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January 16, 2015

VIA E-MAIL

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge St.
Toronto, ON
M4P 1E4

Dear Ms. Walli:

Re: EB-2014-0097 Niagara-on-the-Lake Hydro Inc. ICM
Submissions of Vulnerable Energy Consumers Coalition (VECC)

Please find enclosed the submissions of VECC in the above-noted proceeding. We have also directed a copy of the same to the Applicant.

Thank you.

Yours truly,

Michael Janigan
Counsel for VECC

Cc: Niagara-on-the-Lake Hydro Inc.

EB-2014-0097

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.**

Submissions of Vulnerable Energy Consumers Coalition (VECC)

VECC's submissions address NOTL's request for Incremental Capital Module funding.

Incremental Capital Module (ICM)

- NOTL has two transformer stations (York TS known as MTS#1 and NOTL TS known MTS#2). MTS#2 was constructed in 1985 and has two transformer stations with a total nameplate capacity of 50MVA. MTS#1 has a single transformer and a nameplate capacity of 41.7 MVA.

- NOTL requests the approval of incremental rate riders to recover the incremental cost to replace and upsize one transformer unit at MTS#2.

- The MTS#2 replacement project was included in NOTL's 2014 Cost of Service Application as a System Renewal project for 2015 at an estimated cost of $3,000,000. NOTL has since updated the capital cost for this project in this application to $2,577,000.

- For incremental capital expenditures to be considered for recovery prior to rebasing, the Board's Guidelines indicate the amounts must satisfy the following eligibility criteria: **need, prudence** and **materiality.**[1]

Need & Prudence

- ***Need:*** *Amounts should be directly related to the claimed driver, which must be clearly non-discretional. The amounts must be clearly outside the base upon which rates were derived.*

  Prudence: *The amounts to be incurred must be prudent. This means that the distributor`s decision to incur the amounts must represent the most cost effective option (not necessarily least initial cost) for ratepayers.*

- As stated in NOTL's Distribution System Plan, a professional condition assessment of the two units at MTS#2 revealed that the units will be approaching the end of their useful life in 5

[1] Chapter 3of the Filing Requirements for Transmission and Distribution Applications, July 17, 2013, Page 14

to 10 years. NOTL targeted May 2015 as the completion date for one unit where replacement was deemed more critical. Replacement of the second unit is targeted for around 2022 as it was deemed to be in slightly better condition.

- NOTL's system load continues to approach or exceed 50 MVa and a failure during a peak load period could be catastrophic. Increasing the capacity configuration with a larger unit will provide longer-term supply capacity and allow for the removal of any unit for servicing without compromising supply capacity. NOTL has obtained approval from the transmitter and the IESO to increase the unit's capacity.

- IBI Group explored the options identified in NOTL's Long Term Supply Plan including a do nothing option. In response to VECC IR#2, NOTL provided updated cost details on three options to increase station capacity. All options resolve the issue of at least one station being able to supply peak system load.

    1. Upgrading NOTL Station by replacing 1 old transformer with a 30/40/50 MVA transformer ($2,577,000)

    2. Upgrading York Station with a new identical 42MVA unit ($6,463,800)

    3. Upgrading York Station with a refurbished 25MVA unit from NOTL ($5,673,780)

- Option #2 to upgrade York Station was the recommended option however NOTL determined it was not the most cost effective and it did not address the issue of replacement of aging transformers at the NOTL Station. NOTL found that no major civil work had to be done at the NOTL Station to upgrade a transformer so it determined that Option #1 was the most cost effective with the most benefits.[2] NOTL indicates that Option #1 also replaces an aging transformer and provides a good back up plan in case any transformer fails in any station.[3]

- Option 1 was approved by NPTL's Board and its shareholder. CG Power was awarded the contract to deliver the 30/40/50 MVA power transformer. Eptcon was awarded the contract for engineering, procurement and construction for the transformer station design and construction. The cost of the asset components include $1,650,000 for the transformer, $767,000 for the structure, and $159,300 for contingency for a total of $2,577,000. The expected in-service date is May 31, 2015.

