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July 5, 2013

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

Re: Sioux Lookout Hydro Inc.
2013 Cost of Service Electricity Distribution Rate Application
EB-2012-0165
Reply Submission

Dear Ms. Walli:

Please find attached Sioux Lookout Hydro Inc.'s reply submission to Board Staff and VECC Submissions related to the above proceeding dated June 28, 2013.

These responses are being filed pursuant to the Board's e-Filing Services. Two hard copies of the responses will be delivered to the Board via registered mail. In addition, one electronic copy will be forwarded to all intervenors.

If you require any further information, please do not hesitate to contact me at (807)737-3800 or via email at dkulchyski@tbaytel.net.

Sincerely,

DKulchyski

Deanne Kulchyski, CGA, BComm(Hons)
President/CEO

Encl/

Sioux Lookout Hydro Inc.

2013 Electricity Distribution Rates

Reply Submission to Ontario Energy Board Staff and VECC Submissions

EB-2012-0165

Introduction

Sioux Lookout Hydro Inc. (SLHI) filed an application (the "Application") with the Ontario Energy Board on February 22, 2013 seeking approval for changes to rates that SLHI charges for electricity distribution, to be effective May 1, 2013. The Board assigned file number EB-2012-0165 to the Application.

SLHI would like to point out to the Board that during the IR process, SLHI has worked with both Board Staff and VECC to answer all questions or concerns in a timely fashion and has submitted IR responses before the deadlines in order to expedite the process. SLHI received Mr. Doug Shields' Submission on May 29, 2013 and had no reply submission. VECC and Board Staff provided their Final Submissions on June 28, 2013. SLHI would like to take this opportunity to make a Reply Submission in response to the issues raised in those final submissions.

Exhibit 1

Effective Date for Rates

Board Staff and VECC submitted that the effective date for the new rates should be the month following the issuance of the Board's Decision and Order, and that SLHI should not be allowed to recover foregone incremental revenue back to the proposed date of May 1, 2013. Board Staff stated the basis for this was due to SLHI's reasons supporting the delay should be part of normal business practice. SLHI feels the delay was merited. Small utilities are faced with the same pressures as large utilities to conform to rules and regulations with limited resources. At the time SLHI had a staff member capable of preparing and compiling the application. But due to the transition faced by the company, and the Smart Meter Application, was unable to dedicate time to the preparation of the application until later on in 2012. SLHI makes every effort to minimize costs whenever possible, and therefore felt that hiring an outside consultant to prepare and compile the cost of service application in order to meet the filing deadline would not be in the best interest of the company. SLHI further stresses that once the application was filed, responses were provided without delay to Board Staff and VECC.

Exhibit 2

SLHI agrees with Board Staff's submission with respect to the 13% working capital allowance, and has no other submissions for Exhibit 2.

Exhibit 3

SLHI has no reply submission with respect to load forecast.

Revenue Offsets/Other Revenues

VECC requested SLHI to clarify that the $20,002 in Interest and Dividend Income in Revenue Offsets included interest revenue associated with Variance Accounts. SLHI confirms that there is revenue associated with Variance Accounts included in the $20,002 as presented in Appendix 2-F of the Chapter 2 Appendices.

Exhibit 4

OM&A

Board Staff took no issue with SLHI's proposal for OM&A expenses, other than the matter related to the one-time HR costs. They did however invite SLHI to provide an explanation and reason (s) for high OM&A costs compared to their cohorts.

In reply SLHI feels that a comparison of OM&A per customer and OM&A per FTEE is not fully indicative of the company's operational efficiencies. These statistics do not take into consideration other differences, specifically SLHI's large rural geographic area, which contribute to increased OM&A. SLHI provides the table below to compare its cohorts service territory and kms of line.[1]

OM&A Per service territory sq kms and Kms of line 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
Rural Service Territory (sq kms)	530	0	0	73	0	0	0
Urban Service Territory (sq kms)	6	380	2	26	26	24	93
Total Service Territory (sq kms)	**536**	**380**	**2**	**99**	**26**	**24**	**93**
OM&A cost per total sq kms	**$2,183**	**$2,467**	**$274,666**	**$10,868**	**$50,984**	**$84,005**	**$9,347**
Overhead line kms	277	92	26	26	66	88	57
Underground Line kms	6	0	1	11	8	10	11
Total kms of line	**283**	**92**	**27**	**37**	**74**	**98**	**68**
OM&A Cost per km of line	**$4,135**	**$10,190**	**$20,346**	**$29,080**	**$17,913**	**$20,573**	**$12,783**
Customers per kms of line	**10**	**18**	**48**	**89**	**51**	**57**	**41**
Customer Density (customers/ser	**5**	**4**	**647**	**33**	**145**	**232**	**30**

As illustrated by the above, SLHI has a small number of customers when compared to the service territory and kms of line to be maintained. SLHI feels that comparing cohorts on the basis of customer size alone does not provide adequate representation and that these other factors should be taken into consideration as well.

In VECC's submission in paragraph 4.11, they indicated that the net incremental OM&A costs of smart meters is $3,032 when taking the incremental smart meter costs less the reduction in the meter reading expense. SLHI would like to point out that the meter reading costs consisted of mostly labour costs, and that those costs are still being incurred by the company as the employee was reclassified.

SLHI also disagrees with VECC's suggestion to adopt an envelope approach to adjust the proposed OM&A. SLHI went through considerable effort to supply Board Staff and VECC with

[1] Ontario Energy Board, 2011 Yearbook of Distributors, pages 55 to 65

explanations and updated costs from forecasted to actual for 2012. To simply administer a generic adjustment to the proposed OM&A, in SLHI's opinion, would not be appropriate.

