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December 23, 2008

Kirsten Walli, Board Secretary
Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
TORONTO, ON M4P 1E4

**Re: Sioux Lookout Hydro Incorporated
Response to Board Staff Interrogatories
Board File Number EB-2008-0212**

Dear Ms. Walli:

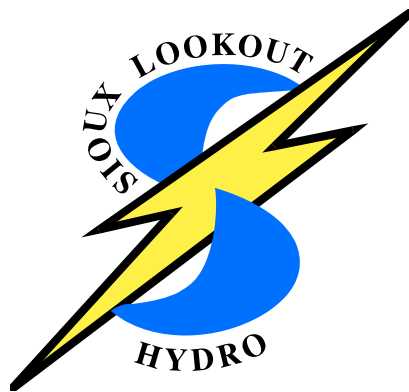
Please find attached Sioux Lookout Hydro Inc.'s response to Board Staff Interrogatories.

If there are any questions or concerns, please do not hesitate to contact me at (807)737-3800, or via email at slhydro@tbaytel.net.

Yours truly,

Deanne Kulchyski
Financial & Regulatory Affairs Officer

Encl/



RESPONSE TO BOARD STAFF INTERROGATORIES

EB-2008-0212

DECEMBER 23, 2008

**SIOUX LOOKOUT HYDRO INCORPORATED
25 FIFTH AVENUE, P.O. BOX 908
SIOUX LOOKOUT, ON P8T 1B3**



**Response to Board Staff Interrogatories
2009 Incentive Regulation Mechanism Rate Application
Sioux Lookout Hydro Inc.
EB-2008-0212**

Revenue Requirement

Ref: 2009 3rd Gen. Supplementary Filing Module, Sheet B3.1

Interrogatory

1. Cell G75 shows that your 2008 revenue requirement was \$2,077,725.

The draft 2008 rate order filing (re: EB-2007-0785) on page 1 of 34 shows a 2008 revenue requirement of \$1,706,517. Staff understands that part of the difference between this number and the information provided in the IRM model may be due to the inclusion in latter of low voltage charges and transformer allowance, but this does not account for the entire difference.

Please reconcile these two figures, providing a full explanation for any differences.

Response

The draft 2008 rate order filing (re: EB-2007-0785) was revised in a filing submitted to the Board on October 10, 2008. On page 1 of 31 of this filing a table summarized the revisions from the original application, the draft rate order and the revised draft rate order. The revenue requirement was revised to \$1,774,640.

The revised revenue requirement is a result of corrections to amortization and a decrease in working capital due to lower Low voltage charges and Retail transmission rates. On page 11 of 31 of this filing the full calculation is provided. See Table 1 below for the reconciliation of the 2009 3rd Gen. Supplementary Filing Model, Sheet B3.1 of \$2,077,725 and \$1,774,640.

**Table 1
Reconciliation of Revenue Requirement**

Base Revenue Requirement(page 11 of 31, Revisions to Draft Rate Order, October 10, 2008)	\$1,774,640
Low Voltage Charges	\$280,060
Transformer Allowance	\$23,024
Revenue Requirement from Distribution Rates, 2008 Rate Application	\$2,077,724
Revenue Requirement from Distribution Rates(2009 3 rd Gen. Supplementary Filing Module, Sheet B3.1, cell G75)	\$2,077,725
Difference	\$(1)



Revenue to Cost Ratios

Ref: 2009 3rd Gen. IRM Supplementary Filing Module, Sheet 3.1

Interrogatory

2. Cells E22 to E27 provide an estimate of the revenue to cost ratios in 2008. While the ratio for the street lighting rate class is close to the ratio provided in the 2008 draft rate order submitted in EB-2007-0785 (page 9 of 34), ratios for the other rate classes do not correspond by a larger margin, as illustrated in the table below.

2008 Revenue to Cost Ratio

	As Submitted in Sioux Lookout's 2008 Draft Rate Order Application	As Estimated in the 3rd Gen. IRM Model
Residential	95.9%	89.1%
GS < 50	95.1%	90.3%
GS > 50	164.2%	200.9%
Street Lighting	23.3%	22.1%
USL	94.7%	84.8%

- a) Please explain why the estimated 2008 ratios for the residential, the general service less than 50 kW and the unmetered scattered load rate classes differ by 5% or more from the proposal approved in EB-2007-0785.

Response

The estimated 2008 ratios for the residential, general service less than 50 kw and the USL rate classes differ by 5% or more from the proposal approved in EB-2007-0785 because the 3rd Gen. IRM Supplementary Model calculates the revenue based on the distribution rates which include the amounts for low voltage charges and transformer allowance.

