**SLHI – 2018 Rates (EB-2017-0073)**

**OEB Staff Questions – Second Round**

**December 5, 2017**

As discussed, there is no expectation that updates be made directly to the application (including the supporting models) at this time. If SLHI agrees that it is appropriate to make an update to the application, please advise of that position. If SLHI does not believe an update to the application is warranted, please provide supporting rationale. For some of the questions where no updates to the application are implied, it is best if a comprehensive response can be provided in the written response.

**Conference Call – Follow-up**

During our conference call, we discussed that responses to the below questions / issues would support the application.

Administration (Exhibit 1)

1. **Exhibit 1, Page 64, Appendix I, Reconciliation between Audited Financial Statements and Regulatory Results**

In the 2016 reconciliation,

1. Accumulated amortization includes a note “add back $97k for Account 1576” and a corresponding note to adjust retained earnings. Please explain what this means and how the Account 1576 balance would have impacted accumulated amortization and retained earnings based on the accounting guidance for this account provided in the APH and APH FAQs. Please explain whether this adjustment has been reflected in the application and where it has been reflected.

Response:

SLHI recorded the amount in account 1576 for regulatory purposes only. Therefore it was not reflected in the audited financial statements. This required an adjustment to filing 2.1.7 each year since 2013. The amount of $97K was approved for disposition in the 2013 COS application. The impact to accumulated depreciation was an increase of $24 K over four years beginning in 2013 and an initial decrease to retained earnings in 2012 of $97K, then a reduction to this amount over four years for $25 K. The entries are provided below:



These adjustments are reflected in the Appendix 2-BA asset continuity schedules under fully allocated depreciation.

Follow-up Question:

The disposition entries above were not made in accordance with the APH guidance per July 2012 FAQ #18, and Appendix A to the same FAQ. According to the OEB guidance on the disposition entries for Account 1576, the credits should have been recorded in Account 5705, Depreciation Expense, not Account 2105, Accumulated Depreciation.

Please calculate the impact of this error on SLHI’s Account 1575 proposed for disposition, PP&E, depreciation schedules, and rate base for the test year. Please advise whether SLHI will make the necessary updates to correct this error in its application.

**Response:**

**After reviewing this, there is no impact to the error of the entries made to 2105 for RRR 2.1.7 to the application. The PP&E, depreciation schedules and rate base are reflected properly in the application where the $24,296 is applied to fully allocated depreciation each year reducing the depreciation expense. It is not reflected in accumulated amortization in Appendix 2-BA. Therefore, there would be no adjustment to Account 1575 either, and therefore no update to the application.**

**The amount applied for disposition in 1575 is related mostly to the disposal of pooled assets which was not required under CGAAP. A small amount is related to amortization due to using more detailed continuity schedules explained in the first round of questions . (Exhibit 1 question 1). The breakdown of 1575 is $58,192 for the disposal of pooled assets and $(5,224) for amortization.**

**Revisions to RRR 2.1.7 going back to December 31, 2013 could be completed, the accounts that would be affected would be 2105, 5705, 3350 and net income which would be $24,296 more than the audited financial statements each year for four years beginning in 2013.**

1. New Question: As it is now near the end of 2017, please provide a revised forecast of 2017 capital expenditures (same format as Appendix 2-AA), OM&A (same format as Appendix 2-JC), and other revenues (same format as Appendix 2-H) based on the most recent actuals.

**Response:**

**The numbers to the end of November have been reviewed and SLHI feels that they are still accurately forecasted to the end of the year with minor variances. Therefore does not feel revised forecasts are necessary with the exception of the amount budgeted for the Cost of Service Application. Given the new process SLHI now expects decreased costs for intervenors and lawyers, however there is still some uncertainty until the OEB decides which stream the application will follow. Below are the numbers to the end of November with explanations for any larger variances.**







Rate Base (Exhibit 2)

1. Update to cost of power calculation (and related documents) for working capital allowance proposal.

Response:

Spreadsheet attached with updated COP. Will update related documents once all the issues have been resolved in order to reduce the number of times everything is updated.

