EB-2012-0165

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, (Schedule B);

AND IN THE MATTER OF an application by Sioux Lookout Hydro Inc. for an order approving just and reasonable rates and other charges for electricity distribution to be effective May 1, 2013.

BEFORE: Paula Conboy
Presiding Member

Allison Duff
Member

DECISION AND ORDER

August 22, 2013

Sioux Lookout Hydro Inc. ("SLHI") filed an application with the Ontario Energy Board on February 22, 2013 under section 78 of the *Ontario Energy Board Act*, *1998*, seeking approval for changes to the rates that SLHI charges for electricity distribution, effective May 1, 2013. The Board issued a Notice of Application and Hearing on March 7, 2013.

The Vulnerable Energy Consumers Coalition ("VECC") and an individual, Mr. Douglas Shields, applied for and were granted intervenor status. VECC was also granted cost award eligibility. The hearing process included interrogatories, supplemental interrogatories, and written submissions. Mr. Shields filed a submission on May 29, 2013. Board staff and VECC filed submissions on June 28, 2013. SLHI filed its reply submission on July 5, 2013.

While the Board has considered the entire record in this proceeding, it has made reference only to the evidence necessary to provide context to its findings. The

Decision does not reference parts of SLHI's application which are not in dispute. The following issues are dealt with in this Decision:

- Effective Date for Rates;
- Capital Expenditures and Rate Base;
- Operating Revenues;
- Operating Expenses;
- Cost of Capital;
- Cost Allocation;
- Rate Design;
- Deferral and Variance Accounts;
- Stranded Meters;
- Updated RRRP, WMSC and Smart Metering Entity Charges;
- Submission from Mr Shields; and
- Implementation.

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, subsequent restructuring and resource allocation, the filing of its 2013 cost of service application would be delayed. SLHI filed its application on February 22, 2013 and requested an effective date for rates of May 1, 2013. SLHI's current rates were declared interim by the Board, pending a determination of this matter in this proceeding.

Board staff submitted the reasons provided by SLHI to support the delay in filing its 2013 cost of service application should be part of normal business planning. Board staff further noted 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. VECC submitted no compelling reason was provided by SLHI to justify an effective date of May 1, 2013.

In its reply submission, SLHI submitted that small utilities are faced with the same pressures to conform to rules and regulations as large utilities but have limited resources to do so. SLHI further noted that due to transition issues faced by the company and the smart meter application process, SLHI was unable to dedicate time to prepare the application until later in 2012. SLHI indicated the added cost of hiring an outside consultant to prepare its application to meet the filing deadline would not be in the best interest of the company.

Board Findings

The Board will not accept SLHI's proposal to make rates effective on May 1, 2013 or allow for recovery of any foregone revenue. The Board established an August 31, 2012 target date for filing 2013 applications to allow sufficient time to complete the proceeding and issue a final rate order before May 1, 2013. The Board appreciates that SLHI has limited resources as it is a smaller utility, but finds the reasons that SLHI provided for its delay are part of normal business planning and dealing with them should be within the company's control.

A regulated utility must consider the lead time required to plan and meet its regulatory obligations and integrate those plans into its workflows. As a regulated for-profit monopoly, a core element of the company's business is its engagement with the regulatory process. The preparation of a conventional cost of service application should be part of the ongoing business process and should not place an undue burden on the utility's staff or resources.

SLHI filed its application on February 22, 2013, 6 months after the Board's target date. The Board does not consider it reasonable for ratepayers to bear the associated risk or cost of the 6-month filing delay. SHLI's new rates will be effective September 1, 2013, which is 4 months after the proposed May 1, 2013 date.

Capital Expenditures and Rate Base

SLHI proposed a 2013 test year rate base of $6,147,305 which includes $4,934,794 in average net fixed assets. This compares to average net fixed assets of $ 4,615,526 in 2008. Board staff and VECC took no issue with SLHI's proposed rate base.

In 2012, SLHI changed its capitalization and depreciation expense polices which included the half-year rule for the first year of capital additions. As a result, SLHI indicated it retroactively applied the half-year rule to capital asset additions from 2007-2012 to reflect its new accounting policy "as per OEB Guidelines". Further, SLHI restated rate base and depreciation expenses accordingly and reflected the changes in Deferral Account 1576.

Board Findings

The Board accepts SLHI's proposed rate base and capital additions. However, the Board is concerned that SLHI retroactively adopted the half-year rule for capital asset additions back to 2007. As explained in its Kingston Hydro Decision EB-2010-0136, restatement of historical rate base is not appropriate for cost of service applications. The intent of the half-year rule is to capture the fact that not all capital assets are put into service on January 1 of the test year. The Board's application filing requirements are forward looking and are meant to outline the rate setting methodology for future test years, not to be used to retroactively restate rate base.

