January 22, 2016

BY EMAIL & 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-2015-0090
Niagara Peninsula Energy Inc. – 2016 IRM Rate Application
Energy Probe – Working Capital Allowance Submission

Pursuant to Procedural Order No. 1, issued November 10, 2015, please find attached the Working Capital Allowance Submission of Energy Probe Research Foundation (Energy Probe) in the EB-2015-0090 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: Suzanne Wilson, Niagara Peninsula Energy (By email)
Randy Aiken, Aiken & Associates (By email)
Parties of Interest (By email)

EB-2015-0090

Niagara Peninsula Energy Inc.

Application for electricity distribution rates and other charges effective May 1

WORKING CAPITAL ALLOWANCE SUBMISSIONS OF ENERGY PROBE RESEARCH FOUNDATION ("ENERGY PROBE")

January 22, 2016

NIAGARA PENINSULA ENERGY INC.
2016 RATES CASE
EB-2015-0090

SUBMISSION OF ENERGY PROBE RESEARCH FOUNDATION ON WORKING CAPITAL ALLOWANCE

A- INTRODUCTION

Niagara Peninsula Energy Inc. ("NPEI") filed a cost of service rate application with the Ontario Energy Board ("OEB" or "Board") on September 23, 2014 (EB-2014-0096) for rates effective May 1, 2015. The OEB's Decision and Order dated May 14, 2015. In that Decision, the OEB directed NPEI to conduct a lead/lag study and file the study with the OEB at its next incentive rates application. The OEB further found that NPEI's 2015 final rates would be based on its actual approved working capital needs and rates were approved on an interim basis effective June 1, 2015.

As part of the current application, NPEI filed a lead/lag study that was prepared by Elenchus Research Associates Inc. ("Elenchus"). As part of the original evidence, NPEI sought a working capital allowance ("WCA") of 13.22%. As part of the interrogatory process, an updated lead/lag study was filed and the resulting WCA was reduced to 12.61%.

The following are the submission of the Energy Probe Research Foundation ("Energy Probe") with respect to the updated request for a WCA percentage of 12.61%.

B - SUBMISSIONS

Energy Probe has submissions related to five areas where it believes the evidence does not support various components of the lead/lag study that results in a WCA of 12.61%. These are discussed individually and then summarized.

i) Collection Lag

NPEI is requesting a collection lag of 29.24 days, as shown in Table 3 to the updated lead/lag study filed in Appendix D to the interrogatory responses. Energy Probe submits that this figure should be reduced to 24.13 days, as calculated in the response to Board Staff interrogatory #2(b).

The methodology used to calculate both of the above noted figures is based on an accounts receivable aging summary for the period May 2014 through April 2015. The only difference between the two sets of figures is the aging categories used for the calculation. NPEI used a period for the current aging category of 0 to 30 days and used a mid point for this period of 15 days. Approximately 91% of the accounts receivable reside in this category. NPEI used four different aging categories, or bins, for overdue accounts.

Staff requested that the bin sizes be broken down into smaller increments than that used by NPEI. As provided in the response to Board Staff interrogatory #2(b), NPEI was able to divide the first bin (0 to 30 days) into two aging categories, namely 0 to 19 days and 20 to 30 days. No changes were made to the overdue aging categories. Based on this change, the collection lag declines from 29.24 days to 24.13 days. This is primarily because more than 97% of the average accounts receivable in the 0 to 30 day bin is actually in the 0 to 19 day bin, with the remaining 3% in the 20 to 30 day bin.

Energy Probe submits that the use of the smaller bin sizes for current accounts results in a more accurate estimation of the collection lag and should be used by the Board in the determination of the WCA percentage.

The reduction in the collection lag to 24.13 days results in an overall revenue lag of 59.12 days, in place of the 64.75 days used by NPEI.

ii) Cost of Power Expense Lead

In the calculation of the cost of power expense lead, NPEI has adjusted the IESO expense lead from the actual figure of 30.39 days (Section 3.1 of updated lead/lag study in Appendix D) to 28.99 days to reflect additional margin calls as a result of a change in the trading limit that occurred in June of 2015. This reduces the overall weighted average (of IESO, Hydro One and Niagara West Transformation) days from 30.95 to 29.59. The 30.95 days, shown in the response to Board Staff interrogatory #3(b) reflects the actual expense lead for the May 2014 through April 2015 period.

Energy Probe submits that the Board should use the 30.95 days for two reasons. First, it is consistent with the period used to estimate all of the other revenue lags and expense leads used in the lead/lag study, and there is no reason to deviate from this period for one specific expense.

