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**BY EMAIL**

June 28, 2013

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. ("SLHI")**
**2013 Electricity Distribution Rates**
**Board Staff Submission**
**Board File No. EB-2012-0165**

In accordance with Procedural Order No. 2, please find attached the Board Staff Submission in the above proceeding.

In addition Board staff reminds SLHI that its Reply Submission is due by July 12, 2013.

Yours truly,

*Original Signed By*

Suresh Advani

Encl.

Ontario

# ONTARIO ENERGY BOARD

## BOARD STAFF SUBMISSION

2013 ELECTRICITY DISTRIBUTION RATES

Sioux Lookout Hydro Inc.

EB-2012-0165

June 28, 2013

**Board Staff Submission**
**Sioux Lookout Hydro Inc. (“SLHI”)**
**2013 Electricity Distribution Rates**
**EB-2012-0165**

This is Board staff’s submission on SLHI’s cost of service application for rates effective May 1, 2013 (the “Application”). There is an extensive record, comprised of the Application filed on February 22, 2013, as well as two rounds of interrogatories and responses. Through the interrogatory process, SLHI filed an updated Revenue Requirement Work Form, asset continuity schedules, and spreadsheets documenting changes proposed through discovery.

The submission follows the order of exhibits in the Application and as documented in the Board’s current *Filing Requirements for Transmission and Distribution Applications*, issued June 28, 2012 (the “Filing Requirements”). The order is as follows:

1 Exhibit 1 – Administration;
2. Exhibit 2 – Rate Base and Capital Expenditures;
3. Exhibit 3 – Operating Revenues and Load Forecast;
4. Exhibit 4 – Operating Expenses;
5. Exhibit 5 – Cost of Capital;
6. Exhibit 6 – Revenue Requirement and Sufficiency/Deficiency;
7. Exhibit 7 – Cost Allocation;
8. Exhibit 8 – Rate Design; and
9. Exhibit 9 – Deferral and Variance Accounts and Smart Meters.

Within each section there may be sub-issues on various aspects of SLHI’s Application and proposals that staff addresses.

***<u>Exhibit 1</u>***

## Administration

### *Effective Date for Rates*

On August 3, 2012, SLHI notified the Board that, due to unforeseen circumstances triggered by the retirement of its President/CEO and subsequent organizational restructuring, and resource allocation, the filing of its 2013 cost of service Application would be delayed. SLHI filed its Application on February 22, 2013. The Application was found to be complete and the Board issued the Letter of Direction directing publication of Notice of Application and Written Hearing.

SLHI requested an effective date for rates of May 1, 2013. On April 29, 2013, the Board declared SLHI's current approved rates interim pending a determination on this issue in this proceeding.

Board staff notes that SLHI has been timely in responding to two rounds of interrogatories from Board staff and the two intervenors, the Vulnerable Energy Consumers Coalition ("VECC") and Mr. Douglas A. Shields. However, Board staff considers that the reasons provided to support the delay in filing the 2013 cost of service application should be part of normal business planning. Board staff notes that it has been Board practice, in the case of late filings, to have as an effective date the month following the issuance of the Board's Decision and Order in the proceeding. Board staff submits that this practice should apply to SLHI.

### *International Financial Reporting Standards ("IFRS")*

SLHI filed on the basis of CGAAP and updated the capitalization and depreciation policy to align with IFRS. SLHI labelled this approach MCGAAP or modified CGAAP and noted its intention to adopt IFRS January 1, 2014.

Board staff has no issue with SLHI's approach, though notes that there is no need to call the accounting approach modified CGAAP. The application has been made under CGAAP, which permits the proposed changes to capitalization and depreciation. The Board does not have an accounting standard called modified CGAAP.

***Exhibit 2***

**Rate Base and Capital Expenditures**

In its Application, SLHI proposed a 2013 test year rate base of $6,106,606. Through interrogatories, SLHI has revised the rate base to $6,147,305. In response to Board staff interrogatory 2-Staff-33s, SLHI explained that the upward adjustment is the result of updating the 2012 forecasted capital additions to actual.

SLHI's rate base[1] from 2008 to the test year 2013 is outlined in the table below.

| Year | 2008 Board Approved | 2008 Actual | 2009 Actual | 2010 Actual | 2011 Actual | 2012 Bridge CGAAP | 2012 Bridge CGAAP (as amended) | 2013 Test CGAAP (as amended) |
|---|---|---|---|---|---|---|---|---|
| Rate Base | $6,212,254 | $5,621,632 | $5,292,553 | $5,500,938 | $5,591,540 | $5,815,680 | $5,875,333 | $6,147,305 |

Board staff takes no issue with SLHI's 2013 test year rate base of $6,147,305 as revised through the interrogatory process.

SLHI has documented its capital programs from 2007 actual to the 2013 test year in its Application[2]. In response to 2-Staff-6, SLHI provided a table that compares the approved capital expenditures (i.e. Board approved or SLHI's Board of Directors approved) and the subsequent actual capital expenditures for each year in the 2007 to 2012 period and provided an explanation for the differences.

Board staff accepts the explanations provided by SLHI for the differences.

In response to 2-Staff-7, SLHI provided details of the costs and benefit analysis of continuing to contract out tree trimming/line clearing work, compared to those of purchasing a new backhoe with attached brush hog at a capital cost of $86,000, the largest capital expenditure item in the 2013 test year. Board staff notes that the cumulative savings over the expected life of the backhoe resulting from purchasing the

[1] Exhibit 2/Tab 1/Schedule 1/page 7 and updated RRWF
[2] Exhibit 2/Tab 3/Schedule 1 & 2

equipment versus contracting out the work are approximately $44K. Board staff takes no issue with SLHI's proposal to purchase this equipment.

As required in the Filing Requirements, SLHI filed an Asset Management Plan[3] ("AMP") to support its planned capital expenditures. Board staff submits that SLHI's AMP is generally adequate and supportive of its capital projects and expenditures.

Overall, Board staff takes no issue with SLHI's proposed capital budgets and expenditures.

