



**EB-2015-0090**  
**EB-2015-0328**

**Niagara Peninsula Energy Inc.**

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

**BEFORE:** Allison Duff  
Presiding Member

Victoria Christie  
Member

**DECISION AND PROCEDURAL ORDER NO. 2**  
**April 21, 2016**

**Introduction and Summary**

Niagara Peninsula Energy Inc. (NPEI) applied to the OEB to seek approval for changes to its electricity distribution rates to be effective May 1, 2016. NPEI filed a second application to dispose of a balance in the Lost Revenue Adjustment Mechanism Variance Account incurred as a result of administering conservation programs. In a letter issued on November 27, 2015, the OEB decided that it would hold a combined hearing for the applications filed by NPEI.

In Procedural Order No. 1, the OEB granted intervenor status to the Energy Probe Research Foundation (Energy Probe) and the Vulnerable Energy Consumers Coalition.

The OEB issued its Decision and Rate Order in this combined hearing on March 17, 2016 (the March 17 Decision). As a result of the March 17 Decision, NPEI was required to file a draft rate order which included updated calculations of its rates reflecting the OEB's findings. NPEI filed its draft rate order on March 24, 2016.

OEB staff and Energy Probe filed comments on NPEI's draft rate order and NPEI filed its reply.

The following issues are addressed in this Decision and Procedural Order:

- Working Capital Allowance
- Disposition of Lead/Lag Study Costs

The OEB approves a working capital allowance of 10.48% of the sum of the cost of power and Operations, Maintenance and Administration (OM&A) expenses. The OEB approves the disposition of the incremental costs associated with the completion of NPEI's lead/lag study. Further details can be found in the sections that follow.

### **Working Capital Allowance**

In the March 17 Decision, the OEB made specific findings regarding some of the parameters used to derive NPEI's working capital allowance (WCA). 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 approval of an HST expense lead of -19.33 days for revenues was based on several parameters that were inconsistent with what the OEB approved in the March 17 Decision. NPEI proposed that the HST expense lead for revenues should be -15.06 days, based on the use of the OEB approved collections lag of 24.61 days and the billing lag of 17.98 days.

In its comments on the draft rate order, Energy Probe agreed that the calculation of the -19.33 day HST expense lead on revenues 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 noted that the March 17 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% of the sum of the cost of power and OM&A expenses. OEB staff agreed with Energy Probe's submission.

The OEB approves a WCA of 10.48%, based on an HST expense lead of -19.12 days, for ratemaking purposes. The -19.12 days is consistent with the OEB's finding that the relevant starting point for the HST expense lead calculation is the billing date, when the HST liability is recognized and recorded. The OEB finds that the approval of an HST expense lead of -19.33 days in the March 17<sup>th</sup> decision was an error in calculation, as it did not reflect the approved collections lag of 24.61 days.

The OEB directs NPEI to file a further draft rate order (with revised tariffs of rates and charges) reflecting a WCA of 10.48%.

### **Disposition of Lead/Lag Study Costs**

In the March 17 Decision, the OEB ordered NPEI to calculate the difference between the 2015 interim and final rates resulting from the approved WCA. The OEB directed this difference to be refunded to customers over a one-year period starting May 1, 2016.

In NPEI's 2015 rates proceeding<sup>1</sup>, the OEB approved a deferral account for NPEI to capture the incremental costs associated with the completion of the lead/lag study. NPEI stated that it had incurred \$34,077 in costs related to the preparation of its lead/lag study. NPEI submitted that it would be appropriate to deduct those costs from the refund to customers, in order that all impacts arising from the lead/lag study and resulting WCA were disposed of over the same one-year period.

OEB staff noted that only Group 1 Deferral and Variance accounts are typically within scope of review and disposition in an IRM rate application. The deferral account to track the incremental lead/lag study costs was a Group 2 account. OEB staff indicated that Group 2 accounts are typically subject to a prudence review prior to disposition. The incremental study costs were provided in NPEI's draft rate order and parties were not provided with the opportunity to test the prudence of those costs.

Based on those factors, OEB staff submitted that it would be inappropriate for NPEI to recover the incremental study costs at this time and that the full amount of the difference between interim and final rates should be refunded to NPEI's customers.

