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**BY E-MAIL**

January 17, 2019

Kirsten Walli  
Board Secretary  
Ontario Energy Board  
2300 Yonge Street, 27th Floor  
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: Niagara-on-the-Lake Hydro Inc. (Niagara-on-the-Lake Hydro)  
2019 Cost of Service Application  
OEB File Number EB-2018-0056  
OEB Staff Submission on Settlement Proposal**

In accordance with Procedural Order No. 2, please find attached OEB staff's submission on the filed settlement proposal for Niagara-on-the-Lake Hydro's 2019 cost of service application.

Niagara-on-the-Lake Hydro and all intervenors have been copied on this filing.

Yours truly,

*Original Signed By*

Tina Li  
Project Advisor, Major Applications

Encl.

**2019 COST OF SERVICE APPLICATION**

**NIAGARA-ON-THE-LAKE HYDRO INC.**

**EB-2018-0056**

**OEB STAFF SUBMISSION ON SETTLEMENT  
PROPOSAL**

**JANUARY 17, 2019**

## INTRODUCTION

Niagara-on-the-Lake Hydro Inc. (Niagara-on-the-Lake Hydro) filed a complete application with the Ontario Energy Board (OEB) on August 23, 2018, seeking approval for changes to the rates that Niagara-on-the-Lake Hydro charges for electricity distribution, to be effective May 1, 2019. The approved intervenors in the proceeding are School Energy Coalition (SEC) and Vulnerable Energy Consumers Coalition (VECC).

A community meeting was held as part of the proceeding on October 9, 2018. The OEB and Niagara-on-the-Lake Hydro made presentations at the meeting. A summary of the community meeting was posted to the record of the proceeding. Meeting participants had questions related to a new transformer and the associated monthly bill increase. Participants also had questions on a forecast reduction in street light revenue, self generation and whether generation from a new large business customer will impact residential rates.

The OEB issued an approved issues list for this proceeding on December 6, 2018. A settlement conference was held on December 10 and December 11, 2018. Niagara-on-the-Lake Hydro filed a partial settlement proposal on January 10, 2019 setting out an agreement among Niagara-on-the-Lake Hydro, SEC and VECC (the Parties).

The settlement proposal represents a partial settlement. Among the 15 approved issues on the final issues list, this settlement proposal represents six fully settled issues, seven partially settled issues, and two unsettled issues. The Parties have reached a complete settlement on issues related to load forecast, microFit rate, specific service charges and the distribution standby charge. The Parties have reached a partial settlement on issues related to capital, revenue requirement, cost allocation, and Accounting. No settlement was reached on issues related to Operations, Maintenance and Administration (OM&A) expenses and transmission gross load billing.

If the OEB accepts the partial settlement and Niagara-on-the-Lake Hydro's proposals on the unsettled issues, the total bill impact for a typical residential customer consuming 750 kWh per month would be an increase of \$1.21 before taxes per month, or an increase of 1.17%. The distribution portion of the total bill impacts, would increase by \$1.53 per month (4.81%) for residential customers.

This submission is based on the status of the record as filed in Niagara-on-the-Lake Hydro's settlement proposal. The submission reflects observations which arise from OEB staff's review of the settlement proposal. It is intended to assist the OEB in deciding upon the settlement proposal.

## **Settlement Proposal**

OEB staff has reviewed the settlement proposal in the context of the objectives of the *Renewed Regulatory Framework* (RRF), the *Handbook for Utility Rate Applications*<sup>1</sup>, other applicable OEB policies, relevant OEB decisions, and the OEB's statutory obligations. OEB staff is satisfied that the Parties considered the issues and outcomes of the RRF in the context of Niagara-on-the-Lake Hydro's application.