*Service Reliability*

In response to 2-Staff-10 and 2-VECC-8, SLHI provided explanations for historical performance and reported 2012 service reliability statistics, which indicate improved reliability for the indicators SAIDI and SAIFI. SLHI indicates that the purchase of the brush hog will enable SLHI to perform more tree trimming in less time in order to reduce the amount of outages due to tree contact. SLHI also indicated that the installation of bird guards on transformers will reduce the number of outages.

Board staff takes no issue with the reported performance and accepts the explanations provided.

## ***Working Capital Allowance***

SLHI has used the default 13% formula, whereby the Working Capital Allowance ("WCA") is calculated as 13% of the sum of the cost of power plus controllable expenses.

In response to an interrogatory[4] from VECC questioning why it would not be appropriate to use a lower working capital allowance given SLHI bills monthly, SLHI responded that SLHI opted to use the Board approved default working capital allowance of 13% as set out in the Board's letter dated April 12, 2012. SLHI further stated that the effort and costs required to perform a lead-lag study was not deemed to exceed the benefit of determining SLHI's utility specific working capital allowance.

[3] Exhibit 2/Appendix 2A
[4] 2-VECC-7

In response to interrogatories, SLHI updated the WCA to reflect the updated values of the Rural or Remote Electricity Rate Protection and Wholesale Market Service Rate effective May 1, 2013 established in the Board's Decision with Reasons and Rate Order (EB-2013-0067) issued on March 21, 2013.

SLHI has followed the Board's guidelines in determining the WCA. Board staff takes no issue with SLHI's proposal for calculating the WCA based on the default 13% formula. Should the Board direct any further changes to SLHI's OM&A (i.e., controllable expenses), SLHI should update the WCA to reflect any such changes in its draft Rate Order filing.

## ***Exhibit 3***

### **Operating Revenues and Load Forecast**

#### ***Load Forecast and CDM Adjustment***

In its Application, SLHI has used a multivariate regression model to estimate purchased kWh on a system-wide basis, with monthly kWh "purchased" from the IESO-controlled grid to SLHI's ratepayers for their consumption, including system losses. Purchased kWh is regressed against explanatory variables for size and economic activity (Ontario real GDP) and weather-related factors (heating degree days and cooling degree days). SLHI also included a variable to reflect the loss of the Pulp and Paper Mill demand.

As explained in the response to 9-Staff-11b), a CDM variable was tried but discarded as its coefficient was not statistically significant.

Board staff and VECC questioned SLHI's load forecasting approach in various interrogatories.[5] SLHI was asked to update the economic data used, to remove the Pulp and Paper Mill consumption, adjusted for losses, from purchased kWh rather than explaining it through a binary variable, and to eliminate the insignificant intercept.

In Board staff's view, the model estimated in response to 3-Staff-34s should be used for the load forecast, before the adjustment for CDM. The resulting load forecast is similar to that of the other models, but Board staff considers this model preferable in light of

[5] 3-Staff-11, 3-VECC-11, 3-VECC-12 and 3-Staff-34s.

improved model statistics.  Board staff observes that the F-statistic of the overall fit of the model is significantly increased to 2472.6 from about 150.  The model does not have a constant term, but other model analyses indicated that none was needed, with a t-statistic close to 0.  Eliminating the lost load of the Pulp and Paper Mill is preferable to using a binary variable which cannot capture all variability due to seasonal and economic factors affecting this customer's consumption.  The fit of predicted to actuals shown in the response to 9-Staff-34s b) appears reasonable, although Board staff is uncertain about what is driving the spikes that seem to coincide with January or December of each year beginning in late 2006.

Board staff suggests that the system purchased kWh of 76.1 GWh outlined in SLHI's response to 3-Staff-34s, with the manual adjustment for CDM programs, is the appropriate amount that should be adjusted to remove losses, and then be allocated to the customer classes and converted to demand (kW) as applicable to classes, to calculate the demand and volumetric forecast for the 2013 test year.  This load forecast would also factor into the determination of the working capital allowance, into the cost allocation and would be the billing determinants for volumetric rates and for volumetric-based rate riders.

*LRAMVA and CDM Adjustment to the Load Forecast*

With respect to the CDM adjustment for the load forecast, Board staff submits the following.  Board staff notes that 2013 was the first year of rate applications where reported results for the 2011-2014 CDM programs have become available (i.e. with the OPA results of the 2011 CDM programs issued in the late summer of 2012).
Dealing with the LRAMVA first, it is noted that the results as reported by the OPA are annualized, which means that it is assumed that the programs were in effect for the full year.  Board staff notes that even for the first year of a program, the reported results are assumed to have started at the stroke of midnight on New Year's Eve.  This is seen in the data, where the CDM savings in 2011 or 2011 CDM programs is reported as 61,496 kWh, the same as the full persistence of the 2011 CDM programs into 2012.  Board staff submits however that it is unlikely that SLHI would have its 2011 CDM programs fully implemented, and its customers fully deployed and receiving the consumption and demand savings, as of January 1.  Programs would be deployed at various times in the year, and customers would start to realize the savings in real terms as they are implemented.  In the absence of information as to exactly when the programs were

executed and customers started to actually realize the savings, Board staff submits that a “half-year” rule may be a reasonable proxy for the real impact of CDM savings in the first year.

Board staff also notes that there is a difference between the CDM savings for the LRAMVA and for the load forecast adjustment, but the two are related, as recognized in other 2013 cost of service applications.

Board staff also submits that the utility is not disadvantaged by having two different numbers.  For the LRAMVA, the “net” annualized savings cumulative over the four years by rate class, are used to derive the balance in the LRAMVA.  The four-year licence condition CDM target is also based on the “net” annualized savings, so achievement of the licence condition is being compared on an apples-to-apples basis.

For the load forecast, reductions in consumption and demand will be on a real-time basis reflecting when programs actually occurred.  To use the annualized results would overstate the actual reductions, understate the load forecast and hence result in increased rates and rate riders, all else being equal.

In the regression model of purchased system kWh documented in Exhibit 3/Tab 2/Schedule 1, SLHI has documented that no CDM variable was retained.  Therefore, any CDM impacts would be what is implicitly reflected in the historical data, and which impact may be captured by the other regressor variables and estimated coefficients.