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<sup>1</sup> EB-2014-0096, Decision and Order, May 14, 2015

OEB staff observed that the study costs were well below the materiality threshold established in NPEI's most recent cost of service rate application.<sup>2</sup>

The OEB approves the disposition of the \$34,077 balance in account 1508<sup>3</sup> for the incremental costs associated with the completion of the lead/lag study. The OEB approves NPEI's proposal to deduct the \$34,077 cost of the study from the refund to customers. The OEB finds that it is appropriate to dispose of these costs over the same time frame as the rate refund. In addition, a delay in the disposal would result in higher costs to customers as interest would be added to the deferral account balance. Given that the \$34,077 in incremental costs are below the materiality threshold established in the NPEI's last cost of service application, the OEB does not require further discovery on the prudence of the costs.

### **Implementation**

The OEB has made findings in this Decision and Procedural Order which change the 2015 interim rates and 2016 distribution rates as proposed by NPEI.

NPEI shall file a draft rate order, including a proposed Tariff of Rates and Charges for 2015 and 2016 and all relevant calculations showing the impact of this Decision and Procedural Order on NPEI's determination of the final rates. Supporting documentation shall mirror what was provided by NPEI in its draft rate order dated March 24, 2016.

NPEI's 2015 rates were approved on an interim basis pending completion of the lead/lag study. The 2015 rates were implemented and effective June 1, 2015 and were based on a 13% WCA. As a result, NPEI has over-collected revenue from its customers. NPEI shall calculate the amount of the over-collection from June 1, 2015 to April 30, 2016, net of the incremental lead/lag study costs, and shall propose rate riders to return the funds to its customers over a one-year period starting May 1, 2016.

The OEB considers it necessary to make provision for the following matters related to this proceeding. A rate order will be issued after the steps set out below are completed.

### **THE ONTARIO ENERGY BOARD ORDERS THAT:**

1. Niagara Peninsula Energy Inc. shall file with the OEB, and shall also forward to the Intervenor, a draft rate order attaching proposed Tariffs of Rates and Charges for

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<sup>2</sup> The materiality threshold in EB-2014-0096 was \$146,874.

<sup>3</sup> 1508 - Other Regulatory Assets, Subaccount Working Capital Allowance Lead-lag Study Deferral Account.

2015 and 2016, reflecting the OEB's findings in this Decision, by **April 26, 2016**. The draft rate orders shall also include:

- The updated calculation of the Working Capital Allowance
  - Updated RRWF for 2015 in Microsoft Excel format
  - Calculation of the revised 2015 rates effective June 1, 2015
  - Updated Rate Generator model for 2016 rates using the revised 2015 rates in Microsoft Excel format
  - Calculation of the rate riders to return the overcollection of revenue for 2015
  - Customer rate impacts, including for low-volume residential customers resulting from the implementation of this Decision.
2. OEB staff and Intervenors shall file any comments on the draft rate order with the OEB, and forward the comments to Niagara Peninsula Energy Inc. on or before **April 29, 2016**.
  3. Niagara Peninsula Energy Inc. shall file with the OEB and forward to the Intervenors responses to any comments on its draft rate order on or before **May 4, 2016**.

All filings to the OEB must quote the file number, EB-2015-0090/EB-2015-0328 and be made electronically in searchable/unrestricted PDF format through the OEB's web portal at <https://www.pes.ontarioenergyboard.ca/eservice/>. Two paper copies must also be filed at the OEB's address provided below. Filings must clearly state the sender's name, postal address and telephone number, fax number and e-mail address. Parties must use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at <http://www.ontarioenergyboard.ca/OEB/Industry>. If the web portal is not available parties may email their documents to the address below. Those who do not have internet access are required to submit all filings on a CD in PDF format, along with two paper copies. Those who do not have computer access are required to file 7 paper copies.

All communications should be directed to the attention of the Board Secretary at the address below, and be received no later than 4:45 p.m. on the required date.

With respect to distribution lists for all electronic correspondence and materials related to this proceeding, parties must include the Case Manager, Stephen Vetsis at

[Stephen.Vetsis@ontarioenergyboard.ca](mailto:Stephen.Vetsis@ontarioenergyboard.ca) and OEB Counsel, Richard Lanni at [Richard.Lanni@ontarioenergyboard.ca](mailto:Richard.Lanni@ontarioenergyboard.ca).

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**DATED** at Toronto, **April 21, 2016**

**ONTARIO ENERGY BOARD**

*Original Signed By*

Kirsten Walli  
Board Secretary