



74 Commerce Crescent
P.O. Box 3240
North Bay, Ontario
P1B 8Y5

Tel. (705) 474-8100
Fax: (705) 495-2756 Administration
Fax: (705) 474-3138 Engineering/Purchasing
Fax: (705) 474-8579 Customer Services/Accounting
Fax: (705) 474-4634 Operations

March 1, 2010

Delivered by Courier

Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto, ON M4P 1E4

Attention: Kirsten Walli
Board Secretary

Re: North Bay Hydro Distribution Limited (EB-2009-270)
2010 Electricity Distribution Rate (Cost of Service) Application
Responses to 2nd Round Supplemental Interrogatories

Dear Ms. Walli:

Please find attached a complete copy of Donald D. Rennick's second round of supplemental interrogatory responses.

In accordance with Procedural Order No. 2, two hard copies of this submission will be sent via courier. An electronic copy of the submission in PDF format will be submitted through the Ontario Energy Board's Regulatory Electronic Submission System.

An electronic copy of the submission in PDF format will be forwarded via email to the Intervenor as follows:

Energy Probe

- a) David MacIntosh, Energy Probe
- b) Randy Aiken, Aiken & Associates

Donald Rennick

- a) Donald Rennick, Independent Participants

School Energy Coalition

- a) John De Vellis, Shibley Righton LLP
- b) Wayne McNally, Ontario Education Services Corporation

Vulnerable Energy Consumers Coalition

- a) Michael Buonaguro, Public Interest Advocacy Centre
- b) William Harper, Econalysis Consulting Services Inc.

These responses are respectfully submitted for the Board's review and consideration.

Sincerely,

Original signed by

Cindy Tennant
Finance Manager
North Bay Hydro Distribution Limited
(705) 474-8100 (310)

**NORTH BAY HYDRO DISTRIBUTION LTD.
2010 RATE APPLICATION
EB-2009-0270
DONALD D. RENNICK – INTERROGATORIES 2nd ROUND**

Original

Question # 1

I would be willing to signing a confidentiality agreement concerning the requested file as well as the other files that have not been included in the filing with the OEB. (ie. 2010 Depreciation_V8, 2010 Hydro One Dat for Cost Allocation, 2010 Revenue Requirement Model, Rate Design Model2010, Weather Model)

Response:

The following files are available within the OEB website and were submitted October 26th:

- 2010 Hydro One Data for Cost Allocation ~ “Cost Allocation Model”
- Weather Model ~ “Load Forecast”

The following files have been downloaded to the OEB website March 1st, 2010 as follows:

- 2010 Depreciation_V8 ~ “Depreciation Worksheet”
- 2010 Revenue Requirement Model ~ “Revenue Requirement Model”
- Rate Design Model2010 ~ “Rate Design Model”

#2

Please confirm that the return on equity rates provided by the OEB are suggested rates and not required rates.

Response:

NBHDL understands that the return on equity rates provided by the OEB are those that have been suggested as a reasonable return to be expected by the utility and are considered representative of market conditions.

#8

The expense breakdown provides for a labour expense breakout in Acct # 5014, 5016, 5020, 5040 and 5070. Why not use those accounts?

Response:

NBHDL utilizes those accounts that it feels are most appropriate for segregating and classifying expenses.

#10

Please provide a breakdown detailing the estimate for training expenses. In addition, there appears to be a number of accounts that include training. Please detail the total training expenses included in the 2010 estimates.

Response:

Please refer to NBHDL's interrogatory response for VECC Round 1 #16 (d).

#11

The Electrical Distributors Association fees are budgeted for 2010 at \$38,056.00 which incorporates a 2.3 % inflation factor over the 2009 expense. What benefit is derived from this membership? In addition, please calculate the total increase in costs attributed to adding this estimated inflation factor to 2009 expenses?

Response:

The Electrical Distributors Association (EDA) is the voice of Ontario's local electricity distributors, all of whom are EDA members.

