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BY EMAIL

January 12, 2022

Mrs. Nancy Marconi
Acting Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4
Registrar@oeb.ca

Dear Ms. Marconi:

**Re: Ontario Energy Board (OEB) Staff Submission
Sioux Lookout Hydro Inc.
Application for 2022 Rates
OEB File Number: EB-2021-0057**

Please find attached OEB staff's submission in the above referenced proceeding, pursuant to Procedural Order No. 1.

Yours truly,

Marc Abramovitz
Incentive Rate-setting & Regulatory Accounting

Encl.

cc: All parties in EB-2021-0057



ONTARIO ENERGY BOARD

OEB Staff Submission

Sioux Lookout Hydro Inc.

Application for 2022 Rates

EB-2021-0057

January 12, 2022

Introduction

Sioux Lookout Hydro Inc. (Sioux Lookout Hydro) filed an incentive rate-setting mechanism (IRM) application with the OEB on October 5, 2021 under section 78 of the *Ontario Energy Board Act, 1998* seeking approval for changes to its electricity distribution rates to be effective May 1, 2022.

The purpose of this document is to provide the OEB with the submissions of OEB staff based on its review of the evidence submitted by Sioux Lookout Hydro.

Consistent with the Chapter 3 Filing Requirements, Sioux Lookout Hydro applied the Price Cap IR adjustment factor to adjust the monthly service charge and distribution volumetric rate during the incentive rate-setting years. As part of the interrogatory process in this proceeding, OEB staff updated Sioux Lookout Hydro's calculated price cap adjustment, to reflect the OEB's 2022 inflation factor of 3.30%.¹ The stretch factor assigned to Sioux Lookout Hydro is 0.15%, resulting in a rate adjustment of 3.15%, based on the Price Cap IR adjustment formula. OEB staff supports Sioux Lookout Hydro's request for a price cap adjustment for 2022 rates.

Sioux Lookout Hydro is fully embedded within Hydro One Networks Inc.'s (Hydro One) distribution system. Sioux Lookout Hydro has requested an update to its Retail Transmission Service Rates (RTSRs) to recover the rates charged by Hydro One. On December 14, 2021, the OEB issued a Decision and Rate Order for Hydro One's 2022 distribution rates, effective January 1, 2022.² OEB staff has updated Sioux Lookout Hydro's RTSRs in the Rate Generator Model, attached to this submission, to reflect Hydro One's 2022 host-RTSRs, and supports Sioux Lookout Hydro's request to update its RTSRs.

OEB staff makes additional submissions on the following:

- Shared Tax Adjustments
- Group 1 Deferral and Variance Accounts
- Lost Revenue Adjustment Mechanism Variance Account (LRAMVA)
- Z-Factor – June 2021 Windstorm

¹ EB-2021-0212, Decision and Order, November 18, 2021

² EB-2021-0032, Decision and Order, December 14, 2021

OEB Staff Submission

Shared Tax Adjustment

Sioux Lookout Hydro has calculated a credit amount of \$2,448 associated with the OEB's shared tax savings mechanism, which allows for a 50/50 sharing of the impact of changes in tax legislation. Sioux Lookout Hydro has proposed to transfer this amount to Account 1595 for disposition at a future date, in accordance with the OEB's policy, as the amount does not produce a rate rider to the fourth decimal place in more than one rate class.

OEB staff agrees with Sioux Lookout Hydro's calculated tax sharing amount and its approach for disposition.

Group 1 Deferral and Variance Accounts

Sioux Lookout Hydro requested disposition of its December 31, 2020 Group 1 Deferral and Variance Account (DVA) balances, in the credit amount of \$21,256 (including interest forecast to April 30, 2022), on a final basis and is requesting disposition over a 12-month period. The components of this balance are shown in Table 1. The Group 1 account balances do not exceed the OEB's \$0.001/kWh threshold for disposition. Sioux Lookout Hydro noted that it would like to dispose of the balances on a yearly basis to minimize rate impacts to customers. The OEB most recently approved disposition of Sioux Lookout Hydro's Group 1 account balances on a final basis, as of December 31, 2019 (including interest projected to April 30, 2021), as part of its 2021 rates proceeding.

