization

4.27 SLHI is seeking $182,535 in Amortization costs. VECC has no submission is respect to depreciation and amortization expenses.

Taxes

4.28 SLHI is seeking $2,397 in income taxes (PILS) and $4,986 in property taxes. VECC submits these amounts are reasonable. An explanation of the revised PILS amount is found at 4-Staff-40.

5 COST OF CAPITAL

5.1 As shown in the table since 2010 Sioux Lookout has been able to make a reasonable return. SLHI notes that the reason for its low return on equity in 2009 was the impairment and subsequent write of goodwill of $300,979 in 2009 and related to the closing of McKenzie Forest Products.

Actual and Deemed Rates of Return on Equity				
Description	**Year**			
	2009	**2010**	**2011**	**2012**
Actual ROE	3.16%	13.65%	9.67%	9.22%
Deemed ROE	8.57%	8.57%	8.57%	8.57%

[43] Exhibit 4, Tab 1, Schedule 1

5.2 Below is a reproduced Table 5.1 which shows the proposed cost of capital.[44]

	(%)	($)	(%)	($)
Debt				
Long-term Debt	56.00%	3,442,491	4.12%	141,831
Short-term Debt	4.00%	245,892	2.07%	5,090
Total Debt	60.00%	3,688,383	3.98%	146,921
Equity				
Common Equity	40.00%	2,458,922	8.98%	220,811
Preferred Shares	0.00%	0	0.00%	0
Total Equity	40.00%	2,458,922	8.98%	220,811
Total	**100.00%**	**6,147,305**	**5.98%**	**367,732**

Long-term Debt

5.3 In the original filing Sioux Lookout requested a long-term debt rate of 3.44%. This rate was calculated based on two CIBC loans, one loan with a principle amount of $1,763,851 and at a rate of 3.0% and the second with a principle amount of $618,942 and an interest rate of 4.70%[45]. SLHI subsequently updated the cost of capital parameters and changed the long-term debt rate to the Board's default value of 4.12%.[46] It is unclear why this change was made as no change appears to have been made to the third-party loan agreements.

5.4 In VECC's submission SHLI should revert back to the original filed 3.44% rate for long-term debt based on its evidence of third-party loans.

6 COST ALLOCATION

Cost Allocation Methodology

6.1 In its Application, Sioux Lookout has used the latest Board approved Cost Allocation model and LDC specific weighting factors for Services and Billing &

44 5-VECC-30
45 Exhibit 5, Tab 1, Schedule 2, Table 5.3, pg.7
46 5-Staff-23 and 5-VECC-30.

Collecting[47]. Sioux Lookout has also updated the weighting factors for Meter Capital and Meter Reading to account for the installation of smart meters[48]. However, for purposes of establishing the load profiles and resulting demand allocation factors for each customer class, Sioux Lookout continues to use the load profile data from its original informational filing scaled to match the load forecast[49].

6.2 Overall, VECC submits that Sioux Lookout's cost allocation methodology is appropriate for determining the revenue to cost ratios for 2013. However, VECC also submits that the methodology is not sufficiently improved[50] to justify moving the revenue to cost ratio closer to 100% than is currently required by the March 2011 Report the Board ("Review of Distributor Cost Allocation", EB-2010-0219).

Use of the Cost Allocation Study Results in Setting 2012 Rates

6.3 The following table sets out the 2013 Status Quo Revenue to Cost (R/C) ratios for each customer class based on the Cost Allocation model and the ratios proposed by Sioux Lookout for 2013 in the initial Application.

REVENUE TO COST RATIOS – STATUS QUO AND PROPOSED per APPLICATION		
Customer Class	**2013 Status Quo R/C Ratios**	**2013 Proposed R/C Ratios**
Residential	90.31%	96.36%
GS<50	115.16%	109.87%
GS 50-4999	138.60%	119.85%
Street Lighting	83.0%	74.91%
USL	81.01%	80.93%

Source: Exhibit 7, Schedule 2, page 3

[47] Exhibit 7, Schedule 1, page 2 and VECC #32
[48] Exhibit 7, Schedule 1, page 3
[49] Exhibit 7, Schedule 2, page 1
[50] The improvements in weighting factors used are offset by the use of what are now considerably more dated load profiles.

6.4 As a result of the Interrogatory process Sioux Lookout updated its proposed 2013 revenue requirement, filed a revised 2013 Cost Allocation and submitted a revised proposal for the 2013 Revenue to Cost ratios. The revised results and proposal are set out below.