On May 28, 2013, the Board issued its Decision and Order EB-2012-0113 with respect to Centre Wellington Hydro’s 2013 cost of service rates application.  In that Decision and Order, the Board stated:

> The Board concludes that it is appropriate to reduce the first year CDM estimates as provided by the OPA for the 2012 and 2013 programs. Program results build over the year and are not fully realized from day one. Using the half-year approach recognizes the accumulation of impacts over the year and is consistent with other Board decisions.
>
> …

> The Board agrees with VECC that the CDM savings associated with free riders and natural conservation is embedded in the historical demand data and incorporated into the demand forecast produced by the statistical regression model. The Board finds merit in VECC's submission that "natural conservation is independent of the level of CDM programming and, therefore, future levels cannot be linked to the level of CDM programming". The Board does not accept that the incremental 2012 and 2013 CDM programs will cause or be correlated with natural conservation savings over and above that already captured in the regression analysis. As a result, the Board will not accept the adjustment to the OPA's CDM program estimates by a net-to-gross factor. The CDM adjustment to the load forecast is 986,133 KWh, reflecting the full year persistence of 2012 CDM programs and the initial year impact of 2013 CDM programs on 2013 load.[6]

The Board, in the Centre Wellington Decision, accepted that the CDM amount used in the LRAMVA and the CDM adjustment in the load forecast are separate but related numbers.

Board staff further notes that in that Decision and Order, the Board decided  that net results should be used and that a half-year rule should pertain to the CDM savings in the first year of a program, with respect to the CDM adjustment for the load forecast. For the savings in the LRAMVA, as for the licence CDM targets, the OPA-reported annualized numbers are to be used.  In all cases, the numbers are based on the 'net' savings as reported by the OPA.

Board staff submits that as SLHI does not have a CDM variable in the regression model used to derive the base load forecast, this should imply that only the first year impact of 2011 CDM programs would be in the 2011 actual data.  However, the persistence of 2011 CDM programs on the 2013 load forecast should be on a full year basis, as the programs were implemented prior to 2013.  This suggests that the CDM adjustment also needs to reflect the additional half-year impact of the 2011 CDM programs to get the full year (annualized) persistence in 2013.  In other words, Board staff submits that the CDM adjustment should be:

[6] Decision and Order EB-2012-0113, May 28, 2013, pp. 4-5

(0.5 X (2011 CDM persistence on 2013)) + (2012 CDM persistence on 2013) + (0.5 X 2013 CDM impact on 2013).

Based on the Load Forecast CDM Adjustment Work Form, which data inputs SLHI confirmed in its response to 3-Staff-13 b), this would be:

(0.5 X 61,496 kWh) + 512,380 kWh + (0.5 X 512,380 kWh) = 799,318.7 kWh.

If the adjustment is being made to the base forecast for the system purchased model, this amount should also be grossed up to reflect the loss factor. The adjusted system purchased forecast would then be converted to a system bill kWh 2013 test year forecast by backing out the losses, and then allocated to all customer classes and also converted into the kW demand for demand-billed classes.

The amount used for the LRAMVA would be 1,086,257 kWh as shown on the Load Forecast CDM Adjustment Work Form.

***Other Revenues***

In its Application, SLHI has forecasted Other Operating Revenues as $129,025[7] for the 2013 test year. Board staff notes that with one exception, the year-to-year trend of annual values of the components of Other Revenues is consistent. In the bridge year 2012, Other Revenues is $7,237 as compared to $120,932 for the 2011 actual. SLHI has explained[8] that this is caused by the entry for SLHI's change in capitalization and depreciation policy from CGAAP to amended CGAAP as well as a debit entry for SLHI's Smart Meter Disposition.

Board staff submits that the utility has adequately explained and supported its proposal. As such, Board staff takes no issue with SLHI's forecast for Other Operating Revenues for the 2013 test year in this Application.

[7] Exhibit 3/Tab 1/Schedule 1/page 2
[8] Exhibit 3/Tab 3/Schedule 3/page 3

## ***<u>Exhibit 4</u>***

### Operating Expenses

#### *OM&A*

SLHI has forecasted $1,554,419[9] for Operations, Maintenance and Administration ("OM&A") expenses for the test year. The proposed OM&A represents a 38.8% increase over its 2008 Board-approved OM&A. SLHI's OM&A over time is documented below:

| Year | 2008 Board approved | 2008 Actual | 2009 Actual | 2010 Actual | 2011 Actual | 2012 Bridge Forecast (CGAAP) | 2012 Bridge Forecast (CGAAP as amended) | 2013 Test Forecast (CGAAP as amended) |
|---|---|---|---|---|---|---|---|---|
| OM&A | $1,119,826 | $1,146,980 | $1,140,063 | $1,160,950 | $1,170,208 | $1,545,388 | $1,595,163 | $1,554,419 |

Source: Exhibit 4/Tab 1/Schedule 1/Table 4.2 and 4-Staff-16

SLHI lists the drivers[10] for the increases in OM&A as follows:

- Increased tree trimming expenses;
- On-going expenses related to the maintenance of smart meters (accompanied by reduction in meter reading re-verification costs);
- Training costs related to defensive driving and AZ training required to be able to float large equipment to work sites;
- Transformer testing in compliance with Ontario Regulation 362;
- Costs due to organizational restructuring resulting from the retirement of the President/CEO;
- Increased regulatory expenses;
- Increase in bad debt expense as a result of two businesses in the area going out of business and subsequently leaving the area;
- One-time costs[11] due to a confidential human resource[12] issue related to expenditures ($84,746) incurred in 2012 comprising severance package and consulting fees concerning an outgoing employee (lineman); and

[9] 4-Staff-16
[10] Exhibit 4/Tab 2/Schedule 3/page 1-4, 4-Staff-17 and 4-VECC-45
[11] Exhibit 4/Tab 1/Schedule 1/page 6, Exhibit 4/Tab 2/Schedule 4/page 5, 4-VECC-18 and 4-Staff-41s
[12] The Applicant has described this as confidential. However the Board has made no determination with respect to the confidential nature of the matter.

- Change in capitalization policy resulting from the amendment to CGAAP in 2012, resulted in an increase in OM&A of $39,127.