While reluctant to depart from the rate making principle, the Board has considered the specific circumstances in this case and notes the resulting rate impact is not material to justify the effort to SLHI of recalculating depreciation, rate base and Account 1576 to reverse and correct for the restatement.

Working Capital Allowance

SLHI proposed a 13% Working Capital Allowance ("WCA"), equal to the Board default rate. Board staff submitted that SLHI has followed the Board's guidelines in determining the WCA and took no issue with SLHI's proposal.

VECC proposed a rate of 12%. VECC noted that SLHI bills its customers monthly while the Board's default rate was established when most utilities offered bi-monthly billing. VECC submitted that utilities performing monthly billing have a larger cash flow than bi-monthly billing utilities and therefore a lower need for working capital. As SLHI did not perform a lead-lag study, stating the cost would exceed the benefit of conducting a study, VECC referenced lead-lag studies completed by monthly-billing utilities that lead to working capital requirements of 11.4% of controllable costs.

Board Findings

The Board accepts SLHI's proposal to use a 13% WCA consistent with Board policy. The Board finds no compelling reason to depart from its default rate. The Board is reluctant to adopt the results of lead-lag studies from one utility to another or reference the WCA from settlement agreements without a thorough analysis of the circumstances for each utility. In accepting settlement agreements, the Board has made it clear that there is no precedential value in the individual components of a settlement agreement as all settlements contain trade-offs.

Operating Revenues

Customer Forecast
SLHI forecast its customer count for 2013 by applying the historical geometric mean customer growth rate from 2003-2011 to the actual 2011 count for each customer class. In its interrogatory responses, SLHI revised its forecast for the GS<50 kW and GS>50 kW rate classes by adopting the actual average customer counts for 2012 of 386 and 51 respectively, for a total 2013 forecast of 3,293 customers.

VECC submitted the 2013 forecast should be based on the 2012 year-end customer count for the GS<50 kW, GS>50 kW and the USL customer classes which would increase the total customer count to 3,297.

<u>Board Findings</u>
The Board accepts SLHI’s proposed 2013 customer count by rate class. While the differences between SLHI’s and VECC’s proposals are small, the Board finds no compelling reason to diverge from the company’s forecast given SLHI’s knowledge of its own customer base.

Load Forecast
SLHI forecast 2013 power purchases to be 77.7 GWh, based on the 12-year weather normal average and using a multivariate regression model. Power purchases were regressed against explanatory variables of economic and weather-related factors. SLHI also included a variable to reflect the loss of demand from the closed Pulp and Paper Mill in its service area. A CDM variable was tried but discarded in the final model as its coefficient was not statistically significant.

SLHI divided the 77.7 GWh power purchase forecast by 1.0446, which represents the average loss factor from 2003 to 2011, to determine the total billed energy forecast of 74.4 GWh for 2013. VECC agreed with SLHI’s proposal.

Board staff submitted that the 2013 power purchase forecast should be 76.1 GWh based on the model in interrogatory response 3-Staff-34s. Board staff considered this model to be preferable given its improved model statistics from excluding the intercept and removing the Pulp and Paper Mill flag. Board staff agreed with SLHI that a power purchase forecast should be adjusted by the loss factor to determine the billed load forecast. SLHI did not file a reply to Board staff’s submission.

Board Findings

The Board accepts the power purchase forecast of 76.1 GWh given the improved model statistics. The Board notes this load forecast will need to factor into the draft Rate Order through the working capital allowance, cost allocation and billing determinants. The Board approves a 2013 load forecast of 72.85 GWh, after adjusting for the loss factor of 1.0446.

The CDM Adjustment to the Load Forecast

SLHI proposed a load forecast adjustment of 1,024,760 kWh to account for the impact of new CDM programs introduced after 2011, the historical period on which the load forecast model was built. SLHI included the full-year, net impact of energy savings from the 2012 and 2013 CDM programs.

Board staff submitted the CDM adjustment should be 799,318 kWh and adjusted up for the loss factor. In its recommended calculation, Board staff included the half-year impact of the 2011 and 2013 programs and the full-year impact of the 2012 program. Board staff indicated the regression models used to derive the load forecast did not include a CDM variable; therefore, an adjustment for the full-year impact of 2011 CDM program was required as only half the 2011 program results were in the underlying data.

VECC submitted the CDM adjustment should be 768,570 kWh to reflect the net, full-year impact of the 2012 CDM program and a half-year impact of the 2013 CDM program. VECC agreed with SLHI that the regression model already incorporated the impact of the 2011 CDM programs and did not support the 2011 adjustment proposed by Board staff.

Board Findings

The Board approves a CDM adjustment of 768,570 kWh to be deducted from the 2013 load forecast. To determine the total CDM adjustment, the Board considered the contributing effect of each CDM program year.