OEB staff supports the Parties' proposed agreement on the settled and partially settled issues and provides submissions on the following issues:

- 1.1 Capital
- 2.1 & 2.2 Revenue Requirement
- 3.1 Load Forecast
- 3.2 Cost Allocation
- 3.3, 3.4 & 3.5 Rate Design
- 4.1 & 4.2 Accounting
- 5.1 MicroFit Rate
- 5.2 Specific Service Charge
- 5.4 Standby Charge

### **1.1 Capital**

As filed in the application, Niagara-on-the-Lake Hydro proposed capital additions of \$5.85 million. In the settlement proposal, the Parties agreed that, with the exception of the unsettled item, the level of planned capital expenditures is appropriate. The unsettled item relates to the prudence of Niagara-on-the-Lake Hydro's underground conversion project/program since its last rebasing (impacting 2019 opening rate Base) and the proposed test year expenditures of \$460k (impacting 2019 net additions and closing rate base).

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<sup>1</sup> October 13, 2016

In the application, Niagara-on-the-Lake Hydro calculated its 2019 rate base as \$30.70 million. After the interrogatory process, the 2019 rate base was reduced by \$146k to \$30.55 million. The main drivers of the update were the move of the T1 transformer's disposal from the 2019 test year to the 2018 bridge year and the updated disposal figures for 2018. After the settlement conference, Niagara-on-the-Lake Hydro further updated the rate base figure to \$30.54 million to reflect the most recent 2018 capital forecast. With the updated 2018 capital expenditures and the capital additions for 2019, the 2019 test year rate base, subject to the unsettled underground conversion program/project, is \$30.54 million. OEB staff notes that the settlement proposal does not raise concerns with the addition of a new transformer by Niagara-on-the-Lake Hydro in 2019. OEB staff submits that Niagara-on-the-Lake Hydro has demonstrated the need and prudence of the new transformer. As a result, OEB staff does not have concerns regarding the proposed capital expenditures included in 2019 for the new transformer.

In the context of the settlement proposal and subject to the unsettled underground conversion program/project, OEB staff does not have concerns with the updated 2019 capital additions and rate base amounts. Niagara-on-the-Lake Hydro has indicated that these amounts will be sufficient to enable the reliable operation of its system. OEB staff supports the proposal as outlined in the settlement proposal.

## **2.1 & 2.2 Revenue Requirement**

As outlined in the settlement proposal at Table 1 – Summary of Changes in Revenue Requirement, the Parties have agreed to a service revenue requirement of \$6.03 million and a base revenue requirement of \$5.55 million. Niagara-on-the-Lake Hydro also included an updated Revenue Requirement Work Form to support the requested amounts. These amounts reflect a reduction of \$16k to the service revenue requirement, and an increase of \$4k to the base revenue requirement. OEB staff notes that the changes to the revenue requirements are not material.

With respect to the cost of capital, the Parties have not reached agreement on Niagara-on-the-Lake Hydro's cost of long-term debts. The Parties agreed that this item should be determined by the OEB. OEB staff notes that Niagara-on-the-Lake Hydro is expected to file updated evidence regarding the cost of long-term debts.

The following three unsettled items impact the revenue requirement:

- The underground conversion program/project
- OM&A expense
- The cost of long-term debt

In the context of the settlement proposal, subject to any adjustment regarding the above three unsettled items, OEB staff does not have concerns with the 2019 service revenue requirement of \$6.03 million included in the settlement proposal.

### **Depreciation Expense**

Subject to any updates on the unsettled item regarding the underground conversion program/project, the Parties agreed in the settlement proposal that the depreciation expense in the test year is \$1.13 million.

In the context of the settlement proposal, subject to any adjustment regarding the unsettled item, OEB staff does not have concerns with respect to the 2019 depreciation expense of \$1.13 million.

### **Payment in Lieu of Taxes (PILs)**

The unsettled item regarding the underground conversion program/project also has an impact on the PILs expense. Subject to any updates on the unsettled item, the Parties agreed in the settlement proposal that the PILs expense in the test year is \$96k.

In the context of the settlement proposal and subject to any adjustment regarding the unsettled item, OEB staff does not have concerns with the 2019 PILs expense of \$96k.

## **Other Revenue**

The Parties agreed on other revenues of \$482k in the settlement proposal, reflecting a reduction of \$25k compared to \$508k figure after the interrogatory process.