SLHI has used a 2.0% inflation[13] rate to forecast expected expenditures. SLHI has documented the OM&A expenses, and the year-over-year changes in the Application[14] and responses to interrogatories. Board staff takes no issue with SLHI's explanations.

In the Application, SLHI provided[15] OM&A costs per Customer and also per FTEE. In response to VECC interrogatory 4-VECC-17, using the OEB's most recent 2011 Electricity Yearbook statistics, SLHI provided a compilation of their costs for 2011 and those of a cohort[16] of similar utilities. Board staff notes that absent the outliers[17], SLHI's OM&A per Customer at $424.76 and OM&A per FTEE at $146,275.75 are at the high end of the group. Board staff invites SLHI to provide in their reply submission an explanation and reason (s) for high OM&A costs compared to their cohorts.

Overall, Board staff submits that, despite the large percentage increase from the 2008 Board-approved OM&A, SLHI has filed support for the proposed changes to OM&A, and takes no issue with SLHI's proposals, other than the matter related to the recovery of one-time costs ($84,746) due to a confidential human resources issue and the replacement of one departing lineman with two linemen, discussed further below.

### ***Regulatory Expenses***

SLHI has budgeted $77,245[18] (incurred during 2012 and 2013) for its Application (including consulting, anticipated Board and intervenor costs). SLHI proposes to recover this amount over 4 years and has included 25% of the forecasted expense in the 2013 test year.

Board staff submits that this estimate is in line with other cost of service applications and therefore takes no issue with SLHI's proposals with respect to the claimed for expenses and the recovery over the 4 year period.

[13] 4-Staff-15
[14] Exhibit 4/Tab 2/Schedule 3
[15] Exhibit 4/Tab 1/Schedule 1/page 4/Table 4.10
[16] Atikokan Hydro, Chapleau Public Utilities, Espanola Regional Hydro, Fort Frances Power, Kenora Hydro and Hearst Power
[17] OM&A per Customer - $564.39 and $308.58; OM&A per FTEE - $215,189.44 and 109,866.40
[18] Exhibit 4/Tab 1/Schedule 1/page 6

***Employee Complement and Compensation***

SLHI has documented its workforce and compensation in its Application.[19]

SLHI has forecasted a staff complement of 9 full-time employees for the 2013 test year, compared to an actual of 8 full-time employees for the period 2008 to 2011. SLHI's structural reorganization involved:

- the retirement of its President/CEO in 2012, resulting in an overlap of approximately 4 months between the current and outgoing President/CEO; and

- departure of one lineman and the hiring of two linemen as replacements as part of a succession planning exercise (two remaining line staff will qualify for early retirement in the next few years).

SLHI has also documented a one-time expense of $84,746 incurred in 2012 related to the departure of one lineman. SLHI has proposed to collect this cost through rates over 4 years starting with the test year 2013.[20].

With the documentation and explanations provided, Board staff takes no issue with SLHI's proposals with respect to its workforce complement and associated expenses, other than the issues outlined below.

Board staff requests SLHI to confirm that the payroll overlap between the former and current President/CEO is not continuing in 2013.

With respect to SLHI's hiring of two linemen to replace one departing lineman, Board staff assumes that SLHI's line staff complement will reduce when the current remaining two line staff retire. Board staff submits that SLHI, in its reply submission address how the revenue requirement might be adjusted based on best estimates regarding the retirement plan date (s) such that a double recovery of staff costs over the IRM plan term would be avoided.

[19] Exhibit 4/Tab 2/Schedule 4
[20] 4-VECC-18, 4-Staff-41s

Board staff disagrees with the collection through rates of the one-time human resource related expense of $84,746. Firstly, this expense was incurred in 2012 and as such it is out-of-period for a 2013 rate application. Secondly, in Board staff's view, this type of expense is commensurate with the normal costs of running a business and as such should be absorbed by SLHI.

***Depreciation***

SLHI has documented its depreciation expense in its Application.[21] The historical and proposed depreciation expense is summarized in the following table:

| Year | 2008 Actual (CGAAP) | 2009 Actual (CGAAP) | 2010 Actual (CGAAP) | 2011 Actual (CGAAP) | 2012 Bridge (CGAAP) | 2012 Bridge (CGAAP as amended) | 2013 Test (CGAAP as amended) |
|---|---|---|---|---|---|---|---|
| Depreciation Expense | $252,791 | $266,546 | $280,606 | $277,842 | $460,533 | $319,599 | $182,535 |

Source: Exhibit 4/Tab 2/Schedule 7/Table 4.70 and updated in 4-Staff-39s

SLHI states that it recognizes that it should have changed its accounting policy to the half year rule[22] following the 2008 cost of service application. SLHI further states that in this Application, it has applied the half year rule for calculating depreciation expense for the years 2007 to 2012 and has provided a reconciliation to its audited financial statements due to the discrepancy caused by the difference in accounting policies. SLHI confirms it will change its accounting policy for amortization to reflect the half year rule for 2012.

SLHI states that Depreciation rates for 2008 to 2012 CGAAP are in line with rates set out in the APH, and Depreciation rates for 2012 and 2013 CGAAP (as amended) are in line with the Kinectrics Study.

Board staff notes that the change in capitalization policy resulting from the amendment to CGAAP in 2012, resulted in a decrease in depreciation expense of $138,138[23] in 2012.

[21] Exhibit 4/Tab 2/Schedule 7
[22] Exhibit 4/Tab 2/Schedule 7/page 1
[23] 4-Staff-39s

Board staff takes no issue with SLHI's treatment of depreciation expenses.

### *PILs*

In its original Application, SLHI proposed a grossed-up PILs provision of $9,350[24]. This has been subsequently revised to $2,397[25]. These changes reflect updated Cost of Capital parameters, a slight reduction to depreciation expense, a reduction to capital cost allowance, and the claiming of the Apprenticeship Tax Credit[26].

SLHI has used the Board-issued PILs model for its calculations. Board staff has no issue with the methodology used by SLHI to calculate its PILs provision, as amended through discovery. Board staff submits that SLHI should use this approach to calculate any updated allowance for PILs to reflect to the Board's Decision.

