



**Ontario Energy Board
Commission de l'énergie de l'Ontario**

**DECISION ON SCOPE OF REVIEW
EB-2017-0073**

SIoux LOOKOUT HYDRO INC.

**Application for electricity distribution rates beginning
May 1, 2018**

By Delegation, before: Kristi Sebalj

March 29, 2018

TABLE OF CONTENTS

1 INTRODUCTION AND SUMMARY OF DECISION..... 1

2 THE PROPORTIONATE REVIEW APPROACH..... 4

3 THE APPLICANT AND THE APPLICATION..... 6

4 SCOPE OF REVIEW 8

SCHEDULE A - APPROVED ISSUES LIST

1 INTRODUCTION AND SUMMARY OF DECISION

Sioux Lookout Hydro Inc. (SLHI) serves approximately 2,800 customers in the Municipality of Sioux Lookout (including the communities of Hudson, Benedickson and Pickerel).

SLHI filed an application, dated August 27, 2017, with the Ontario Energy Board (OEB) to change its electricity distribution rates effective May 1, 2018. Under the *Ontario Energy Board Act, 1998* (OEB Act), distributors must apply to the OEB to change the rates they charge their customers.

The OEB's policy for rate setting is set out in the *Handbook for Utility Rate Applications* (the Rate Handbook).¹ The Rate Handbook provides the key principles and expectations the OEB will apply when reviewing rates applications. The detailed expectations of a cost of service application are set out in Chapter 2 of the *Filing Requirements for Electricity Distribution Rate Applications*.²

SLHI's 2018 rebasing application is being considered as part of the OEB's pilot of a new proportionate review approach. The proportionate review approach involves an early in-depth review by OEB staff of SLHI's performance history, the current rebasing application and the alignment of proposals within the application with OEB policy. The results of staff's review are communicated by way of a staff report to a decision maker, in this case, the Registrar. The decision-maker considers the staff review as well as the application documents to consider the appropriate process the OEB should employ to conduct its review of the proposals in the application. Where it is appropriate, a streamlined hearing of applications may be considered.

The OEB hosted a community meeting on November 7, 2017 in Sioux Lookout at which approximately 12 customers attended. OEB staff and SLHI delivered presentations at the meeting. There were specific questions raised by customers about the pole replacement program, the purchase of a new bucket truck and shareholder returns. There were also questions about how SLHI considered population growth, new technology investments and government rebates (arising out of the Fair Hydro Plan) in its application. Customers commented that SLHI provides good service, but that the overall bill is too high.

¹ OEB Handbook for Utility Rate Applications, October 13, 2016.

² OEB Filing Requirements for Electricity Distribution Rate Applications, 2017 Edition for 2018 Rate Applications, July 20, 2017.

OEB staff filed its Report to the Registrar (the Report) on February 14, 2018. The Report set out OEB staff's recommendations as to the issues that it believed should proceed to a hearing. OEB staff identified nine issues and recommended that the hearing involve only written submissions on all nine issues.

The Decision on the Scope of the Hearing is being issued by delegated authority under section 6 of the OEB Act.

In making this decision, the OEB reviewed the application, the historical performance of SLHI, the written correspondence between OEB staff and SLHI, and the Report.

The OEB finds that, with the following noted exceptions, the outcomes arising from SLHI's proposals set out in its application adequately reflect the public interest, are in accordance with OEB policy, and result in just and reasonable rates for customers.

The OEB finds that the following five issues should proceed to an abridged hearing process which will provide an opportunity for written submissions.³

- 1) Is the proposed 2018 test year capital budget for the planned pole replacement program appropriate?
- 2)
 - a. Should the 2018 test year capital budget reflect the application of a smoothing mechanism to address the annual variances in SLHI's forecast period capital budgets caused by the vehicle replacement program?
 - b. If so, how should the test year capital budget be revised?
- 3) Is the proposed 2018 test year budget for bank and merchant fees appropriate?
- 4) Is the proposed wording change to the pole attachment related specific service charge appropriate?
- 5) Should the proposed balances in the commodity variance accounts (1588 and 1589) be disposed of at this time? If not, what should be the next steps?

The decision with respect to the appropriate process for the review of issues in this case has a direct impact on the proposed amount for the one-time regulatory costs associated with the cost of service application. As a result, the OEB finds that the one-

³ The approved issues list for the hearing is set out in Schedule A.

time regulatory costs shall be reduced to \$87,000 (from the proposed amount of \$120,000) and shall be recovered over a five year period.

