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BY EMAIL

March 31, 2023

Nancy Marconi
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4
Registrar@oeb.ca

Dear Ms. Marconi:

**Re: Ontario Energy Board (OEB) Staff Submission
North Bay Hydro Distribution Limited
2023 Distribution Rates Application
OEB File Number: EB-2022-0053**

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.

North Bay Hydro Inc. is reminded that its reply submission is due on April 14, 2023.

Yours truly,

Original Signed By

Margaret DeFazio, P.Eng.
Case Manager

Encl.

cc: All parties in EB-2022-0053



ONTARIO ENERGY BOARD

OEB Staff Submission

North Bay Hydro Distribution Limited

2023 Distribution Rates Application

EB-2022-0053

March 31, 2023

Introduction

North Bay Hydro Distribution Limited (North Bay Hydro) filed an incentive rate-setting mechanism (IRM) application with the Ontario Energy Board (OEB) on November 23, 2022, under section 78 of the *Ontario Energy Board Act, 1998* seeking approval for changes to its electricity distribution rates to be effective May 1, 2023.

In its IRM application, North Bay Hydro is applying for a separate rate increase for the areas served by each of the predecessor distributors, referred to as the North Bay Rate Zone and the Espanola Rate Zone.

On January 26, 2023, North Bay Hydro filed an update to its application, relating specifically to the rates for the Espanola Rate Zone. The update raised a question about the earning of the former Espanola Regional Hydro Distribution Corporation in 2021, which may be in excess of the threshold set by the OEB.

On March 17, 2023, North Bay Hydro filed a letter stating that it was rescinding its request for the disposition of the Espanola Rate Zone Deferral and Variance Accounts as a full review and reconciliation of historical balances of these accounts is required.

Consistent with the Chapter 3 Filing Requirements,¹ North Bay Hydro applied the Price Cap IR adjustment factor to adjust the monthly service charge and distribution volumetric rate during the incentive rate-setting years for both rate zones.

In its interrogatories, OEB staff updated the 2023 Rate Generator Models for both rate zones to reflect the 2023 approved rates for

1. 2023 Uniform Transmission Rates²,
2. Hydro One Sub-Transmission Rates³,
3. Wholesale Market Service Rate, and Rural or Remote Electricity Rate Protection Charge.⁴

North Bay Hydro has confirmed the accuracy of these updates as part of its interrogatory responses.

In this document, OEB staff makes detailed submissions on the following issues:

¹ Filing Requirements for Electricity Distribution Rate Applications - 2022 Edition for 2023 Rate Applications - Chapter 3 Incentive Rate-Setting Applications, May 24, 2022

² The regulatory charges effective January 1, 2023 in tab 11 of the 2023 Rate Generator Models have been updated to \$5.60/kW/Month for Network Service Rate, \$0.92/kW/Month for Line Connection Service Rate and \$3.10/kW/Month Transformation Connection service rate.

³ The regulatory charges effective January 1, 2023 in tab 11 of the 2023 Rate Generator Models have been updated to \$4.6545/kW for the Network Service Rate, \$0.6056/kW for the Line Connection Service Rate and \$2.8924/kW for the Transformation Connection Service Rate

⁴ The regulatory charges effective January 1, 2023 in tab 17 of the 2023 Rate Generator Models have been updated to \$0.0041/kWh for Wholesale Market Service Rate (WMS) – not including CBR and \$0.0007/kWh for Rural or Remote Electricity Rate Protection Charge (RRRP).

North Bay Rate Zone

- Group 1 Deferral and Variance Accounts (DVAs)

Espanola Rate Zone

- Group 1 Deferral and Variance Accounts (DVAs)
- Earnings

North Bay Rate Zone Group 1 Deferral and Variance Accounts

Background

North Bay Hydro requests the disposition of the North Bay Rate Zone December 31, 2021 Group 1 DVAs in the credit amount of \$98,982 on a final basis over a 12-month period. This includes interest projected to April 30, 2023. The Group 1 DVA balances exceed the OEB's \$0.001/kWh threshold for disposition.