### *Low Income Energy Assistance Program (LEAP)*

SLHI has proposed that an expense amount for LEAP should be included, equal to $2,455 (the greater of $2,000 or 0.12% of 2013 revenue requirement, dependent on the Board's decision), incorporated within the proposed OM&A.[27] Board staff submits that SLHI's proposal is consistent with Board policy. If necessary, this should be updated as part of SLHI's draft Rate Order filing.

### *Green Energy Act*

SLHI filed a Basic Green Energy Plan with its Application. Board staff notes according to SLHI's evidence[28]:

- SLHI will not have any applications from renewable generators over 10 kW for connection, and that the OPA has not received any applications for renewable generators over 10 kW for the FIT Program for its service territory;

[24] Exhibit 4/Tab 3/Schedule 1
[25] 4-Staff-40s
[26] 1-VECC-39
[27] Exhibit 4/Tab1/Schedule 1/page 8
[28] Exhibit 2/Appendix 2 – B/pages 3-5

- SLHI further indicated that the only issue that would limit renewable development is ability to connect projects attributable to existing constraints in the Northwest area of the transmission system; and

- SLHI concludes by indicating that it will continue to monitor the capacity for the Northwest Region and will not be applying for rates to support investments for FIT installations for at least another 5 years. However, SLHI will continue to assist and work with microFIT applicants to ensure timely connections.

SLHI's response to a VECC interrogatory[29] clarified that it does not have any capital or OM&A costs relating to the GEA for 2012 or 2013.

Based on the above, Board staff is satisfied that SLHI's Basic Green Energy Plan meets the Board's Filing Requirements, and that there will be no capital or OM&A costs related to the Green Energy Plan in 2012 and 2013.

Board staff is also satisfied with SLHI's characterization of the transmission upstream constraints as it is reflective of the OPA's views expressed in its letter[30] of comment:

> *"As noted in the Transmission Availability Table published by the OPA on April 5, 2012, the Northwest area is fully subscribed and has no capability to accommodate additional renewable generation. All renewable generation resources connecting to SLHI's system fall within the Northwest area. The area constraint is expected to limit the future uptake of large and small FIT renewable resources in SLHI's service territory. The East-West Tie expansion project, one of the 5 priority transmission projects in the government's Long-Term Energy Plan, is a major component in providing relief to the Northwest; however the project is not expected to be in service prior to 2017."*

### *LRAMVA*

The Guidelines for Electricity Distributor Conservation and Demand Management state that, at a minimum, distributors must apply for disposition of the balance in their LRAMVA at the time of their cost of service application. However, due to the

[29] 2-VECC-10
[30] Exhibit 2/Appendix 2-C/page 1

immateriality of the LRAMVA amount[31] of $1,252, Board staff agrees with SLHI's position that the disposition be deferred until a later proceeding.

## ***Exhibit 5***

### Cost of Capital

In its Application, SLHI used an estimated Cost of Capital of 5.66%[32], based on a deemed capital structure of 60% debt (56% long-term debt and 4% short-term debt) and 40% equity.  SLHI used the then current ROE of 9.12% and deemed short-term debt rate of 2.08%, which are the cost of capital parameters contained in the Board's letter of March 2, 2012.

On February 14, 2013, the Board issued a letter documenting updated cost of capital parameters for rates effective May 1, 2013.  The updated cost of capital parameters are:

| Cost of Capital Parameter | Rate |
|---|---|
| Return on Equity | 8.98% |
| Deemed Short-term Debt | 2.07% |
| Deemed Long-Term Debt | 4.12% |

With its update through 5-Staff-23 and 5-VECC-30, SLHI has reflected the updated cost of capital parameters in calculating its revenue requirement.  The weighted average cost of capital becomes 5.98%.

Board staff submits that SLHI's proposed cost of capital conforms with the Cost of Capital Report and Board policy and practice.

## ***Exhibit 6***

### Revenue Requirement and Revenue Sufficiency/Deficiency

SLHI requested a Service Revenue Requirement of $2,091,430, composed of a Base Revenue Requirement of $1,962,405 and Other Revenues of $129,025.  The proposed revenue requirement included recovery of a gross revenue deficiency of $173,089 (about 8.8% of the Base Revenue Requirement) under current approved rates.

[31] Exhibit 4/Tab 5/page 1
[32] Exhibit 5/Tab 1/Schedule 2/page 2

SLHI explained that the main causes[33] for the revenue deficiency are as follows:

- Increases in OM&A costs including smart meter related OM&A since SLHI's last cost-of-service in 2008.
- Transition from CGAAP to amended CGAAP will increase operating expenses by an additional about $39K.

During the interrogatory phase of the proceeding, SLHI amended the revenue requirement as follows:

| | **Application February 22, 2013** | **After Discovery May 31, 2013** |
|---|---|---|
| **Service Revenue Requirement** | $2,091,430 | $2,107,083 |
| **Other Revenues** | $129,025 | $129,025 |
| **Base Revenue Requirement** | $1,962,405 | $1,978,058 |
| **Revenue Sufficiency/(Deficiency)** | ($173,089) | ($188,742) |

Increases in revenue requirement primarily reflect the following[34]:

- Increase in interest expense to deemed rate from 3.44% to 4.12%;
- Change in PILs as a result of updating 2012 CCA and tax returns to actual; and
- Apprenticeship tax credit applied to 2013 PILs.

Board staff submits that depending on the Board's determinations with respect to SLHI's Application, SLHI should amend its revenue requirement which would include preparation of an amended RRWF summarizing the revenue requirement as amended by the Board's Decision as part of the draft Rate Order filing. For the amended RRWF, SLHI should use the "Board Decision" columns of Sheet 3 of the RRWF to input the necessary numbers and adjustments in columns Q ("Adjustments") and U ("Per Board Decision") of that sheet.

[33] Exhibit 1/Tab 2/Schedule 5/page 1
[34] 6-Staff-42s

***Exhibit 7***

## Cost Allocation

As part of its Application, SLHI conducted an updated Cost Allocation study. The revenue-to-cost ("R/C") ratios resulting from this study, SLHI's proposed R/C ratios for the test year 2013 and the appropriate ranges of R/C ratios for each rate class issued by the Board on March 31, 2011 were provided by SLHI in Table 7.3[35]. As a result of the interrogatory process, both sets of R/C ratios, i.e. from the study and proposed for 2013 were adjusted and are reproduced in the table below.

