North Bay Taxpayers' Association Interrogatories
2015 Cost of Service Rate Application
North Bay Hydro Distribution Ltd. (NBHDL)
EB-2014-0099

Exhibit 1 - Administrative documents

1 – NBTA – 1

Page 9 - Line 6

"Mission - NBHDL is committed to distributing electricity to its customers in a safe, reliable and efficient manner that provides good value for money while being responsive to customer and community needs and contributing to provincial and local public policy objectives."

How does the phrase "good value for money" align with NBHDL adding approx $2.5 million to delivery rates in the form of deemed interest and return on equity in excess of what is required for the delivery of electricity?

In particular, please indicate how this practice is evidence that NBHDL' s objectives are appropriately aligned with the preference of customers as required in the OEB's Requirements for Filing – Chapter 2.

1 – NBTA – 2

Page 18 - Line 14

"NBHDL has strived to provide good value service for money to its customers in the City of North Bay, in providing its shareholder with a rate of return".

Since ratepayers, taxpayers and the company's beneficial owners are the same group of people, how can customers receive a benefit by from any "rate of return" since they supply any funds used for this "rate of return" through delivery rates?

Please provide an explanation of how customers benefit from the practice of charging them more for the delivery of electricity than is required to maintain the system and deliver the electricity?

1 – NBTA – 3

Page 57 – line 19

"In 2015, NBHDL has committed to continue implementing a more formal customer engagement program that commenced in 2014."

It seems quite evident from the low customer involvement and the recurring themes in these “engagement programs” that customers only interest in NBHDL is that they are getting a service at a value for money cost which ensures that when the customer flips a switch the light goes on.

This application demonstrates that the applicant will continue to charge customers using the same rate calculation method as in previous years which has resulted in collecting millions from customers in PIL’s and countless more millions to pay dividends and increase its own working capital.

Please indicate how the cost of continuing to implement more formal customer engagement programs year after year will benefit customers.

1 – NBTA – 4

Page 57 - Line 23

“77% of residential and 84% of GS customers agree that “Nobody likes to pay more for electricity, but I think we have an obligation to maintain the reliability of our local electrical system for future generations.”

The question gives the impression to respondents that NBHDL needs higher rates to maintain the reliability of the system. Based on the fact that NBHDL continues to pay yearly dividends to the City of North Bay plus the PILS’s associated with those dividends, has spent over $25 million in capital expenditures in since 2010 to maintain the system and has accumulated over $10 million in working capital, it would appear that NBHDL has more than enough money to maintain the reliability of the system without raising rates.

Please explain how this leading question, other than in the most oblique way, satisfies the OEB requirement stated in “Requirements for Filing - Chapter 2 that “Distributors should specifically discuss in the application how they informed their customers on the proposals being considered for inclusion in the application and the values of those proposals to customers i.e. costs, benefits and the impact on rates and how customer feedback to the survey shaped the final application.”

1 – NBTA – 5

Page 73 – Line 15

The graph in the ACA report on page 243 indicates that 85% of NBHDL's distribution assets are in good or very good condition. Of the remaining 15%, 12% are in fair condition.

Based solely on these findings, how does the applicant support the timetable suggesting the need to spend an average of $6 million per year for the next 4 years as suggested in Table 1- 31.

1 – NBTA – 6

Page 75 – Line 22

If there is a savings of approximately $9 per month per customer using the e-billing system why has NDHDL not established a disincentive for those customers who do not use that system?

1 – NBTA – 7

Page 75 – Line 26

"NBHDL also brought bill production and printing in house reducing purchases by $52,000 per year. NBHDL re-allocated workload with its existing staff...."

In 2010, NBHDL purchased a bill presentment system for approximately $75,000 in order to have an electronic method to send out customers' bills.

Did this purchase make possible part of the $52,000 in external purchases that is being saved?

Additionally, please explain how work taken from external contractors can be incorporated into employees' schedules when in the 2010 application, NBHDL indicated that the number of employees on staff at that time were required and fully engaged in providing service to customers.

1 – NBTA – 8

Page 104 – Line 17

"The Board's mandate, as set out in NBHDL's Shareholder Declaration is detailed below.

a) The Business is integral to the well-being and the infrastructure of the City of North Bay. It is in the best interests of the community of customers and the residents of North Bay whom the Business affects, that the Company conducts its affairs:

A) On a commercially prudent and sustaining profit basis"

The applicant's inclusion of the NBHDL Board's mandate suggests that the NBHDL Board of Directors and NBHDL are following the mandate. The complete opposite is true.

The applicant has failed to mention here that NBHDL's "*Shareholder's Declaration"* definition of "sustaining profit" is as follows:

"sustaining profit" means the level of return on equity (income after in payment of taxes in lieu) which will generate sufficient net income to ensure that the utility is able to meet all cash flow requirements for capital expenditures, depreciation, operating expenses, debt servicing, system expansion and re-investment, but does not generate sufficient surplus funds that could be disbursed to the shareholder in the form of a dividend."

The Declaration also goes on to describe the upper limit of any operating surplus as:

"(d) any operating surplus balance should not exceed the average of such surplus over the previous three years (on a rolling average basis): and for greater certainty, any operating surplus balance should not create Year-end Working Capital that is in excess of the average of such surplus over the previous three years (on a rolling average basis) expressed as a percentage of Net Expenses."

The revenue requirement requested in this application will allow surplus funds to be generated which will be then be disbursed to the shareholder in the form of a dividend. Dividends have been declared every year since 2008 including over $800,000 in 2015 which is clearly in violation of the *Shareholder's Declaration*.

The revenue requirement requested by the applicant will also result in the amount of year-end working capital exceeding mandated limits. That limit has been exceeded by NBHDL every year since 2008 and at the end of 2013 was approximately $6 million over the mandated amount. This is clearly in violation of the *Shareholder's Declaration* and NBHDL's Board of Directors mandate.

Could applicant please explain why NBHDL continues to contravene its Shareholder's Declaration while giving the impression to the OEB and the public that it is following that Declaration?

Also, explain why the applicant continues to apply for delivery rates which are in contravention of the Shareholder's Declaration's mandate?

1 – NBTA – 9

Appendix 1 – A to Appendix 1 – A.7

We found a majority of the questions in these surveys to be leading and did also did not provide any evidence on which respondents could base their responses. The questions seemed to be attempts to elicit responses which would justify increases or could be interpreted to justify increases in delivery rates.