The OEB has also determined for the reasons provided that the IFRS-CGAAP Transition PP&E Amounts account (Account 1575) should not be discontinued at this time.

Given the nature of the issues that will be sent to hearing and the scope of the hearing of those issues, which is limited to filing submissions, the OEB will not grant cost awards for participation in the hearing.

The Notice of Application will be issued in due course and a Procedural Order will be issued once the intervention period has closed.

The reasons for the OEB's decision on the scope of the hearing are set out below.

2 THE PROPORTIONATE REVIEW APPROACH

With SLHI's consent, SLHI's 2018 rebasing application is being used to pilot and test the OEB's proportionate review approach. The objective of this approach is to establish a process that leverages OEB staff's initial, in-depth, assessment of the applicant's historical performance, of the proposals within an application and of those proposals against current OEB policy. In respect of the assessment of the proposals within an application, the objective of staff's review, and of the OEB's determination, is to identify what issues require rigorous testing, and which of the proposals made by the applicant can be accepted as filed having met the OEB's expectations in terms of completeness and quality of information provided, evidentiary support for the proposals, alignment with OEB policy, utility performance achieved and the reasonableness of the resulting rates and charges.

Under this approach, OEB staff used a number of different tools and analysis techniques to develop a recommendation for the appropriate process that the OEB should use to address the requests set out in the application. While this is termed a "pilot", it is in fact a formal component of the OEB's review process for this application.

As discussed in the Report, OEB staff considered comments made by SLHI's customers at the community meeting held on November 7, 2017 in Sioux Lookout, Ontario, and through letters of comment. OEB staff undertook a detailed review of all aspects of the application. In addition, OEB staff used the Initial Triage Model (ITM) to guide its initial review of the application. The ITM includes a historical Comprehensive Performance Assessment Model (CPAM), which evaluates a utility's historical performance. The historical performance of the utility was considered in the OEB staff's review of the application. However, as the ITM, including the CPAM, is still under development, it was not a significant factor in OEB staff's final recommendations. OEB staff's detailed review, including determining alignment with OEB policies, was the main source for the recommendations set out in the Report.

As part of this review, OEB staff asked SLHI questions both via teleconference and in writing. The correspondence between OEB staff and SLHI led to the filing of a revised application on January 8, 2018 that reflects the correction of certain technical errors and the use of the best available information. A full description of the staff review process is set out in the Report.

The original and revised applications filed by SLHI, all written correspondence between OEB staff and SLHI, the OEB Staff Summary of Community Meeting and the Report are available on the public record of this proceeding.

The OEB made its decision on the scope of SLHI's 2018 rates proceeding based on its review of the application, alignment with OEB policies, the correspondence between OEB staff and SLHI, the results of the ITM, the OEB Staff Summary of Community Meeting and the Report.

3 THE APPLICANT AND THE APPLICATION

SLHI serves approximately 2,800 customers in the Municipality of Sioux Lookout (including the communities of Hudson, Benedickson and Pickerel). On a customer count basis, SLHI is one of the smallest distributors operating in the province. The total municipal population is 5,080. The total service area is 538 sq. km (with 533 sq. km classified as rural). As such, SLHI serves a low-density service territory. SLHI's most recent cost of service application was for 2013 rates⁴.

SLHI is a fully embedded distributor that receives electricity at distribution level voltages from Hydro One Networks Inc. (Hydro One). Therefore, it is charged by Hydro One for low voltage distribution services.

SLHI is entirely owned by the Municipality of Sioux Lookout and has no affiliates.

SLHI is one of eight electricity distributors for which the Distribution Rate Protection (DRP) program applies. This program is a component of the Ontario government's Fair Hydro Plan. As such, the current maximum monthly base distribution rate cap of \$36.43 applies for all eligible residential customers.

SLHI's 2018 cost of service application was filed on August 28, 2017 and updated on January 8, 2018.