- NOTL's contingency plan is to use the old replaced 25 MVA transformer on a new concrete pad as a backup for any station transformer failure. VECC agrees with NOTL that this plan demonstrates a good use of existing assets that still have remaining useful life.

- In considering the above, VECC submits the need and prudence criteria have been met regarding NOTL's proposal to replace and upgrade its MTS#2 Station.

[2] VECC IR#2 (b)(c)
[3] VECC IR#2(c)

Materiality

- ***Materiality:*** *The amounts must exceed the Board-defined materiality threshold and clearly have a significant influence on the operation of the distributor; otherwise they should be dealt with at rebasing. Distributors are to use a Board approved formula to calculate a materiality threshold.*

- The ICM is intended to address the treatment of capital investment needs that arise during the rate-setting plan which are incremental to the materiality threshold. The Board determined that the eligible incremental capital amount sought for recovery should be new capital in excess of the materiality threshold. A distributor applying for recovery of incremental capital should calculate the maximum allowable capital by taking the difference between 2015 total non-discretionary capital expenditure and the materiality threshold. [4]

- NOTL's revised cost estimate of the MTS#2 project is $2,577,000. Combined with NOTL's $1,250,000 proposed spending in 2015 for other capital projects deemed non-discretionary by NOTL, NOTL's updated 2015 capital budget is $3,877,000. Less $50,000 in internal costs for project management of the MTS#2 project, not being claimed as part of the ICM, the total 2015 capital budget for ICM is $3,827,000. The MTS#2 project is significant and represents approximately 67% of the total 2015 capital budget. In response to interrogatories, NOTL clarified the adjustments made to 2015 capital projects within the $1,250,000 capital budget compared to 2014 noting that the overall spending level has not changed and the investments are non-discretionary.[5]

- Using the Board's formula (Threshold Test), NOTL calculated the materiality threshold as $1,876,146 (186.56%) using a price cap index of 1.40% (price escalator of 1.70%, a productivity factor of 0.00% and a stretch factor of 0.30%), growth of 1.32% and a dead band of 20%.

- In response to Energy Probe IR#2, NOTL updated the Price Cap Index Threshold parameters (Table 3.3) using an updated inflation rate of 1.60% released by the Board on October 30, 2014 for use for 2015 rate applications. The update changes the price cap index from 1.40% to 1.30% (price escalator of 1.60%, a productivity factor of 0.00% and a stretch factor of 0.30%). VECC submits the updated Price Cap Index should be used in the Materiality Threshold Test calculation (Table 3.2).

- VECC has consulted with Energy Probe and supports Energy Probes submissions that NOTL's proposed growth factor of 1.32% is incorrect. VECC agrees that both the numerator and denominator in the calculation of the growth factor need to be based on the same input value, billed energy by rate class. This change increases the growth factor from 1.32% to 1.60%.[6]

- VECC submits the above changes to the price cap index and growth factor should be implemented. The changes proposed reflect a revised Threshold CAPEX of $1,921,885 compared to $1,876,146 included in the application. As NOTL is not in its last year of an

[4] Chapter 3of the Filing Requirements for Transmission and Distribution Applications, July 17, 2013, Page 15
[5] VECC IR#1, Board Staff IR#3
[6] Energy Probe Submissions Page 2

IRM term, a half-year rule does not apply. As calculated by Energy Probe, the resulting eligible incremental capital amount is $1,905,115 ($3,827,000-$1,921,885 = $1,905,115). VECC agrees with Energy Probe that the total eligible incremental capital should be adjusted to $1,905,115 to reflect the updated inflation factor and growth rate factor.

- VECC submits the materiality criterion has been met and the amount exceeds the Board-defined materiality threshold.

Calculation of Incremental Revenue Requirement

- NOTL calculated the incremental revenue requirement as $164,263 in its application.[7]

- In its submissions, Energy Probe notes that the depreciation expense should be reduced to reflect the total eligible incremental capital of $1,905,115, instead of the entire cost of the project. Energy Probe also submits that the CCA deduction should be estimated based on the eligible incremental capital amount and not the total project cost.

