The OEB and Setting Electricity Delivery Rates – May, 2017

HISTORY

On May 1, 2002, in an attempt to break up and privatize the monopoly that Ontario Hydro had on all aspects of the electricity market, the Ontario government mandated its breakup into five new corporations: Hydro One, Ontario Power Generation (OPG), Electrical Safety Corporation, Independent Electricity System Operator and the Ontario Electrical Financial Corporation.

At the same time, the government mandated that all municipal electricity utilities (MEU) assets were to be sold to incorporated companies. Ownership of these companies could be retained by the municipalities themselves or sold to outside investors. Approximately 100 smaller municipalities chose to sell their MEU's to Hydro One. Some municipalities amalgamated their MEU's with neighbouring municipalities to form larger corporations and some, like North Bay, chose to set up corporations 100% owned by the municipality.

When the smoke cleared there remained approximately 70 electricity distribution corporations in Ontario with the largest one being Hydro One which delivers electricity to nearly 1.3 million people.

These newly formed distribution companies were to operate in accordance with the Electricity Act, 1998 and be governed by the Ontario Energy Board Act, 1998 which was administered by the Ontario Energy Board (OEB).

The OEB was originally responsible for regulating natural gas providers in the Province. Natural gas providers were and are private or public companies owned by independent investors and are given a monopoly to delivery natural gas to customers across the province. In return they are allowed to make a return on their investment for the benefit of their shareholders and the amount of that return is governed by the OEB.

RATE SETTING

After 2002, when electricity distributors also came under its regulatory umbrella, the OEB immediately began a study to determine the allowed rate of return on investment that newly incorporated MEU's would be allowed to add to their delivery rates.

This was counterproductive since any return on equity that these municipally owned corporations would generate would have to come from the owners of the distribution companies. In other words, the customers are paying themselves, as owners, a return on investment. Virtually all municipal electricity corporations are owned by the citizens who are also its exclusive customers.

Delivery rates, including the rate of return, appear as a separate charge on customers' bills and are in addition to the charges for the actual electricity which is billed at the distributors' cost without markup.

So in practice, the distributor budgets for the total expenses required to deliver electricity to customers including operating, maintenance, administrative and amortization expenses. To this amount it adds a return on investment which includes a return on equity and a deemed interest amount. And this total amount becomes the delivery rate billed to customers over the ensuring year. This allowed rate of return on equity is not a requirement of the OEB and municipal corporations may choose to set delivery rates which only cover their operating expenses.

The following quote is taken from NBHDL's 2015 cost of service application to set 2016 delivery rates which provides evidence of the choice made by NBHDL regarding the return on equity and its cost to taxpayers:

> *2.1 a) Cost of Capital: ………* NBHDL has included an amount for ROE equal to [$2,187,380] or 9.30%. This is allowed in accordance with Board policy but it is not a legal requirement of the Board. This results in an increase in taxable income and the amount of taxes included in rates. This increases customer delivery charges on a yearly basis by the amount mentioned above.

As indicated above when North Bay Hydro decides to add a return on investment, that amount shows as taxable income on their financial statements. Taxable income is subject to a payment-in-lieu of taxes (PIL's). This PIL's amount is calculated using the rules and regulations incorporated in the Income Tax Act.

In 2016, the PIL's amounted to $1.2 million and in the last 10 years has cost North Bay taxpayers over $7 million which could have been avoided.

Based on their 2015 request to the OEB to reset 2016 delivery rates, NBHDL suggested they needed to bill customers $9.5 million for operating, maintenance, administration and amortization expenses. Then they added $2.1 million in return on equity which represents a 22% increase in the delivery rate charges. The 2016 financial statement figures show expenses were over budgeted and the years' surplus was actually $3.2 million.

Additionally, if one looks at the description of delivery charges, shown below, printed on their Hydro bill they will find no mention of these extra charges hidden in the delivery charge. The wording on the bills is deceptive in the extreme and a virtual misrepresentation of the facts.

"Delivery

These are the costs of delivering electricity from generating stations across the province to North Bay Hydro Distibution (sic) Limited then to your home or business. This *includes the costs to build and maintain the transmission and distribution lines, towers and poles and operate provincial and local electricity systems. A portion of these charges are fixed and do not change from month to month. The rest are variable and increase or decrease depending on the amount of electricity that you use. The delivery charge also includes costs relating to electricity lost through distributing electricity to your home or business. "*

CONCLUSION

This is not a one year occurrence and will continue on a yearly basis for the foreseeable future. Council has recently amended the Shareholder's agreement of NBHDL to try and make certain that taxpayers will continue to be forced to pay unnecessary taxes to the Province and allow the empire building to continue at NBHDL

One has to ask oneself how council members, who are mandated and sworn to protect the interests of taxpayers, can allow this deliberate overcharging and blatant hiding of the facts to continue.