

**Ontario Energy  
Board**  
P.O. Box 2319  
27th. Floor  
2300 Yonge Street  
Toronto ON M4P 1E4  
Telephone: 416-481-1967  
Facsimile: 416-440-7656  
Toll free: 1-888-632-6273

**Commission de l'énergie  
de l'Ontario**  
C.P. 2319  
27e étage  
2300, rue Yonge  
Toronto ON M4P 1E4  
Téléphone: 416-481-1967  
Télécopieur: 416-440-7656  
Numéro sans frais: 1-888-632-6273



**BY EMAIL**

March 30, 2016

Ontario Energy Board  
P.O. Box 2319  
27th Floor  
2300 Yonge Street  
Toronto ON M4P 1E4  
[Kirsten.Walli@ontarioenergyboard.ca](mailto:Kirsten.Walli@ontarioenergyboard.ca)

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Niagara Peninsula Energy Inc. (NPEI)  
2016 Price Cap IR Distribution Rate Application and  
Application to dispose of balance in LRAMVA  
OEB Staff Comments on Draft Rate Order  
OEB File No. EB-2015-0090 and EB-2015-0328**

In accordance with the Decision and Order, written comments by OEB staff on NPEI's draft rate order must be filed with the Board, and copied to all other parties, on March 30, 2016. NPEI filed a draft Rate Order on March 24, 2016. Please find OEB staff's comments attached to this letter.

Yours truly,

Stephen Vetsis  
Advisor, Electricity Rates and Prices

Encl.



# **ONTARIO ENERGY BOARD**

## **STAFF COMMENTS ON DRAFT RATE ORDER**

### **2016 ELECTRICITY DISTRIBUTION RATES**

Niagara Peninsula Energy Inc.

EB-2015-0090

and

EB-2015-0328

**March 30, 2016**

**OEB Staff Comments on Draft Rate Order  
Niagara Peninsula Energy Inc.  
2016 Price Cap IR Distribution Rate Application and  
Application to Dispose of LRAMVA Balance  
EB-2015-0090 and EB-2015-0328**

## **Introduction**

Pursuant to the Decision and Order, Niagara Peninsula Energy Inc. (NPEI) filed its draft rate order on March 24, 2016. The Decision and Order made provisions for comments by OEB staff and intervenors on March 30, 2016. In Procedural Order No. 1, the OEB granted intervenor status to the Energy Probe Research Foundation (Energy Probe), the Vulnerable Energy Consumers Coalition and the School Energy Coalition.

OEB staff has reviewed the Tariff of Rates and Charges, Excel models and calculations provided in NPEI's draft Rate Order and believes that NPEI has correctly reflected the OEB's decision with the exceptions noted below.

## **Working Capital Allowance**

In the Decision and Order, the OEB made specific findings regarding some of the parameters used to derive NPEI's working capital allowance (WCA). NPEI recalculated its WCA to be 10.64% of the sum of the cost of power and OM&A expenses.

The OEB found the following with respect to the HST expense lead for revenues:

The OEB approves an HST expense lead for revenues of -19.33 days. The OEB finds 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.

In its draft rate order, NPEI stated that the OEB's decision to approve an HST expense lead for revenues of -19.33 days was based on several parameters that were inconsistent with what the OEB approved in its decision. NPEI proposed that the HST

expense lead for revenues should be -15.06 days, based on the use of the collections lag of 24.61 days and the billing lag of 17.98 days that were approved by the OEB.

Energy Probe filed comments on NPEI's draft rate order in which it agreed that the calculation of an HST expense lead on revenues of -19.33 days was based on a collections lag of 24.13 days and not the 24.61 days that was ultimately approved by the OEB. Energy Probe submitted that NPEI had not correctly interpreted the OEB's decision, nor had it correctly interpreted Energy Probe's submission which was used to derive the expense lead of -19.33 days. Energy Probe noted that the OEB's decision clearly stated that the billing date was the appropriate starting point for the calculation of the HST expense lead for revenues and that the billing lag was not relevant to the calculation. Energy Probe submitted that the appropriate HST expense lead for revenues would be -19.12 days which would result in a WCA of 10.48%.