Follow-up Question:

Please recalculate the COP using the updated UTRs. Please also correct potential errors in the rate class breakdown in the Non-RPP portion of the calculation.

**Response:**

**The updated UTRs will have no effect on the COP calculations since SLHI is charged by Hydro One under the Sub-Transmission rate class. Hydro One’s 2018 rate application is still underway so the new 2018 rates have not been determined at this time.**

**The spreadsheet was corrected for the breakdown of the Non-RPP and also to include the 2 Tier RPP rates for those General Service > 50 and street lighting customers that are not on TOU.**

DSP & CAPEX (Exhibit 2)

1. Please provide plan vs. actual CAPEX variances for the years 2014-2016 in the same manner as was provided for 2013 (at Ex. 2 / p. 31).

Response:

I believe these variances are illustrated in Table 2-24 on page 27 of Exhibit 2 and on page 56 of Appendix 2A (DSP) Table 24, under 5.4.1.4 total Capital Cost.

Follow-up Question:

OEB staff was originally seeking a written description of the CAPEX variance analysis and this continues to be requested.

**Response:**



**From the DSP page 73:**

**In 2014 SLHI budgeted $37,000 for System Service to complete the South Shore Drive conversion and replace some overhead primary with underground in a heavily wooded area on Hwy 72. However, the South Shore Drive project was cancelled since there was uncertainty about the primary submarine cable feeding the area as it was installed by Hydro One. There was a risk that the cable would blow if the voltage was doubled, and there was no way to measure the capacity at that time. Also, it was determined that the Hwy 72 Primary U/G project was not feasible after determining that the existing poles were still in good condition and the bobcat was used to clear the line sufficient to reduce the risk of power outages. Therefore, there was no capital spent on System Service in 2014, with more capital allocated to pole replacements.**



**General Upgrades were under-budgeted for 2015, however the Winoga Submarine Cable was completed under-budget as explained in the DSP on page 72, as well the Rear Front Street project, F2 Blue Phase Reconductoring and new connection all came in under-budget offsetting this which resulted in a total variance of $(5,432) Actual to Budgeted.**



**General Upgrades were again under-budgeted for 2016. The 2018 to 2020 Capital Expenditure Plan includes amounts for General Upgrades and New Connections based on historical actual spending as these are customer driven and difficult to estimate.**

**From page 74 of the DSP:**

**In 2016 SLHI budgeted $25,000 for pole replacements, however once the pole testing equipment and program was implemented in response to the ACA, SLHI identified a number of poles which required replacement in a timely manner. Therefore the actual amount spent on pole replacements was $76,244 and increased the amount spent on System Renewal.**

1. 2013 bucket truck replacement in 2020 – Additional rationale required with respect to the need to replace a bucket truck that will be 7 years old in 2020. Detailed breakdown regarding annual maintenance costs in the recent years and 2017 year to date.

Response:

The bucket truck has been budgeted to be replaced in 2020. The factors that have contributed to this decision are, first, it is a leased vehicle and the lease is a 7 year lease. Second, there is an option to buy the truck at the end of the lease, however there have been issues with the truck since day one. Currently the plan is to replace the truck in 2020, however this will be re-evaluated in 2019 based on the truck’s forecasted maintenance costs. A factor that contributes to the cost for maintenance is that the closest service centre for the truck is 5 hours away. Therefore, in order to have something repaired we have to pay for the mechanic to travel to Sioux Lookout, or send the truck to Winnipeg, leaving us without a truck in case of emergencies. This risk is offset somewhat since we can use our line truck as a bucket truck if needed.

A detailed breakdown of costs from 2015 to 2017 is below:







\*The last amount is estimated, the truck had to be sent to Winnipeg this week for repairs and we have not been invoiced for it yet, however the estimate is based on a quote for the work requested.

Follow-up Question:

1. Please provide the original cost of lease.
2. Please explain how the lease was treated from a ratemaking perspective.
3. Please confirm that the proposal is to purchase the 2020 replacement truck (as opposed to lease).

