Ontario Energy Board | Commission de l'énergie de l'Ontario

BY EMAIL

July 14, 2021

Ms. Christine E. Long
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4
Registrar@oeb.ca

Dear Ms. Long:

Re: Ontario Energy Board Staff Submission on Unsettled Issues
North Bay Hydro Distribution Limited
Cost of Service
OEB File Number: EB-2020-0043

Please find attached OEB staff's submission in the above referenced proceeding pursuant to Decision and Procedural Order No. 3. North Bay Hydro Distribution Limited and all intervenors have been copied on this filing.

Yours truly,

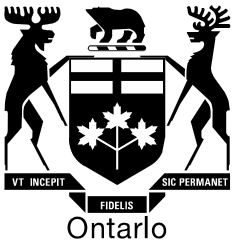
Jerry Wang

Digitally signed by Jerry Wang
Date: 2021.07.14 15:21:33 -04'00'

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

Encl.

cc: All parties in EB-2020-0043



ONTARIO ENERGY BOARD

OEB Staff Submission on Unsettled Issues

North Bay Hydro Distribution Limited

Cost of Service Application

EB-2020-0043

July 14, 2021

Introduction

North Bay Hydro Distribution Limited (North Bay Hydro) filed a cost of service application with the 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.

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 in this proceeding but did not take part in the settlement conference and took no position on any of the issues.

The settlement proposal represented 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 reached a partial settlement for Issue 5.2 and did not reach settlement for the other four issues.

The OEB issued its Decision and Procedural Order No. 3 on May 31, 2021, which accepted the partial settlement and made provisions for an oral hearing on Issues 1.2, 5.2 and 5.3 and written submissions from parties on all of the unsettled issues.

The transcribed oral hearing took place in a virtual format on June 22, 2021, following which North Bay Hydro filed its argument-in-chief on June 30, 2021.

This submission sets out OEB staff's review of this proceeding's record and is intended to assist the OEB in deciding upon the unsettled issues.

Unsettled Issues

Issue 1.2 – Operations, Maintenance and Administration

North Bay Hydro requested a test year OM&A budget of $8.566 million, which is a $2.136 million (33%) increase over its 2015-OEB approved OM&A. For the reasons outlined in the submission below, OEB staff submits that a reduction of $0.717 million to the test year OM&A budget is appropriate.

Benchmarking

To demonstrate the reasonableness of its OM&A budget, North Bay Hydro provided a benchmarking spreadsheet comparing itself against 12 other utilities that were selected based on their number of customers, net property plant & equipment and geographical region.[1] In the benchmarking document, North Bay Hydro presented each comparator utility's FTE (full-time equivalent) count and OM&A budget as presented in the OEB's 2019 Yearbook of Electricity Distributors (2019 Yearbook), and as-forecasted amounts from each comparator utility's most recent cost of service application.

Based on the comparators that North Bay Hydro selected, OEB staff submits that the benchmarking does not support North Bay Hydro's OM&A increase as reasonable.

In its Argument-in-Chief North Bay Hydro stated that its 2019 OM&A per customer compares favorably against the other comparator utilities – at $281 per customer it is below the average of the group which is $298 per customer.[2]

OEB staff notes that while this is true for 2019 OM&A amounts as taken from the 2019 Yearbook, the 2021 test year OM&A requested by North Bay Hydro in the current application increases its OM&A to $354 per customer.[3] The proposed 2021 OM&A amount places North Bay Hydro significantly above the average of the comparator group and most of the individual comparators. OEB staff recognizes that this analysis compares North Bay Hydro's test year OM&A per customer in 2021 against comparator data that is from 2019. However, even if the OM&A data for all comparator utilities is adjusted for inflation to 2021, the conclusion is the same: North Bay Hydro's 2021 OM&A per customer is significantly higher than most of its comparators.[4]

OEB staff notes two of North Bay Hydro's explanations for its high 2021 OM&A per customer relative to its benchmarking comparators but disagrees with the conclusions. First, North Bay Hydro stated that it faces unique cost pressures and challenges that are outside of the comparator group, so its proposed OM&A is reasonable in light of its

[1] IRRs related to the updated evidence filed by North Bay Hydro on May 28, 2021, SEC-3
[2] Argument-in-Chief, June 30, 2021, p.12 and Exhibit K1.6, Oral Hearing, June 22, 2021, Column N
[3] Exhibit K1.6; Column P – Cell P2 provides North Bay Hydro's forecasted OM&A per customer amounts.
[4] Assuming a 2% annual inflation, the average of the comparator utilities would be $312 per customer and North Bay Hydro's forecasted 2021 OM&A per customer would be the fourth highest in the group.

unique cost drivers.[5] However, North Bay Hydro was unable to explain the factors that are driving up its costs more than its comparators because it lacks detailed knowledge of the inner workings of any of the comparator utilities.[6]

Second, North Bay Hydro also stated that its high 2021 OM&A per customer is reasonable because it is comparable to its "northern utility peers," and referred to PUC Distribution Inc. (PUC) and Greater Sudbury Hydro Inc. (Sudbury Hydro)[7]. While PUC and Sudbury Hydro are both geographically closer to North Bay Hydro than other comparator utilities, OEB staff does not agree that it is appropriate to draw conclusions based solely on these two northern utilities and their geographical locations, while disregarding the rest of the comparator utilities or other comparison factors. Unless North Bay Hydro has detailed knowledge of PUC's and Sudbury Hydro's system characteristics and cost drivers, OEB staff submits it is not appropriate to single out these two utilities for comparison purposes solely on the basis of geographical location.