OEB staff agrees that there is an apparent inconsistency between the OEB's decision that the billing date is the appropriate starting point for the calculation of the HST expense lead and the finding that the expense lead is -19.33 days. This appears to have been caused by a correction to the collections lag that was identified during the submission phase of the proceeding but was not reflected in the calculation supporting the argument put forth by Energy Probe, which the OEB adopted in making its decision.

If the OEB's intent was to approve the methodology outlined in its findings rather than the specific expense lead of -19.33, OEB staff would agree with Energy Probe's comments and submits that NPEI has not correctly interpreted the OEB's decision regarding the derivation of the HST expense lead for revenues. In that case, OEB staff submits that a WCA of 10.48%, as calculated by Energy Probe, correctly reflects the OEB's decision and NPEI's actual working capital requirements. OEB staff sees no barrier to the OEB making a final determination on this matter as part of the final rate order.

OEB staff estimates that the change in WCA from 10.64% to 10.48% would result in a reduction of about \$21,000 to NPEI's service revenue requirement, which may not be material enough to cause a change to NPEI's base rates relative to those filed with the draft rate order. In order to demonstrate if this is the case, OEB staff suggests that NPEI provide an updated derivation of its 2015 base rates using a WCA of 10.48% in its reply submission to show that no changes are required to the rate generator model and

to NPEI's proposed tariff for 2016. If NPEI's base rates under a WCA of 10.48% do change relative to those filed, OEB staff submits that NPEI should file a complete update of all relevant models and tariffs.

## **Implementation**

NPEI's 2015 rates were approved on an interim basis pending completion of the lead/lag study.<sup>1</sup> The OEB ordered NPEI to calculate the difference between interim 2015 rates and the final rates arising from the OEB's approval of the WCA and refund that difference through a rate rider. NPEI calculated that the difference between interim and final rates, for the period of June 1, 2015 through April 30, 2016, was \$255,131, based on an updated WCA of 10.64%.

NPEI noted that the OEB established a deferral account to capture the incremental costs associated with the completion of the lead/lag study.<sup>2</sup> NPEI stated that it has incurred \$34,077 in costs for the preparation of this lead/lag study and submitted that those incremental costs should offset the difference between interim and final rates in order for all the impacts of the lead/lag study to be disposed over the same period. NPEI submitted that a balance of \$221,054 should be returned to customers over a one year period by a combination of fixed and variable rate riders.

OEB staff takes no issue with the proposal for the rate design and recovery period of the rate riders proposed by NPEI, but does not agree with NPEI's proposal to offset the credit to customers with its study costs. OEB staff notes that only Group 1 Deferral and Variance accounts are typically within scope for review and disposition in an IRM rate application; Group 2 accounts, such as the one established to track the study costs, are typically subject to a prudence review prior to disposition.

Furthermore, the \$34,077 in costs was first introduced on record for the proceeding by NPEI in its draft rate order. Parties were not allowed the opportunity to test the prudence of those costs.

Given these factors, OEB staff submits that it would be inappropriate for NPEI to recover these costs at this time and that the full amount of the difference between

---

<sup>1</sup> EB-2015-0096, Decision and Order, May 14, 2015, p.8

<sup>2</sup> Ibid.

interim and final 2015 rates should be refunded to NPEI's customers. OEB staff does acknowledge that study costs are well below the materiality threshold from NPEI's last cost service application.

Both OEB staff and Energy Probe have made submissions regarding the appropriate WCA that would have an impact on the amount to be refunded to NPEI's customers for the difference between interim and final 2015 rates. OEB staff suggests that NPEI provide an updated calculation of that difference and the resulting rate riders in its reply submission in order to avoid any future procedural steps should the OEB ultimately agree with OEB staff and Energy Probe's positions.