**Response:**

1. **The original cost of the lease was $275,031.50 with monthly payments of $3,683.37 over 84 months.**
2. **The lease was treated as an operating lease allocated to OM&A with a portion allocated to capital based on the percentage of labour capitalized.**
3. **I confirm that the proposal is to purchase the 2020 replacement truck.**

OM&A (Exhibit 4)

1. Advise in which cost category OEB cost assessments are included.

Response:

The OEB Cost Assessments are included in the Regulatory costs, Account 5655.

Follow-up Question:

Please provide the OEB cost assessment amount that has been proposed for the 2018 test year and advise whether SLHI will update Appendix 2-M to reflect this.

**Response:**

**The amount included for the 2018 test year OEB Cost Assessment is $13,474. Yes, SLHI will update Appendix 2-M to reflect this.**

1. Explain what the $40k in ongoing costs for “operating expenses associated with resources allocated to regulatory matters” is related to. Also, provide the historical year spending on the activities that are included in this cost category.

Response:

SLHI has estimated that it will cost at least $40,000 in consulting fees in order to meet regulatory policy direction. The small number of employees as SLHI means that most often than not, outside help is needed in order to prepare information or implement new policies related to regulatory direction since we lack the expertise.

For example, SLHI does not have internal resources able to respond to the new Cyber Security framework, therefore a third party will be hired initially to aid in the implementation, and then a firm to monitor our IT environment for threats etc. SLHI expects this will be an ongoing expense once implemented.



Follow-up Question:

Please advise whether the DSP and ACA consulting fees are being sought for recovery as part of the current proceeding (as one-time costs related to the COS application).

**Response:**

**SLHI confirms that the DSP and ACA consulting fees are being sought for recovery as part of the current proceeding as one-time costs related to the COS application and amortized over 5 years.**

**The $40,000 requested is a forecast of expected on-going funds needed to respond to regulatory policy direction. The example given was for implementing the Cyber-Security Framework, which is a known initiative of the OEB at this point. It is expected that SLHI will required additional funds initially as a one-time cost, but expects there to be on-going costs as well. Also, it is very difficult to forecast for the unknown, but based on past experience more initiatives will likely be introduced in the time between Cost of Service applications that will need incremental funding. Three that come to mind are Bill Redesign, Net Metering and the Green Button initiative. SLHI recognizes that variance accounts could be used, however, does not feel the amount is material enough to warrant the effort involved in tracking another variance account.**

Cost of Capital (Exhibit 5)

1. Provide information on attempts to renegotiate interest rate or find alternative lender for the 2018 bucket truck loan.

Response:

I am currently negotiating the interest rate for the truck. So do not have any additional information at this time.

Follow-up Question:

Please advise whether there are any updates on this issue.

**Response:**

**Yes, the interest rate will be reduced from 5.1%. After some negotiation with the CIBC and Key Equipment, we will be opting for a seven year fixed rate loan from Key Equipment at 4.5%. The bank offered a floating rate loan of prime plus 1.25% (4.45%) for a six year term. SLHI feels that the Key Equipment option is the better option given the fixed rate. SLHI will update the cost of debt accordingly.**

New Question: Please advise whether there are any other updates that need to be made to the cost of debt.

**Response**:

**Yes there is an update to the CIBC loan interest rate. SLHI will update the application to reflect this.**

1. New Question: Please advise whether SLHI will update its proposed ROE to reflect the updated ROE set out in the OEB’s latest cost of capital parameter update for 2018 applications.

**Response:**

**SLHI confirms that it will update its proposed ROE to reflect the updated ROE set out in the OEB’s lasts cost of capital Parameter update for 2018 applications.**

Rate Design and Bill Impacts (Exhibit 8)

1. New Question: Please advise whether SLHI will update its proposed RTSRs to reflect the updated UTRs.

**Response:**

**As stated above in the COP update, SLHI is charged by Hydro One under the Sub-Transmission rate class for Transmission and Connection, not the UTRs. Hydro One’s 2018 application process has not been completed. SLHI agrees to update the RTSRs if the values become known before the end of this process.**