Second, NPEI has indicated that upon the receipt of a margin call warning, NPEI makes a prepayment to the IESO (Board Staff interrogatory #3(a)). However, as indicated in the response to Energy Probe interrogatory #6(d), NPEI is not required to make a payment. The margin call warning only indicates that NPEI has reached 70% of its trading limit with the IESO. Only when it receives a margin call, is NPEI required to make a payment to the IESO in advance of the regular monthly payment. NPEI has estimated that a margin call could be issued within 6 days of the margin call warning.

Energy Probe submits that the cost of power expense lead should not be based on when a margin call warning is issued, as it does not require payment and if a warning call is issued, it is not for at least 6 more days.

iii) PILs Expense Lead

With respect to the PILs expense lead, Energy Probe submits that the expense lead days should be changed from -562.75 days to 36.22 days as shown in the response to Energy Probe interrogatory #8(b).

The rationale used for the expense lead of -562.75 days in the lead/lag study is that NPEI has overpaid PILS and has a credit balance with the Ministry of Finance. In other words, NPEI has, in effect, prepaid its PILs. In fact, NPEI has indicated that it has a credit balance of approximately $700,000 as of October 2015 (Energy Probe interrogatory #8(c)) and that this amount represents more than 5 years of PILs payments (Board Staff interrogatory #4(a)).

Energy Probe submits that the PILs expense lead should be based on a normal payment schedule in the absence of a credit balance. The credit balance is not typical for NPEI or any distributor. The credit balance, which could be refunded to NPEI if it so desired, reflects the fact that NPEI does not have a cash flow problem. If it did, an extra $700,000 in cash would be useful.

Based on a normal PILs payment schedule, the PILs expense lead, as calculated by NPEI would be 36.22 days. Energy Probe submits that this is what should be used in the WCA calculation.

iv) Long Term Debt Expense Lead

NPEI has calculated the expense lead associated with the long term debt based on monthly payments for all of the loan agreements. Energy Probe has no issue with respect to the payment of interest associated with the third party loans shown in the response to Energy Probe interrogatory #7. However, Energy Probe submits that NPEI

has not properly reflected the affiliate loan agreements with the City of Niagara Falls and the Niagara Falls Hydro Holding loans.

In particular, as shown in the first table provided in the response to Energy Probe interrogatory #7(a), the lag for these two loan agreements is based on payments made at the end of each month.

However, as shown in the loan agreements provided in Appendix I to the interrogatories, interest payments are to be made quarterly, not monthly. Energy Probe has recreated the table used by NPEI in Energy Probe interrogatory #7(a) that shows the calculation of the 4.38 expense lead. Energy Probe has changed the service lag and payment lag to reflect payments on a quarterly basis on the last day of the quarter. The service lag is 45.63 days and the payment lag is -1 day, result in a total lag of 44.63 days for the two affiliate loans. No changes have been made for the third party loans. The net result is an increase in the long term interest expense lead from 4.38 days to 28.34 days.

Debt Holder	Principal	Interest	Service Lag	Payment Lag	Total Lag	Weighting Factor	Weighted Lead	Payment Date
City of Niagara Falls	22,000,000	1,170,399.96	45.63	-1.00	44.63	48.64%	21.71	End of Quarter
Niagara Falls Hydro Holding	3,605,090	191,790.72	45.63	-1.00	44.63	7.97%	3.56	End of Quarter
TD Term Loan	4,188,358	221,644.68	15.21	-10.67	4.54	9.21%	0.42	20th of Month
Scotiabank Smart Meter Loan	2,362,500	133,255.57	15.21	-0.92	14.29	5.54%	0.79	Last Day of Month
TD Term Loan	10,000,000	279,999.99	15.21	-8.75	6.46	11.64%	0.75	21st or 23rd of Month
TD Term Loan	10,000,000	293,300.00	15.21	-8.75	6.46	12.19%	0.79	21st or 23rd of Month
TD Term Loan	10,000,000	116,004.65	15.21	-8.33	6.88	4.82%	0.33	21st or 23rd of Month
Total	62,155,948	2,406,395.57				100.00%	28.34	

Energy Probe notes that NPEI does make monthly interest payments on its affiliate debt. In fact, those payments are made well in advance of month end, on average, based on the NPEI interrogatory response noted earlier.