In addition, some questions, billing accuracy and response times for example, seem to be attempting to support increased expenditures when in fact they are merely indications that NBHDL is actually doing what they are being paid to do.

In addition, the number of respondents in these surveys is entirely too low to provide any real direction. We think the author's suggestion on page 272 should have read; *"Results contained within this report are based on a limited sample and are not evidentiary of and cannot be relied upon to provide any direction regarding future delivery rates."*

As a general rule, if a NBHDL customer flips a light switch in his home and the light comes on and he gets a bill at the end of the month that is the about the extent of the involvement with the local electricity delivery company that he wants.

NBHDL is a monopoly delivering an essential service. As such, questions concerning customer loyalty and respect are superfluous. Customers exclusively want the service they are paying for at rates which provide value for money.

Since the applicant is a monopoly delivering an essential commodity, the normal criteria for a survey which could be used by a real world business situation where the company is interested in retaining current customers and attracting new ones, do not necessarily apply to NBHDL.

It appears to us that these surveys are an attempt to justify higher delivery costs by changing customers' focus from the real purpose of NBHDL, that of delivering electricity which is a straight forward low cost activity, to one of being a defender of green energy, to being an educator of consumers about energy conservation, to developing social

media and smart phone applications and other busy work in the hopes that it will convince ratepayers of the need for ever increasing costs.

We have commented below on some of the specific questions and responses.

Appendix 1- A.1 Business Customer Survey Summary

Page 128 – Power point slide

"What are the most important things North Bay Hydro can do to improve service to its customers?"

The answer that topped the list at 77% was better prices and lower rates.

Page 134 – Power Point slide

This slide indicates that 60% of business respondents do not think that NBHDL operates a cost effective hydro-electric system.

In light of the responses shown on those two slides and if the applicant is truly interested in responding to customers' concerns, please explain why NBHDL continues to engage in a scheme that obligates the company to pay PILS's amounting to millions of dollars, misleads customers about the benefit of dividends, and continues to accumulate excess working capital beyond the limits of its Shareholder's Agreement?

1 – NBTA – 10

Appendix 1-A.4 – Business Group Engagement Focus Group - Page 185 (at bottom of page)

"With everything that we learned and the process we just went through, customer engagement is a new cost to doing business for North Bay Hydro would you be willing to pay a nominal charge of as little as $7 per year, on your hydro bill, to pay for this engagement process? "

Answer: No, absolutely not our bills are already too high."

Even though this survey consisted of 11 participants and in no way could be considered as evidence of any future actions, once again cost control is the major item participants indicated that they are interested in and soundly rejected the idea of having to pay for any "customer engagement" that NBHDL and apparently the OEB, considers an important part of doing business.

The common theme running through all of these surveys is that NBHDL is not running an efficient organization and customers are not willing to see their costs rise whether is it to bury hydro lines, purchase more “green” energy or receive more customer engagement.

In the Customer Engagement Event Summary in Appendix 1- A on Page 111, NBHDL’s response to customers concerns about this lack of confidence in the entire electricity system, NBHDL’s stated plan of action is not to develop a an efficient system but to develop a “targeted communication plan”.

Could the applicant please explain, in light of the OEB’s sudden interest in customer feedback, would NBHDL not address customers’ concerns directly by reducing delivery rates instead of attempting to convince customers that more costs to cover “customer engagement” are necessary.

1 – NBTA – 11

Page 188- Appendix 1-A.5 - Residential Engagement summary

Executive Summary

The Event details indicate there were 25 Residential customers present.

We attended this event and there were barely 15 people present including the staff from Clark Marketing. We will excuse the applicant being unaware of this error because no one from NBHDL was actually present at the event. No one was present from NBHDL even though the invitations indicated that residents were invited to join “your community and North Bay Hydro for a Residential Info Session.”

This fact that there were no actual NBHDL employees there to answer questions was one of the main topics of conversation among participants and in reality the whole exercise produced no benefits whatsoever.

Please explain how this event benefited ratepayers in any meaningful way and fulfilled any of the OEB’s requirements for customer engagement.

1 – NBTA – 12

Page 253 - Appendix 1- A.7 INNOVATIVE Customer engagement report

Page 263 – Executive Summary

The first two items on the list of what can NBHDL do better to improve services indicate that customers want rates decreased not increased.

And it seems clear from answers to questions in the other surveys that improving reliability, at third on the list, is a long way from first and second items as an issue.

Page 264

As to the suggestion that a majority of customers are willing to pay more to improve reliability, the question should have been;

"NBHDL spends millions each year on maintaining and upgrading the distribution system. Given your personal experience with reliability, how much more if any, would you be willing to spend to maintain that reliability?"

Please explain how responders could formulate answers to the reliability questions without at least some pertinent knowledge of the current situation.

1 – NBTA – 13

Page 293

Over half of residential of customers did not know the breakdown of the bill between electricity costs and electricity delivery costs.

This would indicate a lack of knowledge among customers about power issues in general and therefore their ability to meaningfully answer questions contained in the various surveys concerning aging infrastructure, pay levels and other cost drivers.

The question concerning Bill Knowledge might have been better phrased as;

"On your hydro bill, NBHDL describes the items that go into delivery charges as being the cost to deliver electricity to your home and to build and maintain the transmission lines, towers and poles. However, it fails to mention that delivery charges also include amounts used to pay dividends to the City of North Bay and amounts used to increase its own cash reserves, both of which obligate NBHDL to pay PIL's to the Province. By the way did you know that delivery charges are about 20% of your entire bill?"

Please explain how the question about cost breakdown of charges, which is actually diverting customers' attention away from the delivery charge portion of their bill, informs customers about the makeup of the delivery charge on their bills.

1 – NBTA – 14

Page 364

From the brochure "The revenues collected from customers cover North Bay's capital investments and operating expenses"

Please explain why this statement does not mention the fact that revenues also are used to pay dividends paid to the City of North Bay and also contribute to the continuing accumulation by NBHDL of excess amounts of working capital and the cost of PIL's associated with these overcharges.