REVENUE TO COST RATIOS – STATUS QUO AND PROPOSED per SUPPLEMENTARY INFORMATION REQUEST RESPONSES		
Customer Class	**2013 Status Quo R/C Ratios**	**2013 Proposed R/C Ratios**
Residential	90.34%	96.35%
GS<50	115.15%	109.85%
GS 50-4999	138.31%	119.84%
Street Lighting	83.08%	74.91%
USL	81.3%	80.96%

Source : Supplemental Interrogatory Responses, Appendix 2-P

6.5 In its November 2007 Report (Application of Cost Allocation for Electricity Distributors, EB-2007-0667) the Board expressed the following views[51]:

> Distributors should endeavour to move their revenue-to-cost ratios closer to one <u>if this is supported by improved cost allocations</u>. However, if a large increase is required to move closer to one, rate mitigation plans should be proposed by the distributor. <u>Distributors should not move their revenue-to-cost ratios further away from one</u> (emphasis added).

[51] Page 7

6.6 In its March 2011 Report (EB-2010-0219) the Board set out target ranges for revenue to cost ratios for each customer class[52]. In that same Report the Board stated:

> As indicated in its September 2, 2010 letter, the Board expects that with the installation of smart meters and the availability of sufficient smart meter data, better cost allocators for the CA Model will become available and a more comprehensive review of the Board's cost allocation policies will become feasible. The Board anticipates that such a comprehensive review may provide an opportunity to further refine its target ranges. In the meantime, the Board's policy remains that distributors should endeavour to move their revenue-to-cost ratios closer to one <u>if this is supported by improved cost allocations</u> (emphasis added).

6.7 In its Decision regarding Toronto Hydro's 2011 rates[53], the Board made the following findings regarding the application of this policy:

> The Board finds that the proposed revenue-to-cost ratios are not appropriate and are not consistent with the Board's revenue-to-cost policy report (EB-2007-0667). In that report, the Board set out that an incremental approach is appropriate and that a range approach is preferable to implementation of a specific revenue-to-cost ratio. The Board also stated that distributors should endeavour to move their revenue-to-cost ratio closer to one if this is supported by improved cost allocations. THESL did not file updated or improved cost allocation information and continues to rely on 2006 information to define the load profiles for certain customer classes.
>
> Based on these findings and those set out above, the Board directs THESL to recalculate the starting revenue-to-cost ratios by customer class. For those customer classes with starting revenue-to-cost ratios greater than or less than the upper or lower end of the range provided by the Board in EB-2007-0667, THESL is directed <u>to move the customer class ratio to the upper or lower boundary, as appropriate, and to adjust other class ratios only as required to reconcile with the overall approved revenue requirement</u> (emphasis added).

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[52] Page 36. See also Exhibit 7, Schedule 2, page 3 of the Application
[53] July 7, 2011 Decision, EB-2010-0142,page 40

6.8 Similarly, in its Decision regarding Horizon's 2011 Rates the Board made the following findings[54]:

> The Board finds, however, that the proposed revenue-to-cost ratios are not appropriate and not consistent with the Board's revenue to cost policy, which establishes ranges of tolerance around revenue-to-cost ratios of one and adopts an incremental approach, whereby changes to revenue-to-cost ratios within the range are to be supported by improvements to the cost allocation model.
> The Board is of the view that updating the pre-existing cost allocation model with test year data is an insufficient "improvement" for the purpose of supporting the movement within class ranges, as the Board recognizes that the results will vary somewhat due to data limitations and volatility.
> For those customer classes with starting revenue-to-cost ratios greater or less than the upper or lower end of the range provided by the Board in EB-2007-0667, Horizon is directed to move the customer class ratio to the upper or lower boundary, as appropriate, and to adjust the other class ratios only as required to reconcile with the overall approved revenue requirement (emphasis added).

6.9 VECC following submissions are based on the application of the principles as set out in these Reports and Decisions. First, based on the foregoing directions, VECC agrees with Sioux Lookout's proposal to reduce the revenue to cost ratio for the GS>50 class to roughly 120% - the upper end of the range for this class. Such a move is consistent with the direction of both the Board's policy reports on cost allocation and its previous decisions.

6.10 VECC does not agree with Sioux Lookout's proposal to reduce the revenue to cost ratio for GS<50 from 115.10% to 109.87%. In VECC's view the cost allocation methodology, as applied by Sioux Lookout has not improved so as to warrant moving the ratio closer to one than required by the Board's policy range. While there has been some refinement in the weighting factors used for certain costs, VECC submits this "improvement" is more than offset by the fact that Sioux Lookout continues to use the original customer class load profiles which were developed using 2004 data and are considerably more dated than at the time of the its last cost allocation filing. VECC submits that, consistent with the Board's

[54] July 7, 2011 Decision, EB-2010-0131, page 43

policy and its Decision regarding Toronto and Horizon, the ratio for this class should be maintained at 109.87%[55] and changed only if necessary to maintain revenue neutrality which is not the case in the current circumstances...