The Board agrees with the half-year impact of the 2013 CDM program for the CDM adjustment proposed by Board staff and VECC, as it is the first year of the program. As stated in the Board's Centre Wellington Decision (EB-2012-0113) "program results build over the year and are not fully realized from day one". The 2013 net impact is 256,190 kWh.

The Board agrees with the full-year impact of 2012 CDM programs for the CDM adjustment as proposed by SLHI, Board staff and VECC. The 2012 net impact is 512,380 kWh.

The Board does not agree with the inclusion of the half-year impact of the 2011 CDM program as proposed by Board staff. The Board agrees with SLHI and VECC that CDM impacts were embedded in the data and incorporated into the regression model. If an explicit CDM variable was disregarded from the model as non-predictive, a subsequent compensating CDM adjustment is not considered appropriate.

The Board does not find it necessary to alter the total 2013 CDM adjustment by the loss factor as proposed by Board staff. The power purchase forecast was adjusted by the loss factor to convert to an energy billed equivalent. However, CDM program targets are based on energy savings and do not require a loss factor adjustment to be deducted from the energy billed forecast.

LRAM

A CDM impact adjustment is also identified for the purpose of determining the lost revenue adjustment mechanism (“LRAM”) value. SLHI proposed an LRAM value of 1,086,257 kWh equal to the total annualized net CDM savings for the 2011, 2012 and 2013 CDM programs. Board staff and VECC supported SLHI’s proposal. Further, Board staff and VECC submitted it was acceptable for the Board to approve an LRAM value that differed from the CDM adjustment to the 2013 load forecast.

<u>Board Findings</u>

The Board accepts SLHI’s proposal for the LRAM value.

Other Revenues

SLHI forecast Other Operating Revenues of $129,025 for 2013. Board staff submitted SLHI had adequately explained and supported its proposal. VECC expressed a concern that $20,002 in Interest and Dividend Income, a component of Other Operating Revenues, may include interest revenue associated with variance accounts. In its reply submission, SLHI confirmed revenue associated with variance accounts is included in the $20,002.

Board Findings
The Board accepts SLHI's forecast for Other Operating Revenues of $129,025. While interest revenue associated with variance accounts should not be included in Other Operating Revenue, the Board does not expect SLHI to remove the associated interest revenue as the 2013 dollar impact is immaterial. The Board directs SLHI to adjust its accounting practice to exclude any interest revenue related to variance accounts on a forward basis.

Operating Expenses

SLHI proposed an operations, maintenance and administration expense ("OM&A") budget of $1,554,419 for 2013. The proposed OM&A represents a 38.8% over its 2008 Board-approved OM&A or a 35.6% increase over its 2008 actual OM&A.

SLHI provided explanations for cumulative changes in OM&A by category and cost driver. Overall OM&A remained relatively stable from 2008 to 2011. In the 2012 bridge year, however, the budget is forecast to increase by 36.3% over the 2011 actual OM&A before decreasing by 2.6% in 2013. Further details are provided in the following table.

Year	2008 Board approved	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Bridge Forecast (CGAAP)	2012 Bridge Forecast (CGAAP amended)	2013 Test Forecast (CGAAP amended)
Maintenance	87,281	91,130	94,702	116,678	106,053	320,616	320,616	201,605
Change from 2008 actual							252%	121%
Operations	421,827	426,324	396,303	493,191	479,053	539,851	584.640	628,363
Change from 2008 actual							36%	47%
Billing & Collecting	349,826	365,700	381,340	310,460	265,561	298,102	298,102	316,965
Change from 2008 actual							-18%	-13%
Admin and General	260,892	263,826	267,718	240,621	319,541	386,819	391,805	407,460
Change from 2008 actual							49%	54%
Total 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
Annual change			-0.6%	1.8%	0.8%	32.1%	36.3%	-2.6%
Change From 2008 actual							39.1%	35.6%

SLHI identified the cost drivers 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 due to a confidential human resource issue related to expenditures ($84,746) incurred in 2012 comprising severance package and consulting fees concerning an outgoing employee (lineman). SLHI proposed recovery of this cost over a 4 year period starting in 2013; and
- Change in capitalization policy resulting from the amendment to CGAAP in 2012, resulted in an increase in OM&A of $39,127.

SLHI proposed a staff complement of 9 full-time employees for 2013, an increase over its 8 full-time employees from 2008 to 2011. SLHI's structural reorganization involved the retirement of its President/CEO in 2012, the reclassification of its meter-reader position to groundsman, the retirement of a lineman and the hiring of two linemen replacements as part of a succession planning exercise. Board staff noted the staff complement should reduce when the current linemen retire. VECC noted that, while it is not explicitly stated, the retention and reclassification of the former meter reader implies the savings from reduced meter reading costs have not actually occurred.

SLHI provided analyses of its OM&A costs per customer and per FTEE. Board staff and VECC noted SLHI is a high-cost utility compared to other utilities in its cohort.

