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November 27, 2013

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
PO Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

**Niagara Peninsula Energy Inc. 2014 IRM Rate Application
Board File No. EB-2013-0154**

Dear Ms. Walli

Pursuant to Procedural Order No. 1, please find attached Niagara Peninsula Energy Inc.'s Reply Submission with respect to its 2014 IRM4 Rate Application.

We are also submitting, in the Ontario Energy Board's RESS system, revised 2014 IRM4 Rate Generator Models for both the Niagara Falls service area and Peninsula West service area.

Please contact myself should anything further be required, I can be reached at 905-353-6004.

Sincerely,

A handwritten signature in blue ink that reads 'Suzanne Wilson'.

Suzanne Wilson, CPA, CA
Vice-President, Finance
Niagara Peninsula Energy Inc.
(905) 353-6004
Suzanne.Wilson@npei.ca

IN THE MATTER OF the Ontario Energy Board Act, 1998, being Schedule B to the Energy Competition Act, 1998, S.O. 1998, c.15;

AND IN THE MATTER OF an Application by Niagara Peninsula Energy Inc. to the Ontario Energy Board for an Order or Orders approving or fixing just and reasonable rates and other service charges for the distribution of electricity as of May 1, 2014.

REPLY SUBMISSION

Introduction

Niagara Peninsula Energy Inc. (“NPEI”) filed an application (the “Application”) with the Ontario Energy Board (the “Board”) on August 29, 2013, seeking approval for changes to the rates that NPEI charges for electricity distribution, to be effective May 1, 2014. The Application is based on the 2014 Incentive Rate Mechanism (“IRM”).

On September 5, 2013, the Board issued its Letter of Direction and Notice of Application and Hearing. No party applied for Intervenor status in this proceeding.

On October 2, 2013, the Board issued Procedural Order No. 1 which set out the due dates for submission of interrogatories from Board Staff, interrogatory responses from NPEI, written submission from Board Staff and reply submission from NPEI.

Board Staff filed interrogatories on October 15, 2013. NPEI filed responses to Board Staff interrogatories on October 25, 2013. Board Staff filed a written submission on November 13, 2013.

Pursuant to Procedural Order No. 1, NPEI is filing this reply submission.

The Application

During the interrogatory phase, Board Staff identified certain discrepancies in the data entered in the models filed by NPEI. In response to Board Staff interrogatories, NPEI corrected the discrepancies, and filed revised versions of Rate Generator Models for both the Niagara Falls and Peninsula West service areas.

The Board Staff written submission states the following:

“Board staff notes that the Tax-Savings Workform reflects the Revenue Requirement Work Form from the Board’s cost of service decision in EB-2010-0138. Board staff has no concerns with the Tax-Savings Workform as filed.”

NPEI concurs with Board Staff, and requests that the Tax-Savings Workform, and the corresponding Tax Sharing Rate Riders, be approved as filed.

The Board Staff written submission also states:

“Board staff has no concerns with the data supporting the updated Retail Transmission Service Rates proposed by NPEI. Pursuant to the Board’s Guideline G-2008-0001, Board staff notes that the Board will update the applicable data at the time of the Board’s decision on the Application based on the Uniform Transmission Rates in place at that time.”

NPEI agrees with Board Staff, and requests that the Retail Transmission Service Rates be approved as proposed, subject to the update reflecting the Uniform Transmission Rates in place at the time of the Board’s decision.

Disposition of Deferral and Variance Accounts as per the Electricity Distributors' Deferral and Variance Account Review Report (the "EDDVAR Report")

In its interrogatories, Board Staff noted that it was unable to reconcile some of the data entered into NPEI's continuity schedule located at Tab 5 of the Rate Generator Model relating to the Board-approved disposition amounts for 2011 and 2012. In its responses to Board Staff interrogatories, NPEI noted that some amounts relating to other transactions had inadvertently been included in the same column as the disposition balances. NPEI revised the continuity schedule to correctly separate the other transactions, and filed the amended Rate Generator models. NPEI noted that these corrections did not alter the principal or interest balances requested for disposition or the proposed rate riders.

In its written submission, Board Staff states:

"NPEI's total Group 1 Deferral and Variance Account balances amount to a credit of \$3,146,582. The Group 1 balance excluding Account 1589 – Global Adjustment Sub-Account is a credit of \$6,942,860, and is applicable only to RPP customers. These balances also include interest calculated to April 30, 2014. Based on the threshold test calculation, the Group 1 Deferral and Variance Account balances equate to \$0.0026 per kWh which exceeds the threshold, and as such, NPEI requested disposition of these Accounts over a two-year period."

Board staff has reviewed NPEI's Group 1 Deferral and Variance Account balances and notes that the principal balances as of December 31, 2012 reconcile with the balances reported as part of the Reporting and Record Keeping Requirements. Also, the preset disposition threshold has been exceeded. Accordingly, Board staff has no issue with NPEI's request to dispose of its 2012 Group 1 Deferral and Variance Account balances at this time."

NPEI wishes to clarify its interpretation of the first paragraph quoted above from the Board Staff submission, particularly the phrase *"and is applicable only to RPP customers."* NPEI agrees that

the total Group 1 balance proposed for disposition is a credit of (\$3,146,581), and that the Group 1 balance excluding Account 1589 Global Adjustment Sub-Account is a credit of (\$6,942,860). The balance of Account 1589 – Global Adjustment Sub-Account is a debit of \$3,796,279. It is NPEI's understanding that the Group 1 Balance excluding Account 1589 – Global Adjustment Sub-Account, which is a credit of (\$6,942,860), should be refunded to all customers, both RPP and non-RPP. Further, it is NPEI's understanding that the balance of Account 1589 – Global Adjustment Sub-Account, which is a debit of \$3,796,279, should be recovered from non-RPP customers only.