SLHI's updated 2018 cost of service application includes the following:

- Request for approval to charge rates effective May 1, 2018 to recover a service revenue requirement of \$2,200,916, including a gross revenue deficiency (at existing rates) of \$137,078. This reflects a \$252,060 increase (13%) relative to the 2013 service revenue requirement (\$1,948,856) approved in SLHI's last rebasing.
- Proposed capital expenditures of \$618,329 for 2018. This is a \$298,389 increase (93%) relative to the 2013 approved capital expenditures (\$319,940) approved in SLHI's last rebasing. The change is almost entirely driven by the proposed purchase of a replacement line truck (\$355,000) in 2018.

⁴ EB-2012-0165.

- Proposed Operations, Maintenance & Administration (OM&A) budget of \$1,572,092 for 2018. This is a \$150,846 increase (11%) relative to the OM&A budget (\$1,421,246) approved in SLHI's 2013 cost of service application.
- A Distribution System Plan (DSP).
- Request for approval of the proposed load forecast.
- Request for approval to continue applying the specific service charges as previously approved by the OEB (with minor wording changes to two of the specific service charges).
- Request for approval to remove the Unmetered Scattered Load rate class.
- Request for approval of the proposed loss factor.
- Request for approval to dispose of specified deferral and variance account balances.

The bill impacts arising from SLHI's revised 2018 cost of service application are set out below. The bill impacts shown in the table below do not reflect any government rebates (specifically, the Fair Hydro Plan and the related DRP program), which may be applicable to SLHI's customers. To the extent that bill impacts are considered by the OEB in its deliberations, the bill impacts used are exclusive of the application of government rebates.

Rate Class	Sub-Total A (Distribution excl. pass-through)	Sub-Total C – Delivery	Total Bill
Residential (750 kWh)	\$6.77 (16.91%)	\$7.43 (13.55%)	\$7.80 (6.19%)
Residential (lowest 10 th percentile) (518 kW)	\$7.40 (19.14%)	\$8.04 (16.38%)	\$8.44 (8.54%)
GS < 50kW	\$7.62 (12.71%)	\$7.13 (7.58%)	\$7.48 (2.53%)
GS > 50kW	-\$12.53 (-2.4%)	-\$277.40 (-17.53%)	-\$317.69 (-2.75%)
Street Lights	-\$3,302.39 (-49.75%)	-\$3,373.27 (-49.16%)	-\$3,811.58 (-40.36%)

4 SCOPE OF REVIEW

Background

In the Report, OEB staff discussed the OEB's decision with respect to SLHI's most recent cost of service application and provided its analysis of SLHI's past performance and all of the proposals set out in the current application.

In the Report, OEB staff recommended that the following nine issues proceed to a written hearing:

- 1) Is the proposed 2018 test year capital budget for the planned pole replacement program appropriate?
- 2)
 - a. Should the 2018 test year capital budget reflect the application of a smoothing mechanism to address the annual variances in SLHI's forecast period capital budgets caused by the vehicle replacement program?
 - b. If so, how should the test year capital budget be revised?
- 3)
 - a. Should a deferral account be established to record incremental revenues (and related costs) that may arise if the pulp mill returns to operation during the forecast period?
 - b. If so, how should the account be designed and when should it be disposed?
- 4) Is the proposed 2018 test year budget for bank and merchant fees appropriate?
- 5)
 - a. Is the proposed 2018 test year budget for ongoing regulatory costs associated with resources allocated to regulatory matters appropriate?
 - b. Are the one-time cost of service application related costs appropriate in the context of the regulatory process that is applied to SLHI's application?
- 6)
 - a. Should the proposed reduced allocation of costs to the street lighting rate class be phased in over time?

- b. If so, what period of time is appropriate?
- 7) Is the proposed wording change to the pole attachment related specific service charge appropriate?
 - 8) Should the proposed balances in the commodity variance accounts (1588 and 1589) be disposed at this time?
 - 9) Should Account 1575 be discontinued at this time?

OEB staff provided detailed rationale supporting its recommendations in the Report.

OEB staff further recommended that the hearing of the issues in this case be accomplished through the filing of written submissions. Through its interactions with OEB staff, SLHI answered numerous questions from OEB staff in writing and filed a revised application for the OEB's consideration. OEB staff was of the opinion that the evidentiary record is sufficient to allow OEB staff, and any other interested parties, to make submissions and to allow the OEB to make well-informed findings.

OEB staff noted that depending on the OEB's determination with respect to the noted issues, consequential changes to rate base and certain components of the revenue requirement may be necessary.⁵

Findings

Overall, having reviewed the record, the results of the ITM and the Report, the OEB finds that the record is sufficient to support the majority of SLHI's proposals without taking those proposals to a hearing.