Given the limited information that forms the basis for the benchmarking and the selection of comparator utilities, OEB staff believes it has limited value and does not support the reasonableness of North Bay Hydro's proposed OM&A increase. In OEB staff's view, the fact remains that North Bay Hydro's proposed 2021 OM&A per customer results in a 26% increase over its 2019 amounts.

OEB Staff's Recommended OM&A Reductions

North Bay Hydro submitted that flexibility is required if one is to assess its proposed OM&A increase based on a formulaic approach and adjustments should be made for certain incremental cost drivers that are outside of its management's control.[8]

OEB staff's recommended reductions, discussed further below, are not based on a formulaic approach but rather an assessment of individual cost drivers in a similar manner to what North Bay Hydro submitted as justification / explanation for its overall OM&A increase.

Based on its assessment, OEB staff submits that there are certain cost increases that are not adequately justified in the evidence provided by North Bay Hydro. Specifically, OEB staff's recommended reductions pertain to the items in the following table:

[5] Oral Hearing Transcript, June 22, 2021, pp. 62-63
[6] *Ibid*
[7] Argument-in-Chief, pp. 10-11
[8] Argument-in-Chief, pp. 4-5

Table 1 – OEB Staff's Recommended OM&A Reductions

	Cost Category:	Recommended Reduction:
1	Customer Engagement	$100k
2	Corporate Policies	$150k
3	Vegetation Management	$130k
4	Operations and Maintenance	$248k
5	Bad Debt	$72k
6	Regulatory Costs	$17k
	Total Reduction:	**$717k**

In OEB staff's view, North Bay Hydro's OM&A budget as proposed does not represent an appropriate pacing of spending. OEB staff submits there must be a reasonable balance of benefits versus costs to customers. OEB staff notes that, even with the recommended $0.717 million reduction, the result is still an increase of a $1.419 million (22%) above what was approved in North Bay Hydro's previous cost of service application (or 3.4% per year). OEB staff submits that its recommended reductions represent a more appropriate level of spending that still allows North Bay Hydro to address its growing needs while maintaining rates at a level that is reasonable for customers. Although OEB staff discusses specific cost drivers below, in recognition of the realities of operating a utility and the possibility of reallocating OM&A budget between programs to fit changing business needs, OEB staff's overall recommendation is for an envelope reduction to OM&A. Below, OEB staff provides a detailed discussion of each of the items noted in the table above.

1. Customer Engagement

North Bay Hydro presented three separate categories of customer engagement related spending in its proposed OM&A budget:[9]

1) Customer engagement related to this cost of service application
2) Annual customer engagement activities unrelated to this application
3) Compensation costs of the new Communications Officer

OEB staff's submissions below on customer engagement costs relate to item 2 – customer engagement costs unrelated to this application. OEB staff notes that the test year budget of $164k is approximately a $100k increase above the six-year historical average and what was approved in North Bay Hydro's 2015 cost of service application.[10] OEB staff submits that this budget should be reduced by $100k resulting in a test year budget of $64k.

[9] IRR 4-Staff-48
[10] Chapter 2 Appendices, Appendix 2-JC

OEB staff's reasons for recommending a reduction of $100k are twofold. First, OEB staff notes that North Bay Hydro's service territory has remained largely unchanged since its last rebasing and has experienced limited growth. From 2015-2019, the total customer count increased from 29,857 to 30,047 – a less than 1% increase. Given that the customer base has largely remained unchanged, it is not evident that increasing customer engagement costs to this large extent is justifiable. Furthermore, North Bay Hydro now has a dedicated resource, the Communications Officer (whose compensation is in addition to the proposed $164k budget), to manage customer engagement efforts. OEB staff does not object to the addition of the Communications Officer. Given this additional resource, OEB staff would expect that some of the work can be completed internally and submits that the large increase for external support is not justifiable. Taking these two factors into consideration, OEB staff does not believe the requested increase to annual customer engagement activities is appropriate.

As part of the increased customer engagement costs, North Bay Hydro stated that one contributing factor is new incremental ongoing costs associated with the development of a new mobile app for customers.[11] North Bay Hydro stated that a significant portion of respondents to its customer engagement surveys listed the development of this new mobile app as a "very high/high priority."[12] OEB staff disagrees with this characterization of customer preferences. The Phase 3 Customer Engagement Surveys showed that the mobile app ranked high in terms of priority, but only in the context of being compared to the customer portal and the website.[13] In the broader context of overall customer preferences, the Phase 1&2 Customer Engagement Surveys showed that significantly more customers prioritized "better/lower prices" over the mobile app.[14]

In fact, customer preferences in general show that:

- Outside of lowering rates, the majority of customers felt there was nothing for North Bay Hydro to improve[15]
- The top priority for the majority of customers is price[16]

As indicated above, OEB staff does not object to the addition of the Communications Officer and recognizes the value of a resource to support all of North Bay Hydro's customer engagement efforts. However, given this additional resource, OEB staff does not believe that a further increase to the customer engagement budget is necessary and therefore reiterates its view that a $100k reduction to the customer engagement budget is appropriate.