**Revenue-to-Cost Ratios – 2013 Cost Allocation Study and Proposed[36]**

| Customer Class | Range (%) | | 2013 Cost Allocation Study | 2013 Proposed |
|---|---|---|---|---|
| | Low | High | | |
| **Residential** | 85 | 115 | 90.34% | 96.35% |
| **GS < 50 kW** | 80 | 120 | 115.15% | 109.85% |
| **GS 50-4999 kW** | 80 | 120 | 138.31% | 119.84% |
| **Street Lighting** | 70 | 120 | 83.08% | 74.91% |
| **Unmetered Scattered Load** | 80 | 120 | 81.30% | 80.96% |

SLHI is proposing the following adjustments to the R/C ratios to bring the R/C ratios within the Board's target ranges.

- As the R/C ratio for the GS 50-4999 kW class exceeded the Board's target range, decrease this ratio to the higher end of the Board's target range.
- Decrease the R/C ratio for the GS < 50 kW class closer to 100%.
- Decrease the R/C ratios for the Street Lighting ("SL") and Unmetered Scattered Loads ("USL") classes in order to reduce the rate impacts to these classes and still keep the ratios within the Board's target ranges.
- Increase the R/C ratio for the Residential class in order to achieve the above R/C ratio reductions.

Board staff takes no issue with the R/C ratio decrease for both the GS classes.

[35] Exhibit 7/Schedule 2/page 3
[36] Cost Allocation Model/Sheet O1 (updated) and Appendix 2-P (updated)

With respect to the SL and USL classes, Board staff notes that while the proposed R/C ratio changes will still keep the ratios for both classes within the Board's target range for each class, SLHI's proposal directs the R/C ratio changes away from 100% and not toward 100%. In Board staff's opinion, while adjusting to a R/C ratio of 100% is not required, movement further away from 100% is not appropriate. Therefore Board staff submits that the R/C ratios for the SL and USL classes remain unchanged.

The additional revenues from the SL and USL classes should be used to further decrease the class revenue requirement for the GS 50-4999 kW class.

***Exhibit 8***

**Rate Design**

***Rate Classes***

SLHI has the following existing customer rate classes:

- Residential;
- General Service < 50 kW;
- General Service 50 to 4,999 kW;
- Street Lighting; and
- Unmetered Scattered Load.

SLHI is proposing no changes to its customer classes. Board staff takes no issue with SLHI's proposal.

***Fixed/Variable Split***

SLHI has proposed to retain the existing fixed/variable split for all remaining customer classes, as documented in Table 8.3 of the Application[37] and presented in the table below:

[37] Exhibit 8/Schedule 1/page 2

| Customer Class | Fixed (% of class revenues) | Volumetric (%) | Volumetric Billing Determinant (from Table 8.7) |
|---|---|---|---|
| Residential | 65.0% | 35.0% | kWh |
| GS < 50 kW | 65.3% | 34.7% | kWh |
| GS 50-4,999 kW | 75.3% | 24.7% | kW |
| Street Lighting | 61.6% | 38.4% | kW |
| USL | 83.9% | 16.1% | kWh |

Board staff takes no issue with SLHI's proposal.

### *microFIT*

SLHI has requested an increase[38] of the microFIT rate from $5.25/month to $5.40/month.  Board staff notes that this in accordance with the Board's letter of September 20, 2012.  Board staff submits that SLHI's request is appropriate.

### *Low Voltage*

As an electricity distributor, SLHI is fully embedded under Hydro One Networks Inc.  In its Application, SLHI proposed Low Voltage ("LV") rates that would recover a forecasted 2013 LV charge from Hydro One of $250,381.[39]

Board staff takes no issue with SLHI's proposed LV rates.

### *Retail Transmission Service Rates*

In its Application[40], SLHI filed for adjusted Retail Transmission Service Rates ("RTSRs") based on the Board's *Guideline G-2008-0001: Electricity Distribution Retail Transmission Rates*, and based on an analysis of historical trends/patterns for over- or under-collection in the RSVAs and the approved Uniform Transmission Rates effective January 1, 2013, using the Board-issued model.

Board staff submits that SLHI's proposal is consistent with Board policy and practice, and takes no issue with the proposed updated RTSRs.

[38] Exhibit 1/Tab 1/Schedule 2/Appendix A/page 4
[39] Exhibit 8/Schedule 1/page 6
[40] Exhibit 8/Schedule 1/page 8

***Transformer Ownership Allowance***

The Transformer Ownership Allowance (“TOA”) credit is paid to those customers within an applicable class that own their own transformation facilities. The estimated credit to be paid is then factored as an addition to the revenue requirement to be recovered through distribution rates, and for the applicable customer classes. In its Application, SLHI proposed to maintain the current approved Transformer Ownership Allowance (“TOA”) credit of ($0.3741)/kW.[41] Board staff takes no issue with SLHI’s proposal.

***Loss Factor***

Board staff notes that SLHI’s proposed “Total Loss Factor (“TLF”) of 1.0897 (8.97%) includes a Distribution Loss Factor (“DLF”) of 1.0539 (5.39%).

In its Application, SLHI has stated[42] “The steps taken in the past five years have resulted in an average decrease of 1.03% in line losses from the previous Cost of Service application”.

In its response to Board staff interrogatory 8-Staff-25, SLHI explained that in its 2008 cost of service application, SLHI’s approved TLF of 1.0642 (6.42%) was labeled in error in its application as TLF, when in fact it was SLHI’s DLF based on an average of distribution losses for the 2002 to 2006 period.

Board staff notes that based on this explanation, SLHI’s claimed reduction of 1.03% in distribution lines losses is correct.

SLHI further states in its Application, that it is a challenge for SLHI to reduce losses to below 5% given their large service territory and low density. In response to 8-Staff-43s, SLHI stated that it continues to plan voltage conversions as part of its mitigation strategy to reduce line losses and to improve its process for estimation of unbilled kWh.

Board staff considers that SLHI’s methodology for updating its Loss Factors in the 2013 Application conforms with Board policy and practice, and takes no issue with its proposal on this matter.