Exhibit 2 - Rate Base

2 – NBTA – 15

Page 52 – Line 1 – Treatment of Stranded Assets Related to Smart Meter Deployment

"In accordance 3 with the Board's Guideline G-2011-0001 Smart Meter Funding and Cost Recovery – Final Disposition 4 ("Guideline G-2011-0001"), whereby distributors are to be "held whole with respect to the cost recovery of stranded meters (i.e. conventional meters replaced as part of the smart meter initiative)", NBHDL seeks disposition of its stranded meter costs as at December 31, 2014 in the amount of $278,085."

Given the above, it is evident that the OEB seems to think that allowing LDC's to recover the undepreciated cost of analog meters is a good idea. The scrapping of these meters does not increase costs of the applicant in any way.

Given the fact that these meters were initially paid for by ratepayers and also paid for again through depreciation charges over the years they were in service and in light of the applicant's mission statement to provide "good value for money" what is the applicant's explanation for actually applying to recover these amounts from customers?

2 – NBTA – 16

Page 57 – Line 5 - Voltage Conversion

NBHDL has been undertaking a voltage conversion program which has required a large amount of capital spending. The reasons given for this program are system reliability, lower line losses and lower future maintenance costs.

The applicant states further that most plant is at the end of its useful life and must be replaced. We took six photos of a voltage conversion project undertaken in 2013 to demonstate what NBHDL considers poles and equipment that are at the end of their useful lives.

We suggest that NBHDL may be being too agressive in the number of projects being undertaken which are not require immediate attention and do not represent the best use of resources.

Please explain why the voltage converstion work could not be cut back and extended, for example to ten years, which would allow NBHDL to reduce delivery rates through a reduction in operations personel and other assets required for this work?

1. Corner of Cassells and Princess looking North – Jan, 2015. These are the poles and wires following replacement work re voltage conversion.

2. Corner of Cassells and Princess looking North – Feb, 2013. These are the poles and wires before any replacement work re voltage conversion.

3. Cassells and Olive looking North – Jan 2015. The remaining new pole following removal the old one.

4. Cassells and Olive looking North – Feb – 2013. The new and the old pole.

5. Cassells Street - Feb 23, 2013.

Comparison of new pole and wiring with the old one before its removal.

6. Cassells Street - Feb 23, 2013.

Comparison of new pole with the old one before its removal.

2 – NBTA – 17

Page 89 – Line 16

PP&E include expenditures that are directly attributable to the acquisition of the asset."

Please provide the breakdown of employee costs estimated at $5,360,185, on page 48 in Exhibit 4 – Table 4 – 10, between OM&A costs and those deemed to be direct labour to be included in PP&E.

2 – NBTA – 18

Page 96 – Line 22

"As described previously, NBHDL does not allocate any indirect costs associated with Finance, Human Resources, Information Systems Technology, or the Administration department."

We could not find the "described previously" reference to this subject. Please provide more reference details and explain the reasoning behind not allocating all indirect costs to capital projects.

2 – NBTA – 19

Page 104 – Appendix 2 – A: Distribution System Plan

Page 7 of the DSP (second paragraph below graph)

"As of the date of this DSP, the Initial VC Plan is now 74.2 percent complete. NBHDL has since formalized its plans for voltage conversion, but this original goal of upgrading from 4.16kV to 12.47kV service remains the same."

A reduction in the scheduling for this and other system upgrade projects would allow for a reduction in front line staff and also material costs.

In the interest of maintaining lower delivery rates and given that the conversion plan is 74.2 % complete, please indicate why the final completion of the 4.16kV to 12.47 kV conversion program could not be extended over an additional few years.

2 – NBTA – 20

Page 116 – Page 12 of the DSP (second paragraph)

".. prior to the 2010 Cost of Service (COS) application (EB-2009-0270) there was not a formalized plan, nor direction in the projects selected, to achieve the actual conversion to 12.47kV and therefore the remaining capital program projects were scattered throughout the 4.16kV area."

While the existence of a plan is certainly preferable to its absence, a major factor in implementing any plan must be the overall cost and affordability from a customer point of view.

Please comment on extending the time of the plan implementation in order to reduce staff and keep delivery rates at or below current levels especially in light of the relentless rise in the costs of electricity.

2 – NBTA – 21

Page 123 – 1.3 Objectives & Scope of Work – (third point)

"Delivering good value service for money while providing a fair rate of return to the City of North Bay."

Please explain how providing a "fair rate of return" supports the objectives of the proposed capital investment program.

Also, please explain how City of North Bay taxpayers benefit from a "rate of return" which is paid for by themselves through delivery rates.

2 – NBTA – 22

Page 127 – 2.1.2 – (5.2.1b) sources of cost savings expected to be achieved..... (second point)

"Specifically, implementation of a formalized asset management prioritization protocol (to be initialized in 2016) through consultation with METSCO is anticipated to allow NBHDL to have stronger and more efficient practices in determining asset health and coordinating repair and replacement efforts."

In the 2010 COS application METSCO produced an asset management plan report. In the conclusion that report, METSCO suggested that *"Due to the existing age and condition of assets, risk of in-service asset failures will remain high for the next ten years" and that "North Bay needs to ramp up the capital investment into asset renewal and replacement to a level of approximately $6 million annually, for the next ten years or so...."*

Since the 2010 report details the general methods of putting an asset management plan in place as well as a general level of CAPEX for the next ten years, please explain how an additional report will allow NBHDL to improve its practices in determining asset health and coordinating repair and replacements efforts.

Additionally, please explain why, using the 2010 report as a guideline, internal staff could not be assigned this task resulting in less cost and satisfactory results.

2 – NBTA – 23

Page 127 – 2.1.2 – (5.2.1b) sources of cost savings expected to be achieved..... (third point)

"The focus on the renewal of the system, specifically the replacement of assets past their useful life, is anticipated to result in less reactive based maintenance (trouble calls). The benefit may not be realized immediately, and is anticipated to help mitigate the effect of other O&M cost increases in the longer term. Less trouble calls also have the potential to result in higher reliability."

This statement concerning cost savings states the obvious regardless of the condition of the infrastructure and is too general to be helpful. In other words, if NBHDL replaced the entire infrastructure one would naturally expect fewer trouble calls and higher reliability.

However, cost considerations must be taken into account and also the point at which the law of diminishing returns come into play. Additionally, irrespective of the dire predictions made by METSCO in its 2010 report, none of the customer surveys indicated that system reliability has been a major problem.

We would like to suggest that while cost saving is a goal; cost savings come at a price which needs to be given more of a key priority.

