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March 28, 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/EB-2015-0328
Niagara Peninsula Energy Inc. – Draft Rate Order
Energy Probe – DRO Working Capital Allowance Submission

Pursuant to the Decision and Order, issued March 17, 2016, please find attached the Energy Probe Research Foundation (Energy Probe) Working Capital Allowance Submission in respect of the Draft Rate Order in the EB-2015-0090/EB-2015-0328 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)
Paul Blythin, Niagara Peninsula Energy (By email)
Randy Aiken, Aiken & Associates (By email)
Parties of Interest (By email)

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Niagara Peninsula Energy Inc.

**Application for electricity distribution rates and other
charges effective May 1, 2016**

**DRAFT RATE ORDER SUBMISSIONS OF
ENERGY PROBE RESEARCH FOUNDATION
("ENERGY PROBE")**

March 28, 2016

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

**DRAFT RATE ORDER 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") on September 23, 2014 (EB-2014-0096) for rates effective May 1, 2015. The OEB's Decision and Order was 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. Energy Probe Research Foundation ("Energy Probe") filed submissions with respect to the updated request for a WCA percentage of 12.61% on January 22, 2016.

The OEB issued its Decision and Order on March 17, 2016 in which it ordered NPEI to file a draft rate order ("DRO") reflecting the Decision by March 24, 2016. NPEI filed its DRO on the required date. OEB Staff and intervenors should file any comments on the DRO on or before March 30, 2016.

The following are the submissions of Energy Probe on the working capital allowance component of the DRO. Energy Probe has not reviewed the remainder of the DRO, as it was only involved in the working capital allowance issue.

B - SUBMISSIONS

Energy Probe has reviewed the OEB's Decision and the NPEI's DRO with respect to the various components of the working capital allowance.

Energy Probe submits that NPEI has correctly interpreted and implemented the OEB decision with respect to the payment in lieu of taxes expense lead, the collections lag, the OM&A expense lead, the long term debt expense lead and the cost of power expense lead.

However, Energy Probe submits that NPEI has not interpreted the OEB decision with respect to the HST expense lead for revenues correctly. Nor has NPEI correctly interpreted the submissions of Energy Probe on this issue which resulted in an expense lead of -19.33 days.

Energy Probe does agree with NPEI that the figure of -19.33, which the OEB approved, was based on some parameters that are inconsistent with what the OEB ultimately approved in its Decision and Order (DRO, page 17). Specifically, Energy Probe's calculation of the -19.33 days was based on a collection lag of 24.13 days. The OEB approved a collection lag of 24.61 days.

The OEB decision was clear with respect to the calculation of the HST expense lead on revenues in that *"the relevant starting point for the calculation is the billing date, when the HST liability is recognized and recorded. The billing date is when the liability is quantified as a payment owing for which working capital is needed until the HST payment is made. The service date is a relevant starting point for calculating other working capital needs, but not HST."* (Emphasis added) (Decision and Order, page 15)

As shown in Table 8 of the DRO, NPEI has continued to use the service date as the starting point of the HST expense lead from revenues. This is because the expense lead continues to use the service revenue lag (59.60 and 111.13 days) taken from Table 7 of the DRO. This service revenue lag includes the service lag and the billing lag, which the OEB has clearly indicated are not relevant to the calculation of the HST expense lead for revenues.

NPEI has also stated (DRO, page 18) that the Energy Probe calculation uses a billing lag of 15.21 days, while the Board has approved a billing lag of 17.98 days. This is not correct. The 15.21 days referenced in the Energy Probe submission was not the billing lag, but rather the average midpoint of a month. Specifically, the Energy Probe submission stated *"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)." (Energy Probe Submission dated January 22, 2016, page 6)*

In any case, the OEB has clearly indicated that the billing lag is not relevant in the calculation of the HST expense lead for revenues. This is clearly because, as the OEB states in the decision, the relevant starting point for the calculation is the billing date.