Table 1: Group 1 DVA Balances

Account Name	Account Number	Principal Balance (\$) A	Interest Balance (\$) B	Total Claim (\$) C=A+B
LV Variance Account	1550	(15,125)	(191)	(15,316)
Smart Metering Entity Charge	1551	(74)	(18)	(92)
RSVA - Wholesale Market Service Charge	1580	(1,095)	(114)	(1,209)
RSVA - Retail Transmission Network Charge	1584	5,485	(164)	5,321
RSVA - Retail Transmission Connection Charge	1586	(2,182)	(111)	(2,292)
RSVA - Power	1588	(5,508)	(1,834)	(7,342)
RSVA - Global Adjustment	1589	1,901	(2,227)	(326)
Totals for Group 1 Accounts		(16,597)	(4,659)	(21,256)

OEB staff has reviewed the 2020 DVA balances and the supporting evidence substantiating these balances. OEB staff supports Sioux Lookout Hydro's request to dispose of its December 31, 2020 Group 1 DVA balances on a final basis.

Lost Revenue Adjustment Mechanism Variance Account (LRAMVA)

Sioux Lookout Hydro requested disposition of its December 31, 2020 LRAMVA balance resulting from its Conservation and Demand Management activities from the 2016 to 2020 period. This includes persisting savings from programs delivered in the 2011 to 2019 period. The December 31, 2020 LRAMVA balance, including carrying charges projected to December 31, 2021, is a debit amount of \$17,060. Sioux Lookout Hydro is requesting disposition over a 12-month period. The components of the LRAMVA balance are shown in Table 2.

Table 2: LRAMVA Balance

Account Name	Account Number	Actual CDM Savings (\$) A	Forecasted CDM Savings (\$) B	Carrying Charges (\$) C	Total Claim (\$) D=(A-B)+C
LRAMVA	1568	45,843	29,914	1,131	17,060

OEB staff supports Sioux Lookout Hydro's request to dispose of its December 31, 2020 LRAMVA. OEB staff has reviewed the December 31, 2020 LRAMVA balance and the supporting evidence substantiating these balances. In OEB staff's opinion, the LRAMVA balance is reasonable. OEB staff requests Sioux Lookout Hydro to confirm whether carrying charges are projected to December 31, 2021 or April 30, 2022 in its reply submission.

Z-Factor – June 2021 Windstorm

On June 23, 2021, a severe windstorm swept through Sioux Lookout Hydro's service territory causing significant damage to its distribution system, including three feeders, and impacting all of its customers. To aid in restoring power, Sioux Lookout Hydro obtained assistance from Synergy North Corporation (Synergy North) and Hydro One. By June 25, 2021, power was restored to approximately 96% of customers.³

Sioux Lookout Hydro filed a notice with the OEB on September 7, 2021, advising its

³ EB-2021-0057, Manager's Summary, pages 11 to 21

intention to file a Z-factor claim in its 2022 rate application for the recovery of incremental costs incurred as a result of the windstorm.⁴

Sioux Lookout Hydro has requested to recover \$299,002, plus carrying costs of \$994, for a total Z-factor claim of \$299,996 for incremental Operations, Maintenance and Administration (OM&A) costs incurred. Sioux Lookout Hydro noted that it is not proposing to recover any capital or internal material costs related to the windstorm. Sioux Lookout Hydro has requested that the total Z-factor amount be allocated across all rate classes, in proportion to its last OEB-approved revenue requirement by rate class and recover the allocated amounts through fixed rate riders based on the most recently reported actual customer counts. To mitigate customer bill impacts, Sioux Lookout Hydro has proposed that the Z-factor rate rider be effective for a period of three years beginning May 1, 2022 and ending April 30, 2025.⁵

Sioux Lookout Hydro provided the following table to summarize the incremental costs of the windstorm.⁶

Table 3.1: Summary of Incremental Storm Costs

Sioux Lookout Hydro Internal Labour	
Staff Overtime	\$21,214
Management Overtime	\$6,863
Utilities (Hydro One, Synergy North)	\$196,491
Arborist Contractor	\$61,460
Other External Costs	
Accommodations	\$8,481
Fuel	\$3,439
Meals	\$1,054
Total before Carrying Charges	\$299,002
Carrying Charges October 1, 2021 to December 31, 2021	\$426
Carrying Charges January 1, 2022 to April 30, 2022	\$568
Total	\$299,996