Specifically, the OEB finds that the DSP is well supported by a detailed asset management plan and adequately considers regional planning issues and customer input, subject to further comments below on the latter. In addition, the capital and operational spending is supported by the evidence and the OEB does not require further discovery on these proposals.

The OEB also considered the results of the ITM, specifically SLHI's historical performance, in making its determination. The OEB notes that while the ITM is still under development it helped to shape OEB staff's initial views of the applicant. The

⁵ EB-2017-0073, OEB Staff Report to the Registrar, February 14, 2018, pp. 6-8.

results of the CPAM show that SLHI's historical performance (based on 5 years of historical data) is strong relative to other distributors and its performance is trending positively.⁶ More specifically, the CPAM shows that SLHI has performed reasonably well in the categories of operational effectiveness (e.g. accumulated amortization as a percentage of property, plant and equipment (PP&E), total cost per km of line, safety, etc.) and customer focus (i.e. service quality indicators).

With respect to SLHI's customer engagement activities undertaken in advance of filing its 2018 cost of service application, more interactive customer engagement is necessary in the future. The OEB expects that customer engagement activities will include substantive educational and feedback components.

In addition, the OEB notes that SLHI's overall system reliability trend is higher (i.e. worse) than its five-year historic baseline average. SLHI explains the cause of the trend in its evidence as increased storm activity in two years of the historic period, which led to increased outages caused by tree contact.⁷ The OEB is satisfied with this explanation and the evidence on this point and notes the generally positive comments received from customers of SLHI on service quality at the OEB's community meeting, but will continue to monitor system reliability on an ongoing basis in the normal course.

For the reasons set out below, the OEB finds that five issues should proceed to an abridged hearing process. The OEB also finds that, in light of its decision to scope the review of issues in the current proceeding, a reduction to the one-time cost of service application related costs is appropriate.

In its review of the application, the OEB considered all of SLHI's proposals, including but not limited to those identified by OEB staff as potentially requiring OEB review. In considering what issues should proceed to hearing, the OEB did not identify any issues beyond those identified by OEB staff in the Report that required a hearing. The reasons in this Decision are therefore restricted to the consideration of those issues that OEB staff recommended proceed to hearing.

Where the OEB has determined that a hearing is necessary, the OEB finds for all issues, that an abridged written hearing consisting of the exchange of written submissions is sufficient to allow the OEB to make a decision and order on SLHI's application. The OEB finds that there is sufficient evidence on the record in this proceeding to allow for argument on all of the issues to be heard. Further discovery is

⁶ EB-2017-0073, OEB Staff Report to the Registrar, February 14, 2018, p. 9.

⁷ EB-2017-0073, SLHI Updated Application, January 8, 2018, Exhibit 2, pp. 37-39.

therefore not necessary to complete the record. The OEB will invite interested parties and OEB staff to file a written submission and SLHI to file a reply.

Given the completeness of the record, and the limited number and nature of issues to be addressed in submissions, the OEB will not offer cost awards for participation in the hearing.

1) Is the proposed 2018 test year capital budget for the planned pole replacement program appropriate?

The OEB finds that the issue of the proposed 2018 test year capital spending for the planned pole replacement program will proceed to hearing by way of written submissions.

SLHI proposed approximately \$130,000 in pole replacements in 2018 (planned and unplanned). During the historic period (2013-2017), the average annual expenditure for all pole replacements was about \$79,000. The average annual expenditure for all pole replacements for the forecast period (excluding the test year) is \$115,000.⁸

The OEB finds that while the evidence on this issue is clear and further discovery is therefore not required, submissions would assist the OEB to determine the reasonableness of the incremental test year spending relative to the historical period or the average over the forecast period.

2) a) Should the 2018 test year capital budget reflect the application of a smoothing mechanism to address the annual variances in SLHI's forecast period capital budgets caused by the vehicle replacement program? b) If so, how should the test year capital budget be revised?

The OEB finds that the issue of the pacing of SLHI's proposed capital investments will proceed to hearing by way of written submissions.

