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

Ontario

DECISION AND RATE ORDER

EB-2023-0042

NORTH BAY HYDRO DISTRIBUTION LIMITED

Application for rates and other charges to be effective May 1, 2024

BY DELEGATION, BEFORE: **Ceiran Bishop**
Director
Critical Initiatives

Month XX, 2024

1. OVERVIEW

The Ontario Energy Board (OEB) is approving changes to the rates that North Bay Hydro Distribution Limited (North Bay Hydro) charges to distribute electricity to its customers, effective May 1, 2024.

On March 17, 2022, the OEB approved the amalgamation of Espanola Regional Hydro Distribution Corporation and North Bay Hydro Distribution Limited into a single electricity distribution company, North Bay Hydro Distribution Limited. This approval represents the second Phase of the amalgamation application. In an earlier Decision dated August 22, 2019, the OEB approved the first phase of the amalgamation. North Bay Hydro and Espanola Hydro selected to defer rate rebasing for five years.

North Bay Hydro continues to maintain two separate rate zones for its legacy utilities, referred to as the North Bay Hydro Rate Zone (North Bay RZ) and the Espanola Rate Zone (Espanola RZ).[1]

As a result of this Decision, the monthly total bill impact for a residential customer consuming 750 kWh will be as follows:

- For the North Bay RZ, there will be a monthly total bill increase of $3.69.
- For the Espanola RZ, there will be a monthly total bill increase of $4.54.

This change does not factor in applicable taxes or the Ontario Electricity Rebate.

The OEB is also approving North Bay Hydro's Espanola RZ request to change the composition of its residential distribution service rates in accordance with OEB policy..

[1] EB-2021-0312, Decision and Order, March 17, 2022

2. CONTEXT AND PROCESS

North Bay Hydro filed its application on November 22, 2023, under section 78 of the *Ontario Energy Board Act, 1998* and in accordance with Chapter 3 of the OEB's *Filing Requirements for Incentive Rate-Setting Applications* (Filing Requirements). The application for both rate zones was based on the Price Cap Incentive Rate-setting (Price Cap IR) option, with a five-year term.

In its application, North Bay Hydro is applying for a separate rate increase for the areas served by each of the predecessor distributors: North Bay RZ and Espanola RZ.

The Price Cap IR option is one of three incentive rate-setting mechanisms (IRM) approved by the OEB.[2] It involves the setting of rates through a cost of service application in the first year and mechanistic price cap adjustments which may be approved through IRM applications in each of the ensuing adjustment years.

The OEB follows a standardized and streamlined process for processing IRM applications filed under Price Cap IR. In each adjustment year of a Price Cap IR term, the OEB prepares a Rate Generator Model that includes, as a placeholder, information from the distributor's past proceedings and annual reporting requirements. A distributor will then review, complete, and include the model with its application, and may update the model during the proceeding to make any necessary corrections or to incorporate new rate-setting parameters as they become available.

The North Bay RZ serves approximately 24,000 mostly residential and commercial electricity customers in the City of North Bay, and the Espanola RZ serves approximately 3,300 mostly residential and commercial electricity customers in the Town of Espanola and the Township of Sables Spanish River.[3]

The application was supported by pre-filed written evidence and completed Rate Generator Model for each rate zone and as required during the proceeding, North Bay Hydro updated and clarified the evidence.

[2] Each of these options is explained in the OEB's *Handbook for Utility Rate Applications*.
[3] EB-2022-0053, Decision and Order, May 9, 2023

3. DECISION OUTLINE

Each of the following issues is addressed in this Decision, together with the OEB's findings.

- Annual Adjustment Mechanism
- Retail Transmission Service Rates
- Group 1 Deferral and Variance Accounts
- Residential Rate Design

Instructions for implementing North Bay Hydro's new rates and charges are set out in the final section of this Decision.

This Decision does not address rates and charges approved by the OEB in prior proceedings, such as specific service charges[4] and loss factors, which are out of the scope of an IRM proceeding and for which no further approvals are required to continue to include them on the distributor's Tariff of Rates and Charges.

[4] Certain service charges are subject to annual inflationary adjustments to be determined by the OEB through a generic order. For example, the Decision and Order EB-2023-0193, issued September 26, 2023, established the adjustment for energy retailer service charges, effective January 1, 2024; and the Decision and Order EB-2023-0194, issued September 26, 2023, established the 2024 Wireline Pole Attachment Charge, effective January 1, 2024.

