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**BY EMAIL**

January 25, 2011

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

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: North Bay Hydro Distribution Ltd.  
2011 IRM3 Distribution Rate Application  
Board Staff Submission  
Board File No. EB-2010-0102**

In accordance with the Notice of Application and Written Hearing, please find attached the Board Staff Submission in the above proceeding. Please forward the following to North Bay Hydro Distribution Ltd. and to all other registered parties to this proceeding.

In addition please remind North Bay Hydro Distribution Ltd. that its Reply Submission is due by February 15, 2011.

Yours truly,

*Original Signed By*

Lawrie Gluck  
Analyst, Applications & Regulatory Audit

Encl.



# **ONTARIO ENERGY BOARD**

## **BOARD STAFF SUBMISSION**

2011 ELECTRICITY DISTRIBUTION RATES

NORTH BAY HYDRO DISTRIBUTION LTD.

EB-2010-0102

**January 25, 2011**

## **Introduction**

North Bay Hydro Distribution Ltd. ("North Bay") filed an application (the "Application") with the Ontario Energy Board (the "Board"), received on October 15, 2010, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the distribution rates that North Bay charges for electricity distribution, to be effective May 1, 2011. The Application is based on the 2011 3<sup>rd</sup> Generation Incentive Regulation Mechanism ("IRM").

The purpose of this document is to provide the Board with the submissions of Board staff based on its review of the evidence submitted by North Bay.

Board staff makes submissions on the following matters:

- Adjustments to the Revenue-to-Cost Ratios;
- Shared Tax Savings; and
- Deferral and Variance Account Disposition.

## **Adjustments to the Revenue-to-Cost Ratios**

### **Background**

In its 2010 cost of service application, North Bay proposed to increase the revenue-to-cost ratios for the Street Lighting, Sentinel Lighting and the General Service > 3,000 to 4,999 kW rate classes to the Board-approved minimum target ranges. In its Decision (EB-2009-0270), the Board prescribed a phase-in period where an adjustment of 50% of the difference between the respective current revenue-to-cost ratio levels and the bottom of the corresponding range would be implemented in 2010. A further 25% adjustment would be performed in 2011 and the final 25% in 2012.

All of the revenue from these adjustments would be assigned to the GS > 50 kW rate class.

### **Submission**

Board staff submits that the proposed revenue-to-cost ratio adjustments are in accordance with the Board's findings in its EB-2009-0270 Decision.

## **Shared Tax Savings**

### **Background**

North Bay proposed a shared tax sharing credit of \$52,388. In interrogatory #4, Board staff sought clarification on the input used by North Bay to derive this amount. In response to this interrogatory, North Bay further explained that using the regulatory taxable income and taxable capital approved by the Board in North Bay's 2010 cost of service application results in deviations from the approved PILs amount. North Bay noted that due to limitations of the 2011 IRM3 Shared Tax Savings Workform, it assumed a regulatory taxable income of \$1,501,000 in order to generate a grossed up tax amount of \$695,311 which was the closest to the PILs amount approved by the Board in its 2010 cost of service application (i.e. \$686,307). This represents a deviation of \$9,004 from the Board-approved PILs amount.

North Bay noted that utilizing a tax amount of \$695,311 resulted in an estimated total incremental tax savings of \$104,777, of which 50% (i.e. \$52,388) will be passed on to its customers through a one-year rate rider.

North Bay also noted in its response to Board staff interrogatory #4 that Haldimand Country Hydro Inc. had its 2011 IRM3 Shared Tax Savings Workform revised by Board staff to reflect the Board approved PILs amount, and requested that Board staff make similar revisions to the model in order to reflect the 2010 Board-approved PILs amount of \$686,307.

### **Submission**

Board staff agree that limitations in the 2011 IRM3 Shared Tax Savings Workform exist in this case, as they did for Haldimand County Hydro Inc. As such, Board staff will revise North Bay's Shared Tax Savings Workform as requested prior to the deadline for North Bay's reply submission. Board staff requests that North Bay comment on the appropriateness of the revised Shared Tax Savings Workform in its reply submission.

## **Deferral and Variance Account Disposition**

### **Background**

For purposes of 2011 IRM applications, the *Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative* (the "EDDVAR Report") requires a distributor to determine the value of its December 31, 2009 Group 1 Deferral and Variance account balance and determine whether the balance exceeds the preset disposition threshold of \$0.001 per kWh using the 2009 annual kWh consumption reported to the Board. When the preset disposition threshold is exceeded, a distributor is required to file a proposal for the disposition of Group 1 account balances (including carrying charges) and include the associated rate riders in its 2011 IRM Rate Generator for the disposition of the balances in these accounts. The onus is on the distributor to justify why any account balance in excess of the threshold should not be cleared.

North Bay requested that the Board review and approve the disposition of its December 31, 2009 balances of Group 1 Deferral and Variance account balances, including interest as of April 30, 2011. The total balance of the Group 1 accounts is a debit of \$511,476. Debit balances are amounts payable to the utility. This amount results in a total claim per kWh of \$0.000907. Since this rounds to the preset disposition threshold of \$0.001 per kWh, North Bay concluded that disposition was required. North Bay proposed a disposition period of one-year for its Group 1 account balances.

With respect to the global adjustment sub-account debit balance of \$543,853, North Bay indicated that it is not in a position to dispose of the global adjustment sub-account balance by means of a separate rate rider that would apply prospectively to non-RPP customers. North Bay indicated that in its 2010 Cost of Service application (EB-2009-0270), the Board accepted that North Bay does not have the billing capability to have a rate rider that would only apply to non-RPP customers.

### **Submission**

Board staff notes that North Bay's total claim per kWh is \$0.000907, which is below the preset disposition threshold contained in the EDDVAR Report of \$0.001 / kWh. Therefore, the disposition of North Bay's Group 1 account balances is not required at this time.

Board staff notes that the Board agreed in principle, in its EB-2009-0270 Decision, that a separate rate rider for the Global Adjustment sub-account should apply to non-RPP customers only. However, the Board approved the disposition of the Global Adjustment Sub-account from all customers in the affected rate classes on the basis that North Bay did not have the billing capability to establish this separate rate rider. The Board also directed North Bay to estimate the costs of the system upgrades required to allow for this capability at the time of its next rebasing.

Board staff further notes that there is an appreciable debit balance in North Bay's global adjustment sub-account and submits that the Board's general policy is to dispose of the global adjustment sub-account balance by means of a separate rate rider that would apply prospectively to non-RPP customers.

For the reasons stated above, Board staff submits that the disposition of North Bay's Group 1 account balances is not warranted at this time.

All of which is respectfully submitted.