The total 2018 capital budget for 2018 is \$618,000. This reflects a \$298,000 (93%) increase relative to the capital expenditure budget approved in SLHI's last cost of service application. This increase is largely caused by the proposed purchase of a replacement bucket truck in the test year (\$355,000). The average proposed capital budget during the forecast period (2018-2022) is \$426,000.⁹

⁸ EB-2017-0073, OEB Staff Report to the Registrar, February 14, 2018, p. 22.

⁹ EB-2017-0073, SLHI Updated Application, January 8, 2018, Exhibit 2, p. 27 and Appendix 2a, p.13

The OEB finds that the proposed capital expenditures are well supported by the applicant's evidence. However, the ratemaking implications of such a large test year capital expenditure budget relative to the average over the forecast period requires consideration. The OEB would be assisted by submissions on whether a capital smoothing mechanism is required and, if so, what mechanism should be used and how the test year capital budget should be revised.

- 3) a) Should a deferral account be established to record incremental revenues (and related costs) that may arise if the pulp mill returns to operation during the forecast period?**
- b) If so, how should the account be designed and when should it be disposed?**

The OEB finds that the related issues of whether SLHI should establish a deferral account to record incremental revenues (and related costs) that may arise if the pulp mill returns to operation during the forecast period and the design of such account will not proceed to hearing.

The OEB notes that in its application SLHI specifically stated that it does not expect that load from the pulp mill will occur during the forecast period.¹⁰ The OEB finds that it is not appropriate to establish a deferral account to record revenues associated with load that SLHI does not expect to occur. The OEB also notes that the OEB-approved 2013 load forecast did not include load from the pulp mill.¹¹ The OEB finds that the record is sufficient as filed for the load forecast methodology and resulting load forecast.

- 4) Is the proposed 2018 test year budget for bank and merchant fees appropriate?**

The OEB finds that the issue of the proposed 2018 test year budget for bank and merchant fees will proceed to hearing by way of written submissions.

As noted in the Report, the bank and merchant fees have increased from \$50,000 in 2013 (on an actual basis) to \$84,000 proposed for 2018. This reflects an increase of \$34,000 (67%) in 5 years. SLHI explained that the increase is the result of additional service charges levied by the debit machine supplier in 2016 for system maintenance fees (which averaged an additional \$1,000 a month in costs). SLHI has not attempted to

¹⁰ EB-2017-0073, SLHI responses to OEB staff questions, November 14, 2017, p. 22.

¹¹ EB-2012-0165, Decision and Order, August 23, 2013, p. 5.

renegotiate these fees but it indicated that it intended to look into this issue in the near-term.¹²

The OEB's determination of the appropriate budget for the bank and merchant fees would benefit from written submissions on the issue, including submissions on the sufficiency of SLHI's attempts to renegotiate the merchant fees or seek alternatives for cost containment.

5) a) Is the proposed 2018 test year budget for ongoing regulatory costs associated with resources allocated to regulatory matters appropriate?

The OEB finds that the issue of the 2018 test year budget for ongoing regulatory costs associated with resources allocated to regulatory matters will not proceed to hearing.

SLHI proposed an ongoing regulatory cost budget for 2018 of \$40,000. As noted by OEB staff, the historic period costs for ongoing regulatory activities have not been more than \$11,000 in any year (excluding one-time cost of service application related costs). When asked about this request, SLHI stated that it will cost at least \$40,000 in consulting fees a year in order to meet incremental regulatory policy direction. The small number of staff employed by SLHI means that more often than not, outside assistance is required to prepare information or implement new policies. As an example, SLHI noted that it does not have the internal expertise required to deal with new cyber security requirements. SLHI also mentioned bill redesign, net metering and the Green Button Initiative as potential drivers of the requested incremental funding.¹³

The OEB finds that SLHI's expectation that there will be incremental funding needed to meet ongoing regulatory requirements in the future is reasonable. Given the size of the utility and its limited ability to address such incremental regulatory requirements internally, the OEB finds that the proposal regarding the ongoing regulatory cost budget does not require further discovery or argument in a hearing.

5) b) Are the one-time cost of service application related costs appropriate in the context of the regulatory process that is applied to SLHI's application?

The OEB finds that the issue of the one-time cost of service application related costs will not proceed to hearing. Given, however, the current decision with respect to the proportionate review of the proposals within SLHI's application and SLHI's specific note that the one-time costs associated with its cost of service application may be reduced

¹² EB-2017-0073, SLHI responses to OEB staff questions, November 14, 2017, p. 23.

