



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

DECISION AND ORDER

EB-2014-0099

NORTH BAY HYDRO DISTRIBUTION LTD.

BEFORE: Christine Long
Presiding Member

Allison Duff
Member

November 12, 2015

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1 INTRODUCTION AND SUMMARY

North Bay Hydro Distribution Ltd. (North Bay Hydro) is the electricity distributor that serves approximately 24,000 customers in the city of North Bay. North Bay Hydro filed an application with the Ontario Energy Board (OEB) to change the rates it charges to its customers for electricity distribution, to be effective May 1, 2015 (the Application). Under the OEB Act, distributors must apply to the OEB to change the rates that they charge their customers.

The OEB decided the majority of the issues related to the Application in a decision issued in July. In that decision, the OEB approved North Bay Hydro's rates on an interim, or temporary, basis pending the completion of a study to determine the appropriate working capital allowance (WCA). The WCA represents the amount of cash required to operate North Bay Hydro's business on a day-to-day basis, taking into consideration the time lag between when payments are made by the distributor for services and when payments are received from its customers.

North Bay Hydro filed its WCA study at the end of July. The OEB provided an opportunity for the parties participating in the proceeding to review the study, question North Bay Hydro on the results and provide the OEB with their opinions on the appropriate WCA amount. The study resulted in a WCA of 10.43%, which was subsequently revised to 10.31%. The OEB approves a working capital allowance of 10.31%.

In the course of reviewing the evidence related to the WCA calculation, one of the parties to the proceeding, the North Bay Taxpayers Association (Taxpayers Association), filed two separate Notices of Motion with the OEB. These motions requested that the OEB direct North Bay Hydro to provide further information in response to some of the questions asked about the WCA study. The OEB denies both motions filed by the Taxpayers Association.

2 THE PROCESS

The OEB issued a decision regarding the Application in July. In that decision, the OEB provided its findings on all aspects of the Application with the exception of the appropriate WCA that should be included in North Bay Hydro's revenue requirement. Subsequent to the OEB's July decision, North Bay Hydro filed a study outlining its working capital requirements.

The OEB provided parties and OEB staff the opportunity to ask North Bay Hydro questions about the WCA study in writing. Parties, OEB staff and North Bay Hydro provided their recommendations in the form of written submissions to the OEB.

In reaching its findings, the OEB was aided by the participation of four parties, known as intervenors, who each represented different groups of customers affected by the Application; Energy Probe Research Foundation (Energy Probe), the Vulnerable Energy Consumers Coalition (VECC), the School Energy Coalition (SEC), and the North Bay Taxpayers Association (Taxpayers Association).

3 DECISIONS ON THE ISSUES

This decision and order (the Decision) determines the appropriate WCA to be included in North Bay Hydro's revenue requirement and provides guidance regarding the recovery of costs associated with the completion of the WCA study. The Decision also makes a determination on two motions submitted by the Taxpayers' Association requesting that the OEB require North Bay Hydro to provide additional information in response to certain questions.

3.1 Working Capital Allowance

North Bay Hydro requested a WCA of 10.43% applied to the total cost of power plus operating, maintenance and administration (OM&A) expenses. The applicant based its proposal on the findings of a study prepared by Navigant Consulting Ltd (Navigant).

Energy Probe, VECC, SEC and OEB staff advocated for reductions to the WCA based on data shown in studies filed by other distributors. Energy Probe, VECC, SEC and OEB staff generally agreed that North Bay Hydro was not following best practices and that the OEB should approve a reduction to the WCA in order to incent North Bay Hydro to adopt best practices.

Parties differed on the amount of the reductions to the WCA. Energy Probe submitted that North Bay Hydro's WCA should be reduced from the requested 10.43% to 7.97%. Energy Probe submitted that the OEB should direct North Bay Hydro to have a third party conduct a study of best practices and costs and to file that study as part of North Bay Hydro's next cost of service application. VECC and SEC supported Energy Probe's submission. OEB staff submitted that the OEB should impose a WCA of 9.1%.

In its reply submission, North Bay Hydro filed an updated study with a revised WCA of 10.31%. The revised WCA corrected an error made in the calculation of the payroll expense time and removed payroll expenses and property taxes from the calculation of Harmonized Sales Tax amounts. Navigant, made these changes and updated its study following its review of Energy Probe's submission.

North Bay Hydro submitted that the OEB should approve the revised WCA of 10.31%. North Bay Hydro submitted that any reduction to the proposed WCA by the OEB would be arbitrary and would not provide any additional incentive to adopt best practices. Instead, the reductions would leave North Bay Hydro without sufficient resources to undertake a review of its internal billing, collections and expense processes.

North Bay Hydro stated that if the OEB were to approve the WCA of 10.31%, it would commit to completing a comprehensive review of all of its processes and systems

underlying its working capital requirements, identify opportunities to reduce its working capital costs and file evidence of its efforts in its next cost of service rebasing application.

In its submission, North Bay Hydro also stated that the parties had ignored the foregone revenue that resulted from North Bay Hydro voluntarily agreeing to cooperate with the OEB's new WCA policy and not seek the 13% WCA in rates to which it felt entitled to by law.

