May 27, 2013

 **VIA E-MAIL**

Ms. Kirsten Walli

Board Secretary

Ontario Energy Board

P.O. Box 2319

2300 Yonge St.

Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: North Bay Hydro Distribution Limited request for delay of**

**May 1, 2014 Cost of Service Application**

I am writing to object to the request by North Bay Hydro Distribution Limited to delay its May 1, 2014 scheduled Cost of Service application for one year.

NBDHL indicated its reasoning for this request in a letter to the Board dated January 11, 2013.

Since their arguments are largely subjective, it is difficult to respond to them except to say that since NBHDL’s customer base has largely been stagnant for the last decade, there has been little requirement for new infrastructure and the overwhelming majority of capital expenditures have been replacement and modernization. NBHDL seems to be advancing the theory that if the “planning” for this work is not done immediately the entire system is somehow at risk of failing. I think this is an over exaggeration of the situation.

My personal observation is if the projects that hydro crews are working on around the City are examples of the worst problems with the infrastructure, the infrastructure is in pretty good shape.

To support my objection I have attached a listing (Schedule “A”) which highlights a number of expenses. These expenses total over $750,000 and were included in delivery rates in the 2010 Cost of Service application and will have be fully paid for by ratepayers by April 30, 2014 or in the case of wages represent expenses which were over estimated but continue to be included in rates.

By relying on an additional an IRM application to set rates beginning May 1, 2014 is to continue charging for these eliminated expenses. Ratepayers are being asked to pay for items which no longer apply to the cost of the delivery of electricity. Also, these expenses will have been affected by the percentage increases allowed in delivery rates resulting from the NBHDL’s Incentive Rate Mechanism applications for May 1, 2011, May 1, 2012, May 1, 2013, and if it is allowed May 1, 2014.

According to NBHDL’s request letter, customer affordability if high on its list of objectives. The filing of a new cost of service application would be a more direct path to accomplishing that objective than delaying the application for the reasons stated in the request

NBHDL’s 2010 Cost of Service application filed with the Board identifies expense items totalling approximately $750,000 which will be eliminated if NBHDL files a new cost of service application for May 1, 2014. The link to the application follows.

<http://www.rds.ontarioenergyboard.ca/webdrawer/webdrawer.dll/webdrawer/rec/156531/view/North%20Bay_APPL_20091026.PDF>

There naturally would be other factors affecting a new cost of service application but the amounts contained in Schedule “A” are sufficient to suggest that a reduction in delivery rates would be expected to occur.

For example, we know that management and union wages and benefits have gone up by 15% since 2010 as opposed to inflation which has risen less than 7%. However, we also know that the allowed return on equity has gone down from 9.85% in 2010 to 8.93% in 2013 as well as the deemed long term debt rates going from 5.87% in 2010 to 4.03% in 2013. The amounts collected for return on equity and deemed interest have also been increased by the various IRM applications made by NBHDL.

Any new rates resulting from the filing of a cost of service application would not come into effect until May 1, 2014. That date is almost a year away and would not, I suggest, place an onerous burden on NBHDL staff and outside consultants.

I am suggesting that there are sufficient known factors which could result in a significant drop in delivery rates for North Bay ratepayers and am requesting that the Board order a new cost of service application from NBHDL for the period May 1, 2014 – April 30, 2015.

All of which is respectfully submitted.

Yours very truly,

Donald D. Rennick, CPA, CA

**Schedule “A”**

Expenses included in NBHDL cost of service application EB-2009-0270 that have been overestimated or have been fully funded by ratepayers

**Exhibit 4 - Page 23 - Acct 5114 - Maintenance of Distribution Station Equipment**

Possible Savings - $165,000 plus 4 years of Incentive Rate Mechanism increases

Expenses for 2010 included $165,000 in costs for grounding studies and feeder loading analysis at four of NBHDL’s 16 substations. Since two studies were done in 2009 and NBHDL will have been collecting this money for four years (April 1, 2010 until May 30, 2014), the cost of this initiative has been more than covered by ratepayers.

**Exhibit 4 – Page 24 – Acct 5415 – Energy Conservation**

Possible Savings - $85,000 plus 4 years of Incentive Rate Mechanism increases

Expenses for 2010 included $40,000 in planning for Smart Grid requirements. While NBHDL suggested that these costs would not decline in the future, only a general explanation was given for this suggestion and a review of this expense after collecting $160,000 over the four years ended April 30/14 seems to be in order.

Expenses for 2010 included $45,000 in planning for FIT/MFIT. This initial estimate provided no specific detail of the cost except than it was going to be outsourced on an ongoing basis. If this outsourcing is still continuing, a review of the benefits of this expense should be examined.

**Exhibit 4 – Page 25 - 5610 – Management Salaries and Expenses**

**Exhibit 4 – page 26 - 5615 – General Administrative Salaries and Expenses**

Possible Savings – At least $328,000 plus 4 years of Incentive Rate Mechanism increases

Expenses for 2010 included salaries for the equivalent of 49.8 full time employees at an average total compensation for management employees of $104,062 and for unionized employees $86,402. NBHDL’s 2011 Yearbook indicates that the number of full time employees is forty-six. If this difference of 3.8 full time employees is in unionized staff, this would indicate that NBHDL has been and will be over collecting in excess of $328,000 per year until May 30, 2015.

**Exhibit 4 – Page 26 – Acct 5630 - Outside Services Employed**

Possible Savings - $91,500 plus 4 years of Incentive Rate Mechanism increases

Expenses for 2010 included $36,500 for succession planning which was a quarter of the estimated total expense for this endeavour. This amount will have been collected from ratepayers by April 30, 2014.

Expenses for 2010 included $25,000 for IRFS transition which was a quarter of the estimated total expense for this endeavour. This amount will have been collected from ratepayers by April 30, 2014.

Expenses for 2010 included $10,000 yearly for miscellaneous legal fees. A review of this expense item would seem to be in order.

Expenses for 2010 included $20,000 for customer information costs relating to TOU meter installation. Since this operation has been completed, the related expense should also be eliminated.

**Exhibit 4 – Page 39 - *5120 –* Maintenance of Poles, Towers and Fixtures**

Possible savings - $46,000 plus 4 years of Incentive Rate Mechanism increases

Expenses for 2010 included $46,000 for pole inspections which was estimated to cover the cost of inspecting 20% of the inventory. This intuitive began in 2009 and should be completed by 2014.

**Exhibit 4 – Page 41 - 5655 – Regulatory Expenses**

Possible Savings - $40,000 plus 4 years of Incentive Rate Mechanism increases

Expenses for 2010 included $40,000 for 25% of the 2010 cost of service application. Unless a cost of service application is made by NBHDL for April 1, 2014, this expense will represent another overcharge by NBHDL.