The values submitted in Sioux Lookout's Draft Rate Order Application were calculated on the base revenue requirement of \$1,774,640, before low voltage charges and transformer allowance. The 3rd Gen. Model issued by the board does not contain a mechanism to remove these amounts from the service revenue requirement. Since the transformer allowance applies only to the General Service > 50 kW class, the other classes are not affected by this amount. In the 2008 Rate Application, the low voltage charges were allocated to each class based on the allocation of retail transmission revenue collected for each class, not the cost allocation findings because at the time low voltage charges were considered to be RTS Revenue. See the Table 2 below for the allocation of Low Voltage Charges:



Table 2
Allocation of Low Voltage Charge Revenue

Class	Retail Transmission Service Revenue	Transmission Revenue Percentage	Low Voltage Revenue		
Residential	357,757	36.12%	101,165		
GS < 50 kW	154,628	15.61%	43,725		
GS > 50 KW	473,369	47.80%	133,858		
Street Lights	4,400	0.44%	1,244		
USL	240	0.02%	68		
TOTAL				Low Voltage Revenue Requirement Total Low Voltage Revenue Requirement	280,060 280,060

Therefore, the amounts relating to low voltage charges explains why the revenue to cost ratios are different by 5% or more for the residential, General Service less than 50 kW and USL rate classes as estimated in the 3rd Gen. IRM Model.

Interrogatory

- b) Please explain why the estimated 2008 ratio for the general service greater than 50 to 4,999 kW rate class differs by more than 35% from the proposal approved in EB-2007-0785.

Response

Relating to the response to 2(a) above, the greater than 50 to 4,999 kW rate class differs by more than 35% from the proposal approved in EB-2007-0785 because of the low voltage revenue and transformer allowance rates were included in the 3rd Gen. IRM Supplementary Filing Module. In EB-2007-0785 the transformer allowance of \$23,024 was included entirely in this the General Service >50 kW class to offset the credit applied when billing this rate class. The low voltage revenue was allocated based on the Retail Transmission Service Revenue collected for each class. 47.8% of the \$280,060 low voltage charges and 100% of the \$23,024 are included in the distribution rates for this class. This resulted in the higher revenue to cost ratio in the 2009 GIRM model.



Ref: 2009 3rd Gen. IRM Supplementary Filing Module, Sheet C3.1

Interrogatory

3. Cells I22 to I26 provide an estimate of the proposed 2009 revenue to cost ratios. Under the proposal of Sioux Lookout Hydro, the general service greater than 50 to 4,999 kW rate class (GS > 50 kW) will have a ratio of 186.1%. This ratio is above the target range of 80 to 180% for this rate class, as set out in the November 28, 2007, Board report on *Cost Allocation for Electricity Distributors*.

Please provide an explanation for the proposal to keep the ratio for the GS > 50 kW rate class outside the bounds of its target range. Alternatively, please submit a revised proposal where the ratio for this rate class falls within the target range.

Response

If the transformer allowance revenue and the low voltage revenue were removed from the calculation the ratio would be within the target range of 80 to 180% for this rate class. A comparison of the two methods is detailed below.



2009 3rd Gen. IRM Supplementary Filing Module results:

Sioux Lookout Hydro Inc.

Re-Allocation of Revenues to adjust Street Lighting Revenue to Cost Ratio

Class	Count	Billed kwh/kw	Allocation	% of Rev	Adjusted %	Allocation					Adjusted Rates		Current Rates		Change	
			Total Rev			Total Rev					Fixed Rate	Variable Rate	Fixed Rate	Variable Rate	Fixed	Variable
Residential	2301	33,435,195	1087159	52.33%	52.33%	1087159	59.70%	40.30%	649033.92	438125.08	23.51	0.0131	23.51	0.0131	0.00	0.0000
GS < 50	399	15,941,009	368874	17.76%	17.76%	368874	54.20%	45.80%	199929.71	168944.29	41.76	0.0106	41.75	0.0106	0.01	0.0000
GS > 50	43	121,066	583855	28.10%	26.03%	540752.426	40.30%	59.70%	217923.23	322829.20	422.33	2.6666	456.23	2.8781	-33.90	-0.2115
USL	12	24,781	3263	0.16%	0.16%	3263	91.90%	8.10%	2998.70	264.30	20.82	0.0107	20.82	0.0107	0.00	0.0000
St light	533	1,475	34269	1.65%	3.72%	77280.024	59.90%	40.10%	46290.73	30989.29	7.24	21.0097	3.21	9.3139	4.03	11.6958
			2077420	100.00%	100.00%	2077328.45			1116176.29	961152.16						
										2077328.45						

2009 Results with Transformer Allowance and Low Voltage Revenue Removed:

Sioux Lookout Hydro Inc.