Please comment.

2 – NBTA – 24

Page 129 – 2.2.1.1 – Customer Engagement

To meet the OEB requirements, NBHDL must demonstrate that it has coordinated infrastructure planning with customers, the transmitter, other distributors and/or OPA or other third parties.

It appears that the most of the details reported in the "2.2.1.1 Customer Engagement" section are not related to the DSP in any meaningful way.

Please explain how the engagement processes listed in this section satisfy the requirements set out by the OEB.

2 – NBTA – 25

Page 132 – 1) How can we serve you better

***"**Reduce the cost of energy and the cost of delivery"*

Page 133 - In summary business customers most important issues were:

"Better prices/lower rates"

The above survey findings from the residential and business customers indicate the main cause for concern among customers.

In the light of these facts, please explain why the preponderance of evidence in this application appears to be a single-minded adherence to increasing rates and meeting capital and replacement time schedules set by outside agencies.

Exhibit 3 - Operating Revenue

3 – NBTA – 26

Page 15 – Line 3

In the 2010 COS application (*EB-2009-0270 - 2010 Load Forecast.xlsm – Rate Class Customer Model tab)*, the applicant apparently used the geometric average of the growth rates for the years 2000 – 2008, (eight years) to forecast customer numbers for the years 2009 and then for 2010.

In the current application (*2015 Load Forecast Model – Rate Class Customer Model tab*), the forecast method has been changed by applying the geometric average of the growth rates for 2012 and 2013 (two years) to forecast customer numbers for the years 2014 and then for 2015.

In addition, the worksheet notes that the averages are based on the last five years which does not seem to be the case.

Please explain the apparent anomalies and why the number of years used for forecasting has been changed in 2015.

3 – NBTA – 27

Page 15 – Line 3

The use of the geometric average in calculating averages is intended to mitigate the influence of numbers in a set which are outside its general range and also in cases where the values are dependent on one another. We suggest there is no compelling reason to use the unnecessarily elaborate geomean method and that an arithmetic average is a better choice when the numbers are independent of each other and present in a narrower range.

Please support the use of a geometric average rather than an arithmetic average to forecast growth rates.

3 – NBTA – 28

Page 15 – Line 16

In the 2010 COS application (*EB-2009-0270*) in *2010 Load Forecast – Rate Class Customer Model* for the GS 3,000 to 4,999 kW class the model appears to be using a customer count of 2 when making calculations when, in fact, it was completing calculations using a factor of 1.85. This error resulted in the increase in the calculated volumetric rates for that class and the two customers in that class being overcharged.

One of the customers in that class did question NBHDL in 2012 about the error and was given incorrect information concerning the applicant's ability to change the models supplied and their obligation to verify the accuracy of the data calculated by the models.

This obligation is stated in "*Filing Requirement – Chapter 2 - page 6"* as follows:

"*Likewise, the applicant bears the responsibility to ensure the accuracy and appropriateness of all inputs and outputs from the models that it uses in supporting its application. The applicant is responsible for advising the Board of any concerns it may have regarding calculations flowing from the models as well as any changes that the applicant may have made to the models to address its own circumstances.*"

We have estimated the subsequent overcharge for the five years 2010 – 2015, depending on actual kW used, to be approximately $20,000 for each of the two customers in that class.

Please confirm that this is the case and why NBHDL refused to correct this error and failed to reimburse customers in this class for the overcharge related to the error?

Exhibit 4 - Operating Costs

4 – NBTA – 29

Page 5 - Salaries, Wages and Benefits – Line 6

Total employee costs for the 2015 test year shown in Table 4-10 at $5,360,185 compared to the actual 2010 figure of $4,346,960 represents an increase of 23.31% over the period. This represents an average per employee costs of $108,946 in 2015 compared to $94,705 in 2010 (*EB-2009-0270 – Exhibit 4 – Page 58 of 87*).

This represents an increase of $14,286 or 15.08%. Wage increases are a direct result of negotiated contract settlements and similar parallel management increases.

As evidence to support these increases, in this section, the applicant describes increased workloads caused by increased customer phone calls and numbers of walk-ins, provincial policy initiatives, staff turnovers.

While this evidence lists increases in workload it does not support the wage increase figures and especially does not support the average wage per employee figure.

Please explain the evidentiary value of these statements to support staff wages and benefit increases.

4 – NBTA – 30

Page 5 – Line 10

"NBHDL offers the convenience of a store front operation for customer service and traffic has maintained at an estimated 15,000 – 20,000 walk-ins per year."

This would be an average of approximately 66 to 88 customers per day.

Please describe the method used to arrive at these numbers.

4 – NBTA – 31

Page 6 - Line 31

According to Table 4-10, wages have increased from an actual $4,346,960 in 2010 to $5,360,185 budgeted in 2015. This is an average 4.67% increase each year for the five year period. The applicant's description of 2.8% union and 4.6% non-union average over the period from 2010-2015 escapes me mathematically

The evidence supporting the increase over the five years for non-unionized staff is that most have been in their roles for five years or less which in my opinion is counter intuitive.

Please provide supporting arguments for these levels of increases and how less experienced employees can cause an increase in overall wage costs?

4 – NBTA – 32

Page 7 – Line 5 - Salaries Wages and benefits

The statement *"Staff must be fairly compensated for the work they perform recognizing the industry NBHDL works in."* suggests that management and staff compensation should be measured differently from other industries. Since management and staff work in a business which is a regulated monopoly, it would seem that they do not require a lot of the skills that would be required by similar workers in other industries.

Please provide facts to support the suggestion that different realities should be applied to the electricity delivery industry and reasons to suggest that it is evidentiary in regards to this application.

4 – NBTA – 33

Page 7 - Line 7

Included in the increases in wage and benefits are increased contributions since 2010 of $189,272 to $417,659 to the OMERS pension plan. This is largely due to more funds required by OMERS to cover unfunded liabilities. This has amounted in a 16.6% per year increase in this expense since 2010. OMERS have admitted that unfunded liabilities are still an issue and more increases in contribution amounts are likely. This means that further increased costs to ratepayers resulting from higher OMERS demands are likely. This expense has increase from $122,016 in 2006 to $418,569 in 2015. That is a 243% increase in 9 years or 27% increase per year.

Any private business would consider this type of line item increase to be unacceptable and take steps to make other pension arrangements.