[11] IRR 4-Staff-44
[12] *Ibid*
[13] IRR Appendix F, Phase 3 Customer Engagement Survey, p. 3, Question 4
[14] IRR Appendix B, Phase 1&2 Customer Engagement Survey, pp. 16, 45
[15] IRR Appendix B, Phase 1&2 Customer Engagement Survey, pp. 5, 45, 54
[16] *Ibid,* pp. 75, 76

2. Corporate Policies

Included in the test year budget is a new program that North Bay Hydro started in 2020 called Corporate Policies, Initiatives and Strategy. Under this program, North Bay Hydro forecasted an annual budget of $150k to spend on policy and strategy initiatives. This budget is for external consultant costs only and is intended to leverage the expertise of consultants and help incorporate best practices wherever possible.[17]

North Bay Hydro provided a list of initiatives it plans to undertake within the next five years.[18] The planned initiatives, specifically for the test year, include the following:

- Update to its Conditions of Service
- Update of health and safety policies and procedures
- Review of its compensation plan
- Long-term review of its building and future options.[19]

OEB staff does not believe a $150k increase to the overall OM&A envelope for the initiatives listed under this program is justified. While each of the projects discussed below are not individually material to North Bay, as a package these initiatives add a further increase to an already significant increase to the OM&A envelope. As previously noted, North Bay Hydro's proposed test year OM&A budget is a 33% increase above 2015 OEB approved amounts. OEB staff submits that more consideration needs to be given to the impact on ratepayers and that this program is an example of spending that should be managed within the rest of the OM&A budget. OEB staff does not object to the potential benefits to customers arising from these programs. However, in OEB staff's view, if North Bay Hydro finds the need to engage external consultants for any of these areas, it should find opportunities within the rest of its OM&A budget.

Conditions of Service

For the test year, North Bay Hydro is planning to update its Conditions of Service, which have not been updated since 2007,[20] at an anticipated cost of $50k for the test year.[21] It is unclear to OEB staff why this project cannot be completed by North Bay Hydro's internal resources or, to the extent that some external consultant support is needed, what best practices external consultants can bring and why the projected cost is so high.

The Conditions of Service is mandated of all Ontario electricity distributors and OEB staff submits that it is reasonable to expect management to maintain the utility's Conditions of Service as part of its responsibilities and not an activity that needs to be

[17] IRR 1-DDR-8
[18] Settlement clarification questions, question 4
[19] Exhibit 4, p. 12
[20] Oral Hearing Transcript, p. 16
[21] Settlement clarification questions, question 4

outsourced necessarily.

Furthermore, the OEB already has a Conditions of Service template that North Bay Hydro could leverage in addition to examples from other well-performing distributors.[22] OEB staff submits that the Conditions of Service for Ontario distributors contain standard provisions and that incurring the cost of $50k for a customized document for North Bay Hydro may not be warranted.[23] OEB staff notes that part of the budget is earmarked for external legal review, but this portion of the cost is estimated to only be $8k (out of $50k) and, while OEB staff does not object to this proposed expenditure, it is immaterial.[24]

Health and Safety Programs and HR Policies

Similarly, North Bay Hydro proposes to spend $50k in the test year on health and safety programs and $25k on HR policies. OEB staff submits that these expenditures are not sufficiently justified given that North Bay Hydro has not explored any other options for developing these programs and policies, such as leveraging resources from industry associations (e.g. MEARIE, EDA, etc.) or working with other LDCs on a joint procurement instead of hiring consultants to do customized projects for North Bay Hydro.[25]

In justifying the need for external consultants to update its policies, North Bay Hydro explained that its organization is too lean and there are not enough resources to complete these initiatives internally.[26] However, OEB staff submits that there are two considerations that suggest that the need for extensive external consultant support may be overstated / overestimated.

First, North Bay Hydro has budgeted for a new administrative assistant. As noted by North Bay Hydro, its senior management and executive teams currently spend a significant amount of time on administrative tasks and its Manager of Human Resources (HR) and Administration is currently the only employee dealing with HR related matters.[27] North Bay Hydro stated that the new administrative assistant will help offload the administrative burden on the senior management and executive teams and offload some of the responsibilities of the HR Manager.[28] OEB staff believes that the efficiencies that should be achieved by hiring an administrative assistant should provide management with more time to tackle the corporate policy initiatives discussed above.