The lag between when service is provided and the billing date (i.e. the billing lag) is not relevant.

Energy Probe submits that the OEB approved the figure of -19.33 days based on the methodology set out in the Energy Probe submission, which NPEI has reproduced on page 17 of the DRO.

As noted earlier, the figure of -19.33 days was based on a collection lag of 24.13 days, whereas the Board has approved a figure of 24.61 days. Based on this figure, NPEI receives the HST from the invoices on average 24.61 days after the billing date. With an added 1.80 days for the payment processing lag, NPEI receives payment 26.41 days after the billing date, or 11.20 days into the payment month (25.93 - 15.21). This is based on a billing date that is the middle of the previous month, as noted earlier. The 15.21 is not a billing lag.

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 the midpoint of the month (15.21 days) and receives the funds from customers on average on day 11.20 of the following month. At the end of that month, the HST is paid to the government. NPEI has these funds for 19.22 days (11.20 - 30.42).

Similarly, Energy Probe submits that the service revenue lag of 111.33 days used in Table 8 in the DRO for other revenues has to be reduced to 41.71 days, reflecting the removal of the service lag (55.96) days and the billing lag (13.66) days shown in Table 7 of the DRO. In other words, NPEI receives the revenues, on average, 41.71 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 41.71 days and the 45.63 days is -3.92 days. In other words, NPEI has these funds for 3.92 days before it is paid to the government. This is a significant change from that in the original filing, and is based on the methodology approved by the Board, but has been significantly influenced by the service and billing lags shown in Table 7 of the DRO.

In its submissions, Energy Probe provided the following table in the calculation of the -19.33 days that the OEB ultimately approved.

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

Based on the change to the collection lag from that proposed by Energy Probe and the information on the service and billing lags provided by NPEI in its reply submission, that table has been reproduced below.

<u>Revenue</u>	<u>Amount (\$)</u>	<u>HST (13%)</u>	<u>Lead (Lag) Days</u>	<u>Weighting Factor</u>	<u>Weighted Lead (Days)</u>
From All Customers	164,532,857	21,389,271	-19.22	99.33%	-19.09
From Other Sources	<u>1,103,577</u>	<u>143,465</u>	-3.92	0.67%	<u>-0.03</u>
Total	165,636,434	21,532,736			-19.12

Energy Probe believes the appropriate figure for the HST expense lead on revenues is -19.12 days. This reflects the methodology approved by the OEB in its decision, updated to reflect the changes in the collection lag from customer billings and other revenues.

Based on the -19.12 days calculated above, Energy Probe has calculated the impact on the working capital allowance percentage resulting from the OEB decision. This is shown in the following table, which reflects the changes in Appendix C to the DRO, with the change in the HST (Receivables) line.

	REVENUE	EXPENSE	NET			
	LAG	LEAD	LAG		WCA	WCA
	<u>DAYS</u>	<u>DAYS</u>	<u>DAYS</u>	<u>EXPENSES</u>	<u>(\$)</u>	<u>(%)</u>
COST OF POWER	60.14	29.59	30.55	144,149,669	12,065,130	
RETAILER EXPENSES	60.14	37.94	22.20	2,417,005	147,007	
OM&A EXPENSES	60.14	4.27	55.87	16,424,995	2,514,149	
INTEREST EXPENSE	60.14	28.34	31.80	2,345,596	204,356	
PILS	60.14	36.22	23.92	163,430	10,710	
DEBT RETIREMENT CHARGES	60.14	28.26	31.88	<u>8,456,444</u>	<u>738,607</u>	
TOTAL				173,957,139	15,679,959	9.76%
HST RECEIVABLES			-19.12	22,603,800	-1,184,068	
HST EXPENSES			43.63	19,499,180	<u>2,330,815</u>	
TOTAL INCLUDING HST					<u>16,826,706</u>	10.48%

The result is a reduction in the working allowance percentage to 10.48%.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

March 28, 2016

Randy Aiken
Consultant to Energy Probe