The applicant's peculiar description, given on page 59 of this exhibit, that the current plan is "a contributory defined pension plan" seems to be promoting the idea in readers' minds the notion that the current plan is a "defined contribution plan" which of course it is not. The current plan is a defined benefit plan.

Given those facts and given that defined benefit plans such as OMERS have been almost 100% extinct in private industry for some time, would the applicant explain why it has not converted the pension plan to a defined contribution plan rather than the defined benefit plan that now exists.

4 – NBTA – 34

Page 7 – Line 12

"The 2014 Bridge Year had a one-time union contract signing bonus of $36,000"

Please explain the reasoning behind the granting of this signing bonus.

4 – NBTA – 35

Page 7 – Line 15 - Customer engagement

The *Requirements for Filing 2015 - Chapter 2 – Page 16* indicates that:

"Distributors should specifically discuss in the application how they informed their customers on the proposals being considered for inclusion in the application and the values of those proposals to customers i.e. costs, benefits and the impact on rates and how customer feedback to the survey shaped the final application.

Distributors should also reference any other communications sent to customers about the application such as bill inserts, town hall meetings held or other forms of outreach undertaken o engage customers and explain to them how the application serves their heed and expectations and the feedback heard from customers through these engagement activities."

In our opinion, the majority of questions in the surveys conducted do not meet any of the requirements listed above. We attended the June 2014 residential engagement session which was not attended by any NBHDL personnel and consisted of approximately 15 people being provided the results of a previous NBHDL on-line survey which asked questions such as what is your preferred method of paying your bill and would you be willing to pay more to have power lines buried.

Please provide examples where the requirements listed above were met by the surveys conducted by the applicant.

With a budget for 2015 and beyond of $122,000 per year, please explain how this expenditure provides any benefit to ratepayers and how it meets the requirements set out by the OEB.

4 – NBTA – 36

Page 8 – Line 22 - Business and Strategic Planning

This section seems to contain contradictory statements concerning business planning exercises. For example, the applicant states that similar business planning exercises took place in 2012, 2013 and 2014 and then indicates that the strategic plan was last updated in 2007/08 and an update is needed.

Please explain exactly what costs are included in this $100,000 item and why this planning would not be something that one would expect management to do in the normal course of their paid duties?

4 – NBTA – 37

Page 9 - Line 36 – Regulatory Applications and Assessments

"New components and costs since 2010 include the development of a comprehensive Distribution System Plan, the need to engage customers on the value of the rate application and more staff time and external regulatory and legal support"

Please explain what costs are involved in "engaging customers on the value of the rate application" and what form does that activity take?

4 – NBTA – 38

In addition, please explain why costs for customer engagement would be included in this line item when "Customer Engagement ..... $82,000" is a separate line item shown on page 5 in Table 4-2?

4 – NBTA – 39

Page 10– Line 32 – Smart Meters

Please confirm if the $106,753 increase in smart meter costs between 2010 and 2015 is a onetime cost or a continuing yearly cost.

Please detail the specifics of total meter reading costs for the 2015 Test year and explain what costs are involved in the Operational Data Store to warehouse smart meter data and allow time of use settlement and to fill a new synchronization role between the smart meter system and the provincial MDM/R.

4 – NBTA – 40

Page 11- Line 32 - Operational review

The description of the benefits, to NBHDL ratepayers, of this additional expenditure is unclear to us.

Please give the specific details of "(i) formalize and optimize business processes, (ii) develop metrics to measure and manage productivity and efficiency and (iii) facilitate the transfer of knowledge and skill to achieve maximum resource leverage." which would support this expenditure.

4 – NBTA – 41

Page 12- Line 7

Please confirm that the total investment of $208,000 will be used to pay outside consultants and provide details for the ledger account that contains the $41,600 yearly amount.

4 – NBTA – 42

Page 12 – Line 19 - Vegetation management

The increase of $346,656 over 2010 is only supported by subjective statements detailing tree contact problems. We have also read the applicant's explanation of the tree encroachment issue on page 33 of that report.

This increase brings total vegetation management expense to over $656,000 per year and suggests a total expenditure of $3,280,000 over the next five years.

Please provide further details to support this level of expenditure on an ongoing yearly basis and provide details of the items included in this total expense.

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4 – NBTA – 43

Page 13 - Line 28 - Inflation Rate Used

We are suggesting that there is no material link between NBHDL expenses and the CPI rate.

In order to establish a link, please provide a list of specific items that NBHDL purchases that are also included in the CPI basket discussed in TD's June 2014 quarterly report.

If inflationary impacts are not material, as the applicant suggests, why would NBHDL include the presumed effect of inflation in this application?

4 – NBTA – 44

Page 22 – Line 18 - Wages

The current wage negotiation process involves management and the union referring to other contracts within the group of LDC's. This "negotiating" involves two parties whose interest are not at odds with each other. This results in an incestuous relationship where there are no parties in these wage negotiations representing ratepayers.

NBHDL has established a legal obligation through 2018 with unionized employees prior to applying for approval for a rate change with the OEB.

Please explain why NBHDL would not arrange contract talks that would allow independent parties to participate in the wage negotiation process?

Please explain what plans the applicant has if the OEB or the intervenors in this application do not agree with these compensation levels?

4 – NBTA – 45

Page 22 – Line 19

"NBHDL's overall compensation for all employees is designed to be competitive and equitable in order to attract and retain qualified personnel in an industry that is facing an aging workforce and is very competitive for skilled resources."

This statement is non-specific and not unique to NBHDL and could be applied to most industries requiring skills from the most mundane to the most skilled. Also, since this statement does not differentiate between the varied types of skills required by NBHDL employees it cannot be applied equally to all employees.

If this statement purports to provide evidentiary evidence to support the wage increases over the past five years, as shown in Table 4-5, what are the demonstrable facts supporting the claim that salaries are equitable as compared to private industry, are only competitive and have not surpassed the clearing rate for the compensated positions, actually have resulted in qualified personnel being hired and that the electricity industry workforce is aging more rapidly than any other industry and that suitably skilled employees are scarcer in the electricity industry than any other industry.

4 – NBTA – 46

Page 22 – Line 30

"An external consultant is used to develop and maintain the system."

This application reveals the use over 20 external consultants by the applicant. It appears as if some of them are, for all intents and purposes, on retainer.