[41] Exhibit 8/Schedule 1/page 5
[42] Exhibit 8/Schedule 1/page 12

***Specific Service Charges***

SLHI is proposing no changes to its existing Specific Service Charges. Board staff takes no issue on this matter.[43]

***Rate Mitigation***

Per the Filing Requirements SLHI has provided the bill impact analysis. The necessary bill impact analysis illustrated in the table below was provided in the Application[44] and updated in response to interrogatories.[45]

| | Total Bill Impact % | |
|---|---|---|
| | Provided in Application | Updated through interrogatories |
| Residential | 6.53% | 6.14% |
| GS < 50 kW | 2.71% | 2.51% |
| GS 50 to 4,999 kW | 0.52% | (0.03%) |
| Street Lighting | 2.48% | 1.79% |
| Unmetered Scattered Load | 9.99% | 10.46% |

In its Application, SLHI did not propose any rate mitigation, on the basis that the impacts to customers that would result from approval of the Application would not exceed 10% for any rate class[46].

As indicated in the table above, resulting from the discovery process, the bill impact for the USL rate class is 10.46%.

If the Board accepts Board staff's submission that the R/C ratios for the Street Lighting and USL classes remain unchanged, the bill impact for the Street Lighting class also will

[43] Exhibit 8/Schedule 5/page 1
[44] Exhibit 8/Appendix 8-B
[45] Response to 7-Staff-24
[46] Exhibit 8/Schedule 2/page 1

exceed 10%[47]. Board staff requests that SLHL respond to this issue in its reply submission, including consideration of whether any bill impacts should be mitigated.

***Exhibit 9***

**Deferral and Variance Accounts (DVAs)**

SLHI is applying to clear the following Group 1 and Group 2 deferral and variance account balances, as reflected in Table 1 below. SLHI is proposing to return a total credit balance amount of ($292,752)[48] for Group 1 and Group 2 DVAs to ratepayers, including carrying charges forecast to April 30, 2013. SLHI has proposed a one-year[49] disposition period.

Subject to the points raised below with respect to Account 1508, Board staff has no issue with SLHI's proposed disposition of Group 1 and Group 2 deferral and variance balances, as reflected in Table 1 below. Board staff has no issue with the billing determinants and the rate riders proposed to dispose of the deferral and variance account balances. However, Board staff notes that the Board's determination in its decision may affect the load forecast and the resulting billing determinants. SLHI may be required to update its deferral and variance account rate rider calculations as a result of the Board's decision. Board staff submits that SLHI should provide the supporting documentation in its draft Rate Order filing with respect to the deferral and variance account balance disposition and the corresponding rate riders.

[47] 7-Staff-24
[48] EDDVAR Continuity Schedule updated May 1, 2013, Version 2
[49] Exhibit 9/Tab 2/Schedule 4/page 3

**Table 1**
**Deferral and Variance Account Balances Proposed for Disposition**

| | | Closing Principal Balances as of Dec 31-11 Adjusted for Dispositions during 2012 | Closing Interest Balances as of Dec 31-11 Adjusted for Dispositions during 2012 | Projected Interest from Jan 1, 2012 to December 31, 2012 [1] | Projected Interest from January 1, 2013 to April 30, 2013[1] | Total Claim |
|---|---|---|---|---|---|---|
| **Group 1 Accounts** | | | | | | |
| LV Variance Account | 1550 | 15,524 | 1,393 | 228 | 76 | 17,221 |
| RSVA - Wholesale Market Service Charge | 1580 | -82,620 | -201 | -1,215 | -405 | -84,441 |
| RSVA - Retail Transmission Network Charge | 1584 | 1,331 | 398 | 20 | 7 | 1,755 |
| RSVA - Retail Transmission Connection Charge | 1586 | -15,737 | 94 | -231 | -77 | -15,952 |
| RSVA - Power (excluding Global Adjustment) | 1588 | 40,127 | 1,129 | 590 | 197 | 42,042 |
| RSVA - Power - Sub-account - Global Adjustment | 1588 | -69,209 | 1,659 | -1,017 | -339 | -68,906 |
| Disposition and Recovery/Refund of Regulatory Balances (2008) | 1595 | -44,366 | -2,250 | -652 | -217 | -47,485 |
| Disposition and Recovery/Refund of Regulatory Balances (2010) | 1595 | -213,808 | 64,832 | -3,143 | -1,048 | -153,167 |
| **Group 1 Sub-Total (including Account 1588 - Global Adjustment)** | | **-368,757** | **67,053** | **-5,421** | **-1,807** | **-308,932** |
| **Group 1 Sub-Total (excluding Account 1588 - Global Adjustment)** | | **-299,548** | **65,394** | **-4,403** | **-1,468** | **-240,026** |
| **RSVA - Power - Sub-account - Global Adjustment** | **1588** | **-69,209** | **1,659** | **-1,017** | **-339** | **-68,906** |
| **Group 2 Accounts** | | | | | | |
| Other Regulatory Assets - Sub-Account - Deferred IFRS Transition Costs | 1508 | 17,500 | - | 257 | 86 | 17,843 |
| Retail Cost Variance Account - Retail | 1518 | 4,360 | 1,030 | 64 | 21 | 5,475 |
| Retail Cost Variance Account - STR | 1548 | 7,341 | 823 | 108 | 36 | 8,307 |
| PILs and Tax Variance for 2006 and Subsequent Years - Sub-Account HST/OVAT Input Tax Credits (ITCs) | 1592 | -15,139 | -71 | -147 | -89 | -15,445 |
| **Group 2 Sub-Total** | | **14,062** | **1,782** | **282** | **54** | **16,180** |
| **Total of Group 1 and Group 2 Accounts** | | -354,695 | 68,835 | -5,138 | -1,753 | -292,752 |

[1] Carrying charges calculated on Dec 31 -11 principal balances that were adjusted for dispositions during 2012

## Account 1508

SLHI is requesting the disposition of Account 1508, Other Regulatory Assets, sub-account Deferred IFRS Transition Costs for its December 31, 2011 balance of $17,843, including carrying charges forecast to April 30, 2013. Based on the responses to several interrogatories[50], Board staff notes that SLHI stated the following:

- SLHI may defer the adoption of IFRS to January 1, 2015. Sioux Lookout is of the view that the Canadian Accounting Standards Board could further defer the mandatory adoption date beyond 2015; and

[50] 9-Staff-30 and 9-Staff-31

- By the end of 2011, SLHI stated that it had completed approximately 70% of its work related to IFRS. These costs have been recorded in Account 1508, Other Regulatory Assets, sub-account Deferred IFRS Transition Costs.

