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BY EMAIL

May 21, 2021

Ms. Christine E. Long  
Registrar  
Ontario Energy Board  
2300 Yonge Street, 27<sup>th</sup> Floor  
Toronto, ON M4P 1E4  
[Registrar@oeb.ca](mailto:Registrar@oeb.ca)

Dear Ms. Long:

**Re: Ontario Energy Board (OEB) Staff Submission  
North Bay Hydro Distribution Limited  
Cost of Service  
OEB File Number: EB-2020-0043**

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Please find attached OEB staff's submission in the above referenced proceeding pursuant to Procedural Order No. 1. North Bay Hydro Distribution Limited and all intervenors have been copied on this filing.

Yours truly,

Jerry Wang  
Advisor – Electricity Distribution: Major Rate Applications & Consolidations

Encl.

cc: All parties in EB-2020-0043



# **ONTARIO ENERGY BOARD**

## **OEB Staff Submission**

**North Bay Hydro Distribution Limited**

**Cost of Service Application**

**EB-2020-0043**

**May 21, 2021**

## Introduction

North Bay Hydro Distribution Limited (North Bay Hydro) filed a cost of service application with the Ontario Energy Board (OEB) on January 5, 2021, under section 78 of the *Ontario Energy Board Act, 1998* seeking approval for the rates that North Bay Hydro charges for electricity distribution, effective May 1, 2021.

The OEB issued an approved issues list for this proceeding on April 19, 2021. A settlement conference took place on April 20 and 21, 2021. North Bay Hydro filed a settlement proposal setting out an agreement among all the parties to the settlement on May 18, 2021. The parties to the settlement proposal are North Bay Hydro and the approved intervenors in this proceeding: Consumers Council of Canada, Donald D. Rennick, School Energy Coalition and Vulnerable Energy Consumers Coalition (the Parties). Hydro One Networks Inc. was also approved as an intervenor to this proceeding but did not take part in the settlement conference and took no position on any of the issues.

The settlement proposal represents a partial settlement, with comprehensive settlement on all issues except the following five:

- Issue 1.2 – Operating, Maintenance and Administration
- Issue 3.3 – Rate Design, including fixed/variable splits
- Issue 5.1 – Effective Date
- Issue 5.2 – Previous Requirements/Agreements from EB-2014-0099
- Issue 5.3 – Outcomes of the Phase 1 Transaction in EB-2019-0015

The parties have reached a partial settlement for Issue 5.2 above and have reached no settlement for the other four issues.

If the partial settlement proposal and the unsettled issues are approved as filed at the time of this submission, the total bill impact, for a typical residential customer with a monthly consumption of 750 kWh, would be an increase of \$3.86 per month before taxes and the Ontario Energy Rebate, or 3.1%. The bill impacts to customers will change pending the resolution of the remaining unsettled issues.

This submission is based on the status of the record at the time of the filing of North Bay Hydro's settlement proposal and reflects observations that arise from OEB staff's review of the evidence and the settlement proposal. It is intended to assist the OEB in deciding upon the settlement proposal.

## Settlement Proposal

With respect to the settled issues, OEB staff submits that the settlement proposal reflects a reasonable evaluation of the distributor's planned outcomes in this proceeding and appropriate consideration of the relevant issues.

OEB staff further submits that the explanations and rationale provided by the Parties support the settlement proposal and that the outcomes arising from the OEB's approval of the settlement proposal would reflect the public interest and would result in just and reasonable rates for customers.

OEB staff provides submissions on the following issues in the settlement proposal:

- Issue 1.1 – Capital
- Issue 2.0 – Revenue Requirement
- Issue 3.0 – Load Forecast, Cost Allocation and Rate Design
- Issue 4.0 – Accounting
- Issue 5.2 – Previous Requirements/Agreements from EB-2014-0099
- Unsettled Issues

## Issue 1.1 – Capital

North Bay Hydro proposed total net capital expenditures of \$6.14M for the 2021 test year. For the purpose of settlement, the Parties have agreed to a reduction of \$750k to the net capital expenditures for the 2021 test year resulting in a test year budget of \$5.39M. North Bay Hydro has reallocated the \$750k of net capital spending and spread it across the remaining four years of the forecast period.