The OEB most recently approved the disposition of North Bay Hydro's Group 1 account balances on a final basis, as of December 31, 2019, except for Accounts 1588 and 1589, as part of its cost of service proceeding for 2021 rates. The balances for Accounts 1588 and 1589 were not disposed of as part of the Group 1 balances because North Bay Hydro indicated that the OEB's accounting guidance was not fully implemented for these two accounts⁵. Accounts 1588 and 1589 balances were last approved to be disposed of on a final basis, as of December 31, 2016, in North Bay Hydro's 2018 IRM decision and order.⁶

In North Bay Hydro's 2022 IRM proceeding, the disposition of North Bay Hydro's Group 1 DVA balances was not required because the disposition threshold was not exceeded, and the review of the unresolved difference pertaining to the 2017 GA variance was not completed. In North Bay Hydro's 2022 IRM decision and order, the OEB directed North Bay Hydro to apply the Accounting Guidance for Accounts 1588 and 1589 (Accounting Guidance) from 2017 onwards. In addition, the OEB stated that "North Bay Hydro was expected to identify and explain any material adjustments resulting from the application of the accounting guidance in the following IRM application for the 2023 rates".⁷

In the current application, North Bay Hydro proposed the disposition of the December 31, 2021 balances for Accounts 1588 (a credit amount of \$1,221,741) and 1589 (a debit amount of \$4,892). North Bay Hydro stated that it has completed the historic review and has applied the Accounting Guidance for the historical period 2017-2019 as of 2020. North Bay Hydro further stated that its 2020 and 2021 RRR balances are consistent with the Accounting Guidance.⁸

In its response to the OEB staff's interrogatory⁹, North Bay Hydro noted that the OEB's model was utilized for the review. The required data for the years 2017-2019 was inputted into the OEB's model to determine proper entries across the historic periods. True-up adjustments were made based on comparing the balances using the OEB's model to the balances in the continuity schedule. The adjustments for the 2017-2019 period were recorded in the 2020 general ledger and reflected in the continuity schedule.

⁵ North Bay Hydro, EB-2020-0043, Exhibit 9, page 21

⁶ Eb-2017-0065, Decusuib abd Rate Order, page 9, March 22, 2018

⁷ EB-2021-0046. Decision and Rate Order, page 8, March 24, 2022

⁸ North Bay Hydro 2023 IRM Revised Manager's Summary_20230126, page 10

⁹ North Bay IR Responses, OEB Staff-3

Submission

OEB staff supports the proposed disposition balances for Accounts 1588 and 1589.

Chapter 3 Filing Requirements for Electricity Distributor state that a distributor is expected to provide a summary of the review performed, a discussion of the results of the review, and whether any systemic issues were noted.¹⁰

In the current application, North Bay Hydro has provided such evidence, including the continuity schedule, GA workform and the interrogatory responses to support the historic review of the balances from 2017 onwards for Accounts 1588 and 1589. OEB staff is of the view that the review indicates that North Bay Hydro has aligned its methodology with the OEB's methodology in the Accounting Guidance and has made necessary adjustments for the period of 2017 to 2020 that were not disposed of on a final basis.

OEB staff also supports the disposition of the balances for the year 2021, as North Bay Hydro has applied the Accounting Guidance to settle with the IESO on a monthly basis in the latter half of 2021 and completed a full-year review to close the fiscal general ledger of 2021.¹¹ As well, OEB staff's review of the 2021 DVA balances and the continuity schedule substantiating these balances support the disposition on a final basis.

¹⁰ Chapter 3 Filing Requirements, 2022 Edition for 2023 Rate Applications, page 11

¹¹ EB-2021-0046, North Bay Hydro_2022 OEB Staff Questions_202202, Staff question -2

Espanola Rate Zone Group 1 Deferral and Variance Accounts

Background

In its letter dated March 17, 2023, North Bay Hydro rescinded its request for the disposition of the Group 1 DVA balances (\$691,56) for the Espanola Rate Zone. North Bay Hydro indicated that interrogatory questions have brought to light potential issues and inaccuracies in the account balances requested for disposition. Therefore, the historical balances for Espanola Rate Zone's DVAs require a full review and reconciliation.¹²

Submission

OEB staff supports the rescission of North Bay Hydro's request to dispose of the Group 1 DVA account balances for the Espanola Rate Zone. Given that North Bay Hydro has identified potential issues and inaccuracies in the account balances, North Bay Hydro should investigate these matters before disposal occurs.

¹² North Bay Letter to the OEB, March 17, 2023

Espanola Rate Zone Earnings

Background

Espanola Rate Zone's 2021 ROE reported in the OEB's *Reporting and Record Keeping Requirements* (RRR) 2.1.5.6 - Regulated Return on Equity was 15.06%, which is 6.72% (672 basis points) greater than its 2021 approved ROE of 8.34%¹³.

