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September 11, 2015

VIA MAIL and 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: Vulnerable Energy Consumers Coalition (VECC)
Final Submissions: EB-2014-0099
North Bay Hydro Distribution Ltd.
2015 Electricity Distribution Rates – Working Capital**

Please find enclosed the submissions of the Vulnerable Energy Consumers Coalition (VECC) in the above noted proceeding.

Yours truly,

Michael Janigan
Counsel for VECC

cc: North Bay Hydro – Ms. Melissa Casson
mcasson@northbayhydro.com

Listed Intervenors

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act*, 1998, S.O. 1998, c. 15, Sch. B, as amended;

AND IN THE MATTER OF an Application by North Bay Hydro Distribution Ltd. pursuant to section 78 of the *Ontario Energy Board Act* for an Order or Orders approving just and reasonable rates for electricity distribution to be effective May 1, 2015.

FINAL SUBMISSIONS

ON BEHALF OF THE

VULNERABLE ENERGY CONSUMERS COALITION (VECC)

September 11, 2015

Mr. Michael Janigan

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Vulnerable Energy Consumers Coalition (VECC)
Final Argument – Working Capital
North Bay Hydro Distribution Ltd.

1 Introduction

- 1.1 North Bay Hydro Distribution Ltd. (North Bay Hydro or NBHDL) filed an application on December 12, 2014 for new rates to be effective May 1, 2015. On June 22, 2015, North Bay Hydro filed a settlement agreement of the parties to the application resolving to the party's satisfaction all issues with the exception of working capital component of the revenue requirement. This issue was removed by the Board from the list of issues open to settlement prior to the settlement meetings.
- 1.2 North Bay Hydro had originally applied for a working capital allowance of 13% of controllable costs based on the Board's default value policy that was in effect at the time it filed the application. On June 3, 2015, the Board updated that policy to reflect more recent information reducing the default value to 7.5%. In response, North Bay Hydro sought to have interim rates approved and until such time as it was able to file a lead/lag study for the Board's review.
- 1.3 While there are many elements making up the actual working capital allowance, the only pertinent issues are related to the Navigant Consulting Ltd. working capital lead/lag study of July 27, 2015 filed by North Bay Hydro (the Study). The significant issues in any such study are the calculation of the Revenue Lag and Expense Lead Days. These are shown in the Table 2 below:

Deſcri	Reve nue	Expe nſe	Net Lag	Working Capital	Expe	Worki ng Capit
Table 2: NBHDL Distribution Working Capital Requirements (2014)						
Cost of Power	65.58	33.02	32.56	8.92%	\$ 70,516,783	\$ 6,289,679
OM&A Expenses	65.58	15.28	50.30	13.78%	\$ 8,704,414	\$ 1,199,610
DRC	65.58	24.36	41.22	11.29%	\$ 1,778,578	\$ 200,868
PILS	65.58	(28.70)	94.28	25.83%	\$ 500,000	\$ 129,149
Interest Expense	65.58	44.80	20.78	5.69%	\$ 1,089,717	\$ 62,044
Total					\$ 82,589,492	\$ 7,881,351
HST						\$ 377,663
Total - Including HST						\$ 8,259,014
Working Capital as a Percent of OM&A incl. Cost of Power						10.43%

REVENUE LAG

1.4 With respect to these elements VECC makes submissions only on the Revenue Lag amounts. The proposed values for these are shown in the table below:

Table 4: Summary of Retail Revenue Lag

Description	Lag Days
Service Lag	15.25
Billing Lag	23.97
Collections Lag	24.56
Payment Processing Lag	1.80
Total	65.59

1.5 VECC has had an opportunity to review the submissions of Energy Probe. We adopt these submissions in their entirety. We note that Energy Probe has previously provided detailed and analysis of lead/lag studies before the Board. The submissions of Mr. Aiken are detailed, rigorous and in our submission, are demonstrative of an expertise as good as, or superior to, that of the study's author.