Board Staff took no issue with SLHI's proposed employee complement and compensation. SLHI confirms that the payroll overlap between the former and current President/CEO is not continuing in 2013.

SLHI disagrees with VECC's submission that EDA Membership costs should not be allowable OM&A expenses. This membership allows SLHI to have access to a vast knowledge base of the electricity industry which would otherwise not be available. SLHI feels it is important to continue their membership which, among other things, provides reliable and timely updates on industry related issues and events.

Exhibit 5

VECC submitted in paragraph 5.3 that it was unclear as to why the change was made to the long-term debt rate from 3.44% to 4.12% during the interrogatory process. SLHI submits that this change was made in response to interrogatories 5-Staff-23 and 5-VECC-30 to update the cost of capital parameters to the most recent Board approved rates set out in their letter dated February 14, 2013.

Exhibit 6

SLHI has no reply submission with respect to Revenue Requirement and Revenue Sufficiency/Deficiency.

Exhibit 7

<u>Cost Allocation</u>

VECC did not agree with reducing the GS < 50 Revenue to Cost (R/C) ratio from 115.1 to 109.87 in the first sentence of paragraph 6.10, but contradicted this in the last sentence of the paragraph stating "VECC submits that, consistent with the Board's policy and its Decision regarding Toronto and Horizon, the ratio for this class should be maintained at 109.87%...."

VECC agreed with reducing GS > 50 to roughly 120% - the upper range of the class.

Board Staff took no issue with the reductions for R/C ratio for both GS < 50 and GS >50.

Both Board Staff and VECC did not agree with reducing the Street Lighting ("SL") and Unmetered Scattered Load ("USL") further away from 100%. Board Staff submitted that they should be remain the same (SLHI assumes this means at status quo).

Board Staff made no mention of the RS R/C ratios. VECC submitted that the preferred method to adjust the R/C ratios to address the SL and USL reductions would be that the RS, SL and USL ratios should be set at status quo, and increased in tandem until revenue neutrality is achieved.

SLHI agrees with Board Staff's submission that if the Board decides the SL class and USL class R/C ratio should be set at status quo, then it would be appropriate to further decrease the GS > 50 class revenue requirement.

SLHI submits that if the Street Light Class R/C ratio were to be set at status quo of 83.08% the calculated bill impact would be 11.41%.The USL bill impact is calculated at 13.91% if the R/C ratio is set at status quo of 81.30%.

Exhibit 8

<u>Fixed/Variable Split</u>

Board Staff had no issues with respect to the Fixed/Variable Split proposed by SLHI. VECC submitted that the GS<50 and GS>50 fixed service charges exceed the ceiling value and should be capped at the existing 2012 rates. SLHI agrees with Board Staff submission.

<u>Rate Mitigation</u>

Board Staff requested SLHI to respond to the issue of rate impacts for the Street Lighting and USL classes should the Board accept their submission of setting the R/C ratios at status quo, and whether or not there should be any mitigation.

The response above indicates that the SL rate impact would be 11.41% should the Board decide to set the R/C ratio at status quo of 83.08%. SLHI submits that in order to mitigate the impact, the adjustment could be made over two years. This would result in the R/C ratio for the first year of 76.54% and 83.08% in the second year.

Although the rate impact would be 13.91% for the USL class the total revenue requirement for the year is only $680 under the R/C ratio of 81.30%. SLHI doesn't feel this amount is significant enough to warrant rate mitigation.

Exhibit 9

In response to VECC's submission for SLHI to update its proposals for recovery of the Group 1 and Group 2 Accounts, SLHI concurs with Board Staff on the matter and will provide an updated EDDVAR Continuity Schedule as part of the Draft Rate Order once the Board issues its decision as there could be changes that affect the load and customer forecast.

<u>Account 1576</u>

VECC submitted that SLHI should include carrying charges with Account 1576, and Board Staff invited SLHI to comment on the application of the return component and adopting the rate rider approach. In SLHI's view applying a return component and adopting a rate rider approach to Account 1576 would not be appropriate at this time. The letter issued by the Board clearly states that these policy changes will be effective for 2014 cost of service filers who have different options under the Renewed Regulatory Framework for Electricity than 2013 filers.

Stranded Meters

Board Staff submitted that SLHI should recalculate the class specific SMRRs based on conventional weighted average meter costs as opposed to smart meter weighted average meter costs which were calculated in interrogatory 9-Staff-27 d). VECC supported the revised proposal as set out in interrogatory 9-Staff-27 d).

SLHI has no concerns about the data or class allocations based on conventional meter costs from Sheet I7.1of the 2007 Cost Allocation Informational filing. The calculations for the SMRR using the weighted average meter costs from the 2007 Cost Allocation Informational filing are shown below.

SMRR Cost Allocation					
	# of meters installed	%	Weighted Avg Price per Meter*	Total Meter Costs	%
	A		B	A*B	
Residential	2,264	87%	86.34	$195,474	86%
Gs < 50 kw	349	13%	93.00	$32,457	14%
	2,613	100%		$227,931	100%
* From Sheet I7.1 of SLHI's 2007 Cost Allocation Informational Filing					

Net Book Value of Stranded Assets as at December 31, 2012	$181,592	
Residential	$156,169	86%
GS < 50 kW	$25,423	14%
	$181,592	100%

	2013 Forecasted customers	SMRR$	SMRR
Residential	2,323	$156,169	$2.80
GS < 50 kW	374	$25,423	$2.83
	2,697	$181,592	24 months

All of which is respectfully submitted this 5th day of July 2013