The EDA has three primary functions including advocacy, information and analysis and networking. With respect to advocacy, membership with the EDA creates cost efficiencies for all LDC's as submissions can be developed to OEB, IESO, OPA and provincial government Ministries by the EDA as opposed to LDC's engaging in individual advocacy and allocating the corresponding resources to develop individual submissions. NBHDL's annual fees could easily be spent on intervening on one issue only if NBHDL were not a member of the EDA. The EDA is typically active on 10-15 major issues at any time. Also, all of these agencies are interested in hearing an industry perspective on issues and all electric distribution utilities are EDA members. For example, membership in the EDA allows members to provide input into shaping provincial conservation programs that benefit all consumers. Association membership helped support the development of the MicroFit program to allow consumers to become energy generators - another option or tool for managing energy costs and allowing customers to play a direct role in mitigating climate change impacts

The EDA also provides members with expert, up-to-date analysis and information on market rules and legislation that cannot be found from other sources.

The EDA has regular innovative forums and networking opportunities through councils, district associations and industry based working groups. This networking aspect of the EDA facilitated the development of a northeastern EDA utility buying consortium for distribution infrastructure including poles, conductor, insulators, switches etc. The discounts negotiated by the consortium are significant and easily justify EDA membership fees. The consortium has analyzed total savings from better pricing; costs reductions (no freight costs or wire reel rentals for example) and less labour/positions in the buying function and feel the savings are between 14-22% depending on individual member. Assuming NBHDL spends a minimum of \$1M annually the savings realized through this consortium would be at least \$140,000. The northern buying consortium was utilized to purchase and manage the installation of smart meters saving NBHDL approximately \$1M versus making purchases on its own.

In summary replacing the advocacy and information services provided by the EDA would easily cost NBHDL 3-4 times the annual fee and not being a member would jeopardize NBHDL's ability to keep current with market changes.

The northern buying consortium, a direct outcome of the networking opportunity provided by the EDA provides tremendous savings to the business.

The 2.3% increase in annual fees represents approximately \$856 in costs.

#13

Please confirm that this practice results in assets that are unused or disposed of being included in the rate base and therefore included in the return on equity amount charged to NBHDL customers.

Response:

All calculations that are rate base driven are based on average net book value. Asset disposals that are end of life will have not have an impact on rate base.

#15

Suggest that this item could be eliminated from the application.

Response:

NBHDL does not agree that these amounts should be eliminated from the application. Proposed changes to the distribution system code, the retail settlement code and the standard supply service code will require NBHDL to make system changes.

Please refer to NBHDL's interrogatory response for VECC #43 for \$15,000.

#18

Please provide the details of this expense.

Response:

North Bay Hydro anticipates that 6 individuals will be retiring within the next four years as explained in the application on page 464. A review of the weeks of training required to properly train and pass on critical knowledge was determined to be 226 weeks for the total group. The individual wage rates were applied to the applicable weeks of training to arrive at the total value of \$226,000. NBHDL notes that OEB Board report 2004 0188 issued May 11, 2005 indicates that the reporting of individual employee salary levels are not required.

#20

Please explain HR services \$56,500 and Wholesale settlement costs \$45,291

Response:

Included in HR services are costs related to payroll services, EFAP services and a school safety program. NBHDL has also included costs for 3rd party expertise in HR related matters, including legal advice.

Wholesale settlement costs are related to a 3rd party that provides settlement services to NBHDL. These services include, but are not limited to:

- HUB service transactions to allow settlement with retailers, their customers and NBHDL
- Calculation of the Net System Load Shape to allow settlement and billing of General Service customers without interval meters subject to hourly commodity pricing
- Review and verification of monthly IESO wholesale power bill
- Review and validation of MV90 hourly meter channel information with customers with interval meters
- Confirmation of billing parameters for customers with interval meters
- Monitoring and archiving of IESO wholesale meter point information

#21

Please provide average per employee management compensation excluding the CDM employee's wages and benefits.

