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April 4, 2016

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
PO Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

RE: 2016 IRM Rate Application (EB-2015-0090) and Application to Dispose of LRAMVA Balance (EB-2015-0328)

Dear Ms. Walli:

In accordance with the Board's Decision and Order, issued March 17, 2016, Niagara Peninsula Energy Inc. ("NPEI") hereby submits its response to comments received from Energy Probe and Board Staff on its Draft Rate Order.

An electronic copy has been submitted to the Board through the RESS system. Two hard copies will be delivered to the OEB office by courier.

This document is being filed pursuant to the Board's e-filing service.

Please contact myself should anything further be required, I can be reached at 905-353-6004.

Yours truly,
NIAGARA PENINSULA ENERGY INC.

S Wilson

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Niagara Peninsula Energy Inc.
2016 Price Cap IR Rate Application and
Application to Dispose of LRAMVA Balance
EB-2015-0090 and EB-2015-0328

IN THE MATTER OF the Ontario Energy Board Act, 1998, being Schedule B to the Energy Competition Act, 1998, S.O. 1998, c.15;

AND IN THE MATTER OF an Application by Niagara Peninsula Energy Inc. to the Ontario Energy Board for an Order or Orders approving or fixing just and reasonable rates and other service charges for the distribution of electricity as of May 1, 2016.

Introduction

On March 17, 2016, the Board issued its Decision and Order in Niagara Peninsula Energy Inc.'s ("NPEI's") 2016 IRM Rate Application (EB-2015-0090) and Application to Dispose of Lost Revenue and Adjustment Variance Account Balance ("LRAMVA"). The Decision addressed the following issues:

- Price Cap Incentive Rate-setting
- Regulatory Charges
- Retail Transmission Service Rates
- Review and Disposition of Group 1 Deferral and Variance Accounts
- Review and Disposition of Lost Revenue Adjustment Mechanism Variance Account Balance
- Residential Rate Design
- Working Capital Allowance
- Implementation and Order

The Board ordered that NPEI file proposed Tariffs of Rates and Charges for 2015 and 2016, reflecting the OEB's findings in the Decision, along with supporting documentation.

NPEI filed its Draft Rate Order on March 24, 2016. Energy Probe and Board Staff filed comments on NPEI's Draft Rate Order on March 30, 2016.

In accordance with the Decision and Order, NPEI hereby submits its response to comments on the Draft Rate Order.

Comments Received from Energy Probe and Board Staff

In its comments on NPEI's Draft Rate Order, Energy Probe made submissions on the Working Capital Allowance ("WCA"). Energy Probe did not provide any comments on the remainder of the Draft Rate Order.

Board Staff provided comments on the Working Capital Allowance and Implementation.

NPEI's reply to the comments received from Energy Probe and Board Staff on WCA and Implementation follow below.

Working Capital Allowance

Based on the Board's Decision and Order, NPEI's Draft Rate Order included a revised WCA of 10.64%. The calculation included an expense lead on HST from revenues of -15.06 days.

Energy Probe's comments stated: "*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 submitted that the correct expense lead on HST from revenues is -19.12 days. Board Staff agreed with Energy Probe.

In its Decision and Order, the Board states: *"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."*

There are two issues with the expense lead on HST from revenues of -19.33 days that NPEI submits are incorrect:

1. The collection lag of 24.13 days
2. The average billing date of 15.21 days.

1. Collection Lag

In its Draft Rate Order, NPEI submitted that the calculation of -19.33 days for the expense lead on HST from revenues as proposed by Energy Probe in its written submission is clearly based on several parameters that are inconsistent with what the Board has approved in its Decision and Order. NPEI noted that Energy Probe's calculation uses a collection lag of 24.13 days, while the Board has approved a collection lag of 24.61 days. Energy Probe's calculation uses a billing lag of 15.21 days, while the Board has approved a billing lag of 17.98 days.

In its comments, Energy Probe stated: *"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."*

2. Average Billing Date

Energy Probe submitted: *"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 Energy Probe's submission was not the billing lag, but rather the average midpoint of a month."*

Energy Probe has clarified that its calculation includes an average billing date which is the average mid-point of the month. In NPEI's view, the mid-point of the month does not correctly represent the average billing date. As explained in NPEI's Reply Submission and Draft Rate Order, NPEI's calculation uses the billing lag of 17.98 days as the average billing date. NPEI submits that the billing lag is the correct parameter to use as an average billing date, as it represents the dollar-weighted average of when bills are issued during the month.

As explained by NPEI in both its Reply Submission[1] and Draft Rate Order, NPEI's method of calculating the expense lead for HST on revenues provides the same result as Energy Probe's method once differences in parameters are considered.

The table below shows the calculation of NPEI's expense lead on HST from Revenues of -15.06 from NPEI's Draft Rate Order.

HST Expense Lead - Revenues					
Revenue	Amount ($)	HST (13%)	Lead (Lag) Days	Weighting Factor	Weighted Lead (Days)
From All Customers	164,532,857	21,389,271	-15.40	99.33%	-15.30
From Other Sources	1,103,577	143,465	36.33	0.67%	0.24
Total	**165,636,435**	**21,532,737**	**20.93**	**100.00%**	**-15.06**

[1] EB-2015-0090/EB-2015-0328, Reply Submission, pages 18-19, February 12, 2016

The following table shows NPEI's calculation of the expense lead on HST from Revenues versus Energy Probe's calculation, as per its comments on NPEI's Draft Rate Order.