Second, North Bay Hydro stated that much of its resources since 2020 have been

[22] Exhibit K1.5, tab 3
[23] Undertaking J1.3
[24] Undertaking J1.3
[25] Oral Hearing Transcript, pp. 149-151
[26] IRR 4-Staff-45; Oral Hearing Transcript, pp. 147-148
[27] Exhibit 4, p. 9; Argument-in-Chief pp. 17-18
[28] *Ibid*

dedicated to completing this cost of service rate application.[29] Therefore, OEB staff notes that, once this proceeding concludes, those internal resources should be more available to work on these initiatives.

Long-term Review of Building Options

The remaining initiative for the test year is the review of North Bay Hydro's long-term building options. OEB staff notes that the cost of this initiative is $10k annually which is immaterial and could be excluded as an incremental expenditure.[30]

Compensation Plan Review

North Bay Hydro proposes an expenditure of $50k reviewing its compensation plan which involves two parts: a review of North Bay Hydro's base compensation plan and a review of its incentive compensation.[31]

For base compensation, OEB staff notes that an external consultant already regularly reviews the base compensation plan and has been doing so since at least 2018.[32] Therefore it is unclear why an incremental budget is required to complete the base compensation review when it was already being completed regularly within the existing OM&A budget.

For incentive compensation, North Bay Hydro already agreed to undertake this review during its last cost of service proceeding, although it had not done so by the time it filed this application. OEB staff therefore does not believe it is appropriate to include the cost of that review in this application as an incremental cost to be collected from customers.

In summary, OEB staff recognizes the difficulties North Bay Hydro has noted with respect to the leanness of its organization. However, given the large increase to North Bay Hydro's overall OM&A budget, OEB staff submits that new resources and efficiencies should make additional funding for this new corporate policies program unnecessary. As per the OEB's Renewed Regulatory Framework for Electricity Distributors, distributors are expected to demonstrate continuous improvement in productivity and cost performance.[33] OEB staff submits that this is especially true in light of the large OM&A increase as requested in the current application. For the reasons above, OEB staff submits that a reduction of $150k is appropriate.

3. Vegetation Management

North Bay Hydro forecasted a test year vegetation management budget of $773k. This

[29] Oral Hearing Transcript, pp. 40, 41, 48
[30] Argument-in-Chief, p. 21, table 4
[31] Settlement clarification questions, question 4
[32] IRR 4-Staff-54
[33] Report of the Board – Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach, October 18, 2012, pp. 2-3

is a $335k (76%) increase over the 2015 OEB-approved budget of $439k. North Bay Hydro stated that the increase is necessary to move its vegetation management program onto a five-year cycle. North Bay Hydro also stated that its vegetation management program is important for reliability as tree contacts make up a significant portion of interruptions to customers.

The current program is on year 11 of what was originally intended as four-year tree clearing cycle that, according to North Bay Hydro, has still yet to be completed due to budget constraints.[34]

In addition to the budget constraints, North Bay Hydro stated that it has historically had difficulty completing its annual vegetation management work due to the lack of a robust competitive market for tree clearing contractors in its service territory.[35] The lack of qualified and experienced contractors has led to price volatility, safety concerns and lack of availability to complete its annually forecasted work. To address these concerns, North Bay Hydro, along with two other northern utilities, created a new tree clearing company called 17 Trees Inc. (17 Trees). North Bay Hydro expects to contract 50% of its annual vegetation management work to 17 Trees, which is not an affiliate.[36]

OEB staff recommends a reduction of $130k resulting in a test year vegetation management budget of $644k. This reduced test year budget is what North Bay Hydro estimated to be the cost of vegetation management if it was completed over a six-year cycle, which was also the option that most customers in the Phase 3 Customer Engagement survey preferred.[37]