Chapter 3 Filing Requirements for Electricity Distributors state that a regulatory review may be triggered if a distributor's earnings are outside of a dead band of +/- 300 basis points from the OEB-approved ROE. A distributor whose earnings are in excess of the dead band is expected to refrain from seeking an adjustment to its base rates through a Price Cap IR application.¹⁴

While the Espanola Rate Zone 2021 reported ROE is outside of the 300 basis points, North Bay Hydro requested an adjustment to the Espanola Rate Zone's base rates in the current proceeding.

In the revised manager's summary¹⁵, North Bay Hydro explained the reason for the over-earning and calculated an adjusted Espanola Rate Zone's ROE of 7.22%. The adjusted ROE removed the tax impact adjustment of net ICM rate rider revenues in Appendix 6 PILs Adjustments. North Bay Hydro stated that the 2021 PILs amount for the Espanola Rate Zone excluded the net impact of the ICM rate rider revenues. As a result, the tax impact adjustment of the ICM revenues should be removed from the Appendix 6 PILs adjustments to avoid duplicating the removal of the tax impact.

Table 1 below is a summary table of Appendix 1-Non-Rate Regulated Items and Other Adjustments as filed in North Bay Hydro's RRR 2.1.5.6 submission for Espanola Rate Zone. The table shows that net ICM rate rider revenues are included as part of the Appendix 1 deductions to the regulated net income.

Table 1: Summary of RRR 2.1.5.6 Appendix 1 s

CDM – Net Revenues/expenses	(2,745)
Other Adjustments:	
Net ICM Rate Rider Revenues	(798,687)
LRMVA Rate Rider Revenues	(329,270)
Total Non-rate regulated items and other adjustments	\$(1,130,702)

¹³North Bay Hydro 2023 IRM Revised Manager's Summary_20230126, page 18

¹⁴ Chapter 3 Filing Requirements, 2022 Edition for 2023 Rate Applications, page 23

¹⁵ North Bay Hydro 2023 IRM Revised Manager's Summary_20230126, page 18-20

In its pre-filed evidence, North Bay Hydro provided Table 14¹⁶ showing the “Other Deduction” section on schedule 1 of Espanola rate zone’s 2021 tax return. The other deductions reduce the Espanola rate zone’s 2021 taxable income. Line 6 in the “Other Deduction” section shows the movement in regulatory assets/liabilities of \$1,079,171.

In its response to the OEB staff’s interrogatory¹⁷, North Bay Hydro provided a breakdown of the Line 6 – movement in reg. assets/liabilities which is part of the "Other Deductions" section on Espanola Rate Zone’s 2021 tax return in Table 2 below:

Table 2: 2021 Tax Return Schedule 1 Line 6

Net Movement Line (\$)	Category
74,839	Other Operating Activities
329,279	LRAMVA Establishment
675,062	ICM Recognition
1,079,171	Line 6

North Bay Hydro stated that there was an error in determining the “Appendix 6 PILs Adjustments”.¹⁸ The tax adjustments included in Appendix 6 were calculated based on the Appendix 1 items. North Bay Hydro proposed to remove the tax adjustment for the ICM rate rider revenues because the related assets were excluded from the calculation of the 2021 PILs as part of the other deductions on Espanola Rate Zone’s 2021 tax return. Table 3 below is the reconciliation of the Appendix 6¹⁹ provided by North Bay Hydro for the proposed adjustment.

¹⁶ North Bay Hydro 2023 IRM Revised Manager’s Summary_20230126, Table 1

¹⁷ North Bay IR Responses, OEB Staff-10

¹⁸ North Bay Hydro 2023 IRM Revised Manager’s Summary_20230126, page 19

¹⁹ North Bay Hydro 2023 IRM Revised Manager’s Summary_20230126, Table 16

Table 3: RRR 2.1.5.6 Appendix 6 Reconciliation

App 6 - Tax Adjustment			
		App 6 Calculated	
	Adjustments	As filed	Revised
PIL's included		18,197	18,197
APP1			
ICM	(798,687)	(211,652)	-
LRAM	(329,270)	(87,257)	(87,257)
CDM	(2,745)	(727)	(727)
APP3	44,331	11,748	11,748
APP4	247,800	65,667	65,667
Tax Adjustment		(204,024)	7,628

When adjusted for this change, the adjusted 2021 ROE for the Espanola Rate Zone is 7.22% as shown in Table 4 below²⁰. The adjusted ROE is within 300 basis points of the approved ROE of 8.34% in Espanola's 2021 cost-of-service application.