Response:

The average per employee management compensation excluding the CDM employee's wages and benefits is \$104,678. Note that this is the total average value of the management teams compensation prior to amounts charged out to affiliates and others for services performed. The average management compensation net of the charge out that is included in this application is \$100,096.

#23

Description of this position in the application seems incomplete. Perhaps these duties could be handled by the Financial and Administration department.

Response:

Exhibit #4, page 15 in NBHDL's original response to this interrogatory provided details on job responsibilities for the HR component. The Human Resources Generalist has two primary functions including administration and human resources. The administrative responsibilities were provided in the previous answer. This is the only position in the business that provides administration support. The Administration in the Finance department refers to customer administration. Both Management and the Board of Directors of NBHDL have reviewed the organizational structure and feel it is both efficient and effective.

#24

Please provide a more direct answer. Has NBDHL conducted any studies or examined maintenance or installation work orders to assess the effectiveness of linemen crews in comparison to private contractors? If so what was the extent and result of those studies?

Response:

NBHDL previously answered this and confirmed that it had completed studies and analysis and determined the most appropriate use of contractors to complete its work program.

NBHDL has always used external line construction contractors to complete a portion of the annual capital program. Recent analysis of 4 projects completed by line contractors indicated they were more expensive than using NBHDL line staff by factors of 27, 64, 74 and 81%. This was based on the lowest bid award. These results would question why NBHDL would use external line contractors at all given the expense. NBHDL is not resourced to the level needed to deliver its entire work program with internal resources.

#25

The answer for #12 does not appear to provide an answer to this question. Please elaborate on your response.

Response:

NBHDL does not anticipate cost savings at this point in time related to postage costs as a result of the bill presentment system. As discussed in the response to question # 12, the bill presentment software will provide access to detailed billing information however it is not known at this time the number of customers that will switch to e-billing services and NBHDL does not feel it prudent to estimate such savings.

#27

Ignoring the \$1,333,950 note, the 2008 financial statements indicate that a \$1,000,000 dividend was paid out of NBHDL's net income to North Bay Holdings Ltd. North Bay Holdings Ltd then declared a dividend to the City of North Bay. This appears to be at variance with the City of North Bay Bylaw # 2003-84. Please explain. Also, please explain the comment that this does not a *"reflect an income dividend" per se*". In addition, please explain the comment *"the appropriate allocation of proportional equity and debt resources to the Hydro Services Company, in the original stand up of that company."*

Response:

NBHDL conducts its affairs in a manner consistent with the policies established by the Shareholder from time to time. In the fall of 2008 the Holding Company provided clear direction that the Distribution Company was to conduct its business affairs in such a way as to provide a better return to the Holding Company. As part of the compliance with this new direction the Distribution Company declared a dividend on December 12, 2008. This was the first dividend declared to the Holding Company since the new corporate structure was created in 2000.

A copy of NBHDL's Declaration of Dividend is provided in Appendix 4A of the original submission.

On December 15, 2008 North Bay Hydro Holdings Limited passed a resolution assigning the \$1,000,000 portion of the dividend to the City of North Bay. A copy of this resolution can be found in Appendix A.

The City of North Bay Resolution #2003-84 does not prohibit a dividend between North Bay Hydro Holdings Limited and the City of North Bay.

NBHDL regrets any confusion regarding the initial response. Those comments referred to the note mentioned in the initial interrogatory. As part of the restructuring of the former hydro commission, assets were transferred to the appropriate entity within the North Bay Hydro Holding group of companies. At that time the assets were valued and allocated to the appropriate member of the corporate family and the associated debt issued. The \$1.3 million note represented an allocation of debt to NBHDL's services affiliate.

#28

Please confirm that the estimated actual interest payments for 2010 will be \$1,184,257 and that the application provides for an interest recovery of \$1,821,364.