In reply, SLHI submitted a comparison of OM&A per customer and per FTEE across utilities was not fully indicative of the company's operational efficiencies. SLHI further submitted that the OM&A comparisons do not consider other differences, specifically SLHI's large rural area, service territory or kilometers of line.

Board staff agreed with SLHI’s 2013 OM&A with the exception of its proposal to recover $84,746 of one-time human resource expenses in 2013 to 2017. Board staff submitted the $84,746 should be absorbed by SLHI as the expense was incurred in 2012 and commensurate with the normal cost of running a business. VECC submitted the expense should be considered out-of-period for a 2013 rate application and not recoverable in 2013 rates.

VECC recommended a budget reduction to $1.35 million based on an envelope approach or an “expected growth test”. VECC indicated the purpose of its test is to understand the reasonableness of cost increases since the last cost of service application. Accordingly, VECC took into consideration the cost of new customer additions, inflation, productivity and the cost of incremental responsibilities. VECC argued the envelope approach to OM&A provides utility management with some discretion to adjust elements of its OM&A budget without adversely affecting plant investments or utility service. VECC made a number of observations regarding specific expense items to support its budget reduction proposal.

SLHI disagreed with VECC’s envelope approach. SLHI indicated it went through considerable effort to supply Board Staff and VECC with explanations and update its 2012 costs and 2013 forecasts. To simply administer a generic adjustment to the proposed OM&A, in SLHI’s opinion, would not be appropriate.

Board Findings

SLHI’s proposed OM&A increase from 2008 actual to 2013 test year of 35.6% or $407,439 is driven primarily by the increase from 2011 to 2012. The Board appreciates a percentage change must be reviewed in context of the dollars involved. However, the Board has determined SLHI has not sufficiently justified this level of increase. The 2013 Board approved OM&A is $1,421,245. The reasons for the OM&A reduction are set out below.

SLHI explained its budgeting approach and stated that its Board of Directors reviews and approves the budget. The evidence shows the budget is based on historical spending levels and increased to reflect additional activities and increased costs. However, there appeared to be little analysis of the reasonableness of the overall OM&A budget in terms of its effect on rates and ratepayers. In addition, there is no evidence of cost constraints imposed internally or by SLHI’s Board of Directors to drive efficiencies. The only cost efficiency appears to have come in the area of meter reading, which has been offset by reclassifying the meter reader to a groundsman. Demonstrating a sufficient level of review of its overall budget level, including the magnitude of the increase is particularly relevant given SLHI appears to be a high-cost utility compared to its peers. SLHI presented information on OM&A per square kilometer and per km of line for the first time in reply argument. It is generally inappropriate in a cost of service proceeding to rely on evidence presented through submission as the calculations cannot be tested. As such, the Board is unable to place any weight on those calculations in its determination.

A significant amount of the requested increase relates to the addition of a full-time linesman for succession planning purposes. The Board accepts there has to be a brief period of overlap when new linesmen are brought into the workforce. However, the Board finds there is insufficient explanation and justification as to why ratepayers should fund OM&A increases to account for the restructuring required due to the retirement of the President/CEO in 2012. In particular, SLHI identified persisting costs “due to Organizational restructuring” as a cost driver that resulted in an OM&A increase of $73,279 in 2012 and a further increase of $89,458 in 2013. These persisting expenses are in addition to the one-time HR related expense of $84,746 incurred in 2012 (further discussed below). It is unclear whether the retention and reclassification of the meter reader employee was included in these increases or incremental. The Board is concerned with the level of increase under the umbrella of “succession planning” and “restructuring” SLHI proposes to recover from ratepayers, when there are no quantifiable benefits to customers or service reliability as a direct result of these expenditures.

In the absence of sufficient evidence to substantiate the proposed level of OM&A expense increase, the Board must determine the appropriate level of reduction. The Board finds merit in VECC’s envelope approach to deriving an increase that reflects inflation, customer growth, productivity, and efficiency improvements. The Board will adopt an envelope approach and will derive an approved OM&A level based on 2011 actuals. While VECC’s submission was based on the 2008 Board approved level, the Board finds it more appropriate to derive the 2013 level from the most recent actual year. To the 2011 actual OM&A, the Board will apply an escalation factor which is representative of customer growth and inflation over the longer period. The number of customers SLHI services has decreased from 2008 to 2013, and the Board will assign a zero escalation factor related to customer growth. Inflation has increased by an average of 1.7% annually over the longer period. In recognition that costs do not increase one-for-one with growth in customers and in recognition that the company should be accommodating incremental expenses through efficiency improvements, the Board will reduce this escalation factor. The Board finds that a compound escalation factor of 1.3% (1.7% - 0.4% which represents SLHI's placement in its efficiency cohort) from the 2011 actual is appropriate. This results in a 2013 OM&A budget of $1,200,831.

