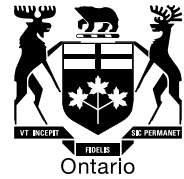


Ontario Energy Board
P.O. Box 2319
27th. Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416-481-1967
Facsimile: 416-440-7656
Toll free: 1-888-632-6273

Commission de l'énergie de l'Ontario
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone: 416-481-1967
Télécopieur: 416-440-7656
Numéro sans frais: 1-888-632-6273



BY EMAIL

November 6, 2012

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.
2013 IRM3 Distribution Rate Application
Board Staff Submission
Board File No. EB-2012-0152**

In accordance with the Notice of Application and Written Hearing, please find attached the Board Staff Submission in the above proceeding.

As a reminder, North Bay Hydro Distribution Ltd.'s Reply Submission is due by November 21, 2012.

Yours truly,

Original Signed By

Christiane Wong
Information Administrator, Applications & Regulatory Audit

Encl.



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2013 ELECTRICITY DISTRIBUTION RATES

North Bay Hydro Distribution Ltd.

EB-2012-0152

November 6, 2012

**Board Staff Submission
North Bay Hydro Distribution Ltd.
2013 IRM3 Rate Application
EB-2012-0152**

Introduction

North Bay Hydro Distribution Ltd. (“NBHDL”) filed an application (the “Application”) with the Ontario Energy Board (the “Board”), received on August 31, 2012 under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the distribution rates that NBHDL charges for electricity distribution, to be effective May 1, 2013. The Application is based on the 2013 3rd 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 NBHDL.

Board staff has no concerns with the data supporting the updated Retail Transmission Service Rates proposed by NBHDL. Pursuant to Guideline G-2008-0001, updated on June 28, 2012, Board staff notes that the Board will update the applicable data at the time of its Decision based on any available updated Uniform Transmission Rates.

Review and Disposition of Group 1 Deferral and Variance Account Balances

The *Report of the Board on Electricity Distributors’ Deferral and Variance Account Review Initiative* (the “EDDVAR Report”) provides that during the IRM plan term, the distributor’s Group 1 audited account balances will be reviewed and disposed if the preset disposition threshold of \$0.001 per kWh (debit or credit) is exceeded. Debit balances are recoverable from customers whereas credit balances are amounts payable to customers.

NBHDL completed the Deferral and Variance Account continuity schedule included in the 2013 IRM Rate Generator Model at Tab 5 for its Group 1 Deferral and Variance Accounts. NBHDL’s total Group 1 Deferral and Variance Account balances amount to a credit of \$46,232 which includes interest calculated to April 30, 2013. Based on the disposition threshold test, the Group 1 Deferral and Variance Account balances equate to \$0.0001 per kWh which does not exceed the threshold, and as such, NBHDL did not

request disposition of these account balances.

Board staff has reviewed NBHDL's Group 1 Deferral and Variance account balances and notes that the principal balances as of December 31, 2011 reconcile with the balances reported as part of the Board's *Reporting and Record-keeping Requirements* ("RRR") 2.1.7 Trial Balance. Board staff also notes that the preset disposition threshold was not exceeded. Accordingly, Board staff has no issue with NBHDL's request not to dispose of its Group 1 2011 Deferral and Variance Account balances at this time.

Shared Tax Savings Adjustments

NBHDL proposed to include the tax savings amount of \$(36,506) in Account 1595 on the basis that this amount is not material. NBHDL stated that this treatment is consistent with the treatment approved in the 2011 IRM process.

The Board's Filing Requirements provide¹:

Occasionally, the calculated rate adders or rate riders for one or more rate classes may be negligible. In the event where the calculation of one or more rate adder or rate rider results in volumetric rate riders of \$(0.0000) when rounded to the fourth decimal place, or are negligible the entire Board-approved amount for recovery or refund shall be recorded in a USoA account to be determined by the Board for disposition in a future rate setting.

Board staff supports NBHDL's proposal as it is consistent with the Filing Requirements.

Smart Meters

Board staff submits the following with respect to NBHDL's evidence regarding the status of its smart meter cost recovery.

In its Application, NBHDL stated the following in its Manager's Summary:

¹ Ontario Energy Board *Chapter 3 of the Filing Requirements For Electricity Transmission and Distribution Applications* dated June 28, 2012, p. 24

2) Smart Meter Funding Adder / Disposition

NBHDL's Rate Adder of \$1.47 per meter expired April 30, 2012. Several of NBHDL's current rate riders have a sunset date of April 30th, 2014; deferring the smart meter application and including a request for disposition in its 2014 rate application will assist in smoothing rate impacts for customers as NBHDL anticipates a partial offset for the addition of the SMDR/SMIRR. Rate impacts and mitigation are of significant importance to NBHDL and the company believes that the one year deferral of the smart meter disposition is in the best interest of customers and rates at this time.²

Board staff is concerned with NBHDL's proposal to defer application for disposition and recovery of smart meter costs until its 2014 cost of service application. It is not clear what analysis NBHDL has done or on what evidence it is relying to conclude that the deferral of smart meter cost recovery "is in the best interest of customers and rates at this time".

As noted by NBHDL, its Smart Meter Funding Adder ("SMFA") ceased as of May 1, 2012. Therefore, except for the simple monthly interest on the SMFA revenue principal, there is no stream of revenues related to the smart meter investment and operating costs. However, the deferred revenue requirement of capital-related costs (depreciation expense, return on capital, associated taxes/PILs, and OM&A expenses) and interest on the principal of OM&A and depreciation expense increases, will have added a full year of deferred revenue requirement by the end of 2013. Without any stream of SMFA revenues to even partially offset this cost recovery, the net deferred revenue requirement and hence the Smart Meter Disposition Riders ("SMDRs") could be significant if left until NBHDL's 2014 cost of service application.

The Board issued *Guideline G-2011-0001: Smart Meter Funding and Cost Recovery – Final Disposition* ("Guideline G-2011-0001") on December 15, 2011 to provide direction to utilities making applications for recovery of smart meter. Specifically the Guideline states:

Since the deployment of smart meters on a province-wide basis is now nearing completion, the Board stated its expectation that distributors would file for a final review for prudence and disposition of smart meter

² Application, page 2

costs at the earliest possible opportunity following the availability of audited costs. The Board indicated that, for those distributors that are scheduled to file a cost of service application for 2012 distribution rates, the Board expects that they will apply for the disposition of smart meter costs and subsequent inclusion in rate base. For those distributors that are scheduled to remain on IRM, the Board expects these distributors to file a stand-alone application with the Board seeking final approval for smart meter related costs.³

In the updated Filing Requirements issued on June 28, 2012, the Board also allowed for smart meter dispositions to be included as part of 2013 IRM rates applications if the timing of the smart meter recovery application coincides with the IRM application. Since the issuance of Guideline G-2011-0001, many Ontario distributors have applied for the disposition of smart meter costs as part of cost of service applications or through stand-alone applications. Several remaining distributors have filed for smart meter cost recovery as part of 2013 IRM applications. Board staff notes that, with the issuance of Guideline G-2011-0001 and associated Smart Meter Model Excel spreadsheets, the Board has been able to efficiently process most applications that comply with Guideline G-2011-0001.

In the absence of SMFA funding since April 30, 2012, Board staff submits that the deferred revenue requirement and hence resulting SMDRs to recover it could be significant if delayed until 2014. Board staff therefore submits that the Board should consider directing NBHDL to file a stand-alone application for disposition and recovery of smart meter costs prior to its 2014 cost of service application.

All of which is respectfully submitted

³ Guideline G-2011-0001, page 12