Table 3.2 below sets out the proposed three-year fixed rate rider that Sioux Lookout Hydro calculated in its application.⁷

⁴ Sioux Lookout Hydro's letter to the OEB, dated September 7, 2021

⁵ EB-2021-0057, Manager's Summary, pages 21 to 22

⁶ EB-2021-0057, Manager's Summary, page 20, Table 12

⁷ EB-2021-0057, Manager's Summary, page 21, Table 14

Table 3.2: Proposed Windstorm Z-factor Rate Rider

Rate Class	Z-factor Rate Rider (fixed monthly charge) \$
Residential	2.27
GS<50 KW	3.44
GS 50 to 4,999 kW	25.96
Street Lighting	0.22

Based on the OEB's *Report on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors*⁸ dated July 14, 2008 and Chapter 3 of the Filing Requirements for Electricity Distribution Rate Applications dated June 24, 2021 (Filing Requirements), Z-factors are intended to provide for unforeseen events outside of a distributor's management control. The cost to the distributor must be material and its causation clear. In order for amounts to be considered for recovery by way of a Z-factor, the amounts must satisfy the following three eligibility criteria:

- Causation – Amounts should be directly related to the Z-factor event. The amount must be clearly outside of the base upon which rates were derived.
- Materiality – The amounts must exceed the OEB-defined materiality threshold and have a significant influence on the operation of the distributor; otherwise they should be expensed in the normal course and addressed through organizational productivity improvements.
- Prudence – The amounts must have been prudently incurred. This means that the distributor's decision to incur the amounts must represent the most cost-effective option (not necessarily least initial cost) for ratepayers.

The Filing Requirements also state that, to be eligible for a Z-factor claim, a distributor must demonstrate that its achieved regulatory return on equity (ROE), during its most recently completed fiscal year, does not exceed 300 basis points above its deemed ROE embedded in its base rates.

Causation

Sioux Lookout Hydro stated that it expects and plans for a certain level of weather-related damage due to storms. However, the windstorm was far beyond anything that Sioux Lookout Hydro had previously experienced as winds reached up to 111 km/hr.

⁸ http://www.ontarioenergyboard.ca/oeb/Documents/EB-2007-0673/Report_of_the_Board_3rd_Generation_20080715.pdf

Sioux Lookout Hydro noted that the total incremental cost of \$299,002 was directly caused by the windstorm. Eighty-five percent (85%) of the costs were related to the mutual assistance received from Synergy North. Sioux Lookout Hydro noted that the resources provided by Synergy North arrived approximately 24 hours after the event and Sioux Lookout Hydro's crew, although limited, worked throughout the night to restore power to as many customers as possible. Sioux Lookout Hydro stated that the total cost is clearly outside of the base upon which rates were derived in its 2018 cost of service proceeding.⁹

Sioux Lookout Hydro also noted that it has a vegetation management plan to mitigate extreme weather events. However, with a large portion of its service territory being rural with dense foliage and long spans of line with very few customers, a large portion (approximately 47%) of its maintenance budget is allocated to tree trimming. Table 3.3, which is reproduced from Sioux Lookout Hydro's response to interrogatories, provides Sioux Lookout Hydro's budgeted vs actual maintenance costs from 2016 to 2021.¹⁰

Table 3.3: Budget vs Actual Maintenance Costs

Maintenance Budget Components	2016 (\$)	2017 (\$)	2018 (\$)	2019 (\$)	2020 (\$)	2021 (\$)
Emergency Response	54,857	51,640	45,829	46,718	48,137	48,655
Tree Trimming	62,700	63,829	64,978	66,147	67,338	68,550
Other maintenance	20,263	49,313	48,123	44,834	29,116	28,408
Total Budget	137,820	164,782	158,930	157,699	144,591	145,613