6.11 VECC also does not agree with Sioux Lookout's proposals with the respect to reducing the revenue to cost ratios for Street Lighting and USL – particularly the former where the reduction is not insignificant. In each case the proposal moves the ratio further away from unity which is in direct contravention to the Board's November 2007 Report (see above).

6.12 The proposal to reduce the ratio for GS>50 suggests that the ratio for one or more classes must increase in order to maintain revenue neutrality. Out of three classes with ratios of less than one, the ratios for these two classes (Street Lighting and USL) are the lowest[56] and, in both cases, close to the lower end of the Board's target range for the class. As a result, VECC submits that these two classes ratios should be increased so as to help address the reduced revenues planned from the GS>50 class. Recognizing that the ratio for Residential is currently much closer to one than that of either of these two classes, VECC submits that a reasonable approach would be to increase the ratios for all three classes but in a manner that applies larger adjustments to Street Lights and USL.

6.13 One approach would be to increase the ratios for Street Lights and USL up to the status quo value for Residential and, then, increase all three ratios in tandem until revenue neutrality is achieved.

6.14 A second approach, which would follow the same general principle, but ameliorate the impact on Street Lights and USL by adjusting the ratios for Street Lights and USL by two percentage points for every one percentage point increase applied to Residential. VECC estimates that, using the cost allocation results presented in

[55] The ratio ultimately applicable to the GS<50 class is likely to vary slightly once the cost allocation is updated for the Board's final Decision regarding the load forecast and revenue requirement but VECC expects it to be close to 110% such no further adjustment will be required.
[56] The other class is Residential which has a status quo ratio of

Appendix 2-P from the Supplementary responses, this approach would lead to a 3.24% point increase in the ratio for Residential and a 6.48% point increase in the ratios for each of Street Lighting and USL. This result is based on the following:

- Appendix 2-P shows a $53,958 shortfall in revenues from GS>50 due to the revenue to cost ratio reduction[57].
- Appendix 2-P indicates that each percentage point increase in the Residential ratio would yield $13,653.80 additional revenue[58] while each 2% point increase in USL and Street Lights would yield $2,992.80 additional revenue[59].

6.15 In VECC's view the first approach is preferable from strict revenue to cost ratio setting perspective as adjustments are first applied to the ratios for those classes which are furthest from unity. However, the second approach is also reasonable if the Board is concerned about the rate impact of the first approach on the two smaller customer classes and the number of years it would take to achieve 120% if the adjustments to Street Lights and USL were managed under the first approach so as to mitigate year over year bill impacts.

6.16 If the second approach still yields unacceptable bill impacts for the two smaller classes then the reduction in the GS>50 ratio should be undertaken over a number years so as to mitigate the impact in a manner consistent with the Board's EB-2010-0219 Report which stated[60]:

> To the extent that the application of the Board's cost allocation policies results in a significant shift in the rate burden amongst classes relative to the status quo, distributors should be prepared to address potential mitigation measures. As in the past, and until a review of alternative options is completed as part of the Board's rate mitigation consultation, <u>the general approach to mitigating rate impacts should be to bring the affected class into the allowed range over multiple years; in other words, going beyond the cost of service year and completing the transition during the subsequent Incentive Regulation Mechanism ("IRM") period</u> (emphasis added).

[57] Revenues at Status Quo versus proposed rates is $387,290 less $333,432
[58] Allocated cost of $1,365,379 x 1%
[59] Allocated cost to the two classes are $149,640 ($148,732+$908) of which 2% is $2,992.80
[60] Page 35

7 RATE DESIGN

Base Distribution Rates

7.1 For 2013, Sioux Lookout is proposing to maintain the same fixed/variable proportions as in the current rates for all customer classes[61]. As part of its Application, CWHL provided a comparison of the current and proposed monthly service charges for each class with ceiling value for the fixed charge as calculated by the Cost Allocation model[62]. VECC notes that the results are problematic for two classes: the GS<50 and GS>50

7.2 In both cases the existing and the proposed monthly service charges exceed the ceiling value. VECC acknowledges that the Board's general approach in such circumstances has been to approve proposed service charges based a utility's existing fixed/variable split. However, VECC has submitted in previous cases and, does so again in Sioux Lookout's case, that the more appropriate approach would be to "cap" the 2013 service charges for the these two classes at the existing 2012 rates.

Loss Factors

7.3 Sioux Lookout has used a five year historical average to determine its proposed loss factors[63]. VECC has no concerns regarding Sioux Lookout's proposed loss factors for 2013.