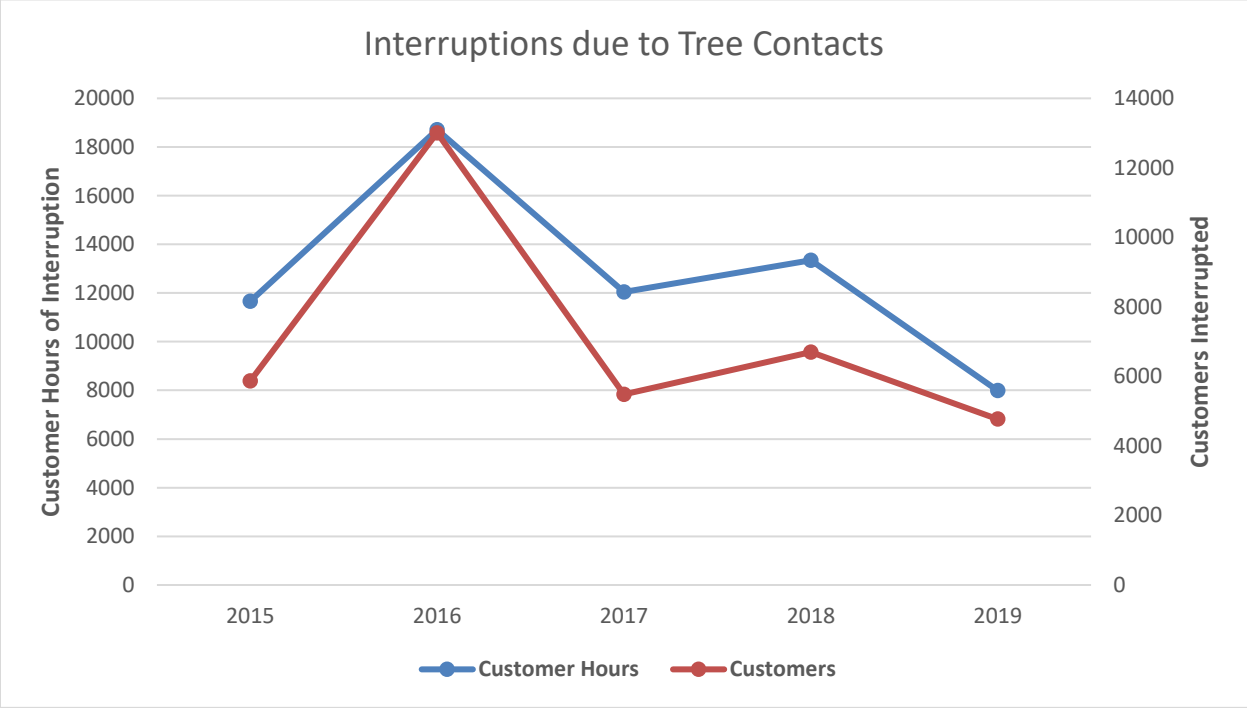
OEB staff understands that North Bay Hydro intends to improve its vegetation management program; however, the benefits to customers of a five-year cycle need to be balanced against the costs. As noted above in the customer engagement section, price is the priority concern for customers and customers were in favor of pacing the program on a six-year cycle rather than a shorter five-year cycle to mitigate rate increases. OEB staff also notes that North Bay Hydro did not provide any analysis on the expected benefits of a five-year versus six-year cycle and therefore, in OEB staff's opinion, it has not justified the increased cost of a five-year cycle against increased benefits in quantifiable terms. In particular, OEB staff has not seen any evidence on the record for adjustments to reliability targets related to a five-year or six-year vegetation management cycle going forward that would demonstrate continuous improvement.

Although tree contacts are always a consideration for reliability, OEB staff notes that North Bay Hydro has met its SAIDI and SAIFI reliability targets over the historical period of 2015-2019 (with the exception of an increase in SAIDI in 2016).[38] Furthermore, when

[34] IRR 1-DDR-9
[35] IRR 4-Staff-53
[36] Oral Hearing Transcript, p. 217 and Argument-in-Chief, p. 24
[37] IRR Appendix F, Phase 3 Customer Engagement Survey, p. 8, Question 7
[38] Exhibit 1, pp. 106-107

looking at interruptions attributable to tree contacts over the historical period, OEB staff notes that there is no increasing trend that would be an immediate cause for concern:

Graph 2 – Interruptions due to Tree Contacts (2015-2019)[39]



OEB staff submits that North Bay Hydro's tree contact interruptions do not show an increasing trend and do not support such a large increase to the vegetation management budget. Furthermore, OEB staff notes that the customer engagement shows that a majority of its customers already believe that North Bay Hydro is providing a standard of reliability that meets their needs.[40]

OEB staff also does not believe North Bay Hydro has provided a robust enough of an assessment to justify this large of an increase. The current scope and cost of the vegetation management budget are based on what appear to be very high-level estimates[41] and it is not clear that the full increase requested by North Bay Hydro is necessary.

North Bay Hydro has not quantified the reliability improvements it expects to achieve through the increased spending and therefore OEB staff submits that North Bay Hydro has not justified the value of the total amount of the increased spending to customers from a cost versus benefit perspective.[42] OEB staff submits a reduction of $130k is appropriate. OEB staff notes that this is still providing North Bay Hydro with a significant

[39] Data taken from North Bay Hydro's DSP, pp. 22-23
[40] IRR Appendix B, Phase 1&2 Customer Engagement Survey, pp. 15, 31
[41] Oral Hearing Transcript, pp. 134-135
[42] Oral Hearing Transcript, p. 142

increase to its vegetation management budget that should still result in an improvement to reliability performance, albeit at a reduced pace that OEB staff believes is more in line with customer preferences.

4. Operations and Maintenance

OEB staff notes four major categories of operations and maintenance spending (excluding vegetation management) in Appendix 2-JC:[43]

- Overhead operations and maintenance
- Underground operations and maintenance
- Substation maintenance, load dispatching and SCADA
- Metering operations and maintenance.

The total test year budget of these four programs is $2.8 million and represents a total increase of $979k over the 2015 OEB-approved amount.[44] For the reasons below, OEB staff recommends a reduction of $248k.

OEB staff's recommended OM&A reductions relate to two incremental cost drivers within the operations and maintenance budget: the ARC flash study and the two new FTEs (operations coordinator and succession FTE).

ARC Flash Study

Although the ARC flash study is a one-time cost that will be incurred in the test year, North Bay Hydro explained that it will continue to use the $110k budget annually for other programs, such as a DER implementation study, electric vehicle grid impact study and a protection control study.[45] OEB staff submits that North Bay Hydro has provided little evidence to support annual spending of $110k after the test year.