4. ANNUAL ADJUSTMENT MECHANISM

North Bay Hydro has applied to change its rates for both rate zones, effective May 1, 2024, based on a mechanistic rate adjustment using the OEB-approved **inflation minus X-factor** formula applicable to IRM applications. The adjustment applies to distribution rates (fixed and variable) uniformly across all customer classes.[5]

The components of the Price Cap IR adjustment formula applicable to North Bay Hydro are set out in the table below. Inserting these components into the formula results in a 4.50% increase to North Bay Hydro's rates in both the North Bay RZ and the Espanola RZ: **4.50% = 4.80% - (0.00% + 0.30%)**.

Table 4.1: Price Cap Adjustment Formula

Components		Amount
Inflation factor[6]		4.80%
Less: X-factor	Productivity factor[7]	0.00%
	Stretch factor (0.00% to 0.60%)[8]	0.30%

An inflation factor of 4.80% applies to all IRM applications for the 2024 rate year. The X-factor is the sum of the productivity factor and the stretch factor. It is a productivity offset that varies among different groupings of distributors. Subtracting the X-factor from inflation ensures that rates decline in real, constant-dollar terms, providing distributors with a tangible incentive to improve efficiency or else experience declining net income. The productivity component of the X-factor is based on industry conditions over a historical study period and applies to all IRM applications for the 2024 rate year. The stretch factor component of the X-factor is one of five stretch factor groupings established by the OEB, ranging from 0.00% to 0.60%. The stretch factor assigned to any distributor is based on the distributor's total cost performance as benchmarked

[5] The adjustment does not apply to delivery rates: rate riders, rate adders, low voltage service charges, retail transmission service rates, wholesale market service rate, smart metering entity charges, rural or remote electricity rate protection charge, standard supply service – administrative charge, transformation and primary metering allowances, loss factors, specific service charges (other than the Wireline Pole Attachment charge), and the microFIT charge.
[6] OEB Letter, 2024 Inflation Parameters, issued June 29, 2023
[7] Report of the Ontario Energy Board – "Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors" EB-2010-0379, December 4, 2013
[8] Report to the Ontario Energy Board – "Empirical Research in Support of Incentive Rate-Setting: 2022 Benchmarking Update", prepared by Pacific Economics Group LLC., July 2023

against other distributors in Ontario. The stretch factor assigned to the North Bay RZ as well as the Espanola RZ is 0.30%, resulting in a rate adjustment of 4.50%.

Findings

North Bay Hydro's request for a 4.50% rate adjustment to both rate zones is in accordance with the annually updated parameters set by the OEB. The adjustment is approved, and North Bay Hydro's new rates in both rate zones shall be effective May 1, 2024.

5. RETAIL TRANSMISSION SERVICE RATES (RTSRs)

North Bay RZ is partially embedded within Hydro One Networks Inc.'s (Hydro One) distribution system. Espanola RZ is fully embedded within Hydro One's distribution system.

To recover its cost of transmission services for North Bay RZ, North Bay Hydro requests approval to adjust the RTSRs that it charges its customers in accordance with the UTRs and host distributor RTSRs currently in effect. For Espanola RZ, North Bay requests approval to adjust its RTSRs by the host distributor's RTSR only.

Findings

North Bay Hydro's proposed adjustments to its RTSRs for both rate zones are approved.

The RTSRs have been adjusted based on the current OEB-approved UTRs and host RTSRs.[9]

UTRs and host RTSRs are typically approved annually by the OEB. In the event that the OEB updates the approved UTRs and host-RTSRs during North Bay Hydro's 2024 rate year, any resulting differences (from the prior-approved UTRs and host-RTSRs) will be captured in Retail Settlement Variance Accounts 1584 (Retail Transmission Network Charge) and 1586 (Retail Transmission Connection Charge).

[9] EB-0023-0030, Partial Decision and Rate Order, December 14, 2023, and EB-2023-0222, Decision and Order, January 18, 2024

6. GROUP 1 DEFERRAL AND VARIANCE ACCOUNTS

In each year of an IRM term, the OEB will review a distributor's Group 1 deferral and variance accounts to determine whether those balances should be disposed of. OEB policy states that Group 1 account balances should be disposed of if they exceed, on a net basis (as a debit or credit), a pre-set disposition threshold of $0.001 per kWh, unless a distributor justifies why balances should not be disposed of.[10] If the net balance does not exceed the threshold, a distributor may still request disposition.[11]

6.1 North Bay RZ

The 2022 year-end net balance for North Bay RZ's Group 1 accounts eligible for disposition, including interest projected to April 30, 2024, is a debit of $1,487,225, and pertains to variances accumulated during the 2022 calendar year. This amount represents a total claim of $0.003 per kWh, which exceeds the disposition threshold. North Bay Hydro has requested the disposition of this amount over a 24-month recovery period(Group 1) and a 12-month recovery period for GA and CBR-Class B to mitigate the bill impacts on its customers.