Given the employee compensation levels at NBHDL and given the high regard that NBHDL holds for these employees, please explain this excess dependence on outside assistance in virtually every aspect of the business.

4 – NBTA – 47

Page 23 – Line 3

"Progression is not automatic, rather is performance based. The structure is updated annually with salary increases based upon market, philosophy and ability to pay."

Please provide details of the "market" based forces that support the increases for management salaries, what "philosophy" was used to support management increases and how "ability to pay" was factored into any raises for management for the periods from 2010 – 2015.

4 – NBTA – 48

Page 32 – Line 23 – Asset Management Plan – Annual Update

"The plan is dynamic in that external forces result in annual updates being required and also to reflect progress toward asset performance and emerging priorities."

Given the relative lack of growth in the system and the fact that an AMP already exists and that any progress toward asset performance should be self evident, please provide additional evidence to support the need for this $20,000 yearly increase in this expense.

4 – NBTA – 49

Page 32 – Line 30 – Substation maintenance

In its 2010 application NBHDL included $165,000 (4 substations @ $35,000 plus $25,000 for potential issues) for substation maintenance in its estimates (*Exhibit 4 – page 436 – line 20 – 27*) to be collected over four years. This amount was finally included in rates over five years.

As I understand the applicant's description of events following 2010, this money was never spent and the work was eventually completed by NBHDL employees.

Please confirm that I have the facts correct.

The applicant also indicates that $171,607 in external contractors' expense has been avoided since the 2010.

Please indicate if that is in addition to the $190,000.

Ledger account # 5114 balance has declined by approx $94,500 since the 2010 test year. After taking into account the removal of the $190,000 included in 2010, this would seem to indicate that in other items have increased by $95,500 or $267,107 if the $171,607 is an additional saving.

Please detail the items that make up the $226,312 included in ledger account # 5114.

4 – NBTA – 50

Page 36 – Table 4 – 7

Increases in OM&A costs per customer have increased almost 39% since the 2010 rebasing year and those costs per FTE are up a little over 30% in the same period. The magnitude of these increases is a result of generous wage settlements. These increases have been justified by the applicant by referencing wage settlements within the industry.

Please comment on the possibility of taking into account consumers' ability to pay, the possibility that industry wage settlements are incestuous and that the asset management plan could be tempered in order to reduce staff numbers and curtail delivery cost increases.

4 – NBTA – 51

Page 39 – Line 29 - Locates

As we understand it, the $191,600 expense variance for locates is attributable to a higher allocation of wages to that expense item.

What is the total locates expense included in the 2015 rate request and which ledger account includes this amount?

What studies has NBHDL done to ascertain the cost difference between using outside contractors to complete locates and using internal staff for this service?

4 – NBTA – 52

Page 40 – Line 19 - Executive Financial Regulatory Professional & Insurance

"The variance of $275,493 between 2015 Test Year and 2013 is a result of new accounting staff costs to assist with financial reporting, increased labour costs, management bonuses, insurance premium increases, requirement for business and strategic planning updates, travel and training of staff."

"The variance of $103,725 between 2015 Test Year and 2010 Board Approved are a result of the aforementioned, increases and banking fees."

Based on the Table 4 – 4 Cost Driver Table in this exhibit, the total increase in this line item is $126,612 not $103,725 as indicated here. In addition the total increase from 2013 to 2015, again based on Table 4 – 4, is $200,383 not $275,493 as indicated here.

Please explain the apparent anomalies.

Please detail the amount of management bonuses that were included in 2014 and are included in the 2015 Test year and also indicate the amount of bonuses that are included in rates for the next five years.

Please indicate which expenses, if any, in this line item are allocations of total employee compensation and which are additional compensation expense amounts.

4 – NBTA – 53

Page 41 – Line 17

"Labour costs for regulatory tasks were included in General and Administrative and not in the 2010 OEB approved regulatory costs of $154,300."

Since the balance shown in Account 5655 is $222,552 ($341,656 - $119,104), it appears that labour costs are included in General and Administrative once again in the application. Please confirm and explain effect on rate calculations

Please confirm that labour costs totalling $111,273 included in the total one-time charges of $656,931 shown in Table 4-29 are not included in wage expenses elsewhere in this application.

4 – NBTA – 54

Page 42 – Line 1 – Smart meters and meter reading

The variance of $180,995 between the 2010 test year and the 2015 test year is described as the difference between 2013 and the 2015 test year.

4 – NBTA – 55

Page 45 – Line 2 - Metering – Operations & Maintenance

Please indicate the total costs included in 2015 delivery rates for metering operations and maintenance

4 – NBTA – 56

Page 48 – Table 4 – 10 - Summary of Wage Increases by Year

The table shows the average 2015 wage and benefit package at approx $109,000 per employee per year compared to $90,000 in 2010 which is a 21% increase over the five year period. During the years since the 2006 COS application, wage and benefits have almost doubled and the number of employees is down from 53 to 48. Average wage in 2006 was $51,600 and nine years later is $109,000, an increase of 111% or 12.4% per year. This was during the one of the worst economic downturns in the economy that

saw government bailouts, government wage freezes and loss of hundreds of thousands of jobs. NBHDL employees were obviously unaffected by this situation.

NBHDL is a monopoly delivering an essential service with a captive customer base. The Board meetings of NBHDL are not open to the public or press. The minutes of Board meetings are not made public. The names of directors are not generally known to the public and do not appear on the NBHDL's website. NBHDL revenue is not subject to normal market forces because of its monopoly status and its government protected environment. NBHDL management, who negotiate contracts, are not an independent party since they base their own compensation on the levels agreed to with CUPE who control the bulk of the settlements in the industry.

Regardless of all the outside systems and consultants (by the way its Whinney not Whitney) purchased or hired by NBHDL, this seemingly complete detachment that the applicant has from the real world is void of any semblance of protection for ratepayers.

Regardless of all the other "savings" listed in this application, please list any significant actions that the applicant has taken to lower the cost of employee wages and benefits during the past five years.

4 – NBTA – 57

Page 58 – Table 4 – 21 – Benefit Expense

The table indicates total benefits for the 2015 Test year and beyond that amounts to $1,296,347 or $27,000 per employee per year.

Based on the above, will the applicant consider reducing the numbers of union and management employees and rescheduling maintenance, capital and upgrade projects on a longer time frame and if not why not?