2 Billing Lag

- 2.1 It is clear that the proposed Billing Lag of 23.97 days is substantially divergent from any other utility in Ontario. Board Staff provided a summary of billing lags from recent lead/lag studies. This is shown below:

Billing Period	
	Days
EB-2011-0033 Enersource	13.0
EB-2011-0146 London Hydro	18.0
EB-2010-0131 Horizon	17.4
EB-2010-0133 Hydro Ottawa	18.1
EB-2014-0116 THESL	12.5
EB-2013-0416 HONI	7.7
EB-2013-0174 Veridian	17.6
EB-2014-0002 Horizon	19.0

- 2.2 NBHL has provided a lengthy explanation as to the reasons its Billing Lag is different than other Utilities¹. In essence, North Bay Hydro provides bills to its customers up to 30 days after the billing period (based on an average 2 day mailing period). This, in our submissions is not acceptable irrespective of the reason provided. North Bay argues that its practice of waiting for the preliminary IESO rates results in more accurate bills. We can find no evidence in this application which supports that statement. Nor can we find any evidence which supports the supposition of North Bay Hydro that “*attempts to reduce the billing lag will trigger reductions in data quality, increases in OM&A costs, cause resource constraints, and may increase collections lag*”².

- 2.3 As noted by Energy Probe, it is unclear why three days would be added to Billing Lag when this is included in collection lag. In fact, under the title of Billing Lag, the

¹ See Staff-2

² Ibid Staff-2 (e)

Study states *“In addition, three days are added to bills that are sent to customers using mail.”* As well under Collection Lag the author states *“[T]he Collections Lag is the time period from when the bill is sent to the customer (including three days for bills that are sent by mail).”*³ It is apparent that three days should not be added to both categories. In any event, we would also note that Canada Post states that only two days are required for intercity mailing : <https://www.canadapost.ca/web/en/pages/lettersdocs/default.page> .

- 2.4 In VECC’s submission billing lag should be reduced by 3 days for double counting and 2 days for the extended and unwarranted processes of North Bay Hydro which cause customers to get bills only after a prolonged period after consumptions.
- 2.5 VECC supports the 19 days for Billing Lag proposed by Energy Probe.

3 Collection Lag

- 3.1 There is a clear deficiency in the proposal of 24.5 days for collection. The issue is shown in the interrogatory of North Bay Taxpayer’s Association, NBTA-2. If the collection lag is 24.56 days and if a customer is given 21 days from the date of the bill before late payment charges are incurred then the collection figure implies that on that average most customers pay a late payment charge. The response of the Applicant does nothing to shed light on this logical inconsistency, but in the argument of Energy Probe there is a deconstruction of the data to show how this error is arrived at.
- 3.2 It is clear that the calculation of the collection lag is incorrect. VECC supports the proposal of Energy Probe to set the collection lag at the default number of 22 days.
- 3.3 Deficiencies in information because of the current format of this application should not result in an attempt to rescue the Custom IR plan, but rather to put a plan

³ Lead Lag Study pg.8

within the context of its rightful place in the RRFE framework.

4 Payment Processing Lag

- 4.1 VECC agrees with Energy Probe, the decision of North Bay Hydro as to when to move cash funds from its offices to a financial institution is wholly within the discretion of North Bay Hydro. In this day and age, the holding of “paper funds” for prolonged periods is at odds with common business practice.
- 4.2 VECC supports the use of 1.40 days for the payment processing lag.

EXPENSE LEADS

5 PILS

- 5.1 VECC agrees with the analysis of Energy Probe with respect to Staff-7 that North Bay Hydro has had difficulty in managing the appropriate installment payments to CRA. The method of dealing with these problems shows a lack of sophistication in the management of the revenues and expenses of this Utility. Many (if not all) Canadians who run businesses understand the difficulty of tax installments associated with variable income and expense streams. It is not clear to us why a utility of the size and sophistication as North Bay Hydro should cause its customers to pay more in working capital due to its inability to operate within the confines of tax rules.
- 5.2 VECC agrees with the analysis of Energy Probe that the PILS expense lead should be reduced from 28.70 to 20.39 days.

6 Conclusion

- 6.1 Energy Probe has made other proposals with respect to Payroll and HST calculations. VECC supports those submissions and the summary conclusion of Energy Probe that the working capital allowance parentage should be set at 8.00% (rounded)

7 Cost of Study

- 7.1 North Bay Hydro has stated that the quote for the study was \$35,000 plus 5% in addition to legal support. The Utility has also stated that the costs of the study will not be known until the completion of the interrogator process.⁴
- 7.2 In VECC's submission the Applicant should be allowed to recover an amount of \$35,000, and no more than that amount in future rates.

8 Reasonably Incurred Costs

- 8.1 VECC submits that its participation in this proceeding has been focused and responsible. Accordingly, VECC requests an award of costs in the amount of 100% of its reasonably-incurred fees and disbursements.

⁴ NBHDL letter of July 28, 2015