Included in the Group 1 accounts are certain variances related to costs that are paid for by a distributor's customers on different bases, depending on their classification. Namely, "Class A" customers, who participate in the Industrial Conservation Initiative, pay for Global Adjustment (GA) charges based on their contribution to the five highest Ontario demand peaks over a 12-month period. "Class B" customers pay for GA charges based on their monthly consumption, either as a standalone charge or embedded in the Regulated Price Plan (RPP).[12] A similar mechanism applies to Class A and Class B customers for Capacity Based Recovery (CBR) charges.[13] The balance in the GA variance account is attributable to non-RPP Class B customers and is disposed of through a separate rate rider. The balance in the CBR Class B variance account is attributable to all Class B customers.

North Bay Hydro had one or more Class A customers during the period in which variances accumulated so it has applied to have the balance of the CBR Class B

[10] Report of the OEB – "Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR)." EB-2008-0046, July 31, 2009
[11] OEB letter, "Update to the Electricity Distributors' Deferral and Variance Account Review ("EDDVAR Report"), released July 2009 (EB-2008-0246)", issued July 25, 2014
[12] For additional details on the Global Adjustment charge, refer to the Independent Electricity System Operator (IESO)'s website.
[13] All Class B customers (RPP and non-RPP) pay the CBR as a separate charge based on their monthly consumption. For additional details on the CBR for Class A customers, refer to the IESO's website.

variance account disposed of through a separate rate rider for Class B customers to ensure proper allocation between Class A and Class B customers.

As part of its application, North Bay Hydro noted that there is a variance between the December 31, 2022 audited balance and Account 1586 balance that was filed as part of its RRR filing. North Bay Hydro explained that in 2022 it made a directional error with respect to Account 1586 – Connection. While $4,666 in carrying charges should have been recorded as RSVA interest revenue with an offsetting increase (debit) to the carrying charges sub-account, North Bay Hydro recorded this amount as an RSVA interest expense with an offsetting decrease (CR) to the sub-account resulting an error of $9,332. North Bay Hydro RZ stated that in 2023, it corrected the error by debiting Account 1586 with $9,332 as an adjustment to ensure that the amount being requested for disposition is correct.

Findings

The balances proposed for disposition reconcile with the amounts reported as part of the OEB's *Electricity Reporting and Record-Keeping Requirements.*

The OEB finds that the correction to the balance in Account 1586 accords with the OEB's expectations that distributors disclose errors that are discovered in their accounting records, and that correcting adjustments be made in the year in which the error is discovered.

The OEB finds that the interest adjustment of $9,332 is appropriate. The OEB approves the disposition of a debit balance of $1,487,225 as of December 31, 2022, including interest projected to April 30, 2024, for Group 1 accounts on a final basis.

Table 6.1 identifies the principal and interest amounts, which the OEB approves for disposition.

Table 6.1: Group 1 Deferral and Variance Account Balances – North Bay RZ

Account Name	Account Number	Principal Balance ($) A	Interest Balance ($) B	Total Claim ($) C=A+B
LV Variance Account	1550	(1,312)	219	(1,093)
Smart Metering Entity Charge Variance Account	1551	(66,154)	(5,258)	(71,412)
RSVA - Wholesale Market Service Charge	1580	1,036,821	86,072	1,122,893
Variance WMS - Sub-account CBR Class B	1580	(65,420)	(5,963)	(71,384)
RSVA - Retail Transmission Network Charge	1584	375,535	34,163	409,698
RSVA - Retail Transmission Connection Charge	1586	189,431	15,940	205,371
RSVA - Power	1588	38,677	11,617	50,294
RSVA - Global Adjustment	1589	(146,134)	(11,008)	(157,142)
Total for Group 1 accounts		$1,361,444	$125,782	$1,487,225

The balance of each of the Group 1 accounts approved for disposition shall be transferred to the applicable principal and carrying charge sub-accounts of Account 1595. Such transfer shall be pursuant to the requirements specified in the *Accounting Procedures Handbook for Electricity Distributors.*[14] The date of the transfer must be the same as the effective date for the associated rates, which is generally the start of the rate year.