¹³ EB-2017-0073, OEB Staff Report to the Registrar, February 14, 2018, p. 31.

depending on the regulatory process that is eventually applied to the application¹⁴, the OEB will reduce these costs. SLHI has proposed an amount of \$120,000, to be recovered over a 5-year period with \$24,000 included in the 2018 test year budget.

The inherent uncertainty in forecasting a regulatory budget for a cost of service application is made more difficult by the fact that SLHI is the first utility that is subject to the OEB's proportionate review pilot. While it was reasonable and prudent for SLHI to plan for a hearing and for intervenor costs, the OEB's streaming decision has limited the issues for hearing and has limited the hearing process for those issues to written submissions. Further, the OEB is not providing for cost awards for any of the issues for which it is seeking written submissions.

As such, one-time cost of service application related costs will be reduced to \$87,000 to be recovered over a 5-year period in accordance with OEB policy (or \$17,400 to be included in the 2018 test year budget). The \$87,000 is calculated based on the sum of the actual historic 2015, 2016 and 2017 amounts for costs associated with the application (including consulting costs related to asset management plan/distribution system plan and asset condition assessment work and legal costs incurred) plus the forecast of \$15,000 for legal fees in 2018.¹⁵

6) a) Should the proposed reduced allocation of costs to the street lighting rate class be phased in over time? b) If so, what period of time is appropriate?

The OEB finds that the related issues of a phased approach to the reallocation of costs to the street lighting rate class and of the period of time over which the phased approach should be enacted will not proceed to hearing.

The OEB finds that the record on the issue is sufficient and that further discovery or submissions on this issue are unlikely to provide assistance to the OEB. SLHI's cost allocation methodology is reasonable and in accordance with the OEB's cost allocation principles. SLHI's application highlights that the street lighting rate class is significantly over contributing towards the revenue requirement under the current rate structure and it is adjusting its cost allocation to address this issue.¹⁶

The OEB notes that SLHI was specifically asked about the potential for a phasing

¹⁴ EB-2017-0073, SLHI responses to OEB staff questions, December 5, 2017, p. 3.

¹⁵ EB-2017-0073, SLHI Updated Application, January 8, 2018, Appendix 2-JC (2015-2016 actuals); EB-2017-0073, SLHI responses to OEB staff questions, December 5, 2017, p. 5 (2017 actuals); EB-2017-0073, SLHI Updated Application, January 8, 2018, Appendix 2-M (2018 forecast).

¹⁶ EB-2017-0073, SLHI Updated Application, January 8, 2018, Exhibit 7.

approach and SLHI provided a satisfactory response. SLHI explained that its street lighting customer was not willing to have the cost reallocation phased in over a period of three years. In addition, SLHI stated that the proposed bill impact for its residential customers is well below the threshold to require mitigation and a phased approach would result in a decrease to the residential bill impact of \$1.11 (or 0.8% on a total bill basis).¹⁷

7) Is the proposed wording change to the pole attachment related specific service charge appropriate?

The OEB finds that the issue of the proposed wording change to the pole attachment related specific service charge will proceed to hearing.

The OEB notes that SLHI proposed to change the wording for the charge entitled “Specific charge for access to the power poles - \$ / pole / year (with the exception of wireless attachments)” to “Specific charge for all attachments to the power poles (including street lighting attachments) \$ / pole / year (with the exception of wireless attachments)”.

OEB staff recommended that until the OEB concludes its policy consultation regarding a framework for determining wireline pole attachment charges¹⁸, no changes to pole attachment charges (including the wording) should be made.¹⁹ The Report of the Board on Wireline Pole Attachment Charges was issued on March 22, 2018.

The OEB notes that SLHI has proposed a change only to the wording for the specific service charge, not the amount of the charge. It is not clear, however, whether the proposed wording change reflects current practice (i.e., that streetlight attachments are currently subject to the charge) or whether it is a substantive change by including streetlight attachments where they were previously not.

It is not possible based on the current record to understand the purpose of the proposal. For this reason, the question of whether the wording change is appropriate and aligned with current OEB policy is properly the subject of submissions to assist the OEB to make a determination on this issue.

¹⁷ EB-2017-0073, SLHI responses to OEB staff questions, November 14, 2017, p. 25.

¹⁸ EB-2015-0304. A draft report of the OEB was issued for comment on December 18, 2017.

