



THE BOARD OF DIRECTORS

Chair, GAIL REGAN
President, Cara Holdings Ltd.

President, PATRICIA ADAMS
MAX ALLEN
Producer, IDEAS, CBC Radio
ANDREW COYNE
Columnist, National Post
GLENN FOX
Professor of Economics, University of Guelph
IAN GRAY
President, St. Lawrence Starch Co.
CLIFFORD ORWIN
Professor of Political Science, University of Toronto

Secretary/Treasurer, ANNETTA TURNER
ANDREW ROMAN
Barrister & Solicitor, Miller Thomson
ANDREW STARK
Rotman School of Management, University of Toronto
GEORGE TOMKO
Resident Expert, PSI Initiative, University of Toronto
MICHAEL TREBILCOCK
Chair, Law & Economics, University of Toronto
MARGARET WENTE
Columnist, The Globe and Mail

January 16, 2015

BY FAX & BY COURIER

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge St, Suite 2701
Toronto ON M4P 1E4

Dear Ms. Walli:

Board File No. EB-2014-0097
Niagara-on-the-Lake Hydro Inc. --- 2015 IRM Application
Energy Probe – Argument

Pursuant to Procedural Order No. 1, issued November 4, 2014, please find attached the Argument of Energy Probe Research Foundation (Energy Probe) in the EB-2014-0097 proceeding for consideration of the Board.

Should you require additional information, please do not hesitate to contact me.

Yours truly,

David S. MacIntosh
Case Manager

cc. Tim Curtis, Niagara-on-the-Lake Hydro (By email)
Philip Wormwell, Niagara-on-the-Lake Hydro (By email)
Randy Aiken, Aiken & Associates (By email)
Interested Parties (By email)

Energy Probe Research Foundation 225 BRUNSWICK AVE., TORONTO, ONTARIO M5S 2M6

Phone: (416) 964-9223 Fax: (416) 964-8239 E-mail: EnergyProbe@nextcity.com Internet: www.EnergyProbe.org

Ontario Energy Board

IN THE MATTER OF the *Ontario Energy Board Act, 1998*,
S.O. 1998, c. 15, (Schedule B);

AND IN THE MATTER OF an application by Niagara-on-
the-Lake Hydro Inc. for an order approving just and reasonable
rates and other charges for electricity distribution to be
effective May 1, 2015.

**ENERGY PROBE RESEARCH FOUNDATION
("ENERGY PROBE")**

ARGUMENT

January 16, 2015

**NIAGARA-ON-THE-LAKE HYDRO INC.
2015 RATES APPLICATION**

EB-2014-0097

ARGUMENT OF ENERGY PROBE RESEARCH FOUNDATION

A- INTRODUCTION

This is the Argument of the Energy Probe Research Foundation (“Energy Probe”) related to the issues raised by the Incremental Capital Module ("ICM") component of the 2015 rates application of Niagara-on-the-Lake Hydro Inc. ("NOTL").

Energy Probe's submissions on the ICM are related to the calculation of the amount to be recovered and to the allocation of the costs to the rate classes. Energy Probe has no issues with any of the components of the ICM other than those discussed below.

B - SUBMISSIONS

a) Update for Threshold Parameters

As shown in Table 3.3 of the evidence, the threshold parameters used by NOTL result in a price cap index of 1.40%, reflecting a price escalator of 1.7%, 0.0% productivity factor and -0.3% stretch factor.

Energy Probe submits that this calculation should be updated to reflect the 1.6% inflation rate to be used by distributors for 2015 rate applications as calculated by the Board and released on October 30, 2014. This results in a price cap index of 1.30%, as shown in the response to Energy Probe Interrogatory #2.