The OEB approves these balances to be disposed of through final rate riders, charges, or payments, as calculated in the Rate Generator Model. The final rate riders, charges, and payments, as applicable, will be in effect over a two-year period from May 1, 2024,

[14] Article 220, Account Descriptions, Accounting Procedures Handbook for Electricity Distributors, effective January 1, 2012

to April 30, 2026.[15] for Group 1 and a 12-month recovery period for GA and CBR-Class B.

6.2 Espanola RZ

The 2022 year-end net balance for Espanola RZ's Group 1 accounts (excluding Accounts 1588 and 1589) eligible for disposition, including interest projected to April 30, 2024, is a debit of $163,483 and pertains to variances accumulated during the 2022 calendar year. This amount represents a total claim of $0.0029 per kWh, which exceeds the disposition threshold. North Bay Hydro has requested the disposition of this amount over a two-year period to mitigate the bill impacts on its customers.

Espanola RZ had no Class A customers during the period in which variances accumulated so it has applied to have the balance of the CBR Class B account disposed of along with Account 1580 – Wholesale Market Service Charge through the general Deferral and Variance Account rate rider.

North Bay Hydro disclosed that during the 2023 IRM proceeding[16], during the 2023 IRM review proceeding, inaccuracies in the balances of Accounts 1588 and 1589 in the Espanola RZ were noticed, and the issue prompted North Bay Hydro to initiate a review which resulted in the withdrawal of its request for disposition. In the current proceedings, North Bay Hydro has requested a deferral of the disposition of balances in the accounts until its review of transactions in the accounts is completed. Areas included in its review are the accounting transactions related to the 2020 COS approved disposition[17], the implications of that on subsequent settlement values, and the 2022 transactions.

In response to a question from OEB staff in this proceeding, Espanola RZ explained that it is currently working through the reconciliation process to recalculate settlement amounts and DVA balances for the years 2021 through 2023. In addition, North Bay Hydro stated that it is evaluating the opportunity to have a 3rd party review the settlement process for the Espanola RZ.

North Bay Hydro concluded that while it progresses with its review of Accounts 1588 and 1589, there are no compelling reasons not to request disposition of the remaining Group 1 accounts in the Espanola RZ through this IRM process.

[15] 2024 IRM Rate Generator Model Tab 6.1 GA, Tab 6.1a GA Allocation, Tab 6.2 CBR B, Tab 6.2a CBR B Allocation and Tab 7 Calculation of Def-Var RR
[16] EB-2022-0053, Decision and Rate Order, March 9, 2023.
[17] EB-2020-0020, Decision and Rate Order, June 10, 2021.

Findings

The balances proposed for disposition reconcile with the amounts reported as part of the OEB's *Electricity Reporting and Record-Keeping Requirements.*

The OEB approves the disposition of a debit balance of $163,483 as of December 31, 2022, including interest projected to April 30, 2024, for Group 1 accounts on a final basis.

Table 6.2 identifies the principal and interest amounts, which the OEB approves for disposition.

Table 6.2: Group 1 Deferral and Variance Account Balances – Espanola RZ

Account Name	Account Number	Principal Balance ($) A	Interest Balance ($) B	Total Claim ($) C=A+B
LV Variance Account	1550	84,580	10,953	95,533
Smart Metering Entity Charge Variance Account	1551	(12,576)	(1,318)	(13,894)
RSVA - Wholesale Market Service Charge	1580	(56,104)	(6,989)	(63,093)
RSVA - Retail Transmission Network Charge	1584	50,685	7,187	57,872
RSVA - Retail Transmission Connection Charge	1586	52,319	34,746	87,066
Total for Group 1 accounts		$118,903	$44,580	$163,483

The balance of each of the Group 1 accounts approved for disposition shall be transferred to the applicable principal and carrying charge sub-accounts of Account 1595. Such transfer shall be pursuant to the requirements specified in the *Accounting Procedures Handbook for Electricity Distributors.*[18] The date of the transfer must be the

[18] Article 220, Account Descriptions, Accounting Procedures Handbook for Electricity Distributors, effective January 1, 2012

same as the effective date for the associated rates, which is generally the start of the rate year.