The Board's approval of just and reasonable rates takes into account the expectation that a distributor will exercise efficiencies yet the Board recognizes that distributors should be able to recover costs for any incremental responsibilities since the time of its last cost of service rebasing. As a result, the Board will make an upward adjustment to the OM&A calculation of $39,127 related to SLHI's change in capitalization policy, $81,287 related to the ongoing costs for smart meters and LEAP funding, and $100,000 to allow for the increase in staff. This increases the 2013 OM&A budget to $1,421,245, a reduction of $133,174 compared to SLHI's 2013 OM&A proposal of $1,554,419. The Board finds this OM&A budget sufficient to accommodate inflation, customer growth, and incremental expenditures.

The Board's mandate is not to direct an applicant on how to manage its utility and therefore the Board will not comment on the specific areas in which SLHI should curtail OM&A spending. However, the Board agrees with Board staff and VECC that the $84,746 human resource cost in 2012 is an out-of-period expense for 2013. The recovery of the $84,746 in 2013-2017 is inappropriate as it is contrary to the rule against retroactive rate making.

Cost of Capital

In its application, SLHI estimated a Cost of Capital of 5.66%, based on a deemed capital structure of 60% debt (56% long-term debt and 4% short-term debt) and 40% equity. SLHI applied a return on equity of 9.12% and a deemed short-term debt rate of 2.08%. SLHI proposed a long-term debt rate of 3.44% based on two bank loans, one loan with a principal amount of $1,763,851 at a rate of 3.0% and the second with a principal amount of $618,942 and an interest rate of 4.70%

The Board updated its cost of capital parameters for rates effective May 1, 2013 on February 14, 2013 as shown in the following table.

Board's Cost of Capital Parameters	Rate
Return on Equity	8.98%
Deemed Short-term Debt	2.07%
Deemed Long-Term Debt	4.12%

Through the interrogatory process, SLHI updated its cost of capital parameters and calculated a weighted average cost of capital of 5.98%. Board staff agreed with SLHI's proposed 5.98%. VECC noted SLHI had changed its long-term debt rate from 3.44% to the Board's default value of 4.12%. As no change had been made to SLHI's third-party loan agreements, VECC submitted SHLI should revert back to the originally filed 3.44% rate for long-term debt based on its evidence of third-party loans.

In reply, SLHI submitted the change to the long-term debt rate was simply made in response to Board staff and VECC's interrogatories to update the cost of capital parameters to the most recent Board approved rates.

Board Findings

The Board's finds it appropriate for SLHI use the Board's deemed cost of capital rates of 8.98% for equity and 2.07% for short-term debt However, the Board agrees with VECC that SLHI's long-term debt rate should be 3.44% based on its loan contracts. The Board's default rate of 4.12% should only be used in the absence of third-party loans, as indicated in the Report of the Board on the Cost of Capital for Ontario's Regulated Utilities, Dec.11, 2009. As a result, the Board approves a 5.60% cost of capital in 2013.

Cost Allocation

SLHI conducted an updated Cost Allocation Study (the "Study"), provided revenue-to-cost ("R/C") ratios resulting from the Study and proposed R/C ratios for 2013.

R/C Ratios
2010 IRM and 2013 Cost Allocation Study and Proposed (updated via interrogatory process)

Customer Class	Range (%)		2010 IRM Application	2013 Cost Allocation Study	2013 Proposed
	Low	High			
Residential	85	115	98.09%	90.34%	96.35%
GS < 50 kW	80	120	96.26%	115.15%	109.85%
GS 50-4999 kW	80	120	129.16%	138.31%	119.84%
Street Lighting	70	120	70.00%	83.08%	74.91%
Unmetered Scattered Load	80	120	98.29%	81.30%	80.96%

Board staff took issue with SLHI's proposed ratios for SL and USL. While the proposed R/C ratios were within the Board's target range for each class, the resulting ratios moved further away from 100% and therefore, were not appropriate in Board staff's opinion. Board staff submitted the R/C ratios for the SL and USL classes should be set at 83.08% and 81.30% as derived by the Study with the additional revenue used to further decrease the ratio for the GS>50 kW class.

In VECC's view the cost allocation methodology, as applied by Sioux Lookout had not improved to warrant moving the ratio for the GS<50 kW class closer to one. VECC submitted ratios should be changed only if necessary to maintain revenue neutrality which was not the case in the current circumstances

In addition, VECC took issue with SLHI's proposals to reduce the R/C ratios for SL and USL further away from unity as the proposals contravened the Board's November 2007 Report, EB- 2007-0667 "Application of Cost Allocation for Electricity Distributors". VECC provided two proposals to increase the R/C ratios for the Residential, SL and USL classes:

1. Increase the ratios for SL and USL up to the status quo value for Residential and, then, increase all three ratios in tandem until revenue neutrality is achieved.
2. Adjust the ratios for SL and USL by two percentage points for every one percentage point increase applied to Residential.