Actual Maintenance Costs	2016 (\$)	2017 (\$)	2018 (\$)	2019 (\$)	2020 (\$)	2021¹¹ (\$)
Emergency Response	43,724	40,774	38,403	23,671	43,987	41,402
Tree Trimming	75,683	78,510	84,330	88,046	66,666	61,020
Other maintenance	14,682	30,035	39,201	39,585	34,025	26,193
Total Actual	134,089	149,319	161,934	151,302	144,678	128,615

OEB staff notes that between 2016 and 2020 Sioux Lookout Hydro has consistently underspent its emergency response costs, relative to its budgeted amounts. While not explicitly stated, OEB staff has also assumed that the budgeted amounts represent what is assumed to underpin Sioux Lookout Hydro's base distribution rates. However, much of that underspending appears to have been offset by overspending related tree-trimming activities. Accordingly, from an overall envelope perspective with respect to maintenance costs related to extreme weather events, OEB staff submits that Sioux Lookout Hydro's expenditures, particularly since last rebasing in 2018, are generally

⁹ EB-2021-0057, Manager's Summary, page 17

¹⁰ Response to OEB-Staff-7

¹¹ Year-to-date to November 2021

aligned with the amounts that underpin rates. Further, OEB staff notes that the amounts in the Z-Factor claim are incremental to those already incurred in 2021 related to emergency response activities. Consequently, OEB staff submits that the amounts sought for recovery through the Z-Factor mechanism are outside the base upon which Sioux Lookout Hydro's current rates are set.

Materiality

OEB staff notes that the OEB's materiality threshold for a Z-factor claim is \$50,000 for a distributor with a distribution revenue requirement less than or equal to \$10 million.

Sioux Lookout Hydro has an approved revenue requirement of \$2,053,198 from its 2018 cost of service application. Thus, its materiality threshold is \$50,000. OEB staff submits that the Z-factor claim is material to Sioux Lookout Hydro.

Prudence

In its application, Sioux Lookout Hydro provided the following evidence and comments with respect to prudence:¹²

- Sioux Lookout Hydro had recalled all staff available to respond to the damage and customer calls immediately after the storm passed through.
- Sioux Lookout Hydro had one available administrative staff member and the President/CEO handled customer calls during the night of June 23, 2021 and early morning June 24, 2021.
- On June 24, the Mutual Assistance Plan was activated, and Sioux Lookout Hydro requested assistance from Synergy North – the largest distributor in the Plan. Synergy North sent a total of 20 staff (including line crews, supervisors and subcontracted utility arborists) along with trucks.
- Sioux Lookout Hydro requested assistance from Hydro One on June 24. Hydro One was able to provide assistance in restoring some customers.
- Without the additional resources (from Synergy North and Hydro One), Sioux Lookout Hydro would not have been able to restore power to customers within a reasonable timeframe, given the very small staff number it has.
- By June 25, 90% of Sioux Lookout Hydro's customers' power was restored. Between June 26 and June 27, crews worked to get the power restored for the remaining customers. By June 27, power was restored to all customers.

¹² EB-2021-0057, Manager's Summary, pages 13 to 21

- As shown in Table 3.1, Sioux Lookout Hydro provided a summary of the incremental costs of the windstorm. Sioux Lookout Hydro confirmed that it did not pay any premium amounts to any third party.¹³
- Union staff overtime was paid at standard rates in accordance with the Collective Agreement.
- The overtime paid to management was approved by the Board of Directors with the express caveat that it would be a one-time occurrence given the extraordinary circumstances of the event. The Sioux Lookout Hydro Board felt that management should not be paid at the standard overtime rate but recognized that compensation based on straight hours worked outside of normal business hours would be appropriate to recognize that upwards of six times the normal amount of staff and resources needed to be managed during this time. Sioux Lookout Hydro noted that a Z-factor claim including overtime paid to management was approved by the OEB in a prior Decision and Order issued for Halton Hills Hydro Inc. (Halton Hills Hydro).¹⁴
- The material costs related to the windstorm were expensed and followed normal business practice as these materials are carried on trucks for regular maintenance purposes.