The OEB approves the remaining Group 1 account balances to be disposed of through final rate riders, charges, or payments, as calculated in the Rate Generator Model. The final rate riders, charges, and payments, as applicable, will be in effect over a two-year period from May 1, 2024, to April 30, 2026.[19]

[19] 2024 IRM Rate Generator Model Tab 6.1 GA, Tab 6.1a GA Allocation, Tab 6.2 CBR B, Tab 6.2a CBR B Allocation and Tab 7 Calculation of Def-Var RR

7. RESIDENTIAL RATE DESIGN

Residential distribution service rates have historically included a fixed monthly charge and a variable usage charge. In 2015, the OEB issued a policy to transition these rates to a fully fixed rate structure over a four-year period beginning in 2016. Espanola RZ deferred filing rate applications for a 5-year period from 2016 to 2021. As a result, Espanola RZ did not begin to implement the OEB's policy until 2021.

In Espanola's RZ 2021 rates proceeding, the OEB approved a five-year period for Espanola RZ to transition its residential customers to a fully fixed structure. This is the third year of the transition period.

The OEB expects a distributor to apply two tests to evaluate whether mitigation of bill impacts for customers is required during the transition period. Mitigation usually takes the form of a lengthening of the transition period. The first test is to calculate the change in the monthly fixed charge and to consider mitigation if it exceeds $4. The second is to calculate the total bill impact of the proposals in the application for low-volume residential customers (defined as those residential RPP customers whose consumption is at the 10th percentile for the class). Mitigation may be required if the bill impact related to the application exceeds 10% for these customers.

North Bay Hydro submitted that the implementation of the transition results in an increase to the Espanola RZ fixed charge prior to the price cap adjustment of $4.

The bill impacts arising from the proposals in this application, including the fixed rate change, are below 10% for low-volume residential customers.

Findings

The OEB finds that the proposed 2024 increase to the monthly fixed charge is calculated in accordance with the OEB's residential rate design policy. The results of the monthly fixed charge and total bill impact for low-consumption residential consumers demonstrate that no mitigation is required. The OEB approves the increase as proposed by the applicant and calculated in the final Rate Generator Model. The monthly fixed rate portion of residential rates in the Espanola RZ has increased, and the variable usage rate has decreased. This rate change does not affect the total revenue that the Espanola RZ collects from its residential customers.

8. IMPLEMENTATION

This Decision is accompanied by a Rate Generator Model, applicable supporting models, and a Tariff of Rates and Charges (Schedule A). The Rate Generator Model also incorporates the rates set out in Table 7.1.

Table 7.1: Regulatory Charges

Rate	per kWh
Rural or Remote Electricity Rate Protection (RRRP)	$0.0014
Wholesale Market Service (WMS) billed to Class A and B Customers	$0.0041
Capacity Based Recovery (CBR) billed to Class B Customers	$0.0004

Each of these rates is a component of the "Regulatory Charge" on a customer's bill, established annually by the OEB through a separate, generic order. The RRRP and WMS rates were set by the OEB on December 7, 2023.[20]

The Smart Metering Entity Charge is a component of the "Distribution Charge" on a customer's bill, established by the OEB through a separate order. The Smart Metering Entity Charge was set by the OEB at $0.42 on September 8, 2022.[21]

In the *Report of the Board: Review of Electricity Distribution Cost Allocation Policy*,[22] the OEB indicated that it will review the default province-wide microFIT charge annually to ensure it continues to reflect actual costs in accordance with the established methodology. On November 29, 2023, the OEB issued a letter advising electricity distributors that the microFIT charge shall remain at $4.55 for the duration of the 2024 rate year (May 1, 2024, to April 30, 2025).[23]

[20] EB-2023-0268, Decision and Order, December 7, 2023
[21] EB-2022-0137, Decision and Order, September 8, 2022
[22] EB-2010-0219, Report of the Board "Review of Electricity Distribution Cost Allocation Policy", March 31, 2011
[23] OEB Letter, "Review of Fixed Monthly Charge for microFIT Generator Service Classification", issued November 29, 2023

9. ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT

1. The Tariff of Rates and Charges set out in Schedule A of this Decision and Rate Order is approved effective May 1, 2024, for electricity consumed or estimated to have been consumed on and after such date. North Bay Hydro Distribution Limited shall notify its customers of the rate changes no later than the delivery of the first bill reflecting the new rates.

DATED at Toronto, Month, Date, 2024

ONTARIO ENERGY BOARD

Nancy Marconi
Registrar

SCHEDULE A

DECISION AND RATE ORDER

NORTH BAY HYDRO DISTRIBUTION LIMITED

TARIFF OF RATES AND CHARGES

EB-2023-0042

MONTH XX, 2024