OEB staff submits that the agreed upon capital plan is reasonable. OEB staff notes that North Bay Hydro's average capital spending over the five year forecast period is \$5.68M, which represents a 6% decrease from the average of actual historical spending over the past five years. A comparison between North Bay Hydro's historical and forecast capital expenditures indicates that the reduction in capital spending is largely driven by decreased investments planned for System Service.

OEB staff notes that, with the \$750k reduction, the test year spending of \$5.39M is closer to the average spending over the five year forecast period of \$5.68M. The reduction in test year capital expenditures helps reduce the bill impact to customers and better smooths out North Bay Hydro's capital spending over the next five years.

Within its overall capital budget, North Bay Hydro has allocated capital spending to System Access based on a rolling five year historical average. For System Renewal, North Bay Hydro's forecasted spending is largely a continuation of past spending, adjusted for inflation. For System Service, North Bay Hydro's spending in this area is minimal as its distribution system has sufficient capacity to serve its customers for the foreseeable future. The amount for System Service is a decrease from historical spending as North Bay Hydro has largely completed the voltage conversion projects that previously made up most of the spending in this area. For General Plant, the forecast is similar to past spending and largely focusses on IT initiatives, fleet renewal and facilities maintenance.

### Condition on New Building

As a condition to the settlement, the Parties agreed that North Bay Hydro would not file an Incremental Capital Module funding request for a new building between now and its next cost of service application. Additionally, the Parties agreed that North Bay Hydro would not spend more than \$100k on third-party consultants related to the investigation of a new building prior to its next cost of service application. In its originally filed application, North Bay Hydro indicated that its current head office is no longer sufficient for its needs and that it plans to evaluate options for a new head office within the next five years.

OEB staff notes that North Bay Hydro did not indicate an immediate need to relocate its head office. Therefore, OEB staff does not believe the above conditions will place undue constraints on North Bay Hydro, nor will they impede North Bay Hydro providing adequate services to its customers. Given that the Parties agreed to the above conditions as part of the settlement, OEB staff takes no issue on the matter.

## **Issue 2.0 – Revenue Requirement**

The Parties agreed that the elements of the revenue requirement are reasonable and have been correctly determined in accordance with OEB policies and practices, subject to the adjustments identified in the settlement proposal. However, elements of the revenue requirement may need to be recalculated, pending the OEB's determination of the unsettled issues.

OEB staff takes no issue with the cost of capital or the calculation of the revenue requirement as presented in the settlement proposal.

## **Issue 3.0 – Load Forecast, Cost Allocation and Rate Design**

### Load Forecast

The Parties agreed to the load forecast from North Bay Hydro's application subject to the removal of the 2019 actuals for Community Energy Park. As noted by the Parties, the 2019 actual savings were reflected in the 2019 historic data used in the load forecast. Therefore, the forecast already reflected the 2019 savings, and did not require a further adjustment. By reducing the scope of the adjustment, the proposed load forecast is increased. This has the effect of reducing the proposed rates.

In the context of the settlement proposal, OEB staff does not have any concerns with the proposed load forecast of 492 GWh, 550 MW, and 30,104 customers and connections as shown in Tables 3.1A and 3.1B of the settlement proposal. OEB staff submits that agreed upon load and customer connection forecasts are appropriate.

### Cost Allocation

The Parties agreed to the cost allocation proposed by North Bay Hydro as updated through the interrogatories, subject to three adjustments.

- 1) The number of customers that own secondary assets in the GS 50 – 2,999 kW rate class was updated to 209. A corresponding adjustment was made to the demand served by secondary assets.

- 2) The number of bills for the sentinel lighting rate class was updated to 2,316.
- 3) The weighting factors for meter reading were updated to reflect the appropriate MIST meter reading costs.

The revenue-to-cost ratios for the Street Lighting rate class was initially above the OEB's target range of revenue-to-cost ratios for this rate class.<sup>1</sup> The Parties agreed in the settlement proposal that the revenue-to-cost ratios be reduced to 120%, the upper end of the policy range, by increasing the residential and general service 50 – 2,999 kW rate classes to 99.1%. The only other rate class with a revenue-to-cost ratio below 100% was the sentinel rate class, which was left at 80.1%. The agreed-upon revenue-to-cost ratios by rate classes are provided in Table 3.2 of the settlement proposal.