OEB staff notes that overtime payments to management employees are normally disallowed from the Z-factor claims, as overtime is not paid to these employees in the normal course of business. In the Decision and Order issued for Halton Hills Hydro's Z-factor claim, the OEB approved the total Z-factor claim including an overtime payment to management, and stated that it did not intend to set a precedent in finding the payment of management overtime to be a prudent expense for Z-factor claims. Each Z-factor application is unique and must be reviewed on its own merits, applying the OEB's eligibility criteria.¹⁵

OEB staff notes that Sioux Lookout Hydro's management was required to coordinate and manage more than six times the normal amount of staff and resources, effectively and efficiently, in order to restore service. The management overtime payment of \$6,863 is about 2.3% of the total Z-factor claim. Considering the limited staffing resources available to Sioux Lookout Hydro in an emergency situation, OEB staff is of the view that Sioux Lookout Hydro acted prudently in allowing for the payment of overtime for management, and that the circumstances related to the windstorm were

¹³ Sioux Lookout Hydro's response to OEB staff interrogatory 9 d)

¹⁴ Sioux Lookout Hydro's response to OEB staff interrogatory 9 c) referring to EB-2014-0211 Decision and Order, issued December 11, 2014 and corrected December 12, 2014

¹⁵ EB-2014-0211 at page 4

unique. Therefore, OEB staff does not oppose Sioux Lookout Hydro's proposed inclusion of the overtime payment to management employees in its Z-factor claim.

OEB staff notes that Sioux Lookout Hydro employs eight staff, has a service territory of 539 sq. km and services approximately 2,900 customers. OEB staff appreciates that in a situation arising from an extraordinary event, Sioux Lookout Hydro, given its size, was able to restore power to its customers expeditiously by implementing the Mutual Assistance Plan, which was established to respond to local emergencies that are beyond the capability of a single distributor.¹⁶ The overall claim is substantive for a utility the size of Sioux Lookout Hydro. However, OEB staff has reviewed the details of the underlying costs, as well as the hours incurred to restore power to most customers within two days, and those amounts do not appear to be unreasonable. Accordingly, OEB staff submits that Sioux Lookout Hydro acted prudently in promptly securing assistance to restore power and did so in a cost-effective way, given the circumstances.

ROE

Sioux Lookout Hydro confirmed that its achieved ROE in the most recently completed fiscal year does not exceed 300 basis points above the deemed ROE embedded in its base rates. Sioux Lookout Hydro's achieved regulatory ROE for 2020 was 8.07%, which is 0.93% less than the 9.00% ROE approved in its last cost of service application.

OEB staff submits that Sioux Lookout Hydro meets the ROE requirement for the Z-factor claim.

Allocation and Rate Design

Sioux Lookout Hydro requested to apply the revenue requirement allocations from its 2018 cost of service to a total Z-factor claim of \$299,996 and recover the allocated amounts through fixed rate riders based on the June 30, 2021 customer numbers. As mentioned earlier, in order to mitigate the customer bill impacts, Sioux Lookout Hydro has proposed that the Z-factor rate rider be effective for a period of three years beginning May 1, 2022 and ending April 30, 2025.

OEB staff submits that Sioux Lookout Hydro's proposal to allocate the costs associated with the windstorm on the basis of distribution revenue and use the June 30, 2021 customer numbers as the billing determinant is reasonable, as is its request for a 36-month recovery period. OEB staff takes no issue with Sioux Lookout Hydro's proposal to use its June 30, 2021 customer numbers to mitigate any over collection due to any increase in customer counts since the 2018 Cost of Service Rate Application.¹⁷ OEB

¹⁶ Manager's Summary, Appendix C

¹⁷ Manager's Summary, Page 21

staff has presented the bill impacts with and without the approval of the Z-factor claim, in Table 3.4 below.

Table 3.4 Bill Impact Comparison

	Change in Total Bill excluding Z-Factor Rate Rider	Change in Total Bill including Z-Factor Rate Rider – as filed
Residential	\$1.62 / 1.3%	\$3.80 / 3.0%
General Service < 50 kW	\$5.96 / 2.0%	\$9.26 / 3.0%

OEB staff notes that the total bill impacts inclusive of the Z-factor claim is 3.0% for the residential and general service less than 50 kW classes, which does not appear to be an unreasonable annual change given the extraordinary event in June 2021.

~All of which is respectfully submitted~