In the alternative, will the applicant ask CUPE to reopen the contract now in place and reduce overall benefit levels by shifting to a defined cost pension plan which will reduce management benefit levels accordingly and If not why not?

4 – NBTA – 58

Page 64 – Line 22

NBHDL has an IT person on staff and it appears as if it also pays the City of North Bay for the services of an additional IT person to be on site. In addition, the average wage and benefit cost per IT employee at the City is over $100,000 per year

Please explain the need for two IT people on site and if the applicant has considered the possibility of using a private IT firm.

4 – NBTA – 59

Page 66 – Line 8

"Considerable effort is made by NBHDL to ensure affiliates are charged properly and do not receive any benefits as a result of their affiliation."

Please confirm that ServCo does not have access to NBHDL's customer data base.

4 – NBTA – 60

Page 67 – Page 72 – Appendices 2 – N - 2010 - 2015

The Appendices indicate a service charge of 15% of purchases and services is being charged as a management fee. Some services are cost plus an administration fee and some of the other services have no service charge.

The agreement with Servco (Exhibit 1 – App 1-J) calls for charges, in addition to actual cost, of 10% for an administrative charge plus an amount as return of capital of 10%.

Please explain this apparent anomaly.

4 – NBTA – 61

Page 78 – Line 21 – Tables 4 - 30

While the $2,000 is not included in the revenue requirement, the funds ultimately come from ratepayers.

Please explain the reasoning behind using funds collected from ratepayers to contribute to charitable causes.

4 – NBTA – 62

Page 80 – Line 1

"While NBHDL's General asset 1 sub-ledger is able to determine a more accurate depreciation expense based on actual in-service dates."

Please explain the benefit gained versus the time spent in maintaining the sub-ledger and the use made of the sub-ledger to calculate depreciation expense based on actual in-service dates.

4 – NBTA –63

Page 88 – Line 9

According to information previously provided to us, the applicant does not relieve accounts of fixed asset costs relating to distribution system projects that have been rebuilt, scrapped or no longer in service.

Based on that fact, please explain how distribution assets were identified in order to estimate the remaining useful live of those assets.

4 – NBTA – 64

Page 88 – Line 18

"NBHDL confirms that the useful lives for its asset groups fall within the range allowed in the OEB sponsored Kinectrics study…"

The Kinectrics study in Table F – 2 on page 19
http://www.ontarioenergyboard.ca/oeb/_Documents/EB-2010-0178/Kinetrics-418033-OEB%20Asset%20Amortization-%20Final%20Rep.pdf)

indicates the useful life of a smart meter to be 5 – 15 years but it was admitted that Kinectrics did not independently assess the life span of smart meters but relied on the experience of other LDC's.

Some evidence including :

(http://www.cicorp.sk.ca/+pub/Documents/SMART%20METERS/CIC%20Smart%20Meter%20Review%202014%20complete.pdf

on page 22 suggests that the life span of a smart meter may be as long as 30 years rather than the 10 years suggest by the applicant for depreciation purposes.

Based on the above, please explain the basis for depreciating smart meters over a ten year period

4 – NBTA – 65

Page 88 – Line 35

"For rate setting purposes, these costs are included as an offset to rate base and the related amortized revenue as an offset to depreciation expense."

Please explain further or reference the application where one can find a fuller explanation of the amounts of these costs.

4 – NBTA – 66

Page 106 – Line 1 – Table 4 - 53 – Summary of Requested LRAM Amounts

The summary of requested LRAM amounts does not include lost revenues relating to the GS 3,000 – 4,999 kW rate class.

Please explain.

Deemed interest in the amount of $7,712 has been added to the LRAM claim. We am aware that the OEB allows these amounts to be collected from customers.

LRAM amounts are allowed to accumulate without notice to customers. Customers have no opportunity to pay these amounts as they become known and thereby avoid interest charges.

Regardless of what the OEB considers acceptable, how does the applicant explain to ratepayers why this interest was allowed to accumulate for up to three years without an indication that it was accumulating and without any request for payment?

Regardless of what the OEB considers acceptable, how does the applicant explain to ratepayers the reasoning behind adding these interest amounts in addition to the deemed interest charges calculated on the rate base which are already approximately $700,000 above NBHDL's interest expense?

Regardless of what the OEB considers acceptable, how does the applicant explain to ratepayers, who are the beneficial owners of the company, that adding these interest amounts which is equivalent to charging themselves interest is in any way "good value for money" as stated in the applicant's mission statement?

Exhibit 5 – Cost of Capital and Rates of Return

5 - NBTA – 67

Page 2 - Line 8

Although the OEB sets limits for return on capital and ROE rates, these are calculated amounts and not required by the OEB to be added to delivery rates. While useful in protecting customers in cases where the company and customers operate on an arm's length basis they are not beneficial to NBHDL customers. The applicant appears to have been using the fact that limits are in place in an opportunistic way which penalizes NBHDL owners/customers rather than rewards them.

Please explain why the applicant has chosen to penalize its captive customers and beneficial owners by including amounts in rates that are in excess of actual interest paid and an amount for return on equity in excess of what is required to service debt?

Please explain how this course of action benefits customers in any way.

In addition, please explain why the applicant has chosen to exclude these items from the description of delivery charges shown on customers hydro bills ?

5 – NBTA - 68

Page 3 – Line 19

The “principle” balance at the end of the 2015 Test Year is $1,866,667. The average principal amount owing.....

Page 3 – Line 25

The “principle” balance at the end of the 2015 Test Year is $3,594,480. The average principal amount owing...

Page 3 – Line 30

The “principle” balance at the end of the 2015 Test Year is $5,741,992. The average principal amount owing in 2015 on this loan is expected to be $2,946,397.

This error appears throughout this application and is embarrassing. Doesn’t anyone have a dictionary over there?

5 – NBTA - 69

Page 6 – Table 2 – OB - Debt Instruments

Since blended principal and interest payments are being made on some loans, the formulas used in the Excel workbook to calculate interest amounts do not apply and the 2015 interest amounts shown for the Smart Meter, 2014 Capital and 2015 Capital loans are incorrect. The Shareholder loan actual interest rate is 5%.