- VECC notes the Board's Decision in PowerStream's 2014 Rate application EB-2013-0166 accepts the Settlement Agreement where PowerStream corrected the calculation of the amounts for depreciation and CCA as noted in response to Energy Probe No. 3(b)[8] to reflect the incremental capital and not the total capital costs.

- VECC submits the changes to the calculation of depreciation and CCA proposed by Energy Probe should be accepted by the Board. VECC notes these changes will change the incremental revenue requirement amount requested for recovery through the rate riders.

Allocation of Incremental Revenue Requirement

- NOTL proposes that the allocation of incremental revenue requirement related to the transformer costs should be on the same basis as the recovery of transmission connection costs i.e. rate class shares of transmission connection revenue.[9] NOTL notes that this method of allocation is the same approach approved by the Board in Woodstock Hydro's ICM request for transmission station costs (EB-2011-0207).

- In response to Energy Probe IR#1, NOTL provided information on how the current MTS#2 is allocated to rate classes based on the cost allocation study from the 2014 cost of service application, OEB Account 1815 (which includes MTS#2), which is based on the Transformation Coincident Peak TCP4 used for the MTS#2 asset (Sheet I8 Demand Data Worksheet).

- In its final submissions (Pages 3-4), Energy Probe has put forward an alternative cost allocation proposal. Energy Probe takes the position that a more accurate and reasonable approach is to allocate incremental revenue requirement based on the allocation of the costs of the station currently included in rate base as this is a direct reflection of cost

[7] Manager's Summary Page 26-27
[8] EB-2013-0166 Decision, Settlement Agreement Page 8 of 14
[9] Manager's Summary Page 28

causality.

- The total % of costs by rate class between the two allocation methods (NOTL's allocation method compared to Energy Probe's allocation proposal) are as follows:

Customer Class	NOTL Cost Allocation per Application	Energy Probe Cost Allocation per 2014 COS
Residential	30.39%	29.88%
GS<50 kW	15.76%	27.86%
GS>50 kW	53.35%	42.19%
USL	0.11%	0.07%
Streetlighting	0.39%	0.00%
Total	100.00%	100.00%

- Based on Energy Probe's allocation proposal, the residential rate rider is unchanged from the original, the GS<50 kW rider is increased and all other riders are decreased.10

- NOTL indicates it was guided by a review of previous cases and decisions regarding the appropriate cost-causality proposal which to its knowledge does not include the TCP4 approach. However NOTL indicates that it recognizes that the TCP4 approach is an alternative assumption with some merit.

- VECC supports the analysis and proposal put forward by Energy Probe and submits the Transformer CP TCP4 allocator should be used to allocate the incremental revenue requirement associated with the MTS#2 asset as it better reflects cost causality.

Implementation

- NOTL proposes to recover the incremental revenue by rate class using only variable rate riders rather than both fixed and variable riders to avoid complexities and to be consistent with other Decisions (EB-2011-0207).

- VECC notes that in Guelph Hydro (EB-2010-0130), Oakville Hydro (EB-2010-0104) and Centre Wellington (EB-2011-0160) proceedings the Board approved the recovery of the incremental annual revenue requirement by means of a variable rate rider only. VECC agrees a variable rate rider is administratively more straightforward. VECC takes no issue with NOTL's proposal to recover the incremental revenue by rate class using only variable

[10] EP IR#1(c)

rate riders rather than both fixed and variable riders.

- NOTL proposes that the Variable Rate Riders be in effect from May 1, 2015 to April 30, 2019, which is the remaining four years of NOTL's current IRM period until the next scheduling rebasing in 2019. VECC takes no issue with this proposal.

Recovery of Reasonably Incurred Costs

VECC submits that its participation in this proceeding has been focused and responsible.

Accordingly, VECC requests an order of costs in the amount of 100% of its reasonably-incurred fees and disbursements.

All of which is respectfully submitted this 16th of January 2015.