In the context of the settlement proposal, OEB staff does not have any concerns with the cost allocation agreed to by the Parties.

#### General Service 3,000 – 4,999 kW rate class

The Parties agreed that the General Service 3,000 – 4,999 kW rate class would be modified in its description and applicability to be a General Service > 3,000 kW rate class. If ever a customer required over 5MW of service, this would be the appropriate rate class for that customer. In that event, the parties agreed that North Bay Hydro would then seek approval for a large user rate class at its next Cost of Service application.

OEB staff notes that the creation of a new rate class in a future proceeding would need to be assessed based on the policies and the facts that exist at the time such a proposal is brought forward.

In the context of the settlement proposal, OEB staff does not have any concerns with the proposal to amend the General Service 3,000 – 4,999 kW rate class.

## **Issue 4.0 – Accounting**

### Disposition of Deferral and Variance Accounts

In its pre-filed evidence, North Bay Hydro proposed to dispose of its Group 1 Deferral and Variance Account (DVA) balances, a credit amount of \$68,614, as of December 31, 2019, which includes forecasted interest to April 30, 2021. North Bay Hydro also proposed to dispose of its Group 2 DVA balances, a credit amount of \$351,309, as of December 31, 2019, which includes forecasted adjustments for 2020 and forecasted

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<sup>1</sup> Exhibit 7, page 11

interest to April 30, 2021. North Bay Hydro proposed a standard one-year disposition period for all DVAs.

During interrogatories, North Bay Hydro revised its Group 2 account balances. The Parties agreed to a disposition of Group 1 balances in the credit amount of \$68,614 and Group 2 balances in the credit amount of \$448,711.

#### *Group 1 DVAs*

The Group 1 balances do not include Account 1588 – Power or Account 1589 – Global Adjustment because North Bay Hydro indicated that it has not yet fully implemented the OEB’s February 21, 2019 accounting guidance for these two accounts.<sup>2</sup> Although North Bay Hydro intended to have completed the implementation of the OEB’s accounting guidance, the impact of the COVID-19 pandemic and increased workload of this cost of service application left it unable to complete the work required.<sup>3</sup> North Bay Hydro therefore proposed to defer the review and disposition of these two accounts to its IRM rate application for 2022 rates, by which time it expects to have finished implementing the OEB’s accounting guidance.

OEB staff has reviewed North Bay Hydro’s Group 1 balances proposed for disposition and submits that they are reasonable. OEB staff supports the disposition of the Group 1 balances as accepted by the Parties.

#### *Group 2 and Other DVAs*

The Parties agreed to the disposition of North Bay Hydro’s total Group 2 balances in the credit amount of \$448,711, which includes a Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) debit balance of \$249,088. During interrogatories, North Bay Hydro updated the balances of the following accounts:<sup>4</sup>

- 1508 – Pole Attachment Revenue Variance
- 1508 – OEB Cost Assessment Variance
- 1518 – Retail Cost Variance Account – Retail
- 1548 – Retail Cost Variance Account – STR

These accounts were updated for 2020 actuals, which previously contained forecasted values for 2020. The two Retail Cost Variance Accounts above additionally include forecasted balances between January 1, 2021 and April 30, 2021. The Parties also

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<sup>2</sup> Accounting Procedures Handbook Update, Accounting Guidance Related to Commodity Pass-Through Accounts 1588 & 1589, Ontario Energy Board, February 21, 2019

<sup>3</sup> Exhibit 9, Pages 20-21

<sup>4</sup> IRR 1-Staff-1



agreed with North Bay Hydro's proposal to discontinue the following accounts:

- 1508 – Pole Attachment Revenue Variance
- 1508 – OEB Cost Assessment Variance
- 1508 – Pole Attachment Revenue Variance
- 1518 – Retail Cost Variance Account – Retail
- 1548 – Retail Cost Variance Account – STR
- 1555 – Smart Meter Capital and Recovery Offset Variance

OEB staff has reviewed the account balances in these accounts and submits that they are reasonable. OEB staff agrees with the Parties position to discontinue the above noted accounts. OEB staff notes that the discontinuation of the two Retail Cost Variance Accounts is consistent with the OEB's *Chapter 2 Filing Requirements for Electricity Distribution Rate Applications*.<sup>5</sup> OEB staff provides further discussion of account 1592 – CCA changes and LRAMVA in the sections below.