VECC noted that the first approach was preferable from a strict R/C ratio setting perspective as adjustments would be applied first to ratios furthest from unity.

In its reply submission, SLHI agreed with Board Staff and indicated that if the Board decided the SL and USL class R/C ratios be should 83.08% and 81.30% respectively, it would be appropriate to further decrease the GS>50 kW class revenue requirement in order to maintain revenue neutrality.

<u>Board Findings</u>

The Board accepts SLHI's proposed R/C ratios for residential, GS<50 kW and GS> 50 kW and its revised proposal to adopt the R/C ratios produced by the Study of 83.03% for SL and 81.30% for the USL classes. The additional revenue from the SL and USL customer classes will be applied to the GS>50 kW customer class to further reduce its R/C ratio. The Board does not agree with VECC's proposal to increase the SL and USL ratios to the Residential ratio of 90.34% and then increase all three ratios in tandem. The Board finds VECC's proposal dismisses the class-specific R/C ratios provided by the Study.

Rate Design

Fixed/Variable Split

SLHI proposed to maintain the same fixed/variable ratios in its current 2012 rates for all customer classes. Board staff took no issue with SLHI's proposal.

VECC disagreed with SLHI's proposal as the fixed charges for the GS<50 kW and GS>50 kW classes exceeded the Study's ceiling values. VECC submitted the fixed service charges for these classes should be capped at the current 2012 rates, not the fixed/variable ratios.

Board Findings

The Board accepts SLHI's proposal to maintain the fixed/variable ratios. The Board notes this is consistent with other decisions[1] in which it has approved applications to increase monthly service charge that were already above the cost allocation ceiling, provided that the increase would not result in a higher revenue from the fixed charge relative to the volumetric charge.

Rate Mitigation

SLHI provided bill impact analysis in its application, updated though interrogatories.

	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%

[1] Decision on Hydro One Brampton Inc. (EB-2010-0132), p. 38. Decision on Lakeland Power Distribution Ltd. (EB-2008-0234), p.29-30. Decision on London Hydro Inc. (EB-208-0235), p.42-43.

In reply, SLHI submitted that if the Board set the R/C ratio to 83.08% for the SL class, the rate impact would be 11.41%. SLHI submitted the adjustment could be made over two years to mitigate the impact. The SL class R/C ratio would be 76.54% in the first year and 83.08% in the second year.

With respect to the USL class, SLHI indicated that if the Board set the R/C ratio to 81.30% the rate impact would be 13.91%. SLHI noted the total revenue requirement for the year was only $680 and submitted the amount was not significant enough to warrant rate mitigation. All other rate class changes are under 10%.

Board Findings

In accordance with the Board's findings with respect to Cost Allocation, the Board accepts SLHI proposal to R/C ratio of 83.08% for the SL class, yet mitigate the rate impact by transitioning to 83.08% over a two-year period. In addition, the Board accepts SLHI proposal to move the USL class to 81.30% without any rate mitigation given the dollar impact.

Deferral and Variance Accounts

Disposition of Group 1 and Group 2 Accounts

SLHI proposed to dispose of Group 1 and Group 2 deferral and variance account balances, as at December 31, 2011 and associated carrying charges forecast to April 30, 2013, as reflected in the table below. SLHI proposed to return a total credit balance amount of ($292,752) for Group 1 and Group 2 DVAs to ratepayers over a 1-year period.

		Closing Principal Balances as of Dec 31-11[2] 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

[2] Closing Principal Balances as of Apr 30-13 for Account 1592

Board staff took no issue with SLHI's proposed disposition of Group 1 and Group 2 deferral and variance balances, billing determinants and rate riders subject to its submissions with respect to Account 1508. Board staff and VECC both noted there could be changes to account balances since the table was prepared. SLHI indicated it would provide an updated EDDVAR Continuity Schedule as part of the draft Rate Order once the Board issued its Decision.

<u>Board Findings</u>

The Board approves the Group 1 and Group 2 principal account balances up to December 31, 2011, subject to the Board's findings regarding Account 1508 and Account 1592. The Board directs SLHI to file the projected carrying charges up to August 31, 2013 in its draft Rate Order as SLHI's customers should not be disadvantaged by the rate impact of SLHI's late filing. Pending final calculations, the Board approves disposition of the associated credit balances over a 12-month period from September 1, 2013 to August 31, 2014.

Account 1508
SLHI proposed to dispose of Account 1508, Other Regulatory Assets, sub-account Deferred IFRS Transition Costs balance as at December 31, 2011 of $17,843.

