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Ontario

ONTARIO ENERGY BOARD

STAFF SUBMISSION ON APPLICATION FOR 2015 RATES BY NATURAL RESOURCE GAS LIMITED EB-2015-0115

August 25, 2015

Background

Natural Resource Gas (NRG) filed an Application on July 9, 2015 with the Ontario Energy Board (OEB) under section 36 of the Ontario Energy Board Act, 1998, for an order approving changes to rates and other charges for 2015 (fiscal year 2016) based on the Incentive Ratemaking (IRM) framework approved by the OEB, effective October 1, 2015.

In Procedural Order No. 1 issued on August 13, 2014, the OEB set timelines to file interrogatories, responses to interrogatories and submissions on the Application.

OEB staff has reviewed NRG's Application and interrogatory responses. The submissions below reflect observations of OEB staff. The submission is intended to assist the OEB in evaluating NRG's application and in setting just and reasonable rates.

OEB Staff Submission

OEB staff supports the use of the OEB's 2015 IRM parameters to set rates in this Application. OEB staff submits that the use of a stretch factor of 0.4% is appropriate as approved by OEB in EB-2010-0018. NRG has appropriately calculated the price cap adjustment at 1.2%.

In its Application, NRG noted that it no longer qualifies for the lower provincial tax rate applicable to companies with taxable capital less than $15 million. OEB staff has verified the financial statements of NRG and confirms that its taxable capital exceeds the $15 million threshold. This change has resulted in NRG paying higher income taxes in 2016 as compared to the amount included in rates. In accordance with the IRM Settlement Agreement in EB-2010-0018, changes in income tax are to be shared equally between ratepayers and NRG. Consequently, NRG has proposed to recover 50% of the $34,103 increase in income taxes as a rate rider over a one year period. OEB staff supports NRG's proposal and is satisfied with the calculation of the rate rider.

The delivery rate impact on Rate 2 customers is almost double the price cap adjustment. OEB staff in an interrogatory requested NRG to provide a rationale for the significant increase.

In its response NRG clarified that the 1.2% price cap adjustment is applied for the Rate 2 (seasonal) class and the rate model recovers the additional revenue[1] from one or two distribution charges within the rate class. This in turn increases the distribution rate by 4.3% for the first block rate and keeps all other distribution rates constant. When the proportional volume is taken into account for the first block, the overall rate increase is 51% of 4.3% which is 2.3%. OEB staff has reviewed the Excel model generator submitted by NRG and is satisfied with the proposed calculation.

OEB staff submits that NRG has used OEB approved IRM parameters and the resulting rate changes including recovery of income taxes are appropriate.

– All of which is respectfully submitted –

[1] Additional revenue refers to 1.2% (price cap adjustment) of current revenues