Board staff is unclear of the amount of additional costs Sioux Lookout will incur for its IFRS project beyond the costs incurred as at December 31, 2011. Furthermore, Board staff submits the Accounting Procedures Handbook – FAQ #2, dated October 2009 stated the following with respect to the disposition of Account 1508 Other Regulatory Assets, Sub-account Deferred IFRS Transition:

> In the distributor's next cost of service rate application immediately after the IFRS transition period, the balance in this sub account should be included for review and disposition.

It is Board staff's position that a distributor should request cost recovery of one-time administrative incremental IFRS transition costs in a cost of service rate proceeding immediately after the IFRS transition period is complete.

Board staff notes that in its May 28, 2013 Decision and Order EB-2012-0113, the Board denied Centre Wellington Hydro recovery of its Account 1508 Other Regulatory Assets, Sub-account Deferred IFRS Transition Costs. The Board stated that "it is more appropriate to consider this account in total after the transition to IFRS has been made."[51]

Board staff submits that the $17,843 balance being requested for clearance by SLHI for Account 1508 Other Regulatory Assets, Sub-account Deferred IFRS Transition Costs is immaterial and should not be cleared at this time.

Board staff submits that the Board may wish to consider deferring SLHI's request for disposition of Account 1508 Other Regulatory Assets, Sub-account Deferred IFRS Transition Costs, to its next cost of service rates application after SLHI completes its IFRS transition. Alternatively, the Board may wish to dispose the December 31, 2011 balance of Sub-account 1508 on an interim basis in this proceeding. The clearance of the interim balance would be on condition that SLHI completes its IFRS transition and

[51] Centre Wellington Hydro Decision and Order EB-2012-0113 - page 16

brings forward the December 31, 2011 balance and any incremental balances for review by the Board in SLHI's next cost of service rates application.

**Account 1576**

SLHI has made changes to its capitalization and depreciation expense policies in 2012 under CGAAP. SLHI has filed a request for clearance of Account 1576, Accounting Changes under CGAAP. In response to interrogatories, SLHI has updated the balance in Account 1576 to a credit balance of ($97,185)[52] from the pre-filed evidence credit balance of ($98,888)[53]. The updated credit balance of ($97,185) has been amortized over 4 years and cleared as a reduction to 2013 Depreciation Expense, consistent with Board policy.

Board staff submits that the credit balance in Account 1576 of ($97,185) is appropriate. Board staff notes that this balance does not include a return component. Board staff also notes that it is appropriate to amortize the account over 4 years and clear the account to 2013 Depreciation Expense. On June 25, 2013, the Board issued a new policy which includes an application of a return component to the balance of Account 1576 and use of a separate rate rider with respect to the disposition of Account 1576. While Board staff appreciates that SLHI has prepared it application consistent with the previous policy, SLHI may wish to comment in its reply submission on its views on the application of a return component to Account 1576 and adopting the rate rider approach.

***Stranded Meters***

In its original Application, SLHI proposed stranded meter rate riders ("SMRRs") of $2.83/month for Residential customers and $2.63/month for GS < 50 kW customers that would apply over a two-year period.

Both Board staff and VECC questioned SLHI's original proposal in interrogatories.[54] Board staff also asked SLHI about its proposed SMRRs through a supplemental interrogatory.[55] In response to 9-Staff-44s, SLHI revised its proposal, stating:

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[52] 4-Staff-38s
[53] Exhibit 2/Tab 5/Schedule 4
[54] See responses to 9-Staff-27 and 9-VECC-37.

> After reviewing the originally proposed SMRR and the response to 9-Staff-27 d), SLHI believes that it would be more appropriate to allocate the SMRR based on the weighted average cost for the installed smart meters as per the interrogatory. This method more closely adheres to the principle of cost causality and practicality as set out in Guideline G-2011-0001: Smart Meter Funding and Cost Recovery – Final Disposition. The original SMRR assumed that the weighting for each class was equal, and since the NBV of the stranded assets is not known on a class-specific basis then the SMRRs set out in interrogatory 9-Staff-27 d) are preferred.

In the response to 9-Staff-27 d), SLHI calculated revised SMRRs of $2.74/month for Residential customers and $3.24/month for GS < 50 kW customers, again with a recovery period of 2 years.

Board staff submits that the class-specific SMRRs proposed in response to 9-Staff-27 d) are not appropriate and are not in conformance with Guideline G-2011-0001. Board staff accepts that the NBV of the stranded assets may not be exactly accounted for on a customer class level, but submits that this can be proxied based on available information.

In response to 9-Staff-27 b), SLHI filed a copy of sheet I7.1 from its 2007 Cost Allocation Informational Filing. That sheet shows that the cost of a conventional meter in the GS < 50 kW class to that of a conventional meter in the Residential class showed a ratio of 1.08:1. With the number of replaced conventional meters (or proxied by the number of installed smart meters) per class, SLHI should have the information to calculate the capital-weighted meter cost shares for allocating the NBV of stranded meters of $182,592 based on the conventional meters. The calculations would be similar to those provided in 9-Staff-27 d). This approach is preferable as it is based on the conventional meter costs rather than on the smart meter costs, and has been approved by the Board in a number of cost of service decisions and accepted in Settlement Agreements to date.

If SLHI has concerns about the data or class allocations based on conventional meter costs from Sheet I7.1, then SLHI should explain these in its reply submission. If there

[55] Response to 9-Staff-44s

are significant concerns about the allocated costs and class-specific SMRRs based on sheet I 7.1, then Board staff submits that the updated SMRRs proposed in 9-Staff-27 d) would be reasonable alternatives, even though they are based on the smart meter capital costs.

– All of which is respectfully submitted –