**Niagara Peninsula Energy Inc.**

**2020 IRM Application**

**EB-2019-0054**

**Responses to Board Staff Questions**

**Staff Question #1**

**Ref: Manager’s Summary, page 49; IRM Model Sheet 1 Information Sheet**

Preamble:

On the Information Sheet, Niagara Peninsula has indicated that it is “Transmission Connected”, not “Partially Embedded”. However, the manager’s summary indicates “Niagara Peninsula Energy partially embedded within Hydro One Networks Inc.’s and Grimsby Power Inc.’s distribution system.”

1. Please explain why Niagara Peninsula identified itself as transmission connected rather than partially embedded on Sheet 1.

**Response:**

NPEI has revised the Information Sheet in its 2020 IRM Rate Generator model to indicate “Partially Embedded” within Hydro One Network Inc.’s and Grimsby Power Inc.’s distribution systems. Please see the attached revised 2020 IRM Rate Generator Model.

**Staff Question #2**

**Ref: IRM Model Sheet 8 STS Tax Change; EB-2014-0096 Revenue Requirement Work Form**

Preamble:

According to Niagara Peninsula’s 2015 Cost of Service Revenue Requirement Work Form, it had an approved rate base of $144,008,195, and taxable income of $758,958. In this application, Niagara Peninsula has entered a rate base of $139,961,713, and taxable income of $608,429.

1. Please reconcile.

**Response:**

In NPEI’s 2015 COS Rate Application (EB-2015-0094), the OEB approved NPEI’s 2015 distribution rates on an **interim basis**, based on a placeholder Working Capital Allowance (“WCA”) percentage of 13%. The Board ordered NPEI to complete a lead-lag study to be filed with NPEI’s 2016 IRM Rate Application. In NPEI’s 2016 IRM Rate Application (EB-2015-0090), the Board found that NPEI’s final 2015 Revenue Requirement should be based on a WCA percentage of 10.48%.

NPEI populated Sheet 8. STS Tax Changes of the 2020 IRM Rate Generator Model using the rate base of $139,961,713 and taxable income of $608,429 as per the OEB approved final 2015 RRWF from NPEI’s 2016 IRM Rate Application.

The rate base of $144,008,195 and taxable income of $758,958 referenced above are taken from the interim 2015 RRWF.

NPEI has attached a copy of the final approved 2015 RRWF from NPEI’s 2016 IRM Rate Application as Attachment 1 to these responses.

**Staff Question #3**

**Ref: Manager’s Summary, page 36**

Preamble:

Niagara Peninsula states:

NPEI has reviewed its Group 1 account balances for 2017 and 2018 in the context of the new accounting guidance and have not identified any systemic issues with the RPP settlement and related accounting processes.

1. Is Niagara Peninsula proposing that this year’s balance be disposed of on an interim or final basis?
2. Is Niagara Peninsula proposing that last year’s disposition be declared final?

**Response:**

1. NPEI is proposing that the 2018 balances be disposed of on a final basis.
2. NPEI is proposing that the disposition of the 2017 balances be declared final.

**Staff Question #4**

**Ref: GA Analysis Workform**

Preamble:

Niagara Peninsula has not selected “Yes” in the dropdown box on cell G27. Column G in the table labelled Note 4 Analysis of Expected GA Amount has been left blank.

1. Please confirm that Niagara Peninsula uses the same GA Rate for unbilled revenue as the one used for billed revenue in any particular month. If not, please explain.
2. Please provide complete information for columns F, G, and H of the table labelled Note 4 Analysis of Expected GA Amount.

**Response:**

1. NPEI confirms that the same GA Rate is used for unbilled revenue as for billed revenue. NPEI uses the IESO’s Final GA rates for both billing and unbilled revenue.
2. The GA Analysis Workform uses a formula to estimate calendar month consumption, as follows:

*“The WorkForm requires kWh volumes for revenues and expenses on a calendar month basis. It assumes kWh volumes sold adjusted for losses are equal to purchased kWh volumes based on the following formula: Billed kWh for the current calendar month’s consumption minus prior month’s kWh consumption billed in the current month plus current month’s kWh consumption billed in subsequent months.”*

As explained in NPEI’s 2020 IRM Rate Application (Section 3.2.5.2.3 GA Analysis Workform) NPEI is able to obtain calendar month consumption by account from a query of its billing system, which was used to populate the GA Analysis Workform. NPEI has attached the originally filed GA Analysis Workform and the revised GA Analysis Workform with columns F, G and H populated. NPEI notes that the total in column I of 518,946,484 kWh is the same in both GA Analysis Workforms. Also, columns K, L, M and N are the same in both GA Analysis Workforms. Columns F, G and H are just different presentations of the consumption billed. See Attachment 2.

**Staff Question #5**

**Ref: Manager’s Summary, page 32-34**

Preamble:

Excerpt from page 32 of the Manager’s Summary, reproduced below, indicates that actual **billed consumption** for the previous month is used for RPP settlement.