²⁰ North Bay Hydro 2023 IRM Revised Manager's Summary_20230126, Table 15

Table 4: Revised 2021 RRR 2.1.5.6 Provided by North Bay Hydro

2.1.5.6 - 2021 RRR Filing		
Income		
Reported Net income	1,599,639	
Appendix 1 Adjustments	(1,130,702)	Add
Appendix 2 Adjustments	-	
Appendix 3 Adjustments	44,331	
Appendix 4 Adjustments	247,800	
Unrealized Gains/Losses	(577,075)	
	183,993	
PILs Reported	18,197	Add
Appendix 6 PILs Adjustments	7,628	Less
Adjusted Regulated Net Income	194,561	(A)
Rate Base		
WCA	652,262	
Average PP&E	6,089,049	
	6,741,311	
Deemed Equity @ 40%	2,696,524	(B)
ROE	7.22%	(A)/(B)

Submission

It appears that Espanola Rate Zone's over-earning in 2021 was due to the incorrect ROE filing, in which North Bay Hydro did not adjust the tax impact of the movement in regulatory assets/liabilities for Espanola Rate Zone to align with the treatment of regulatory asset/liabilities in Espanola rate zone's 2021 tax return. If the net movement of the regulatory assets/liabilities were adjusted based on the ROE Guidelines, the adjusted 2021 ROE for the Espanola Rate Zone would be lower than the adjusted 2021 ROE of 7.22% as calculated by North Bay Hydro in its response to OEB staff's interrogatory.

The OEB issued the RRR 2.1.5.6 ROE Completed Filing Guide (ROE Guide) in March 2016 to provide instructions to the electricity distributors for the ROE filing. Regarding the adjustment line "Activity in Regulatory Accounts included in taxable income on Schedule 1, if applicable (Cells gf and ff)" in Appendix 6 of the ROE filing, page 23 of the ROE Guide states:

If a distributor has included the activity of regulatory accounts in its taxable

income, it must be removed from the current tax provision for the purposes of determining regulatory ROE. That is, if the tax treatment for regulatory asset and liabilities accounts in the RRR differs from the treatment of PILs in the distributor's CoS Decision and Order, **then an adjustment for the tax impact of regulatory account activities is required.**[Emphasis added by OEB staff]

OEB staff is of the view that there may not be an error in determining the "Appendix 6 PILs Adjustments". As such, OEB staff does not agree with North Bay Hydro's proposed adjustment for the 2021 ROE by removing the tax impact of the ICM net recognition of \$798,687, comprising of \$1,095,000 Revenue net against \$299,313 depreciation expense, upon the transfer of the ICM assets, revenues and expenses in Espanola rate zone's 2021 cost of service application. The adjustment line "Non-regulated items" correctly calculated the tax impact of the out-of-period revenue adjustment items for the ICM and LRAMVA in 2021 that are included in the Appendix 1 of the 2021 ROE filing.

OEB staff notes that Espanola rate zone's 2021 ROE filing may be overstated because Appendix 6 Current Tax for Regulatory Purposes was not filed correctly by North Bay Hydro. As stated in the ROE Guide, North Bay Hydro should have used the adjustment line "Activity in Regulatory Accounts included in taxable income on Schedule 1, if applicable" to include the net movement in regulatory assets/liabilities of \$1,079,171 in cell gf of Appendix 6. This adjustment line is needed because, without this adjustment, the tax treatment of regulatory assets/liabilities in ROE filing would not be consistent with the treatment in the Espanola Rate Zone 2021 tax filing. The tax impact of this adjustment would have been calculated using the Espanola rate zone's tax rate in cell ff. OEB staff notes that using this approach, the Espanola Rate Zone adjusted 2021 ROE would be lower than the adjusted ROE of 7.22% provided by North Bay Hydro in its interrogatory response. As a result, Espanola rate zone's 2021 adjusted ROE would be much lower than the deemed ROE of 8.34% approved in its 2021 cost of service application.

Therefore, OEB staff does not take issue with the price cap adjustment request for the Espanola rate zone in this application. However, OEB staff encourages North Bay Hydro to provide an updated calculation for Espanola Rate Zone's 2021 ROE using OEB staff's approach that is in accordance with the ROE Filing Guide.

~All of which is respectfully submitted~