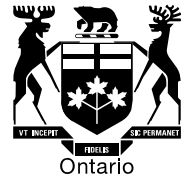


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BY EMAIL

December 18, 2013

Ontario Energy Board
P.O. Box 2319
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2300 Yonge Street
Toronto ON M4P 1E4
kirsten.walli@ontarioenergyboard.ca

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Sioux Lookout Hydro Inc. ("SLHI")
2014 IRM Distribution Rate Application
Board Staff Submission
Board File No. EB-2013-0170**

In accordance with Procedural Order No. 1, please find attached Board staff's submission in the above noted proceeding. The applicant has been copied on this filing.

SLHI's reply submission is due on January 15, 2014.

Yours truly,

Original Signed By

Christiane Wong
Information Administrator – Applications & Regulatory Audit



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2014 ELECTRICITY DISTRIBUTION RATES

Sioux Lookout Hydro Inc.

EB-2013-0170

December 18, 2013

**Board Staff Submission
Sioux Lookout Hydro Inc.
2014 IRM Distribution Rate Application
EB-2013-0170**

Introduction

Sioux Lookout Hydro Inc. ("SLHI") filed an application (the "Application") with the Ontario Energy Board (the "Board") on October 21, 2013, seeking approval for changes to the distribution rates that SLHI charges for electricity distribution, to be effective May 1, 2014. The Application is based on the 2014 Incentive Regulation Mechanism ("IRM").

The purpose of this document is to provide the Board with the submissions of Board staff based on its review of the evidence submitted by SLHI.

Board staff has reviewed SLHI's 2014 IRM application and its responses to interrogatories and other than the submissions on the "Review and Disposition of Group 1 Deferral and Variance Account ("DVA") Balances" as set out below, has no concerns with the application.

Review and Disposition of Group 1 Deferral and Variance Account (DVA) Balances

Background

SLHI's 2012 rates were established pursuant to an IRM decision of the Board (EB-2011-0102) issued on April 19, 2012.

SLHI's 2013 rates were set on a cost of service ("CoS") basis, pursuant to the Board's decision in EB-2012-0165, issued on August 22, 2013.

The Report of the Board on *Electricity Distributors' Deferral and Variance Account Review Initiative* (the "EDDVAR Report") provides that during the IRM plan term the distributor's Group 1 audited account balances will be reviewed and disposed if the preset disposition threshold of \$0.001 per kWh (debit or credit) is exceeded. Debit balances are recoverable from customers whereas credit balances are amounts payable to customers.

During the interrogatory process, Board staff produced the following table (in its interrogatory #4) and asked SLHI to explain the large debit balance of \$149,135 shown in the residual balance in Account 1595 sub-account 2010 (“Account 1595 - 2010”). Board staff asked for the information because the residual balances shown in Account 1595 sub-accounts generally reflect only small credit (or debit) amounts.

Group 1 Deferral and Variance Account Balances

		Projected Interest on Dec-31-12 Balances		
Account Descriptions	Account Number	Projected Interest from Jan 1, 2013 to December 31, 2013 on Dec 31 -12 balance adjusted for disposition during 2013 ³	Projected Interest from January 1, 2013 to April 30, 2013 on Dec 31 -12 balance adjusted for disposition during 2013 ³	Total Claim
Group 1 Accounts				
LV Variance Account	1550	673	224	47,488
RSVA - Wholesale Market Service Charge	1580	(103)	(34)	(6,708)
RSVA - Retail Transmission Network Charge	1584	23	8	1,881
RSVA - Retail Transmission Connection Charge	1586	86	29	5,949
RSVA - Power (excluding Global Adjustment)	1588	265	88	18,991
RSVA - Global Adjustment	1589	(242)	(81)	(13,708)
Recovery of Regulatory Asset Balances	1590	0	0	0
Disposition and Recovery/Refund of Regulatory Balances (2008) ⁵	1595	4	1	2,391
Disposition and Recovery/Refund of Regulatory Balances (2009) ⁵	1595	0	0	0
Disposition and Recovery/Refund of Regulatory Balances (2010) ⁵	1595	1,517	1,012	149,135
Disposition and Recovery/Refund of Regulatory Balances (2011) ⁵	1595	(1,016)	(677)	(149,790)

In response to Board staff interrogatory #4, SLHI indicated that there was an input error in the 2013 EDDVAR Spreadsheet. SLHI submitted that Account 1595 - 2010 should have been removed altogether from the total claim in the EB-2012-0165 proceeding. SLHI stated that “the error is captured (and trued-up) in this Application and resulted in the large residual balance seen in the table above.”

In addition, SLHI indicated that the EB-2011-0102 decision which approved Account 1595 – Disposition and Recovery/Refund of Regulatory Balance sub-account 2010, incorrectly labelled the sub-account as “2009”, instead of “2010”. SLHI stated that it did not dispose of its Group 1 DVA balances in 2009.

Submission

Board staff notes that SLHI’s responses to interrogatories indicate it is seeking to compensate for SLHI’s past errors through this IRM application. In response, Board staff submits that SLHI’s 2011 DVA balances, including Account 1595 - 2010, were disposed of on a final basis in SLHI’s 2013 CoS Decision (EB-2012-0165). In Board staff’s view, SLHI’s proposed recovery of the balance of Account 1595 - 2010 of \$149,135 from its customers in this Application raises the issue of retroactive ratemaking.

Board staff notes that in past Board decisions, recovery of past costs or charges have not been permitted where an account has been disposed of on a final basis, as the principles of certainty and finality are a necessary component of effective rate regulation¹. Board staff also notes from past Board decisions that the Board has stated that a utility has control of its books and records and has the responsibility to ensure mistakes do not occur. Board staff submits that under these circumstances, it would be inappropriate for SLHI to recover the debit balance of \$149,135 in Account 1595 - 2010 or any other regulatory accounts for future recovery from its customers.

Furthermore, Board staff notes that a review of SLHI's audited financial statements indicates that a denial of the recovery sought would fail to raise any concern of financial viability for SLHI. Board staff's review indicates that the SLHI's net income increased from \$93K in 2009 to \$308K in 2011.

Therefore, Board staff submits that the Board should deny the SLHI's requested recovery of \$149,135 in Account 1595 - 2010. SLHI should re-submit a revised 2014 continuity schedule that excludes Account 1595 - 2010 and should recalculate the rate riders at the time of its draft rate order.

All of which is respectfully submitted

¹ EB-2013-0022, Decision and Order, Veridian Motion to Review, April 25 2013, p. 10