For the contemplated DER implementation study and electric vehicle grid impact study, North Bay Hydro has not indicated the scope of the studies, any analysis of the benefits to customers or a concrete cost estimate.[46] Furthermore, OEB staff notes that very few customers in the customer engagement surveys listed grid modernization (which the DER and vehicle grid studies should fall under) as a priority, with only 4% of customers listing it as most important, 4% as second most important, and 8% as third most important.[47] While grid modernization is an important objective, North Bay Hydro does not seem to have considered alternative options, such as leveraging industry associations or combined studies with other utilities. For this reason, OEB staff submits that North Bay Hydro has not demonstrated that the spending is prudent.

[43] Chapter 2 Appendices, Appendix 2-JC
[44] *Ibid*
[45] Oral Hearing Transcript, pp. 113-114
[46] *Ibid*
[47] IRR Appendix B, Phase 1&2 Customer Engagement Survey, p. 54

With respect to the contemplated protection control study, OEB staff submits that North Bay Hydro should already have been ensuring proper coordination of its protective devices as part of maintaining the safe and reliable operations of its distribution system and it is therefore not clear how this study is incremental to what is already embedded within the existing OM&A budget.

OEB staff submits that there should be a reduction of $88k. The resulting budget of $22k would allow North Bay Hydro, over the next five years, to recover the full $110k cost of just the ARC flash study. Given that the ARC flash study is a one-time cost, OEB staff submits that this reduction is appropriate to reflect the actual cost of the study to customers.

New FTEs

North Bay Hydro proposed hiring two new FTEs consisting of an operations coordinator and an FTE for succession planning. Currently, North Bay Hydro employs two operations and maintenance management FTEs: an operations manager and an operations supervisor. The new operations coordinator is intended to offload and share some of the responsibilities of the two existing FTEs.[48]

North Bay Hydro also indicated that both the existing FTEs are expected to retire within the next five years, although it does not have a definite timeline for the retirements.[49] The FTE for succession planning is intended to have overlap with the existing management FTEs and enable transfer of knowledge before the retiring employees leave the organization.[50] North Bay Hydro indicated that it believes a three year overlap is ideal for transition purposes.[51] OEB staff submits that a three year overlap is very long for transition purposes, and that with these two new FTEs, North Bay Hydro will have doubled its operations and maintenance management personnel from two to four.

Given that North Bay Hydro does not know when either of the two existing FTEs will retire, OEB staff submits that it is more prudent to hire only the new operations coordinator at this time. While having an extra FTE for overlap with the existing FTEs for succession purposes would be ideal, it also corresponds to a large rate increase for customers. For the purpose of reviewing North Bay Hydro's overall OM&A budget, given the already large increase in other OM&A categories and the fact that North Bay Hydro will be adding an operations coordinator, OEB staff submits that it would be more appropriate if the test year is limited to just the addition of the operations coordinator. Therefore, OEB staff recommends a reduction of $160k to account for the reduction of one management FTE.[52] OEB staff's recommended reduction is in the context of the

[48] IRR 4-Staff-43
[49] *Ibid*; Oral Hearing Transcript, p. 154
[50] Argument-in-Chief, p. 19
[51] Transcript oral hearing, pp. 154-155
[52] OEB staff calculated $160k by dividing the total management compensation costs for 2021 in Appendix

overall OM&A budget; should North Bay Hydro still find the need to hire both new FTEs now with a three year succession overlap, it should do so by fitting the extra FTE within the remaining OM&A budget. Together with the reduction in the ARC flash study above, OEB staff recommends a reduction of $248k to the operations and maintenance budget.

5. Bad Debt

North Bay Hydro has forecasted $200k in bad debt expenses for the 2021 test year and stated that this forecast is based on levels of bad debt experienced in 2017 and 2018 plus additional costs to account for the uncertainty surrounding the COVID-19 pandemic.[53] Absent the potential impacts of COVID-19, North Bay Hydro indicated that a six-year average of $128k would be a reasonable forecast of bad debt for the 2021 test year.[54]

OEB staff submits that North Bay Hydro's test year bad debt expenses should be set at $128k, which is the six-year average of its historical bad debt expenses without the impact of COVID-19. This represents a reduction of $72k to the overall proposed OM&A budget. OEB staff believes it is more appropriate to use the historical average to set the test year bad debt expenses for two reasons. First, North Bay Hydro has not accounted for the impacts of COVID-19 anywhere else in its application. OEB staff acknowledges that it is relatively early for a utility to forecast the permanent impacts of the pandemic. However, the fact remains that COVID-19 impacts have not been accounted for anywhere else in this application, and therefore for consistency the same approach should be taken for bad debt.[55] Second, North Bay Hydro has not explained the basis for a test year budget of $200k. North Bay Hydro felt that $200k is an appropriate forecast given the impact of COVID-19 but did not provide any details of how it calculated this specific amount. For these reasons, OEB staff submits it is appropriate to reduce the test year bad debt expenses to the six-year average of $128k.[56] OEB staff notes North Bay Hydro is committed to rebase for May 1, 2026 rates at which point it will have an opportunity to update its bad debt expenses.[57]

