

**2015 ELECTRICITY DISTRIBUTION RATES
Niagara Peninsula Energy Inc.**

EB-2014-0096

STAFF SUBMISSION

March 4, 2015

INTRODUCTION

On February 25, 2015 Niagara Peninsula Energy Inc. (“NPEI”) filed a settlement proposal with respect to its application for an order approving just and reasonable rates and other charges for electricity distribution to be effective May 1, 2015.

The parties to the settlement proposal are the OEB- approved intervenors in the proceeding: the Vulnerable Energy Consumers’ Coalition, the School Energy Coalition and Energy Probe Research Foundation.

The settlement proposal represents a partial settlement. There are two unsettled issues in the proceeding, as follows:

- The appropriate percentage factor to be used to calculate NPEI’s Working Capital Allowance component of rate base, including the impact of the merger on the Working Capital Allowance reflected in the Revenue Requirement; and
- The proposed fixed/variable ratio used to determine the distribution rates for the Residential customer class.

The parties propose that these matters should be the subject of an oral hearing.

This submission reflects observations which arise from OEB staff’s review of the evidence and the settlement proposal, and is intended to assist the OEB in deciding upon NPEI’s application with respect to the issues laid out in the settlement proposal and in setting just and reasonable rates.

Submission

OEB staff has reviewed the settlement proposal in the context of the objectives of the Renewed Regulatory Framework for Electricity, other applicable OEB policies, relevant OEB decisions, and the OEB’s statutory obligations. While the parties considered the issues and NPEI’s planning in the limited context of the test year, OEB staff is of the view that the settlement proposal reflects a reasonable evaluation of the distributor’s planned outcomes in this proceeding, and appropriate consideration of relevant issues. OEB staff submits that parties have considered the settled issues within the context of the Renewed

Regulatory Framework for Electricity, and have given due consideration to the outcomes of customer focus, operational effectiveness, public policy responsiveness and financial performance.

For purposes of clarity, OEB staff notes that there is an inconsistency in the settlement proposal with respect to the description of the deferral and variance account that is to be established to record variances related to metering costs associated with the installation of MIST meters. At p.16 of the settlement proposal it is stated that the account will "...record the *incremental* (emphasis added) meter reading costs..." while the draft accounting order found in Appendix 4.2-C (at p. 72 of the appendices) describes the account as recording "... the variance in *costs above or below* (emphasis added) \$43,760...". NPEI, on behalf of the parties, may wish to clarify this apparent inconsistency at a time it considers suitable.

OEB staff submits that the OEB's approval of the proposal as filed would adequately reflect the public interest and would result in just and reasonable rates for customers.

Notwithstanding the above, OEB staff's submission below provides further discussion of Other Post Employment Benefits (OPEB) and the prudential interest expense recorded in accounts 1518 and 1548.

Other Post Employment Benefits (OPEB)

In its initial application, NPEI included \$273,909 for OPEB costs in OM&A. Parties subsequently settled on an OM&A of \$16,424,995, which includes a reduction of \$74,000 to OPEBs. The OPEB costs included in NPEI's rates are based on the accrual method of accounting and not the cash method of accounting. The accrual basis recognizes expenses when the entitlement to OPEB is earned and not when an entity actually has to pay them out. The cash basis recognizes expenses when cash payments are made. In interrogatories and technical conference undertakings, NPEI confirmed that it has recovered OPEBs on an accrual accounting basis since 2006. In 2015, NPEI is requesting to recover \$199,909¹ in OPEBs but is expected to pay out \$172,000 for the OPEB liability, a recovery in rates \$27,909 greater than the amount it will pay out in 2015. For the period of 2006 to 2015,

¹ Calculated as \$273,909 (per Technical conference undertaking JT1.13) reduced by \$74,000 of OPEB costs in rates as per settlement agreement

NPEI will recover \$261,734² more in rates than it will pay out.

OEB staff notes that the OEB may hold a generic proceeding on the regulatory treatment and recovery of pension and OPEB costs in the near future. In addition, OEB staff notes that there is currently no consistency among utilities in the use of either cash or accrual method for rate recovery of OPEB costs. In NPEI's case, even though NPEI is requesting to recover a greater amount than it expects to pay out in 2015, this amount of \$27,909 is immaterial when compared to its materiality threshold of approximately \$150,000. As such, OEB staff does not take any issue with NPEI recovering OPEB costs using the accrual basis of accounting in its current rate application.

Accounts 1518 and 1548

NPEI is requesting to dispose of Account 1518 Retail Cost Variance Account (RCVA) Retail and Account 1548 RCVA Service Transaction Requests (STR) for debit amounts of \$138,753 and \$178,967 respectively. In the calculation of the amounts recorded in the RCVA accounts, NPEI has included a total of \$45,967 of prudential interest expense for a standby letter of credit that NPEI holds relating to the IESO for participating in Ontario's electricity market. NPEI indicated that they believed the interest expense to be an incremental cost for settling with all customers and therefore, allocated the interest expense to the RCVA accounts.

The Accounting Procedures Handbook (APH), effective January 1, 2012, provides guidance on items to be recorded in Accounts 1518 and 1548. Account 1518 is to record the difference between the amounts billed and the incremental costs of providing retail services other than those related to a STR. Specifically, the account is to include the costs of entering into service agreements and related contract administration, monitoring, and other expenses necessary to maintain the contract, as well as the incremental costs incurred to provide services in distributor and retailer consolidated billings. Account 1548 is to record the difference between the amounts billed in relation to an STR and the incremental costs of providing the initial screening and actual processing services for the STR.

² Calculated as \$335,734 (per Technical conference undertaking JT1.13) reduced by \$74,000 of OPEB costs in rates as per settlement agreement

Specifically, the account is to include the incremental costs of labour, internal information system maintenance costs, and delivery costs related to the provision of the services associated with STRs. OEB staff is of the view that the prudential interest expense does not qualify as costs specifically listed in the APH to be included in Account 1518 or Account 1548. Including the prudential interest costs in the RCVA accounts will result in an over recovery of short-term interest expense as NPEI already recovers short-term interest as a part of the cost of capital for short-term debt included in its revenue requirement. However, OEB staff notes that the amount of the interest included in the accounts is immaterial when compared to NPEI's materiality threshold of approximately \$150,000 and when taken as part of a settlement with no precedential value.

All of which is respectfully submitted.