



74 Commerce Crescent
P.O. Box 3240
North Bay, Ontario
P1B 8Y5

Tel. (705) 474-8100
Fax: (705) 495-2756 Administration
Fax: (705) 474-3138 Engineering/Purchasing
Fax: (705) 474-8579 Customer Services/Accounting
Fax: (705) 474-4634 Operations

April 14, 2023

Ontario Energy Board
P.O. Box 2319, 27th Floor
2300 Yonge Street
Toronto, ON
M4P 1E4
registrar@oeb.ca

Attention: Nancy Marconi, Registrar

Dear Ms. Marconi:

Re: EB-2022-0053 Application for 2023 Rates

In accordance with Procedural Order #2, please accept the following as North Bay Hydro Distribution Limited's (NBHDL) reply submission to OEB Staff's submission dated March 31, 2023.

NBHDL thanks OEB staff for their submission and notes that the only unresolved issue appears to be the interpretation of how to correct the Espanola Rate Zone's (ERZ) 2021 ROE. However, NBHDL would like to point out an apparent typo in the submission related to "Espanola Rate Zone Group 1 Deferral and Variance Accounts". On page 5, OEB staff reference Group 1 balances as (\$691,56). The correct value from the originally submitted rate model is (\$691,256).

With respect to "Espanola Rate Zone Earnings", NBHDL's previous position was that the Appendix 6 tax adjustments were incorrect and should be adjusted to remove any tax impact related to the ICM recognition. OEB staff have stated that they do not believe this to be entirely correct, since the "Non-regulated items" line is correctly calculating the impact of all Appendix 1 items. OEB staff expands that the error may be because the overall Appendix 6 is incorrect due to NBHDL's failure to utilize the adjustment line "Activity in Regulatory Accounts included in taxable income on Schedule 1" (cells GF and FF).

Based on OEB staff's submission, it is the position of NBHDL that there is agreement that the ERZ was not, in fact, overearning in 2021. NBHDL submits that this is the principal issue at hand with respect to the request for the price cap adjustment on the distribution rates of the ERZ.

With that said, NBHDL is hesitant to agree fully with OEB staff's interpretation of the ROE. Table 1 below provides a copy of the ERZ 2021 Schedule 1 for the purposes of determining taxable income. NBHDL notes that Schedule 1 specifically removes the \$1,079,171 from "taxable income". It would therefore be NBHDL's interpretation that cells GF and FF would be the inappropriate place to account for this in the ROE calculation.

Table 1: Schedule 1 – Espanola Regional Hydro (2021)

Espanola Regional Hydro Distribution Corporation 20211231.22
2022-05-06 09:15

2021-12-31

Espanola Regional Hydro Distribution Corporation
86489 8390 RC0001



Canada Revenue
Agency

Agence du revenu
du Canada

Net Income (Loss) for Income Tax Purposes

Schedule 1

Corporation's name	Business number	Tax year-end Year Month Day
Espanola Regional Hydro Distribution Corporation	86489 8390 RC0001	2021-12-31

- Use this schedule to reconcile the corporation's net income (loss) as reported on the financial statements and its net income (loss) for tax purposes. For more information, see the T2 Corporation – Income Tax Guide.
- All legislative references are to the Income Tax Act.

Net income (loss) after taxes and extraordinary items from line 9999 of Schedule 125 1,599,640 **A**

Add:

Provision for income taxes – current	101	<u>18,197</u>	
Provision for income taxes – deferred	102	<u>594,630</u>	
Amortization of tangible assets	104	<u>194,471</u>	
Subtotal of additions		<u>807,298</u>	<u>807,298</u>

Add:

Other additions:

	1 Description	2 Amount		
	605	295		
1	decrease in regulatory assets	643,847		
	Total of column 2	<u>643,847</u>	296	<u>643,847</u>
			Subtotal of other additions	199 <u>643,847</u>
			Total additions	500 <u>1,451,145</u>

Amount **A** plus line 500 3,050,785 **B**

Deduct:

Capital cost allowance from Schedule 8	403	<u>493,655</u>	
Subtotal of deductions		<u>493,655</u>	<u>493,655</u>

Deduct:

Other deductions:

	1 Description	2 Amount		
	705	395		
1	Movement in reg deferred taxes	594,630		
2	Actual benefits paid	9,286		
3	Accrued future benefit costs	299		
4	Interest rate swap mark to market adj	577,075		
5	Deferred revenue amortization	11,133		
6	Movement in reg assets/liab	1,079,171		
7	decrease in regulatory liabilities	260,893		
8	other comprehensive income	4,566		
	Total of column 2	<u>2,537,053</u>	396	<u>2,537,053</u>
			Subtotal of other deductions	499 <u>2,537,053</u>
			Total deductions	510 <u>3,030,708</u>

Net income (loss) for income tax purposes (amount B minus line 510) 20,077 **C**

Enter amount C on line 300 of the T2 return.

Based on the encouragement of OEB staff within their submission, the following tables provide comparative information showing NBHDL's calculation as described in the Revised Manager's and OEB staff's recommended adjustment, for both the tax adjustments (Table 2) and the resultant ROE (Table 3):

Table 2: 2.1.5.6 Appendix 6 Adjustments

App 6 - Tax Adjustment						
		RRR Ref	App 6 Calculated			RRR Ref
	Adjustments		As filed	Revised	OEB Staff	
PIL's included			18,197	18,197	18,197	App 6 - FC
APP1						
ICM	(798,687)	App 1 - AA, AN	(211,652)	-	(211,652)	App 6 - FD
LRAM	(329,270)	App 1 - AM	(87,257)	(87,257)	(87,257)	App 6 - FD
CDM	(2,745)	App 1 - AC	(727)	(727)	(727)	App 6 - FD
APP3	44,331	App 3 - CC	11,748	11,748	11,748	App 6 - FG
APP4	247,800	App 4 - DG	65,667	65,667	65,667	App 6 - FH, FI
RA included in Schedule 1	1,079,131	App 6 Adjs	-	-	285,970	App 6 - GF, FF
Tax Adjustment			(204,024)	7,628	81,945	

Table 3: 2.1.5.6 ROE Calculations

2.1.5.6 - 2021 RRR Filing - NBHDL Revised				2.1.5.6 - 2021 RRR Filing - OEB Staff Advised			
Income				Income			
Reported Net income	1,599,639			Reported Net income	1,599,639		
Appendix 1 Adjustments	(1,130,702)			Appendix 1 Adjustments	(1,130,702)		
Appendix 2 Adjustments	-			Appendix 2 Adjustments	-		
Appendix 3 Adjustments	44,331	Add		Appendix 3 Adjustments	44,331	Add	
Appendix 4 Adjustments	247,800			Appendix 4 Adjustments	247,800		
Unrealized Gains/Losses	(577,075)			Unrealized Gains/Losses	(577,075)		
	183,993				183,993		
PILs Reported	18,197	Add		PILs Reported	18,197	Add	
Appendix 6 PILs Adjustments	7,628	Less		Appendix 6 PILs Adjustments	81,945	Less	
Adjusted Regulated Net Income	194,561	(A)		Adjusted Regulated Net Income	120,244	(A)	
Rate Base				Rate Base			
WCA	652,262			WCA	652,262		
Average PP&E	6,089,049			Average PP&E	6,089,049		
	6,741,311				6,741,311		
Deemed Equity @ 40%	2,696,524	(B)		Deemed Equity @ 40%	2,696,524	(B)	
ROE	7.22%	(A)/(B)		ROE	4.46%	(A)/(B)	

NBHDL views the critical factor on display is that the ERZ did not over-earn in 2021. An important point to note however, is that the discrepancy between the two interpretations is mostly driven by OEB Staff's inclusion of LRAMVA in the net calculation. NBHDL acknowledged this difference in its IRR responses and that this may be an issue with the revised calculation as presented.

NBHDL would note that 2021 is the last year that the ERZ will have a historical ROE which makes any future scorecard publication of the corrected ROE unrelated to the ERZ moving forward. NBHDL would commit to working with OEB staff at the closure of this proceeding to determine the accurate and appropriate treatment of this PILs related adjustment to the ROE.

NBHDL respectfully submits that the price cap adjustment request for the ERZ in this application is reasonable and aligned with filing requirements.

Regards,

Micheal Roth, CPA
Regulatory Manager
North Bay Hydro Distribution Limited
705-474-8100 ext263
mroth@northbayhydro.com