Expense Lead on HST from Revenues	**Energy Probe Comments**	**NPEI Draft Rate Order**
Average Billing Date	15.21	17.98
Collection Lag	24.61	24.61
Payment Processing and Bank Float Lag	1.80	1.80
	41.62	44.39
	(30.42)	(30.00)
Average Date in Following Month When Payment is Received	11.20	14.60
HST Remitted at End of Following Month	(30.42)	(30.00)
Number of Days Funds are Held (HST on Customer Billings)	(19.22)	(15.40)
Weighted Expense Lead on HST from Customer Billings (99.33%)	(19.09)	(15.30)
Weighted Expense Lead on HST from Other Revenue(0.67%)	-0.03	0.24
Total Weighted Average Expense Lead on HST from Revenues	(19.12)	(15.06)

Energy Probe submits that *"NPEI has continued to use the service date as the starting point of the HST expense lead from revenues."*

As can be seen from the table above, NPEI's calculation does not depend on the service date.

In summary, NPEI submits that its weighted average expense lead on HST from revenues of -15.06 days as incorporated in the Draft Rate Order is appropriate since:

1. It is based on the Board-approved collection lag of 24.61 days.
2. It is based on an average billing date of 17.98 days, which is the Board-approved billing lag.

3. As detailed above, it is consistent with the Board's decision that the relevant starting point for the calculation is the billing date.

Therefore, NPEI submits that the WCA of 10.64%, as included in the Draft Rate Order, is correct. No revisions are required to the 2015 Revenue Requirement or 2015 Draft Tariff of Rates and Charges.

Implementation

In its Draft Rate Order, NPEI calculated that the difference between 2015 Interim and 2015 Final rates for the 11 month period June 1, 2015 to April 30, 2016 is $255,131. NPEI submitted that it is appropriate to net the costs of the lead/lag study of $34,077, as recorded in the Board-approved sub-account of Account 1508, from the amount to be returned to rate payers. NPEI proposed to return the net amount of $221,054 to rate payers over a 1 year period, and filed corresponding fixed and variable rate riders in its 2016 Draft Tariff of Rates and Charges.

Board Staff's comments state: *"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 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."

NPEI requested clarification from Board Staff as to which Uniform System of Accounts ("USoA") account should be used to record the $255,131 difference between 2015 Interim and 2015 Final rates. Board Staff suggested that Account 1574 Deferred Rate Impact Amounts should be used.

The following is the description of Account 1574 from the Accounting Procedures Handbook ("APH"):

1574 Deferred Rate Impact Amounts

A. This account shall be used to record amounts equal to rate impacts associated with market-based rate of return or other costs that the Board has authorized or directed to be recorded and deferred to future periods.
B. When authorized or directed by the Board, this account shall be used to record the difference between the rate of return reflected in the rates and the market based rate of return.
C. Carrying charges shall apply to this account. These amounts shall be calculated using simple interest applied to the monthly opening balances in the account (exclusive of accumulated interest) and shall be recorded monthly in a separate carrying charges sub-account of this account. The interest rate shall be the rate prescribed by the Board.
D. A separate sub-account shall be maintained for each type of deferred rate amount included in this account.

NPEI notes that, as per the *Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative* ("EDDVAR Report"), Account 1574 is a Group 2 account. As Board Staff had submitted that only Group 1 Deferral and Variance accounts are typically within scope for review and disposition in an IRM rate application, NPEI questioned the consistency of Board Staff's position that the difference between 2015 Final and 2015 Interim rates, in a Group 2 account be disposed of in 2016, but that NPEI's lead/lag costs in Account 1508 (also a Group 2 account) not be disposed until NPEI's next Cost of Service rate application. Board Staff then offered an alternative suggestion for returning the difference between 2015 Final and Interim rates that does not involve using a deferral and variance account.

In NPEI's view, it is appropriate to record the $255,131 impact in a sub-account of 1574. NPEI submits that, in order that as much as possible all impacts arising from the lead/lag study and resulting WCA (both the impact to revenue requirement and the corresponding expenses) are disposed of over the same period, it is appropriate to dispose of Account 1574 and the 1508 Lead/Lag Study Costs sub-account at the same time. That is, either the net amount should be disposed using rate riders on the 2016 Tariff of Rates and Charges, as proposed in NPEI's Draft Rate Order, or both accounts are proposed for disposition in NPEI's next Cost of Service Rate Application.

NPEI notes that an approximate amount of $35,000 for lead/lag study costs was mentioned in its Reply Submission[2], and the current balance of $34,077 (not including any costs of the intervenors related to the incremental efforts involving the WCA issue as compared to a typical IRM proceeding) was included in its Draft Rate Order. As Board Staff has noted, this amount is well below the materiality threshold set in NPEI's 2015 COS Rate Application.

NPEI requests that the Board approve a sub-account of Account 1574 for NPEI to record the $255,131 difference between 2015 Final and 2015 Interim rates to be returned to rate payers. NPEI further requests that the Board provide further guidance as to the timing of the disposition of the difference between the 2015 Final and 2015 Interim rates, and the timing of the disposition of NPEI's costs for the lead/lag study.

All of which is respectfully submitted.

[2] EB-2015-0090/EB-2015-0328, Reply Submission, page 20, February 12, 2016