

**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 12, 2013

Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4
Kirsten.Walli@ontarioenergyboard.ca

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: North Bay Htdro Distribution Ltd.
2014 IRM4 Distribution Rate Application
Board Staff Submission
Board File No. EB-2013-0157**

In accordance with Procedural Order No.1, please find attached the Board Staff Submission in the above proceeding. This document is being forwarded to North Bay Hydro Distribution Ltd. and to all other registered parties to this proceeding.

North Bay Hydro is reminded that its Reply Submission, if it intends to file one, is due by November 26, 2013.

Yours truly,

Original Signed By

Martha McOuat
Project Advisor

Encl.



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2014 ELECTRICITY DISTRIBUTION RATES

North Bay Hydro Distribution Ltd.

EB-2013-0157

November 12, 2013

**Board Staff Submission
North Bay Hydro Distribution Ltd.
2014 IRM4 Rate Application
EB-2013-0157**

Introduction

North Bay Hydro Distribution Ltd. (“North Bay Hydro”) filed an application (the “Application”) with the Ontario Energy Board (the “Board”) on August 30, 2013, seeking approval for changes to the distribution rates that North Bay Hydro charges for electricity distribution, to be effective May 1, 2014. The Application is based on the 2014 4th Generation Incentive Regulation Mechanism (“IRM”).

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

North Bay Hydro’s Application was supported by the required models: the 2014 IRM4 Rate Generator; the 2014 Shared Tax Savings Model and the 2014 RTSR Workform. Board staff submits that it has no concerns with the 2014 IRM4 Rate Generator and 2014 RTSR Workform models as submitted by North Bay Hydro. Board staff will update the models with the GDP-IPI and stretch factor, as well as updated Uniform Transmission Rates that will be in effect for 2014 at the time of the Board’s Decision on the Application.

Board staff makes detailed submissions on the following:

- Shared Tax Savings Model; and
- Smart Meter Cost Recovery.

Shared Tax Saving Model

Background

North Bay Hydro has submitted a Shared Tax Savings Model (“model”) calculated on the basis of a corporate tax rate of 28.72%, which is consistent with the effective tax rate underpinning the rates in its 2010 cost of service proceeding (EB-2009-0270). The corporate tax rate of 28.72% includes the effect of \$34,000 in tax credits applied in 2010. Accordingly, North Bay Hydro has not included the tax credits in cell I20 of the

model. This anomaly was noted by an intervenor in this proceeding, Mr. Rennick, in his submission of November 8, 2013.

The calculations built into the model are designed to include the tax credits at cell I20. North Bay Hydro's model as submitted calculates a total tax savings of \$108,012, to be shared on a 50% basis with ratepayers. This results in a \$54,006 credit amount, which North Bay Hydro proposes to refund over a one year period.

Submission

Board staff submits that North Bay Hydro's model is consistent with the calculation of the taxes underpinning its 2010 rates. However its model as submitted makes use of some shortcuts in its 2010 calculations which have the effect of reducing the amount refundable to its ratepayers. Specifically, North Bay Hydro has removed the tax credits from the calculation of 2014 taxes, which has the effect of increasing the tax impact for 2014 and reducing the tax savings to be shared.

Board staff has prepared revised version of the model which includes the tax credits in the calculation of 2014 taxes. This results in a total tax savings amount of \$199,642 and a refund to ratepayers of \$99,821.

To determine the total tax related amount for 2010 Board staff relied on the following information:

- Tax Credits of \$34,000: EB-2009-0270 Revised Draft Rate Order Appendix G Updated April14, 2010;
- Ontario Capital Tax: EB-2009-0270 Revised Draft Rate Order Appendix G Updated April14, 2010;
- Regulatory Taxable Income: EB-2009-0270 Revenue Requirement Workform, Sheet 3; and
- Corporate Tax Rate: EB-2009-0270 Revised Draft Rate Order Appendix G Updated April14, 2010.

All totals are as calculated by the model. The tax rate of 30.19% represents the tax rate before deducting the tax credits of \$34,000, and has been has been calculated from the information contained in the Draft Rate Order, Appendix G. The tax rate of 28.72% as used by North Bay Hydro is the tax rate calculated after deducting the tax credits.

Board staff has attached the revised model to this submission, as well as the supporting

material from EB-2009-0270. Board staff submits that North Bay Hydro can address any issues with the revised model in its reply submission. Board staff acknowledges that if the apprentice tax credits no longer exist for 2014, North Bay Hydro would have a reasonable argument for excluding these amounts from cell I20 of the model. However, there is no evidence on the record to confirm this.