Re-Allocation of Revenues to adjust Street Lighting Revenue to Cost Ratio

			Allocation			Allocation					Adjusted Rates		Current Rates		Change	
		Billed		% of	Adjusted		Fixed	Variable	Fixed \$	Variable \$	Fixed	Variable	Fixed	Variable	Fixed	Variable
Class	Count	kwh/kw	Total Rev	Rev	%	Total Rev					Rate	Rate	Rate	Rate		
Residential	2301	33,435,195	985990	55.56%	55.56%	985989.43	65.84%	34.16%	649175.44	336813.99	23.51	0.0101	23.51	0.0101	0.00	0.0000
GS < 50	399	15,941,009	325469	18.34%	18.34%	325468.79	61.42%	38.58%	199902.93	125565.86	41.75	0.0079	41.75	0.0079	0.00	0.0000
GS > 50	43	121,066	426978	24.06%	22.20%	393969.86	55.14%	44.86%	217234.98	176734.88	421.00	1.4598	456.23	1.5823	-35.23	-0.1225
USL	12	24,781	3194	0.18%	0.18%	3214.4355	93.85%	6.15%	3016.75	197.69	20.95	0.0080	20.82	0.008	0.13	0.0000
St light	533	1,475	33008	1.86%	3.72%	66016.571	62.19%	37.81%	41055.71	24960.87	6.42	16.9226	3.21	8.4705	3.21	8.4521
			1774639	100.00%	100.00%	1774659.1			1110385.80	664273.28						
										1774659.09						



The resultant Revenue to Cost ratios would be:

Class	2009 3rd IRM Supplementary Model	Removal of Low Voltage Revenue and Transformer Allowance
Residential	89.1%	94.6%
General Service Less Than 50 kW	90.4%	93.4%
General Service 50 to 4,999 kW	186.1%	158.6%
Unmetered Scatter Load	84.8%	97.7%
Street Lighting	49.9%	49.9%

The low voltage and transformer allowance rate determined in the 2008 Rate Application would then have to be added back on to the variable rates in order to calculate the final 2009 Distribution rates.

Deferral Account Rate Rider

Ref: 2009 3rd Gen. IRM Rate Generator Model, Sheet C2.2 and Sheet J2.2

Interrogatory

4. Cell D22 of sheet C2.2 and sheet J2.2 indicate that the sunset date for the approved Deferral Account Rate Rider is April 30, 2011. A review of the current 2008 Board approved Tariff of Rates and Charges indicates that the sunset for this rate rider is April 30, 2009.

Please clarify whether this was an error, confirming what the correct entry should have been, or provide a complete explanation for the discrepancy.

Response

There was an error in the sunset date on the Board Approved Tariff of Rates and Charges issued on October 22, 2008. An amended Tariff sheet was issued on December 9, 2008 correcting the sunset date to April 30, 2011 for the deferral account rate rider.



Retail Transmission Service Rates (RTSR)

Ref: Manager's Summary, Page 4

Interrogatory

5. Sioux Lookout submitted on page 4 of its manager's summary that "SLHI is an embedded distributor to Hydro One, therefore the company does not pay the Uniform Transmission Rates charges by the IESO. SLHI proposes not to apply an adjustment to RTSR until the rates charged by Hydro One are known." In its Decision on Veridian Connections Inc.'s ("Veridian") 2008 IRM application (EB-2007-0879), the Board described a similar situation and found that Veridian should adjust its RTSRs for the portion related to its embedded costs:

"No changes were assumed regarding the level of transmission related charges payable to Hydro One Networks Inc. on the grounds that Veridian's main service area and Scugog are partially embedded within Hydro One Distribution and that the RTS rates Hydro One Distribution charges have not yet changed. The Board notes that the RTS rates of Hydro One Distribution are currently under review by the Board as part that utility's 2008 distribution rate application. Hydro One Distribution has proposed changes to its existing RTS rates as a result of the changes in the Uniform Transmission Rates for Ontario transmitters effective November 1, 2007. While there is uncertainty regarding the exact quantum and timing of this upcoming rate change, the Board finds that, in order to minimize the prospective balance in variance accounts 1584 and 1586 and mitigate intergenerational inequities, wholly embedded or partially embedded distributors should adjust their RTS rates to reflect the proposed changes in the RTS rates charged by their host distributor."

On October 22, 2008, the Board issued its Guideline on *Electricity Distribution Retail Transmission Service Rates* (G-2008-0001). Page 4 of these guidelines state that "A distributor that has not yet filed its application for 2009 distribution rates is expected to include the RTSRs analysis and proposed adjustment in its application."

- a) Given the Board's finding in Veridian's 2008 IRM application (EB-2007-0879) and the G-2008-0001 Guideline, please explain why it would be appropriate for Sioux Lookout not to adjust its RTSRs.

Response

Sioux Lookout adjusted its RTSRs in its 2008 Application EB-2007-0785 based on the proposed rates to be charged by Hydro One in their 2008 rate application EB-2007-0681 for the Sub-Transmission (ST) Class. From EB-2007-0681 Exhibit G2, Tab 94, Schedule 1, page 3 of 8, the Retail Transmission Service rates charged to Sioux Lookout Hydro are \$2.01/kW and \$.50/kW for Network Service and Line Connection Service rates



Sioux Lookout Hydro Inc.

EB-2008-0212

Response to Board Staff Interrogatories

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respectively. These rates were put into effect on May 1, 2008 and will not change once EB-2007-0681 is approved.

Hydro One was contacted prior to submitting the 2009 rate application and they indicated that there was a possibility that the Transmission charges would change come May 1, 2009, but they did not know what the change would be. Therefore no adjustment to the RTSRs was calculated.