

**Ontario Energy  
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**BY E-MAIL**

June 26, 2015

Kirsten Walli  
Board Secretary  
Ontario Energy Board  
2300 Yonge Street, 27th Floor  
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: North Bay Hydro Distribution Ltd.  
2015 Electricity Distribution Rates  
Board Staff Submission  
Board File No. EB-2014-0099**

Please find attached Board staff's submission on the filed settlement proposal for North Bay Hydro Distribution Ltd.'s 2015 cost of service rate application. This document is also being forwarded to North Bay Hydro Distribution Ltd. and to the Vulnerable Energy Consumers Coalition, Energy Probe Research Foundation, School Energy Coalition and the North Bay Taxpayers Association.

Yours truly,

*Original Signed*

Stephen Vetsis  
Advisor – Electricity Rates and Prices

Encl.

**2015 ELECTRICITY DISTRIBUTION RATES**  
**North Bay Hydro Distribution Ltd.**

**EB-2014-0099**

**OEB STAFF SUBMISSION**

**June 26, 2015**

## INTRODUCTION

North Bay Hydro Distribution Ltd. (North Bay Hydro) filed a complete application with the Ontario Energy Board (the Board or OEB) on December 15, 2014 seeking approval for changes to the rates that North Bay Hydro charges for electricity distribution, to be effective May 1, 2015. North Bay Hydro filed a Settlement Proposal between all parties to the proceeding on June 22, 2015, following a settlement conference held on May 19 and 20, 2015.

This submission reflects observations which arise from OEB staff's review of the evidence and the settlement proposal. It is intended to assist the OEB in deciding upon North Bay Hydro's application with respect to the issues laid out in the settlement proposal and in setting just and reasonable rates.

OEB staff notes that there have been a number of updates to the evidence in the course of this proceeding. This submission is based on the status of the record as of the filing of North Bay Hydro's settlement proposal.

### Settlement Proposal

OEB staff has reviewed the settlement proposal in the context of the objectives of the *Renewed Regulatory Framework for Electricity*, other applicable Board policies, relevant Board decisions, and the Board's statutory obligations. OEB staff is of the view that the settlement proposal reflects a reasonable evaluation of the distributor's planned outcomes in this proceeding, appropriate consideration of the relevant issues and sufficient resources to allow North Bay Hydro to achieve its identified outcomes in the four incentive rate-setting years that will follow.

The settlement proposal will result in North Bay Hydro operating with OM&A costs contained to levels relatively similar to those from its last cost of service application<sup>1</sup>, and completing capital projects at a smoother pace than originally

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<sup>1</sup> The parties agreed to test year OM&A of \$6.4 million. North Bay Hydro's 2010 OEB approved OM&A inflation-adjusted to 2015, using the GDP-IPI measure applied by the OEB in its incentive rate-setting mechanisms, is \$6.2 million.

proposed. Overall, OEB staff submits that the outcomes arising from the OEB's approval of the settlement proposal would adequately reflect the public interest and would result in just and reasonable rates for customers.

OEB staff supports and sees merit in North Bay Hydro's stated commitment to "explore the possibility of better aligning its incentive pay structure with the metrics and outcomes described in this Application and mandated by the Board" and to explore any "possibility of further improving the alignment between the Board's mandated outcomes and metrics with its distribution system planning process" throughout the IRM term. In staff's view, each of these commitments is in line with *Renewed Regulatory Framework for Electricity's* aims of continuous improvement, sustainable savings and a focus on outcomes.

The parties to the settlement proposal agreed to reductions to the planned capital additions for the test year. The application originally proposed capital expenditures of \$7.8 million in 2015 followed by annual capital expenditures of approximately \$6 million in the years 2016-2019. Under the settlement proposal, parties have agreed to reductions in capital spending in 2015 to about \$6.5 million. The settlement proposal states that North Bay Hydro proposes to achieve the reductions by deferring projects originally planned for the test year. OEB staff submits this will result in a smoother pacing of capital spending which will result in lower bill impacts for North Bay Hydro's customers in the test year while allowing for necessary projects to be completed.

### **Rate Design – General Service > 50 kW Classes**

OEB staff wishes to comment on one element of the agreed-upon rate design proposal embedded in the settlement document that departs from OEB policy, but which OEB staff supports nevertheless.

North Bay Hydro has two General Service (GS) classes for customers whose load exceeds 50kW: 50 - 2,999kW and 3,000 - 4,999kW. The current fixed charge for these classes exceeds what is known as the 'ceiling' -- the cost of the minimum-specification distribution system taking into account the amount of

demand this system can supply.<sup>2</sup> The OEB's filing requirements state that distributors whose current fixed charge is higher than the calculated ceiling are not expected to raise the fixed charge further above the ceiling<sup>3</sup>. Distributors are not required to lower it either.

In the case of the GS 50 - 2,999kW class, the parties propose to maintain the fixed charge at its current level of \$293.97. This is consistent with the policy.

For the remainder of the classes, including GS 3,000 - 4,999kW, the parties propose to maintain the current fixed/variable split. Consequently, the fixed charge in the GS 3,000 - 4,999kW class is rising despite being above the ceiling.

While this proposal involves a different treatment for one of North Bay's two largest customer classes, and is also inconsistent with the OEB's policy, OEB staff does not oppose the proposal. OEB staff notes that the OEB has approved increases to fixed charges above the ceiling where the current fixed/variable is being maintained in some prior proceedings.<sup>4</sup> Furthermore, North Bay Hydro has only one customer in the GS 3,000 - 4,999 kW class, therefore there is no impact on how revenues are collected within this class. As a consequence OEB staff takes no issue with the proposal.

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<sup>2</sup> This concept is defined in the OEB's *Cost Allocation Review: Board Directions on Cost Allocation Methodology for Electricity Distributors* (EB-2005-0317), dated September 29, 2006.

<sup>3</sup> *Chapter 2: Filing Requirements for electricity Distribution Rate Applications*, July 18, 2014, pg. 53.

<sup>4</sup> For example, Centre Wellington Hydro Ltd.'s 2013 cost of service rate application (EB-2012-0113) and Horizon Utilities Corp.'s 2015 custom IR application (EB-2014-0002).