The main drivers of the \$25k reduction in the settlement proposal are:

- A reduction of \$24k to reflect the expected implementation of the OEB's new customer service rules<sup>2</sup>
- An increase in Retail Service Charges by \$7k to reflect the expected implementation of the OEB's Energy Retailer Service Charges Report<sup>3</sup>
- A reduction of \$8k to reduce the customer contributions that are recorded in the deferred revenue due to the updated 2018 capital forecast

In the context of the settlement proposal, OEB staff does not have concerns with the 2019 other revenues of \$482k included in the settlement proposal. OEB staff notes that Niagara-on-the-Lake Hydro made two changes to other revenues to implement the expected changes from the OEB's new customer service rules and energy retailer service charge report. These rules have not been finalized yet. OEB staff does not have concerns regarding the settlement proposal being based on the proposed changes because the impacts are not material and because the expected implementation date of these reports is May 1, 2019.

### **3.1 Load Forecast**

OEB staff supports the agreement of a load forecast of 222,679,374 kWh and a customer count forecast of 11,839 as shown in Table 12 of the settlement proposal. In the application, Niagara-on-the-Lake Hydro has created a new Large User class based on the expected growth in demand for one of its customers. Because of the uncertainty of the Large User customer's load, Niagara-on-the-Lake Hydro has included in the application a forecast load of 5MW for this customer, with the creation of a new revenue variance account to capture the revenue variance from the actual and forecast loads. OEB staff notes that the OEB directed Niagara-on-the-Lake Hydro, in the letter of direction dated September 18, 2018, to serve the Large User customer. OEB staff does not have

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<sup>2</sup> Review of Customer Service Rules for Utilities, EB-2017-0183

<sup>3</sup> Report of the Board, Energy Retail Service Charges, EB-2015-0304, issued on November 29, 2018

concerns with the Large User customer's load forecast in the context of the settlement proposal.

### **3.2 Cost Allocation**

Subject to the amendments from Niagara-on-the-Lake Hydro's filing as described below, the Parties agreed that the cost allocation methodology and the allocations are appropriate. OEB staff notes that the settlement proposal does not raise concerns regarding the forecast reduction in street light revenue.

The potential amendments are related to the unsettled item of whether to include or exclude the Incremental Capital Module (ICM) riders in base rates for the calculation of the revenue at existing rates in the cost allocation model. Appendix H to the settlement proposal outlines the impact of including the ICM riders in the distribution revenue at existing rates.

Niagara-on-the-Lake Hydro stated that its determination of revenue at existing rates for cost allocation purposes includes the impact of the ICM revenue because the project associated with the ICM will be included in 2019 base rates. Niagara-on-the-Lake Hydro believes that this approach is a fair way to assess rate impacts from its updated revenue requirement. Intervenor's stated that they are not aware of any LDC that, in its rebasing application after an ICM, has applied ICM riders to base rates for the revenue at existing rates calculation. The Parties reached no agreement on whether this approach is appropriate. The Parties agreed that the issue will be determined by the OEB.

Subject to a decision on the unsettled item, OEB staff supports the cost allocation included in the settlement proposal.

### **3.3, 3.4 & 3.5 Rate Design**

In the settlement agreement, the Parties accepted the evidence of Niagara-on-the-Lake Hydro that all elements of the rate design, including fixed-variable splits and revenue-to-cost ratios are appropriate. However, OEB staff notes that the above unsettled ICM rate rider revenue issue would also impact the rate design as outlined in Appendix H. For example, the residential rate class' fixed charge would be increased if the ICM revenue is excluded from the revenue at existing rates in the cost allocation model because the residential rates are based on fixed charges.



Niagara-on-the-Lake Hydro proposed a loss factor for its new Large User customer class in the settlement proposal while its original filing did not include one. The Parties accepted this change because Niagara-on-the-Lake Hydro stated that it has consulted with its Large User customer and this customer is amenable to the proposed loss factor.

The Parties accepted that the Retail Transmission Service Rates are acceptable. OEB staff recognizes that the unsettled transmission gross load billing would have impacts on the Retail Transmission Service Rates.

Subject to the impacts from the unsettled issues of ICM revenue and unsettled transmission gross load billing, OEB staff supports the rate design as outlined in the settlement proposal.