It seems that this table and the related worksheet are superfluous and do not affect rates since the long term debt ratio has been calculated by the OEB and is being used to calculate rates

If the calculations will affect delivery rates, please the correct interest amounts in the worksheet and change the Long-term Debt Cost Rate where applicable.

If, as I suspect, they do not, a brief explanation of the purpose of Table 2-OB would be appreciated.

Exhibit 8 – Rate Design

8 – NBTA – 70

Page 4 – Table 8 - 4 – Proposed monthly service charge

Residential annualized customers shown in the table as 253,440 is the result of calculations made using the geometric mean in *2015 Load Forecast Model* workbook in the *Rate Class Customer Model* tab.

In the 2010 COS application, the applicant used the arithmetic mean of growth rates for 8 years to determine the customer connection count for the bridge year and the test year.

In the 2015 COS application, the applicant is using the geometric mean of growth rates for two years to determine the customer connection count for the bridge year and the test year.

A note on the *2015 Load Forecast Model* workbook in the *Rate Class Customer Model* tab indicates that the averages were calculated using the last 5 years when in fact only two years have been used.

Please explain this change in method and the apparent anomalies between the note and the calculations

There is also a reference in the note to a change, for calculation purposes, to the geometric mean from the arithmetic mean in the 2010 COS application. I see no evidence of that in the 2010 decision.

Please provide a reference to the change made in the 2010 application or explain note.

8 – NBTA – 71

Page 4 – Table 8-4 – Proposed monthly service charge

The calculation of the proposed monthly service charges shown in the table do not seem to appear in any of the Excel workbooks submitted. Please provide the workbook containing the calculation, if one was used, or indicate if the rates were calculated manually.

8 – NBTA – 72

Page 7 – Table 8 - 8 – Proposed Retail Transmission Rates

Our understanding of the system is that IESO bills transmission network and line connection charges to Hydro One. Hydro One then passes the cost of those charges to NBHDL and other LDC's.

Since there are both IESO and Hydro One network and connection rate charges included in delivery rates, we presume we are mistaken. Please explain the billing method.

Exhibit 9 – Deferral and Variance Accounts

9 – NBTA – 73

Page 2 – line 15

The applicant indicates that it is using OEB prescribed rates to add interest to DVA balances.

Please confirm that internal interest charges charged to DVA account balances are credited to GL Account # 4405.

If not please give the details of how those interest charges are handled on the company's books.

The OEB publishes the prescribed interest rates to be used in calculating interest on DVA balances.

Please reference the mandate issued by the OEB that requires the addition of interest to DVA balances.

9 – NBTA – 74

Page 9 – Table 9 - 3

In the table, Account # 1562 is described as "*RSVA – Wholesale market charge*" and in the Excel workbook *EDDVAR - Tab 2. Continuity Schedule* it is described as "Deferred Payments in Lieu of Taxes"

Please explain

9 – NBTA – 75

Page 25 – Line 25

"NBHDL's PP&E including WIP is expected to decrease by $3,452,455 as of December 31, 2014 as a result of these changes as indicated in Table 9-14 below."

It appears as if this line should read "NBHDL's PP&E including WIP is expected to "increase" by $3,452,455 as of December 31, 2014 as a result of these changes as indicated in Table 9-14 below.

Please confirm or explain.

9 – NBTA – 76

Page 30 – Line 16

"In considering the disposition period of this rate rider, NBHDL weighed the financial impact of such a significant refund on the business as well as bill impact considerations for customers and is proposing a disposition period of one year."

The impact of the Account 1576 rate rider for 2015 will be significant and will be a prelude to see bills increase in the following year by approximately 4.77% for a customer using 1,000 kWh per month. This is a major difference and in opposition to the applicant's oft repeated goal of rate mitigation.

We believe the disposition period should equal the collection period of three years which would see an increase a residential 1,000 kWh customers bill by approximately .85% over 2014 and provide a dampening effect on those customers' bills for the next two years equal to approximately 1.7%

Using this method, we calculate refund to be approximately $4.5 million or $1.5 million over three years.

Please comment.

9 – NBTA – 77

Page 30 – Line 26

"NBHDL believes it is appropriate that customers receive credit based on their proportion of system utilization and submits that kWh is an appropriate allocator for Account 1576"

We agree with NBHDL on this issue and suggest that, where possible, customers who were overcharged for their portion of system utilization should be reimbursed for those amounts.

In the "*Filing Requirements Chapter 2 Appendices workbook – Tab App.2-V Rev Reconciliation"* , the applicant has recorded the number of connections in the GS 3,000 to 4,999 rate class for 2015 as one which effectively returns the entire refund in that rate class amounting to $118,007 to one customer when in reality it was collected from two customers.

Since the two customers who were included in the GS 3,000 to 4,999 rate class are readily identifiable, we suggest that an even-handed way of apportioning the refund would be to reimburse those two particular customers even though one or them, after operating in North Bay for many years, closed up operations during 2014. This closure was at least in part a result of high electricity costs.

9 – NBTA – 78

Page 37 – Table 9 – 23

Please provide the calculations used to arrive at the interest figures shown in the "Projected Interest (Jan. 1, 2014 – Apr. 30, 2015) column.

9 – NBTA – 79

Page 40 – Line 1

In the "EDDVAR workbook - Tab 4 - Billing Determinants", please explain how the breakdown of the LRAM claim was arrived at and why there has been no lost revenue amount assigned to the 3000 – 4,999 kW rate class

9 – NBTA – 80

Page 42 – Table 9 – 26

Please note our suggestion regarding the GS 3,000 to 4,999 rate class rate rider noted above.

Filing_Requirements_ Chapter 2_ Appendices.xlsm

Chapter 2 – NBTA – 81

Tab – App.2 – CB New CGAAP DepExp - 2012

Note 5 indicates that NBV must exclude assets which have been fully amortized or depreciated.

In "*EB-2009—0270 North Bay IRR NBTA.pdf"*, NBHDL explained that "For distribution system assets, NBHDL uses the 'pooled' or 'grouped asset' method of accounting.

Since NBHDL does not record all asset disposals, gross asset values and related accumulated depreciation remains on its records, please explain how NBHDL met the requirements to exclude assets that have been fully amortized or depreciated?

Chapter 2 – NBTA – 82

Tab – App.2-V Rev Reconciliation – Column L

Please explain how the $104,467 total transformer credits are factored into the delivery rates when this worksheet appears to show them as increasing revenues.