The OEB has established a deferral account (COVID-19 deferral account) in which rate-regulated utilities can record incremental costs related to the COVID-19 pandemic, including incremental bad debt expenses.[58] To the extent that North Bay Hydro incurs bad debt expenses above its test year amounts, it may seek to recover those costs

2-K against the total number of management FTEs as a rough estimate of the total cost of one management FTE.
[53] IRR 4-Staff-51; Oral Hearing Transcript, p. 112
[54] Oral Hearing Transcript, p. 112
[55] IRR 4-Staff-42
[56] Oral Hearing Transcript, p. 112 – North Bay Hydro indicated that the six-year average would be a reasonable forecast of its bad debt expenses excluding COVID-19 impacts.
[57] IRR 4-Staff-46, part c); EB-2019-0015, Application, January 16, 2019, Appendix D, p. 39
[58] EB-2020-0133, Report of the Ontario Energy Board – Regulatory Treatment of Impacts Arising from the COVID-19 Emergency, June 17, 2021

through the COVID-19 deferral account, subject to the conditions of that account.

6. Regulatory Costs

North Bay Hydro's regulatory costs should be reduced by $17k to reflect its updated evidence provided during the oral hearing.[59] North Bay Hydro noted that its one-time regulatory costs have decreased to $711k, from the $794k amount in in its originally filed application.[60] The reduction amortized over five years is $17k.

In summary, OEB staff submits that a $0.717 million reduction to North Bay Hydro's proposed OM&A budget is appropriate. This will still provide North Bay Hydro with a $1.419 million (22%) increase above its previous 2015 OEB-approved OM&A budget. OEB staff believes this is an appropriate amount that will allow North Bay Hydro to achieve its desired outcomes and scorecard targets, while at a pace that is just and reasonable to customers.

Issue 3.3 – Rate Design, Including Fixed/Variable Splits

North Bay Hydro proposed to increase the fixed charge for the General Service (GS) 50 – 2,999 kW rate class to $364.40 from $315.75 and the fixed charge for the GS 3,000 – 4,999 kW rate class to $7,628.28 from $6,734.18. The current fixed charges are already above the ceiling values established by the minimum system with peak load carrying capacity adjustment.

Section 2.8.1 of the Filling Requirements states:

> If a distributor's current fixed charge for any non-residential class is higher than the calculated ceiling, there is no requirement to lower the fixed charge to the ceiling, nor are distributors expected to raise the fixed charge further above the ceiling for any non-residential class.[61]

North Bay Hydro stated that its proposal to maintain the fixed to variable split has been approved by the OEB many times before and has provided examples[62] from Horizon Utilities Corporation's 2015 Custom IR,[63] and InnPower Corporation's 2017 Cost of Service.[64]

North Bay Hydro's proposal results in the fixed proportion remaining at 44.50% in the GS 50 – 2,999 kW rate class and at 82.38% in the GS 3,000 – 4,999 kW rate class.[65]

[59] Oral Hearing Transcript, pp. 10-11
[60] *Ibid*
[61] Ontario Energy Board Filing Requirements for Electricity Distribution Rate Applications – 2020 Edition for 2021 Rate Applications- Chapter 2, section 2.8.1.
[62] Argument-in-Chief, pp. 25-26
[63] EB-2014-0002
[64] EB-2016-0085
[65] Settlement Revenue Requirement Work Form, sheet 13. Rate Design, May 14, 2021

OEB staff estimates that maintaining the fixed charges would reduce the fixed proportions to 38.56%[66] and 72.73%[67] respectively. By comparison, Espanola Hydro's[68] GS 50 – 4,999 kW rate class has a fixed charge of $196.43 which recovers 29.23% of its rate class revenue requirement.[69]

OEB staff notes that more recent precedent suggests that fixed charges not be increased. In Energy+ Inc.'s 2019 Cost of Service[70] and Hydro Ottawa Limited's 2021-2025 Custom IR[71] proceeding, the OEB decided that the fixed charge would not be increased for rate classes where the fixed charge was already above the ceiling.

In accordance with the Filling Requirements and recent OEB decisions, OEB staff submits that the fixed charge for the GS 50 – 2,999 kW class should remain at the existing level of $315.75, and the fixed charge for the GS 3,000 – 4,999 kW rate class should remain at the existing level of $6,734.18. In the event that North Bay Hydro and Espanola Hydro amalgamate and seek to harmonize rates in a future proceeding, this would also have the benefit of more closely aligning the fixed to variable proportions of the two utilities and could therefore help to mitigate future bill impacts.

Issue 5.1 – Effective Date

North Bay Hydro requested an effective date of May 1, 2021 for its new rates and for approval to collect forgone revenues for the period following May 1, 2021.[72] North Bay Hydro requested two extensions to the filing of its application, which were approved by the OEB.[73] North Bay Hydro filed this application on January 5, 2021, four months after the established deadline for May 1, 2021 filers. No other delays occurred in this proceeding.