#### Account 1592 – CCA Changes – Accelerated Capital Cost Allowance

Bill C-97 introduced the Accelerated Investment Incentive Program (AIIP), which provides for a first-year increase in capital cost allowance (CCA) deductions on eligible capital assets acquired after November 20, 2018.

In its July 25, 2019 letter ([CCA Letter](#)), the OEB provided accounting direction on the treatment of the impacts from accelerated CCA resulting from the AIIP. The OEB established a separate sub-account of Account 1592 – PILs and Tax Variances, Sub-account CCA Changes to track the impact of any differences that result from the CCA change to the tax rates or rules that were used to determine the tax amounts that underpin rates.

North Bay Hydro calculated the revenue requirement impacts of the CCA changes in 2018 and 2019 based on the difference between the calculated CCA of its actual capital additions in the respective period under the legacy rule versus the CCA calculated under the AIIP. North Bay Hydro initially proposed to return 50% of the balance (including interest forecasted to April 30, 2021) to customers and retain the other 50%. This would be sharing the tax impacts between the utility and customers on a 50/50 basis, which equals \$90,343 for each. For the purpose of settlement, the Parties agreed that 100% of the account balance of \$180,687 will be returned to customers.

OEB staff takes no issue with the approach agreed to by the Parties to return 100% of the account balance to customers. OEB staff notes that the CCA Letter states that

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<sup>5</sup> *Chapter 2 Filing Requirements for Electricity Distribution Rate Applications*, May 14, 2020, page 55

“determinations as to the appropriate disposition methodology will be made at the time of each Utility’s cost-based application.” OEB staff further notes that, in a number of 2021 rate proceedings, parties have agreed in settlement proposals on 100% of the revenue requirement impact of the CCA changes being refunded to customers and the OEB has issued decisions and orders approving those settlement proposals.<sup>6</sup>

### LRAMVA

The parties agreed to the proposed LRAMVA balance of \$249,088. OEB staff supports the disposition of the proposed LRAMVA balance and submits that the balance has been calculated correctly and in accordance with the OEB’s LRAMVA guidance and updated LRAMVA work form.

In the settlement proposal, North Bay Hydro proposed to include a total CDM manual adjustment to its load forecast with a corresponding LRAMVA threshold of 3,177,398 kWh and 2,801 kW. These values will be used to compare actual CDM savings in the future. In response to pre-settlement clarification questions, North Bay Hydro noted that the manual adjustment is made up of savings from projects that have already been completed, so there is little expectation that there will be much, if any, divergence between actuals and forecast CDM savings. OEB staff supports the proposed LRAMVA threshold. Although North Bay Hydro has indicated it does not expect there will be a need to make an LRAMVA claim for 2021 or beyond, in the event that North Bay Hydro determines it necessary to make a future request to dispose of LRAMVA balances, it should be prepared to provide actual data to support the CDM savings reported in its LRAMVA claim, including actual billing data from its Community Energy Park project.

### New Variance Account

The Parties agreed to establish a new deferral and variance account – Account 1508 – Broadband Pole Attachment Variance Account (Broadband account). The new Broadband account is intended to capture possible impacts to North Bay Hydro’s costs resulting from new provincial legislation, Bill 257, *Supporting Broadband and Infrastructure Expansion Act, 2021*. North Bay Hydro expects that Bill 257 will have material financial consequences that are not addressed in its base rates. In particular, North Bay Hydro noted provisions that could result in possible increases in utility costs to facilitate broadband attachments as well as changes to Pole Attachment charges for broadband connections.

OEB staff notes that in accordance with the OEB’s *Chapter 2 Filing Requirements for*

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<sup>6</sup> For example, Hydro Ottawa’s 2021 Custom IR proceeding EB-2019-0261 and Waterloo North’s 2021 cost of service proceeding EB-2020-0059.