However, as noted above, NPEI is not required to make monthly payments. The affiliate loan agreements clearly state interest is payable quarterly. Energy Probe submits that the Board should calculate the expense lead associated with the affiliate debt based on the actual loan agreements. The fact that NPEI pays its affiliates on a more frequent basis should not be taken into account because these payments do not provide customers with any benefit. In fact, the monthly payments, as illustrated in the WCA calculation, actually result in higher costs for customers. In other words, customers are receiving no value for the extra money this costs them. For regulatory purposes, the Board should deem that interest payments to the affiliates are in accordance with the loan agreements.

v) HST for Revenues

NPEI has calculated an HST expense lead for revenues of -10.45 days, as shown in the response to Energy Probe interrogatory #12(b). Energy Probe submits that the correct figure is -19.33 days, as shown in the following table, which is corrected version of the table shown in the interrogatory response.

Revenue	Amount ($)	HST (13%)	Lead (Lag) Days	Weighting Factor	Weighted Lead (Days)
From All Customers	164,532,857	21,389,271	-19.7	99.33%	-19.57
From Other Sources	1,103,577	143,465	35.35	0.67%	0.24
Total	165,636,434	21,532,736			-19.33

The lead (lag) days calculated by NPEI of -10.78 days include a number of assumptions that are not correct. The example provided in the interrogatory response which results in the figure of -10.78 days contains a number of discrepancies. First, the bill date would not be October 16 for a service period that ends on September 30, given a billing lag of 17.98 days. More importantly, the calculation of the -10.78 days is based on the service date of September 15 to the HST payment date of November 30 (75 days) and the total revenue lag of 64.22 days.

As the OEB is aware, HST is payable on the last day of the month following the invoice date for both revenues and expenses. For revenues, this means that the HST is based on the billing date, not the service date as used by NPEI.

NPEI has based their calculation on an average service date of 15.21 days into a month (i.e. the midpoint of the month). Energy Probe submits that it is the billing date that starts the clock ticking on when the HST becomes payable. Using the same assumption as NPEI, but using the billing date, the average billing date in any month is the midpoint of that month (i.e. 15.21 days into the month).

NPEI receives the HST from the invoices on average 24.13 days after the billing date. This is the collection lag that should be approved by the Board as noted above in this submission. With an added 1.80 days for the payment processing lag, NPEI receives payment 25.93 days after the billing date, or 10.72 days into the payment month (25.93 - 15.21). NPEI is required to remit the HST associated with these invoices at the end of the month following the month the invoice is issued. In other words, NPEI issues bills on average in one month at 15.21 days and receives the funds from customers on average on day 10.72 of the following month. At the end of that month, the HST is paid to the government. NPEI has these funds for 19.70 days (10.72 - 30.42). This is the appropriate expense lag days for the revenues received from all customers.

NPEI has used an HST lead of 39.17 days for revenues from all other sources. This figure is based on a revenue lag of 114.17 days (Table 7 in the lead/lag study) less 75 days. Energy Probe submits that this calculation is again based on the service date and not the billing date, as it should be.

Energy Probe submits that the revenue lag of 114.17 days should be reduced to 80.98 days, reflecting the removal of the service lag (15.21) days and the billing lag (17.98). In other words, NPEI receives the revenues, on average, 80.98 days following issuance of the bill. Similarly, assuming the bills are issued, on average, at mid month, the payment date to the government is 45.63 after the billing date (15.21 + 30.42). The difference between the 80.98 days and the 45.63 days, or 35.35 days, is the number of days after paying the HST to the government that NPEI actually receives the HST from the other sources.

vi) Summary of Submissions

Table 13 in the lead/lag study calculates the requested WCA percentage of 12.61%. Energy Probe has recreated this table with the five changes noted above.

	REVENUE LAG DAYS	EXPENSE LEAD DAYS	NET LAG DAYS	EXPENSES	WCA ($)	WCA (%)
COST OF POWER	59.69	30.95	28.74	144,149,669	11,350,374	
RETAILER EXPENSES	59.69	37.94	21.75	2,417,005	144,028	
OM&A EXPENSES	59.69	-1.73	61.42	16,424,995	2,763,907	
INTEREST EXPENSE	59.69	28.34	31.35	2,345,596	201,465	
PILS	59.69	36.22	23.47	163,430	10,509	
DEBT RETIREMENT CHARGES	59.69	28.26	31.43	8,456,444	728,185	
TOTAL				173,957,139	15,198,468	9.47%
HST RECEIVABLES			-19.33	22,603,800	-1,197,072	
HST EXPENSES			43.63	19,499,180	2,330,815	
TOTAL INCLUDING HST					16,332,211	10.17%

In summary, Energy Probe submits that the WCA should be reduced from 12.61% as proposed by NPEI based on the updated lead/lag study to 10.17%.

C - COSTS

Energy Probe requests that it be awarded 100% of its reasonably incurred costs. Energy Probe limited its participation in this proceeding to the working capital allowance issue.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

January 22, 2016

Randy Aiken
Consultant to Energy Probe