North Bay Hydro explained its delay in filing was due to the COVID-19 pandemic, which diverted its internal resources towards managing the impacts of the pandemic and away from the preparation of this application. North Bay Hydro also noted that it had deferred its May 1, 2020 rates and chose to voluntarily forgo the collection of that revenue.

OEB staff notes that, in granting the extension to the filing deadline of this application, the OEB stated that it may take into consideration the impacts of COVID-19.[74] Given the circumstances and North Bay Hydro's explanation as detailed above, OEB staff submits

[66] (315.75*269*12) / 2,643,257 = 38.56%
[67] (6,734.18*1*12) / 111,117 = 72.73%
[68] Espanola Regional Hydro Distribution Corporation
[69] EB-2020-0020, Revenue Requirement Work Form, sheet 13. Rate Design, May 10, 2021
[70] EB-2018-0028
[71] EB-2019-0261
[72] Argument-in-Chief, pp. 26-27
[73] OEB Letter to North Bay Hydro, September 3, 2020; OEB Letter to North Bay Hydro, November 19, 2020
[74] *Ibid*

that North Bay Hydro's request for a May 1, 2021 effective date and to collect forgone revenues is appropriate.

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

As part of the settlement agreement, this issue was partially settled. The unsettled portion of this issue relates to a prior agreement for North Bay Hydro to explore the possibility of better aligning its incentive pay structure with the metrics and outcomes described in EB-2014-0099.

North Bay Hydro has not been able to complete its review of its incentive pay structure and is still currently in the process of completing its review.[75] North Bay Hydro noted impacts of COVID-19 that caused delays that left it unable to complete the review in time but committed to completing this review by December 18, 2021.

Given the current status of this proceeding, a completion date of December 18, 2021 appears reasonable. However, OEB staff notes that the original agreement from North Bay Hydro's 2015 settlement further stipulated that, if North Bay Hydro identifies any opportunities to improve its incentive pay structure as part of this review, it would not delay until its next rebasing application to implement such opportunities. North Bay Hydro plans to merge with its affiliate utility Espanola Hydro in 2022 and has committed to rebasing the consolidated utility for May 1, 2026 rates.[76] Since North Bay Hydro is not scheduled to rebase for another five years following the conclusion of this proceeding, OEB staff submits that it is appropriate that a similar clause be applied to North Bay Hydro here.

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

In EB-2019-0015, the OEB approved the Mergers, Acquisitions, Amalgamations and Divestitures (MAADs) transaction that allowed North Bay Hydro Holdings, the parent company to North Bay Hydro, to acquire the former Espanola Hydro as a wholly owned subsidiary.[77] OEB staff has reviewed the OEB's decision in that MAADs proceeding and submits that there are three outcomes of the decision that are relevant to this issue:

- Synergies/efficiencies arising from the acquisition of Espanola Hydro
- Earnings sharing mechanism (ESM)
- Analysis of Espanola Hydro's accounting policies

With respect to synergies, OEB staff notes that this is a common topic for MAADs transactions as there is typically an expectation of economies of scale or other potential efficiencies when a distributor is merged, acquired or amalgamated. In this case, North

[75] Argument-in-Chief, pp. 28-29
[76] IRR 4-Staff-46, part c); EB-2019-0015, Application, January 16, 2019, Appendix D, p. 39
[77] This transaction was done through a subsidiary of North Bay Hydro Holdings, North Bay (Espanola) Acquisition Inc., which acquired and then merged with Espanola Hydro

Bay Hydro noted that, although it shares common ownership with Espanola Hydro, both utilities continue to operate separately and independently and as such has no synergies to be considered.[78] While there has been limited time available to the two utilities, OEB staff is not convinced that there have been no opportunities to explore synergies since the initial merger. However, OEB staff is not proposing any further reductions to the OM&A envelope as it is of the view that any potential synergies have already been considered in the reductions suggested by OEB staff in this submission.

With respect to the ESM, the OEB's general policy is that entities that have consolidated under MAADs and defer rebasing for more than five years must implement an ESM for the period beyond the five years.[79] The ESM is designed to ensure customers share in on increased benefits from the consolidation during the deferred rebasing period.[80] OEB staff notes that, in this case, it has not yet been five years since Espanola Hydro was acquired. North Bay Hydro stated that it expects to apply to the OEB for approval of a MAADs transaction to merge with Espanola Hydro in 2022.[81] OEB staff submits that the ESM issue would be more appropriately addressed in that MAADs proceeding.

Lastly, with respect to Espanola Hydro's accounting policies, OEB staff notes that this issue was already addressed in Espanola Hydro's recent 2021 cost of service application, which appropriately addresses the outcome of EB-2019-0015.

~All of which is respectfully submitted~

[78] Exhibit 1, p. 121; Argument-in-Chief, pp. 29-30
[79] OEB Handbook to Electricity Distributor and Transmitter Consolidations, January 19, 2016, p. 16
[80] *Ibid*
[81] Exhibit 1, p. 54