Smart Meter Cost Recovery

Background

In its EB-2012-0152 Decision and Order, the Board ordered North Bay Hydro to file a stand-alone smart meter cost recovery application as soon as possible in 2013. North Bay Hydro requested recovery in this proceeding of smart meter capital and OM&A costs in accordance with the Board's *Guideline on Smart Meter Funding and Cost Recovery – Final Disposition (G-2011-0001)* dated December 15, 2011 ("the Guideline"). North Bay Hydro's request was based on actual audited costs to the end of 2012, actual unaudited costs to June 2013 and forecasted costs for the remainder of 2013 and 2014. North Bay Hydro requested approval for class-specific Smart Meter Disposition Rate Riders ("SMDR"s) for Residential and GS <50 kW customers, based on a Net Deferred Revenue Requirement of \$574,853. North Bay Hydro also requested class specific rate riders to recover the Smart Meter Incremental Revenue Requirement of \$451,412 in 2014.

Submission

In response to Board staff interrogatory #2, North Bay Hydro stated that it did not file a stand-alone smart meter application as ordered by the Board due to the time required to complete its application and the administrative burden of two separate proceedings.

In response to VECC interrogatory #1a), North Bay Hydro states that approximately 87% of the costs included in its smart meter application are audited. Board staff notes that the Board's expectations as expressed in the Guideline are that an application for smart meter cost recovery will be based on costs that have been 90% audited. While North Bay Hydro's application falls slightly short of this threshold, Board staff notes that the Board has approved smart meter recovery in some other applications with similar

percentages of costs being audited¹. Board staff observes that the costs of the 1,000 smart meters installed or forecasted to be installed in 2013 averages \$491.30 per meter, significantly higher than the average cost of \$224.44 per meter². Board staff observes that the smart meters being installed in 2013 are over 80% for the GS < 50 kW class, and largely concentrate on more expensive 3-phase meters for which Sensus, North Bay Hydro's smart meter vendor, received Measurement Canada approval in late 2012³. In light of North Bay Hydro's documentation of its smart meter program in its application and in response to interrogatories, Board staff submits that the proportion of unaudited costs in this application is reasonable.

Through its interrogatories #13 and #15, Board staff noted certain discrepancies in the Smart Meter model as filed, related to the cost of capital parameters and accumulation of interest on Funding Adder Revenues beyond April 30, 2014. North Bay Hydro submitted a revised model, making the necessary corrections. Board staff has no concerns with the corrections provided. With the exception of the comments below regarding Smart Meter Funding Adder Revenues recovered by customer class, Board staff submits that North Bay Hydro has followed the methodology contained within the smart meter model and has appropriately allocated the smart meter costs to the Residential and GS <50 kW rate classes.

Board staff submits that North Bay Hydro has provided adequate explanations for the costs incurred to address issues with reliability of meter reads, given the terrain, geology and forestation of its service area. North Bay Hydro's response to VECC interrogatory #7 indicates that these issues appear to have been addressed. Board staff takes no issues with the costs incurred.

Board staff submits that North Bay Hydro has taken a somewhat innovative approach, and has documented that, post-2011, some of its costs are being recovered through existing rates and are not being sought for recovery in this application. This would appear to Board staff to be an acknowledgement that new costs related to smart meters and TOU billing operational displace meter reading, data entry and some other related operations. Board staff submits that, under these circumstances, North Bay Hydro appears to have (to the extent possible at this time) reflected operational savings associated with the deployment of smart meters and operationalization of TOU rates

¹ EB-2012-0263, 89% audited; EB-2011-0435, 83% audited

² Response to Board staff interrogatory #7c)

³ EB-2013-0157, Appendix J, Page 9

and tried to mitigate the impacts on customers.

North Bay Hydro was authorized to proceed with smart metering activities on June 28, 2008, but Board staff observes that the utility's smart meter model documents professional fees in 2006 and 2007. In response to Board staff interrogatory #12, North Bay described these costs as related to Ontario Utilities Smart Meter working group and consulting costs incurred by the District 9 group to prepare to implement smart metering activities. Board staff notes North Bay Hydro's challenges for design and deployment to deal with its service territory's characteristics, its collaboration with other utilities, and the fact that these are capitalized costs. Board staff submits that recovery of these early costs, which are generally related to the engineering planning for deployment, is consistent with similar costs allowed by the Board for other utilities with respect to smart meter cost recovery.

North Bay Hydro's response to VECC 13d) provides the amount of SMFA revenues collected by rate class, totalling \$1,526,856. This total is consistent with the total revenues shown at sheet 8 of the smart meter model. However, Board staff notes that North Bay Hydro's interrogatory response documents that SMFA revenues were collected from all classes, including Sentinel Lights and Streetlights, which are unmetered classes not subject to an SMFA. Board staff requests that North Bay Hydro provide a clarification of how revenues were recovered from these two rate classes, and provide a corrected schedule of amounts collected by rate class.

In particular, Board staff notes that Sheet 10A uses the percentages of SMFA revenues collected from the Residential and GS <50kW rate classes as calculated in the table provided in response to VECC interrogatory #13d), rather than calculating these in the model. These percentages are 86.67% for Residential and 11.19% for GS <50 kW. Related to the corrections to revenues collected by rate class discussed above, Board staff requests that North Bay Hydro confirm that the percentages for these two classes are correct, and provide a corrected smart meter model if necessary.

All of which is respectfully submitted