Board staff and VECC did not support the disposition of Account 1508 in 2013. Parties submitted SLHI should request disposition in the cost of service proceeding after its IFRS transition is complete, as contemplated in the Accounting Procedures Handbook FAQ #2. Board staff suggested the Board could dispose of the December 31, 2011 balance on an interim basis and any incremental balance in SLHI's next rates proceeding.

<u>Board Findings</u>
The Board will not approve the disposal of Account 1508 at this time, either on a final or interim basis. The Board finds it more appropriate to consider this account in total after the transition to IFRS is complete as described in the Accounting Procedures Handbook.

Account 1592
In its application, SLHI proposed disposition of its December 31, 2011 balance in Account 1592, sub-account HST/OVAT ITCs. In response to a Board staff interrogatory, SLHI updated the principle balance to a ($15,139) credit as at April 30, 2013.

Board Finding
The Board directs SLHI to forecast the principle balance and associated carrying charges for Account 1592 to August 31, 2013 as part of its draft Rate Order. By determining and clearing the forecast balance when current rates are updated, there will be no residual balance in this sub account to clear in a future proceeding.

Account 1576
SLHI changed its capitalization and depreciation expense policies in 2012 under CGAAP and filed a request to clear Account 1576 “Accounting Changes under CGAAP”. SLHI identified a credit balance of ($97,185) and proposed amortization over 4 years as a reduction to Depreciation Expense, consistent with previous Board policy related to accounting changes for capitalization a depreciation expenses.

Board staff submitted the credit balance and proposed disposition method were appropriate. Board staff invited SLHI to comment on the applicability of the Board's June 25, 2013 accounting policy that includes a return component on the balance of Account 1576 and uses a separate rate rider for Account disposition.

VECC submitted SLHI should include a return component on the principle amount. VECC noted that if the balance in Account 1576 had been booked in Account 1575, the balance would have included an amount based on the weighted cost of capital in accordance with Board rules. VECC submitted there is no principled difference between the use of Account 1575 or Account 1576 as both methodologies are designed to make ratepayers whole from adopting IFRS or the "IFRS like" adjustments to depreciation rates.

In reply, SLHI submitted it would not be appropriate to apply a return component and adopt a rate rider approach to Account 1576 at this time. The Board clearly indicated the 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.

<u>Board Findings</u>
The Board agrees with SLHI that applying a return component and adopting a rate rider approach to Account 1576 would not be appropriate at this time. The Board approves SLHI's proposed 4-year amortization period as a reduction to Depreciation Expense.

Stranded Meters

SLHI proposed recovery of $181,592 in stranded meter costs over a two-year period with stranded meter rate riders ("SMRRs") of $2.83/month for Residential customers and $2.63/month for GS < 50 kW customers. In response to interrogatory 9-Staff-27d, SLHI calculated revised SMRRs of $2.74/month for Residential customers and $3.24/month for GS < 50 kW customers.

VECC supported SLHI's SMRR calculations in 9-Staff-27d as better representing meter cost causality. Board staff submitted the class-specific SMRRs in 9-Staff-27d are not in conformance with Guideline G-2011-0001. Board staff submitted the net book value of the stranded assets could be approximated on a customer class level based on available information from previous cost allocation studies. Board staff noted a calculation based on conventional meter costs rather than smart meter costs is preferable and approved by the Board in a number of cost of service decisions and accepted in Settlement Agreements.

In reply submission, SLHI calculated SMRRs of $2.80/month for Residential customers and $2.83/month for GS < 50 kW customers based on the submissions of Board Staff. SLHI had no concerns with the revised SMRR with a recovery period of 2 years.

<u>Board Findings</u>
The Board finds SLHI's revised SMRRs of $2.80/month for Residential and $2.83/month for GS < 50 kW customers to be appropriate for recovery over 24 months from September 1, 2013 to August 31, 2015.

Updated RRRP, Wholesale Market Charge and Smart Metering Entity Charges

Rural or Remote Electricity Rate Protection Charge
On March 21, 2013, the Board issued a Decision with Reasons and Rate Order (EB-2013-0067) establishing that the Rural or Remote Electricity Rate Protection ("RRRP") used by rate regulated distributors to bill their customers shall be $0.0012 per kilowatt hour effective May 1, 2013. The proposed Tariff of Rates and Charges to be filed as part of the draft Rate Order should reflect this RRRP rate effective September 1, 2013.

Wholesale Market Service Charge
On March 21, 2013, the Board issued a Decision with Reasons and Rate Order (EB-2013-0067) establishing that the Wholesale Market Service Charge ("WMSC") used by rate-regulated distributors to bill their customers shall be $0.0044 per kilowatt hour effective May 1, 2013. The proposed Tariff of Rates and Charges to be filed as part of the draft Rate Order should reflect this WMSC rate effective September 1, 2013.