Findings

The OEB approves the revised WCA of 10.31% provided in North Bay Hydro's reply submission. The OEB accepts North Bay Hydro's commitment to complete a comprehensive review of all of its processes and systems underlying its working capital requirements prior to its next cost of service application. The OEB expects North Bay Hydro to identify opportunities to reduce its WCA requirements while continuing to minimize the impacts on its OM&A and capital budgets. The OEB orders North Bay Hydro to file evidence of this review in its next cost of service application.

The OEB is satisfied that a WCA of 10.31% as proposed by North Bay Hydro accurately reflects the distributor's actual costs of current processes and systems. The OEB will not reduce the WCA to incent North Bay Hydro to pursue potential future changes, which are not in place today. The OEB accepts North Bay Hydro's submission that the OM&A and capital costs have already been approved and included in the revenue requirement for 2015 based on its current processes and systems.

North Bay Hydro has the incentive to investigate and implement cost-saving initiatives prior to its next cost of service application. Whether or not those cost-saving initiatives are related directly to billing and collection processes, North Bay Hydro's management is in the best position to assess its options and make the decisions to operate efficiently and seek continuous improvements. The OEB will not prescribe specific cost-saving initiatives in this Decision specific to the WCA as it would be inconsistent with the intent and objectives of the OEB's Renewed Regulatory Framework for Electricity Distributors.

The OEB finds the WCA study and the submissions of parties provide insight into North Bay Hydro's current processes and potential future changes. North Bay Hydro indicated that prior to reviewing the results of the WCA study, it had not quantified or analyzed the cost of its billing and collection processes. However, with the evidence filed and submissions from parties regarding the practices of other Ontario distributors, North Bay Hydro has some benchmark information to assess its own processes and consider efficiency improvements. In addition, the WCA study provides a base on which future improvements can be measured.

The OEB does not agree with North Bay Hydro's suggestion that it had a legal right to a WCA of 13% had it not voluntarily chosen to follow the OEB's new WCA policy. The OEB's rate-setting proceedings are always guided by OEB policies, however policies do not create any legal entitlements. Ultimately, the OEB must be satisfied, in every proceeding, that the rates it approves are just and reasonable.

3.2 Cost of WCA Study

In its July decision, the OEB indicated that it would allow North Bay Hydro to recover the costs incurred to complete its study to determine the appropriate WCA.

North Bay Hydro hired a consultant at a quote of \$35,000 plus 5% to draft the study. Any additional consultant costs were to be billed on a time and materials basis from Navigant in addition to legal support on a time and materials basis.

OEB staff submitted that it had no issue with North Bay Hydro recovering the costs provided that the actual costs were in line with the amounts quoted by Navigant and that the total cost was below the materiality threshold.¹

VECC submitted that North Bay Hydro should be allowed to recover \$35,000 only in future rates. No other parties made submissions on this issue.

North Bay Hydro did not provide an updated estimate of the costs related to the study in its reply submission.

Findings

The OEB is prepared to accept \$36,750.00 (\$35,000 plus 5%) as reasonably incurred costs associated with the completion of the WCA study. North Bay Hydro has indicated there may be incremental costs above \$ 36,750 related to time and materials for consulting and legal support work. If North Bay Hydro is seeking recovery of an amount higher than \$36,750, it must provide the revised total cost and the associated back-up documentation with the draft rate order. To the extent that parties have concerns regarding the revised total cost, they may use the draft rate order process to make comments. The OEB will make its final determination regarding the approved total costs in the final rate order.

3.3 Motions from North Bay Taxpayer's Association

The North Bay Taxpayers Association (Taxpayers Association) filed two separate motions. The motions collectively requested that the OEB require North Bay Hydro to

¹ The materiality threshold for the Application is \$65,000. (per Exhibit 1, page 95)

provide answers to Taxpayers Association interrogatories 2, 5 and 6, relating to the WCA study and the 2015 revenue requirement.

In interrogatory 2, the Taxpayers Association requested details regarding the calculation supporting the collection lag of 24.56 days included in the WCA study. The Taxpayers Association indicated that the responses only provided tables containing inputs to the calculation, not the details of the calculation. The Taxpayers Association's motion requested that the OEB order North Bay Hydro to provide the specifics of the calculation.

In interrogatories 5 and 6, the Taxpayers Association indicated that the change to the WCA would increase North Bay Hydro's return on equity (ROE). The Taxpayers Association argued that amounts were being included that were not required to deliver electricity and asked North Bay Hydro to provide the benefits to its customers. North Bay Hydro responded to both interrogatories by indicating the questions were not relevant to this phase of the proceeding, citing the procedural order in which the OEB indicated that parties were to ask for "relevant information and documentation ... that is in addition to the evidence already filed on working capital requirements". In its motion, the Taxpayers Association submitted that the interrogatories were relevant to the WCA study and requested that the OEB require North Bay Hydro to provide answers to the questions posed.

Findings

The OEB denies the motions requesting additional information from North Bay Hydro for interrogatories 2, 5 and 6 from the Taxpayers Association.