#### **4.1 & 4.2 Accounting**

In the settlement proposal, the Parties agreed on Niagara-on the-Lake Hydro's proposed balances for its DVAs with one adjustment. The adjustment is that Niagara-on-the-Lake Hydro will not clear the OEB Cost Assessment Variance Account because the account balance of \$16,762 does not meet the relevant materiality threshold.

The Parties also agreed that Group 1 DVAs are to be disposed of on an interim basis in accordance with current OEB policy and be disposed over one year. Concurrently with the filing of this settlement proposal, Niagara-on-the-Lake Hydro has indicated to the Parties it will be filing updated evidence proposing to clear the Group 2 DVAs and the Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) over a two-year period (the original evidence proposed a one-year disposition period). The Parties did not agree on the disposition period of Group 2 DVAs and LRAMVA balances.

Niagara-on-the-Lake Hydro proposed a new revenue variance account in the application to record the difference between forecast and actual revenues from the new Large User customer because the load forecast for this customer is uncertain and the impact of the customer's load could be quite large in comparison to Niagara-on-the-Lake Hydro's total load. The Parties agreed that the creation of the variance account is appropriate. Niagara-on-the-Lake Hydro has included a draft accounting order related to this new variance account in

Appendix I of the settlement proposal. OEB staff does not have concerns regarding the draft accounting order for the new revenue variance account.

The Parties also agreed that Niagara-on-the-Lake Hydro shall discontinue its Retail Service Cost Variance Account as of May 1, 2019 in accordance with the expected outcome from the OEB's report on energy retail service charges.<sup>4</sup>

Subject to the unsettled item above, OEB staff supports the disposition of DVAs, the creation of a new revenue variance account (including the proposed draft accounting order) and the discontinuation of the Retail Service Variance Account in the settlement proposal.

### **5.1 MicroFit Rate**

In the settlement proposal, the Parties agreed on the proposed \$10 microFit monthly service charge. OEB staff does not have concerns regarding the proposed charge. OEB staff notes that the OEB has approved the same charge in other cost of service rate applications including Center Wellington Hydro Ltd.<sup>5</sup> and Renfrew Hydro Inc.<sup>6</sup>

### **5.2 Specific Service Charges**

Niagara-on-the-Lake Hydro made two updates in the settlement proposal to the specific service charges as filed in its original application:

- Updated the Retail Service Charges to reflect expected updates in the OEBs' report on energy retail service charges<sup>7</sup>
- Removed three specific service charges to reflect the expected changes from the OEB's review of customer service rules<sup>8</sup>: Collection of Account, Install/Remove load control devices – during regular business hours and Install/Remove load control devices – after regular business hours

In the settlement proposal, the Parties agreed on the updated service charges. As noted in the Other Revenues section above, OEB staff does not have concerns

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<sup>4</sup> EB-2015-0304, Report of the Ontario Energy Board on Energy Retail Service Charges, issued on November 29, 2018.

<sup>5</sup> EB-2017-0032

<sup>6</sup> EB-2016-0166

<sup>7</sup> *Ibid.*

<sup>8</sup> EB-2017-0183, Review of Customer Service Rules for Utilities

regarding the settlement proposal being based on the OEB's proposed changes in the OEB's reports.

#### **5.4 Standby Charge**

VECC accepted Niagara-on-the-Lake Hydro's proposal for a Distribution Standby Charge with one change. The change is that the minimum level of generation to which the Distribution Standby Charge will apply is increased from 250kW to 500 kW. SEC took no position on this issue. OEB staff notes that the only customer impacted by the proposed Distribution Standby Charge is the Large User customer. In the application, Niagara-on-the-Lake Hydro stated that it had discussed the proposed Distribution Standby Charge with the customer and the customer agrees with the proposed methodology.

In the context of the settlement proposal, OEB staff does not have concerns regarding the Distribution Standby Charge because the impacted customer agrees with the proposed methodology. OEB staff notes that Niagara-on-the-Lake Hydro's proposed methodology was approved by the OEB in other applications including Kingston Hydro Corporation<sup>9</sup>.

*All of which is respectfully submitted*

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<sup>9</sup> EB-2017-0055