Response:

NBHDL confirms that the estimated actual interest payments in the application for 2010 was \$1,184,257; however, NBHDL has included \$1,821,364 in the application for interest recovery since NBHDL used the deemed interest rate of 7.62% on the affiliate loan with the City of North Bay.

#31

Please explain the statement *"This annualizing assumes a 30 day period."*
In addition, if the monthly proposed rate, as shown on "Tariff of Rates and Charges" on page 669 of the application, is adopted, customers would expect to pay $12 * \$14.84$ for the year for a total Local Fixed Delivery Charge of \$178.08. Using NBDHL's current system they will pay $\$14.84/30 * 365$ (366) or \$180.55 (\$181.04) for the year. Please explain.

Response:

Please refer to Board Staff question # 34.

#35

Please provide a copy of the information that indicates that NBHL salaries are below or between the minimum and midpoint of similar positions outside the sector.

Response:

NBHDL notes that OEB RP 2004 0198, page 39 indicates that:

“The Board concludes reporting of employee compensation for those applicants with fewer than 3 employees will not be required, regardless of the average total compensation.”

NBHDL has fewer than 3 management employees in a particular job function.

NBHDL is able to share that salary for management employees in total are:

- 5.5% above the minimum threshold
- 7.3% less than the midpoint compared to similar businesses
- 8.9% less than a peer group of similar sized electrical distribution companies
- 22.7% less than the maximum compared to similar businesses

#36

Please give additional details as to the continual and additional costs required by the Smart Meter installation that inclusion of the \$318,140 meter reading cost implies. In addition, on page 179 of the application it indicates that the costs for Smart Meters have not been included in the application. This inclusion of this expense inclusion for 2010 and beyond would seem to indicate that indirectly these costs are being included. Please explain.

Response:

To clarify, NBHDL has two different segments of costs associated with meter reading; those that are related to current meter reading (traditional meters) and those related to the new smart meters. Smart meter costs are tracked in a deferral account until full deployment of the program when all meters are considered operational. The statement made on page 179 relates to smart meter spending that is currently being tracked in deferral accounts and will continue to be tracked in that manner until full deployment is complete and the smart meters are fully operational – currently estimated at early 2011. As such, the costs that NBHDL has incurred in 2009 and forecast in 2010 as part of the implementation are not included in the application for rate setting purposes.

The costs included in the 2009 forecasted meter reading account of \$318,140 consist of 3rd party costs for traditional meter reading services as well as internal labour costs. As referenced above, smart meters have not yet been fully deployed and NBHDL expects costs to extend beyond 2010 for current meter reading services until the smart meter program is transitioned completely. When smart meters are fully deployed and active NBHDL expects additional operating costs to occur that will offset any savings seen by a reduction in 3rd party costs for meter reading services; however, at that point in time the smart meter costs will be considered a part of OM&A and as such should be considered part of OM&A activities and included in the rate setting process.

#37

The OEB imposes a healthy assessment on NBHDL customers each year. In return for these assessments, in particular a \$35,000 fee for this application, what assistance has been requested from OEB to complete this application and comply with the many regulations imposed by the OEB?

Response:

Please refer to NBHDL's interrogatory response for VECC #17 which identified that the costs associated with the OEB and Intervenors were reversed. The OEB costs should have stated \$10,000 for the Cost of Service Application. The question of assistance should be directed to the OEB for clarification.

Additional Interrogatories

1. The application appears to include requests for one-time expenses which have not been adjusted/spread over future years:

Page 437 - Acct # 5415 - Energy conservation \$195,000 - includes the cost of two real time operating pilot programs amounting to \$110,000.

Page 436 - Acct # 5114 - Maintenance of Distribution Equipment – includes the cost of two studies amounting to \$95,000 and in addition 2008 estimates include the cost of a study amounting to \$70,000 that does not appear to have been removed from the 2010 account total.