*Electricity Distribution Rate Applications*, a utility must meet the following three criteria in order to establish a new deferral account:<sup>7</sup>

- Causation: the forecasted amounts must clearly be outside base rates
- Materiality: the forecasted amounts must exceed the OEB-defined materiality threshold and have a significant influence on the operations of the distributor.
- Prudence: the nature of the costs and forecasted quantum must be based on a plan that sets out how the costs will be reasonably incurred. In terms of quantum, the distributor must provide evidence demonstrating why the option selected represents a cost-effective option for customers

In terms of causation, North Bay Hydro stated that the new Broadband account is intended to capture financial impacts of Bill 257, which are clearly outside of its base rates. In terms of materiality, North Bay Hydro noted that it is too early to forecast what the exact incremental costs will be as it will be defined by regulations yet to be introduced, but proposed to use its materiality threshold of \$75k as defined in the Chapter 2 Filing Requirements for the aggregate balance of the account at the time of disposition. In terms of prudence, North Bay Hydro stated that the revenue impact in consideration is based on the exceptional requirements and remedies set out in Bill 257, and it is therefore reasonable for North Bay Hydro to establish a new account to track those impacts.

The Parties included language in the settlement proposal that, if the OEB in the future were to adopt a generic approach across all utilities to address the impacts of Bill 257, any such guidance or policy of the OEB would take precedence and supersede this Broadband account.

OEB staff submits that the establishment of this account is premature at this time. As noted by North Bay Hydro in its response to pre-settlement clarification questions, Bill 257 is enabling legislation – the regulations that will define the incremental costs have not yet been introduced, and it is therefore not possible at this time to forecast the type of costs and the amounts that should be recorded in this new account. On this basis, OEB staff submits that the new account does not meet any of the criteria for establishment of a new deferral account and may be superseded by the OEB taking a generic approach to addressing the new provincial legislation across all utilities, if it finds it appropriate to do so.

OEB staff acknowledges the language in the settlement proposal that any generic approach of the OEB will take precedence; however, given the likelihood of the new provincial legislation affecting all utilities across the province, OEB staff submits it would

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<sup>7</sup> *Chapter 2 Filing Requirements for Electricity Distribution Rate Applications*, May 14, 2020, pages 70-71

be inefficient, from a regulatory perspective, to establish a new account only for it to be superseded shortly thereafter. If, however, the OEB finds it appropriate to establish the Broadband account as proposed by the Parties, OEB staff submits that it has reviewed the draft accounting order for the account and that it has been drafted appropriately.

### Disposition Period

The Parties agreed to a standard disposition period of one year for all accounts. OEB staff supports the position of the Parties.

## **Issue 5.2 – Previous Requirements/Agreements from EB-2014-0099**

In the decision on North Bay Hydro's previous cost of service application, EB-2014-0099, there were two requirements set out for North Bay Hydro to address in a subsequent application, namely:

- Exploring the possibility of better aligning North Bay Hydro's incentive pay structure with metrics and outcomes described in EB-2014-0099.
- Completing a comprehensive review of all North Bay Hydro's processes and systems underlying its working capital requirements.

The first item above is part of the unsettled issues. For the second item, the Parties agreed that North Bay Hydro has responded appropriately to completing a comprehensive review of all its processes and systems underlying its working capital requirements.

OEB staff notes that North Bay Hydro commissioned a lead-lag study from Navigant to review its working capital requirements. The Navigant study placed North Bay Hydro's working capital allowance at 10.38%; however, for rate-making purposes, North Bay Hydro has opted for the OEB's default WCA of 7.5%, which results in lower rates for customers. OEB staff supports the position of the Parties.

## **Unsettled Issues**

The Parties have not been able to come to an agreement on five issues:

- Issue 1.2 – Operating, Maintenance and Administration
- Issue 3.3 – Rate Design, including fixed/variable splits
- Issue 5.1 – Effective Date
- Issue 5.2 – Previous Requirements/Agreements from EB-2014-0099, specifically:
  - Exploring the possibility of better aligning North Bay Hydro's incentive pay

structure with metrics and outcomes described in EB-2014-0099

- Issue 5.3 – Outcomes of the Phase 1 Transaction in EB-2019-0015

The Parties agreed that the unsettled issues would be most efficiently disposed of by way of a one day oral hearing. OEB staff notes that the settlement proposal indicated that North Bay Hydro may file an update to the evidence consisting of additional information on compensation benchmarking. To the extent that additional discovery on the updated evidence is required, the Parties agreed that it would be best be dealt with through written interrogatories prior to the oral hearing.

OEB staff takes no issue with the proposal of the Parties.

~All of which is respectfully submitted~