Subject to the above clarification, NPEI agrees with the Board Staff submission and requests that the proposed Group 1 Account balance of (\$3,146,581) be approved for disposition.

Disposition Period

In the Application, NPEI proposed a disposition period of two years in order to minimize rate volatility and reduce potential strains on cash flow. NPEI also noted that the Board approved a two-year disposition period for its Group 1 Account balances in its 2010 IRM Application (EB-2009-0205 and EB-2009-0206) and its 2012 IRM Application (EB-2011-0185).

In its submission, Board Staff states:

“Board staff notes that NPEI's current total bill impact for its Application, as filed, for the Niagara Falls rate zone is a monthly increase of approximately \$1.96 for the typical Residential customer consuming 800 kWh. For the Peninsula West rate zone, it is a decrease of approximately \$1.21.”

NPEI has determined that the amended Rate Generator models filed with its responses to Board Staff interrogatories include a value for the total price index that is not consistent with Chapter 3 of the Board's Filing Requirements for Electricity Transmission and Distribution Applications (the “Filing Requirements”), as updated July 17, 2013.

As per the Filing Requirements, the Rate Generator will initially include rate setting parameters from the preceding calendar year as a placeholder: inflation factor of 1.6%, productivity factor of 0.72% and a stretch factor of 0.4% (representing the middle cohort) for a total price index adjustment of 0.48%. The Rate Generator models filed by NPEI in the Application included an incorrect total price index adjustment of 0.98%. Board Staff noted this discrepancy, and provided NPEI with amended Rate Generator models which reflected the correct total price index adjustment placeholder of 0.48%. However, when preparing its responses to Board Staff interrogatories, NPEI unintentionally reverted back to the original Rate Generator models containing the incorrect price index placeholder.

The bill impacts above, as referenced from the Board Staff submission, of an increase of \$1.96 per month for a typical Residential customer in the Niagara Falls area, and a decrease of \$1.21 per month for a typical Residential customer in the Peninsula West area, are based on the Rate Generator Models containing the incorrect price index. NPEI has made Board Staff aware of this error.

NPEI submits that the correct bill impacts, based on the price index placeholder of 0.48% and using a two-year disposition period, are an increase of \$1.80 per month for a typical Residential customer in the Niagara Falls area consuming 800 kWh, and a decrease of \$1.37 per month for a typical Residential customer in the Peninsula West area consuming 800 kWh.

NPEI calculates that the bill impacts, based on the price index placeholder of 0.48% and using a one-year disposition period, would be a decrease of \$0.56 per month for a typical Residential customer in the Niagara Falls area consuming 800 kWh, and a decrease of \$3.73 per month for a typical Residential customer in the Peninsula West area consuming 800 kWh.

In its submission, Board Staff notes that NPEI also currently has a Smart Meter disposition application before the Board (EB-2013-0359) for rates effective February 1, 2014 for its Smart Meter Disposition Rider ("SMDR") and May 1, 2014 for its Smart Meter Incremental Revenue

Requirement Rate Rider (“SMIRR”). As per the Notice of Application for NPEI’s Smart Meter application, the bill impact for a typical residential customer is an increase of \$0.69 per month, if the application is approved as filed.

In its written submission, Board Staff states:

“Staff notes that this results in a larger increase in the Niagara Falls rate zone and a smaller decrease in the Peninsula West rate zone. If a one year disposition period were to be adopted for NPEI’s Group 1 Accounts, the impact on customers’ bills in year one would be a smaller increase. However, in year two, there exists the potential for rate volatility as a result of the Group 1 Accounts credit rate riders coming off the tariff.”

Board staff also notes that cash flow issues is not a sufficient reason for approval of a longer than one-year disposition period. Board staff notes that the balances in the subject accounts represent over-recoveries on the part of NPEI and, in the normal course, should be available to be refunded over a fairly short timeframe.”

NPEI notes that, in the Application, potential strain on cash flows was provided as only one reason why a two-year disposition may be preferred. The more prominent consideration is the impact on customer bills, due to potential rate volatility caused when the credit rate riders come off the tariff.

NPEI notes, however, that its 2014 IRM Application was filed before NPEI’s Smart Meter Application (EB-2013-0359). As indicated above, NPEI’s Smart Meter Application, if approved as filed, will result in rate riders that will increase a typical Residential customer’s monthly bill by \$0.69. Given this, NPEI now submits that the default disposition period of one year is more appropriate, given that the larger amount of credit Deferral and Variance rate riders in this 2014 IRM Application will serve to offset the potential bill increases due to the SMDR and SMIRR rate riders, if they are approved by the Board.

NPEI has calculated the following combined bill impacts (IRM and Smart Meter), assuming that the Group 1 Account total credit balance of (\$3,146,581) is refunded over a period of one year, and the Smart Meter rate riders are approved as filed in EB-2013-0359:

The combined bill impact would be an increase of \$0.13 per month, for a typical Residential customer in the Niagara Falls service area consuming 800 kWh, and a decrease of \$3.04 per month, for a typical Residential customer in the Peninsula West service area consuming 800 kWh.

NPEI is filing, with this reply submission, revised 2014 IRM4 Rate Generator models for both the Niagara Falls service area and the Peninsula West service area which have been updated to reflect the total price index adjustment placeholder of 0.48%, which is consistent with the Filing Requirements, and a disposition period of one year for NPEI's Group 1 Account balances.

All of which is respectfully submitted.