Smart Meter Entity Charge
On March 28, 2013, the Board issued a Decision and Order (EB-2012-0100/EB-2012-0211) establishing a Smart Metering Entity charge of $0.79 per month for Residential and General Service < 50kW customers for those distributors identified in the Board's annual *Yearbook of Electricity Distributors* effective May 1, 2013. The draft Tariff of Rates and Charges flowing from this Decision and Order should reflect the addition of this Smart Metering Entity charge effective September 1, 2013.

Submission from Mr. Shields

Mr. Shields submitted SLHI had demonstrated over the last 6 years that the company had been in a profit position and contributed $2,528,603.00 to the Town. Mr. Shields referred to a proposed 15% increase in his delivery rate and concluded the rate increase was not required and should be denied by the Board.

Board Findings

Without appropriate discovery which allows parties to test the evidence and calculations, the Board is unable to verify the accuracy of the calculation of $2,528,603 and notes SLHI did not comment on the dollar amount in its reply submission. As a corporation under the Ontario Business Corporations Act, SLHI is entitled to the ability to earn a return on its investments.

The Board has reviewed Mr. Shields' submission and appreciates the time it takes for individual customers to intervene in a rates proceeding. The Board takes into account the concerns of all ratepayers as it strives to set just and reasonable rates, considering the broader public interest. The evidence filed by SLHI has been thoroughly tested and the Board finds that the resulting revenue requirement is just and reasonable. As a result of this cost of service application, the Board has made a number of adjustments to SLHI proposed application for rates in 2013. The resulting increase for residential customers will be lower than originally proposed by SLHI, with the calculation pending approval of the final Rate Order.

Implementation

The Board has made findings in this Decision which change the 2013 revenue requirement and therefore change the distribution rates from those proposed by SLHI. In filing its draft Rate Order, the Board expects SLHI to file detailed supporting material, including all relevant calculations showing the impact of the implementation of this Decision on its proposed revenue requirement, the allocation of the approved revenue requirement to the classes and the determination of the final rates and all approved rate riders, including bill impacts. Supporting documentation shall include, but not be limited to, the filing of a completed version of the Revenue Requirement Work Form Excel spreadsheet which can be found on the Board's website.

A Rate Order will be issued after the steps set out below are completed.

THE BOARD ORDERS THAT:

1. Sioux Lookout Hydro Ltd. shall file with the Board, and shall also forward to the Vulnerable Energy Consumers Coalition, a draft Rate Order attaching a proposed Tariff of Rates and Charges and other filings reflecting the Board's findings in this Decision and Order within **10 days** of the date of this Decision and Order.

2. The Vulnerable Energy Consumers Coalition and Board staff shall file any comments on the draft Rate Order with the Board and forward to Sioux Lookout Hydro Ltd. within **7 days** of the date that Sioux Lookout Hydro Ltd. files the draft Rate Order.

3. Sioux Lookout Hydro Ltd. shall file with the Board and forward to the Vulnerable Energy Consumers Coalition responses to any comments on its draft Rate Order within **4 days** of the date of receipt of Board staff and intervenor comments.

Cost Awards

The Board will issue a separate decision on cost awards once the following steps are completed:

1. The Vulnerable Energy Consumers Coalition shall submit its cost claims no later than **7 days** from the date of issuance of the final Rate Order.

2. Sioux Lookout Hydro Ltd. shall file with the Board and forward to the Vulnerable Energy Consumers Coalition any objections to the claimed costs within **17 days** from the date of issuance of the final Rate Order.

3. The Vulnerable Energy Consumers Coalition shall file with the Board and forward to Sioux Lookout Hydro Ltd. any responses to any objections for cost claims within **24 days** from the date of issuance of the final Rate Order.

4. Sioux Lookout Hydro Ltd. shall pay the Board's costs incidental to this proceeding upon receipt of the Board's invoice.

All filings to the Board must quote the file number, **EB-2012-0165**, be made through the Board's web portal at https://www.pes.ontarioenergyboard.ca/eservice/, and consist of two paper copies and one electronic copy in searchable / unrestricted PDF format. Filings must clearly state the sender's name, postal address and telephone number, fax number and e-mail address. Parties must use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at http://www.ontarioenergyboard.ca/OEB/Industry. If the web portal is not available parties may email their documents to the address below. Those who do not have internet access are required to submit all filings on a CD in PDF format, along with two paper copies. Those who do not have computer access are required to file 7 paper copies.

All communications should be directed to the attention of the Board Secretary at the address below, and be received no later than 4:45 p.m. on the required date. With respect to distribution lists for all electronic correspondence and materials related to this proceeding, parties must include the Case Manager, Suresh Advani at suresh.advani@ontarioenergyboard.ca and Board Counsel, Maureen Helt at maureen.helt@ontarioenergyboard.ca.

ADDRESS

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DATED at Toronto, August 22, 2013

ONTARIO ENERGY BOARD

Original Signed By

Kirsten Walli
Board Secretary