The OEB has reviewed North Bay Hydro's interrogatory response 2 and the response to the motion dated September 21, 2015. The OEB finds North Bay Hydro's response and the numbers in the table are sufficient to understand the data and the methodology used to calculate the collection lag proposed. A more detailed step-by-step calculation would provide no further value to the OEB in assessing the Navigant study and the evidence filed by North Bay Hydro. For example, the OEB understands and accepts the use of mid-points for the two classified time periods, and the average revenue for each time period, used to calculate the collection lag of 24.56 days. No further information is required by the OEB.

The OEB has reviewed North Bay Hydro's interrogatory responses 5, 6 and the response to the motion dated September 14, 2015. The OEB finds North Bay Hydro's responses to be sufficient and agrees that the questions are not relevant to this phase of the proceeding. The OEB has already approved North Bay Hydro's revenue requirement calculation for 2015, which explicitly includes a return on equity. The

purpose of this phase of the proceeding is to determine the final WCA to be recovered in rates.

The return on equity and working capital allowance are established for distinct purposes and are not duplicative. The OEB does not agree with the premise proposed by the Taxpayers Association in interrogatory 5 and does not find a working capital allowance, appropriately determined, provides owners or shareholders of an electric distribution company “with more money than is required to deliver electricity”.

4 CONCLUSION

North Bay Hydro's interim rates, approved by the OEB in its July decision, will change due to this Decision. The OEB will require that North Bay Hydro file a draft rate order showing the derivation of final 2015 base rates reflecting the approved WCA of 10.31%. Rates shall be effective as of July 1, 2015 and implemented on December 1, 2015. The draft rate order must also clearly show how the total costs for the WCA study have been included in the derivation of base rates and that the costs are amortized over five years, consistent with North Bay Hydro's other regulatory costs.

The OEB expects North Bay Hydro to file detailed supporting material, including all relevant calculations showing the impact of this Decision on the overall revenue requirement, the allocation of revenues between classes and the derivation of base rates.

North Bay Hydro is required to calculate foregone revenue rate riders to recover the difference between the interim revenue requirement and the final revenue requirement that results from approved WCA factor of 10.31% during the interim rate period in which interim rates were in effect (i.e. July 1, 2015 through November 30, 2015). North Bay Hydro will recover any foregone revenues over a 5-month period, ending on April 30, 2016, the end of the 2015 rate year.

The following intervenors were deemed eligible for cost awards in this proceeding: Energy Probe, VECC, SEC and the Taxpayers Association. The OEB has made provisions for the intervenors to file their cost claims following the issuance of the OEB's final Rate Order regarding the Application. A cost awards decision will be issued after the steps set out below are completed.

5 ORDER

THE BOARD ORDERS THAT:

1. North Bay Hydro shall file with the OEB and shall also forward to intervenors a draft rate order attaching a proposed Tariff of Rates and Charges reflecting the OEB's findings in this Decision and Order, within **7 days** of the date of this Decision and Order. The draft rate order shall also include customer rate impacts and detailed supporting information showing the calculation of final rates.
2. Intervenors and OEB staff shall file any comments on the draft rate order with the OEB, and forward to North Bay Hydro, within **7 days** of the date of filing of the draft Rate Order.
3. North Bay Hydro shall file with the OEB and forward to intervenors responses to any comments on its draft Rate Order within **7 days** of the date of receipt of the submission.
4. Intervenors shall file with the Board and forward to North Bay Hydro their respective cost claims within **7 days** from the date of issuance of the Rate Order.
5. North Bay Hydro shall file with the Board and forward to intervenors any objections to the claimed costs within **17 days** from the date of issuance of the Rate Order.
6. Intervenors shall file with the Board and forward to NOTL Hydro any responses to any objections for cost claims within **24 days** of the date of issuance of the Rate Order.
7. North Bay Hydro shall pay the Board's costs incidental to this proceeding upon receipt of the Board's invoice.

All filings to the OEB must quote the file number, EB-2014-0099, be made in searchable / unrestricted PDF format electronically through the OEB's web portal at <https://www.pes.ontarioenergyboard.ca/eservice/>. Two paper copies must also be filed at the OEB's address provided below. Filings must clearly state the sender's name, postal address and telephone number, fax number and e-mail address. Parties must use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at <http://www.ontarioenergyboard.ca/OEB/Industry>. If the web portal is not available

parties may email their documents to the address below. Those who do not have internet access are required to submit all filings on a CD in PDF format, along with two paper copies. Those who do not have computer access are required to file 7 paper copies.

All communications should be directed to the attention of the Board Secretary at the address below, and be received no later than 4:45 p.m. on the required date.

With respect to distribution lists for all electronic correspondence and materials related to this proceeding, parties must include the Case Manager, Stephen Vetsis at Stephen.Vetsis@ontarioenergyboard.ca and OEB Counsel, Michael Millar at Michael.Millar@ontarioenergyboard.ca.

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DATED at Toronto November 12, 2015

ONTARIO ENERGY BOARD

Original Signed By

Kirsten Walli
Board Secretary