¹⁹ EB-2017-0073, OEB Staff Report to the Registrar, February 14, 2018, p. 40.

8) Should the proposed balances in the commodity variance accounts (1588 and 1589) be disposed at this time?

The OEB finds that the issue of whether the proposed balances in the commodity-related variance accounts (Accounts 1588 and 1589) should be disposed of will proceed to hearing.

OEB staff noted that it was concerned with adjustments that were made to balances in the power accounts (Accounts 1588 and 1589) in advance of SLHI filing its current application. SLHI proposed the disposition of credit amounts of \$252,777 and \$78,755 in the two accounts respectively. These are underpinned by a \$314,140 credit adjustment to account 1588 with an offsetting debit to account 1589. SLHI made this adjustment in order to address deficiencies in their settlement process with Hydro One. SLHI discovered the deficiencies in preparation for the current application following SLHI's review of the results of the OEB's global adjustment workform, (a new requirement set out in the OEB's filing requirements commencing for 2018 rates).²⁰

The application does not support or explain the amount in account 1588 relative to the size of SLHI, particularly in light of the fact that SLHI has indicated that it has addressed prior deficiencies in its settlement processes. Absent a detailed review of the change to SLHI's settlement processes, it is not possible to determine whether SLHI has addressed the gaps in its settlement process adequately. As indicated by OEB staff, this type of review is generally not practical to conduct as part of an application.²¹

The OEB finds that a further explanation is needed for the quantum of the balance in Account 1588. Given the size of the SLHI and in light of the fact that SLHI has indicated that it has addressed prior deficiencies in its settlement process, the reasonableness of the quantum of the balance in the noted account is uncertain. The OEB therefore finds that written submissions would assist the OEB to determine whether disposition is prudent at this time, or whether further steps may be required to address any discrepancies with respect to the balances. The OEB has made a slight change to the description of this issue relative what was originally proposed by OEB staff (as set out in Schedule A).

²⁰ EB-2017-0073, SLHI responses to OEB staff questions, November 14, 2017, pp. 13-15.

²¹ EB-2017-0073, OEB Staff Report to the Registrar, February 14, 2018, p. 42.

9) Should Account 1575 be discontinued at this time?

The OEB finds that the issue of whether the IFRS-CGAAP Transition PP&E Amounts account (Account 1575) should be discontinued at this time will not go to hearing. The OEB notes that SLHI has completed the transition to IFRS. No new balances will therefore accumulate in the account in the forecast period. As noted by OEB staff, however, existing amounts in this account are to be disposed of through a rate rider, which means that SLHI will continue to record transactions in the account until the associated rate rider ceases.²² For this reason, the OEB finds that it is appropriate to continue the account during the 2018-2022 rate period and revisit its discontinuance at the next cost of service application. The OEB notes that this is an administrative matter and has no direct rate implications.

Conclusion

For all of the above reasons, the OEB finds that the five issues set out in the approved issues list attached as Schedule A will proceed to an abridged written hearing. The OEB will issue a Notice of Hearing in due course and a Procedural Order establishing the steps for written argument once the intervention period closes.

Dated at Toronto, March 29, 2018

ONTARIO ENERGY BOARD

Original signed by

Kristi Sebalj
Registrar

²² EB-2017-0073, OEB Staff Report to the Registrar, February 14, 2018, pp. 42-43.

SCHEDULE A
DECISION AND RATE ORDER
SIOUX LOOKOUT HYDRO INC.
EB-2017-0073
MARCH 29, 2018
APPROVED ISSUES LIST

Schedule A
Approved Issues List
Sioux Lookout Hydro Inc.
EB-2017-0073

Capital

- 1) Is the proposed 2018 test year capital budget for the planned pole replacement program appropriate?
- 2)
 - a. Should the 2018 test year capital budget reflect the application of a smoothing mechanism to address the annual variances in SLHI's forecast period capital budgets caused by the vehicle replacement program?
 - b. If so, how should the test year capital budget be revised?

OM&A

- 3) Is the proposed 2018 test year budget for bank and merchant fees appropriate?

Rate Design

- 4) Is the proposed wording change to the pole attachment related specific service charge appropriate?

Accounting

- 5) Should the proposed balances in the commodity variance accounts (1588 and 1589) be disposed of at this time? If not, what should be the next steps?