Page 439 - Acct # 5630 - Outside Services Employed – includes \$20,000 in information costs and \$20,000 in legal fees.

Please confirm and adjust or explain the above.

Response:

Page 437 - please refer to page 24 of Exhibit 4 as NBHDL indicated these are not one time costs. This would only be the case if the existing provincial government rescinds a major piece of new legislation that has defined its mandate or changes the critical role that LDC's play in its delivery.

Page 436 - to clarify, the 2010 total for account 5114 includes grounding and feeder analysis studies being performed on 4 of NBHDL's 16 substations for a total of \$140,000, which is up an additional 2 substations being assessed from 2009, or \$70,000. On top of that an additional \$25,000, or \$6,200/substation being assessed, has been included to provide minor funding for timely repairs of high risk deficiencies that could potentially compromise public safety, staff safety, and reliability. These costs will continue in future years until all substations have been assessed.

Page 439 - these costs are considered on-going expenses and as such should not be amortized over future years.

Legal costs are explained on page 27 of Exhibit 4 and further information on customer information costs can be found in the interrogatory responses for Energy Probe (Question # 18) and SEC (Question # 20).

2. Page 450 - 5610 – Management Salaries and Expenses – the application includes a decrease in anticipated relocation costs of \$10,000. This leaves an amount of \$15,000 in estimated relocation costs remaining from 2008 expenditure. Please explain.

Response:

2008 expenditures reflect actual relocation costs incurred while 2009 and 2010 forecasts are based on estimated expenses. NBHDL has included relocation costs for 2009 and 2010 as the company has been and will continue to be recruiting new employees.

3. In a number of places the application indicates that a major cost driver for 2009 and 2010 is NBHDL's implementation of an asset management system. Please indicate NBHDL's estimate of the costs of implementing and maintaining this system. Given that NBHDL's customer base has been virtually static for the past ten years, please explain, with reference to the ultimate benefits that will be realized by the customers of NBHDL, the plan's advantage over and above a less costly approach.

Response:

NBHDL's estimate of costs to implement and maintain the system for 2009 are shown in Table 2-14 - Exhibit 2 and further explained in detail on pg. 101 – Exhibit 2. Those costs related to 2010 are shown in Table 2-15 – Exhibit 2 and further explained in detail on pg. 63 – Exhibit 2.

The fact that NBHDL's customer base has been virtually static for the past ten years does not negate the requirement of asset management. The main principles behind asset management include capital investment and replacement strategy, preventative maintenance strategies, risk and condition assessment, and the establishment of resource requirements. The establishment of the asset management system will:

- Prioritize and provide justification for all investment decisions, short-term and long-term, eliminating discretionary spending;
- Ensure that the value of the assets to the shareholder is maximized;
- Ensure that assets are managed through preventative maintenance and condition assessment activities to prolong their use while minimizing risk of in-service failure
- Ensure that adequate resources are in place to properly manage the infrastructure
- Aid in meeting the requirements of the OEB for reporting and rate base application submissions

All of which will benefit the customer with a stronger, safer, more reliable and efficient electrical distribution system backed by sound, justified investments.

NBHDL will pursue the most cost effective approach in implementing the system while ensuring all future OEB asset management requirements can be fulfilled.

APPENDIX “A”

North Bay Hydro Holdings Limited

2008-12

North Bay, Ontario, December 15, 2008

Subject: Proposal: To assign dividend to the City

File No. _____

Res. No. 2008-12

Moved by: Peter Chirico

Seconded by: Sarah Campbell

That: To assign North Bay Hydro Distribution Limited Dividend of \$1,000,000.00 to the Corporation of the City of North Bay

Carried ☒ **Carried as amended** ☐ **Lost** ☐

Conflict _____ **Endorsement of Chair** _____

☐ **Record of Vote (Upon Request of Board Member Unanimous)**

Yeas		Nays	
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

Signature of Corporate Secretary  _____