Retail Transmission Service Rates

7.4 As part of its Application Sioux Lookout completed the Board's 2013 RTSR Model incorporating Hydro One Networks' approved 2013 RTSRs[64]. VECC has no issues with Sioux Lookout's proposed 2013 Retail Transmission Service Rates.

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[61] Exhibit 8, Schedule 1, page 3
[62] Exhibit 8, Schedule 1, page 3
[63] Exhibit 8, Schedule 1, page 10
[64] Sioux Lookout is fully embedded within Hydro One Networks – Exhibit 8, Schedule 1, page 8

Low Voltage Rates

7.5 Sioux Lookout has determined its 2013 LV costs by forecasting its 2013 LV billing determinants and applying Hydro One Networks' approved 2013 rates[65]. Subject to any revisions that may be required due to adjustments in Sioux Lookout's 2013 load forecast, VECC has no concerns regarding the Applicant's proposed 2013 LV cost or their allocation to customer classes.

8 DEFERRAL AND VARIANCE ACCOUNTS

8.1 VECC generally relies on the submission of Board Staff in regard to the accuracy and prudence of Group 1 and Group 2 Accounts. We do note however, that in response to Board Staff interrogatories SHLI has made a number of changes to Account 1518 and 1592. In our submission the Applicant should update its proposals for recovery of these accounts.

Account 1508 IFRS Transition

8.2 Sioux Lookout is seeking to recover $17,843 in amounts incurred as part of the IFRS transition. SHLI has deferred adoption of (M)IFRS in 2013 and adopted modified CGAAP. Account. The Utility estimates it has incurred 70% of the IFRS project costs.[66]

8.3 VECC is mindful of the Board Decision in the recent Centre Wellington Hydro Ltd 2013 cost of service application. In that proceeding the Board declined to dispose of deferred IFRS transition costs on a final or interim basis[67]. Other than the quantum of the account balance there does not appear to be any factual difference between that case and the circumstances of Sioux Lookout. Therefore VECC does not support the disposition of this account.

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[65] Exhibit 8, Schedule 1, page 6.
[66] Exhibit 9, Tab 2, Schedule 1, pg. 5 / 9-Staff-30 / 9-Staff-31
[67] EB-2012-0113, pg.16

Account 1576 – PP&E adjustment

8.4 SLHI is seeking to refund $98,888 to ratepayers through an adjustment of $24,722 per annum for years of its depreciation expense.[68] If the amount had been booked in account 1575 upon the adoption to (M)IFRS the Sioux Lookout would, according to Board rules, have included an amount of interest based on the weighted cost of capital. As outlined in the response to 9-VECC-47, SHLI has not included this amount ($5,914) because current Board rules do not allow it.

8.5 With respect, VECC submits that there is no principled difference between the use of account 1575 or 1576. Both methodologies make ratepayers whole by imputing the change in accounting treatment that results from adopting IFRS <u>or the "IFRS like"</u> adjustments to depreciation rates. In VECC's submission Sioux Lookout should include the noted carrying costs in this adjustment.

9 SMART METERS

9.1 Sioux Lookout is seeking to recover $181,592 in stranded meter costs. In response to Board Staff interrogatory 9-Staff-44s Sioux Lookout agreed that the more appropriate SMMR would use the weighted average costs of meters as set out in response to 9-Staff-27. Under this methodology residential customer would pay $2.74 and GS<50 customer $3.24 for two years.

9.2 VECC supports the revised proposal of SHLI as it better represents meter cost causality.

[68] Exhibit 2, Tab 5, Schedule 4, Table 2.54, pg. 3

10 EFFECTIVE DATE

10.1 Sioux Lookout request that it rates be implemented beginning May 2013, that is retroactively.[69] SHLI filed the Application at the end of February 2013. The final addendum to the application was filed March 4, 2013. These dates are substantially late of the required August 2012 Board deadline. The Applicant has indicated some difficulties encountered due to changes in management at the Utility.

10.2 In VECC's submissions no compelling reason was provided which would justify retroactive collection of monies from ratepayers. VECC is mindful of the Board's Decision in Centre Wellington Hydro Ltd. This Applicant filed in November of 2012, or four months earlier than SHLI and was denied retroactive application of rates.[70]

11 RECOVERY OF REASONABLY INCURRED COSTS

11.1 VECC submits that its participation in this proceeding has been focused and responsible. Accordingly, VECC requests an award of costs in the amount of 100% of its reasonably-incurred fees and disbursements.

All of which is respectfully submitted this 28th day of June 2013.

[69] Exhibit 1, Tab 2, Schedule 1, pg.3
[70] EB-2012-0113, pg.2