Energy Probe also submits that the growth factor of 1.32% shown in Table 3.3 is incorrect because it does not use billed kWh figures for the 2013 actual ICM billing determinants used for the growth calculation. Rather, it uses billed kWh figures for each rate class, adjusted for unbilled amounts. This is not consistent with the calculation of the 2014 amount, which is based on the agreed to billed energy forecast by customer class in the EB-2013-0155 rebasing application. Energy Probe submits that both the denominator and numerator in the calculation of the growth factor need to be based on the same input value, billed energy by rate class.

As shown in the response to Energy Probe Interrogatory #3, this would reduce the 2013 denominator to \$4,410,764 from that shown in the original Table 3.5 of \$4,423,271, which in turn would increase the growth factor in Table 3.3 from 1.32% to 1.60%.

Energy Probe submits that these updated/corrected figures should be used in the calculation of the incremental revenue requirement. Based on the price cap index of 1.30% and the growth factor of 1.60%, Energy Probe submits that the threshold CAPEX shown in Table 3.2 of \$1,876,146 should be revised to \$1,921,885. This figure reflects a threshold test percentage of 191.11%.

This in turn decreases the total incremental capital amount eligible for the ICM rate rider calculation from \$1,950,854 as shown in Table 3.8 to \$1,905,115.

b) Calculation of Incremental Revenue Requirement

With respect to the calculation of the incremental revenue requirement shown in Table 3.8, Energy Probe notes that there should be three changes to the calculation as proposed.

First, as noted above, the total incremental capital should be decreased to \$1,905,115 to reflect the updated inflation factor and the correct growth rate.

Second, the depreciation expense shown in Table 3.8 should be reduced to reflect the total eligible incremental capital of \$1,905,115. The figure currently included in this table reflects depreciation on the entire cost of the project of \$2,577,000, or \$53,854.55, as shown in Table 3.6. Energy Probe submits that the depreciation associated with the eligible incremental capital cannot exceed the depreciation on the eligible incremental capital amount.

Energy Probe notes that in Table 3.6, the total proposed incremental capital CAPEX of \$2,577,000, upon which the depreciation expense is based (confirmed by NOTL in the response to Energy Probe Interrogatory #6a), is in excess of the eligible incremental capital amount. In the response to that same interrogatory (part c), NOTL provides a methodology to calculate the depreciation expense so that the recoverable depreciation expense is based on the eligible capital amount and not the total project cost. This will reduce the amount to be collected through the rate rider.

Thirdly, the CCA deduction has also been estimated based on the total project cost, rather than the eligible incremental capital amount, similar to the issue related to the depreciation expense. In the same way that the depreciation expense should only be based on the eligible incremental capital amount, Energy Probe submits that the CCA deduction should only be based on the eligible incremental capital amount. This reduction will increase taxable PILs and increase the amount to be recovered through the rate rider.

c) Allocation of the Incremental Revenue Requirement

NOTL proposes to allocate the incremental revenue requirement based on the same basis as the recovery of transmission connection costs. That is, rate class shares of transmission connection revenues would be used.

Energy Probe submits that a more accurate and a more reasonable approach is to allocate the incremental revenue requirement based on the allocation of the costs of the station currently included in rate base. The eligible incremental capital amount is based on a discrete project and asset. This asset, already in rate base, has been allocated to customers through the Board approved cost allocation model in the 2014 rates rebasing application (EB-2013-0155). Energy Probe submits that there is no reason not to allocate the incremental costs associated with this asset in the same manner.

As indicated in the response to Energy Probe Interrogatory #1, the Transformer CP TCP4 allocator was used to allocate the MTS#2 asset. NOTL agreed that using the TCP4 allocator was an alternative with some merit.

Energy Probe submits that using the TCP4 allocator is most appropriate in this case. The original asset has been allocated in this manner and the upgraded asset should be allocated in the same way. This is a direct reflection of cost causality.

C - COSTS

Energy Probe requests that it be awarded 100% of its reasonably incurred costs. Energy Probe focused on the quantum and allocation of the ICM claim.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

January 16, 2015

**Randy Aiken
Consultant to Energy Probe**