On page 34 of the Manager’s Summary, it indicates that settlement with the IESO is based on actuals:



1. Is actual consumption data for the entire previous month available by day 4 after the month-end, to enable Niagara Peninsula to perform the RPP settlement for all RPP consumption on actual basis (so that settlement is based on actuals and not estimates)?
2. Is the consumption information at each RPP price also available by day 4 after the month end?
	1. When are the meter readings completed to obtain the above information on actual basis?
3. When does the actual commodity price data become available to Niagara Peninsula to enable it to perform the settlement on an actual basis, requiring no true-ups (per the excerpt above)?

An excerpt from page 33 is reproduced below:



1. The excerpt above appears to contradict the assertions (see the excerpts from page 32 and 34) that settlements are completed on actual consumption basis and no true-ups are required. In the example above, it appears that the consumption data for January is not queried until March, and January consumption would not be settled until March. Please explain.
2. The excerpt appears to indicate that besides January, there could be other months billed during February. Please clarify if this is the case.
3. Please provide more clarification on Niagara Peninsula’s billing processes, e.g. is all consumption for one month is billed in the following month?
4. The excerpt appears to indicate that settlements are performed on a one-month lag basis. Does Niagara Peninsula agree with this characterization? If not, please clarify.

**Response:**

NPEI notes that the RPP settlement process described in the Manager’s Summary pertains to the process that NPEI utilized during the period when the variance account balances proposed for disposition accumulated (i.e. 2017 and 2018). In accordance with the OEB’s letter of February 21, 2019, *Accounting Guidance related to Accounts 1588 RSVA Power, and 1589 RSVA Global Adjustment,* NPEI revised its RPP Settlement process in September 2019 for August 2019 consumption settlement to align with the new guidance. Further details of NPEI’s current RPP settlement process are provided in the responses below.

1. Actual consumption data for the entire previous month is not available by day 4 after month-end. During 2018, NPEI completed its RPP settlements using actual consumption data, but with a one-month lag. For example, actual January 2018 consumption was used for the RPP settlement that was submitted to the IESO by the 4th business day of March 2018.

NPEI’s current RPP settlement process involves submitting the initial RPP settlement data by day 4 after month end based on estimates. For example, the initial RPP settlement for August 2019 consumption was submitted to the IESO by the 4th business day of September 2019, based on estimated volumes, estimated power cost and the IESO’s Second Estimate for the August 2019 GA rate. The consumption volumes are estimated by using NPEI’s estimated total system load for the settlement month (from wholesale metering data) and applying RPP / Non-RPP percentages, and percentages at each RPP price, from the current month’s billing data. The power cost is estimated based on an average cost of the days in the settlement month for which actual commodity cost is known by the 4th day of the following month.

1. Consumption information at each RPP price is not available by day 4 after month-end. During 2018, NPEI completed its RPP settlements using actual consumption data, but with a one-month lag. For example, actual January 2018 consumption at each RPP price was used for the RPP settlement that was submitted to the IESO by the 4th business day of March 2018.

NPEI’s current RPP settlement process involves submitting the initial RPP settlement data by day 4 after month end based on estimates (See part a) above). For example, the initial RPP settlement for August 2019 consumption was submitted to the IESO by the 4th business day of September 2019, using estimated consumption at each RPP price.

1. Actual commodity price data is available on the 10th business day of the following month. During 2018, NPEI completed its RPP settlements using actual commodity price data, but with a one-month lag. For example, actual January 2018 commodity price data became available on the 10th business day of February 2018, which NPEI utilized in its RPP settlement data submitted to the IESO by the 4th business day of March 2018.

NPEI’s current RPP settlement process involves submitting the initial RPP settlement data by day 4 after month end based on an estimated commodity price (See part a) above.) For example, the initial RPP settlement for August 2019 consumption was submitted to the IESO by the 4th business day of September 2019, using an estimated August 2019 commodity price.

1. During 2018, NPEI completed its RPP settlements using actual consumption and price data, but with a one-month lag. For example, actual January 2018 consumption, commodity cost and January 2018 Actual GA were used for the RPP settlement that was submitted to the IESO by the 4th business day of March 2018.

NPEI’s current RPP settlement process involves submitting the initial RPP settlement data by day 4 after month end based on estimates, followed by subsequent true-ups (See part a) above). For example, the initial RPP settlement for August 2019 consumption was submitted to the IESO by the 4th business day of September 2019, based on estimated volumes, estimated power cost and the IESO’s Second Estimate for the August 2019 GA rate.

1. Each month’s billings will include consumption that relates to more than one calendar month. For example, billing completed in February 2018 is mostly for January 2018 consumption, but also for some December 2017 consumption as well as any required billing adjustments for prior months.
2. All non-RPP customers have read dates from the first of the month to the end of the month. For example, non-RPP consumption for January 2018 is billed during February 2018 after the 10th business day of the month, once the actual January 2018 commodity cost and January 2018 Actual GA Rate became available.

RPP customers are billed at various times during the month, depending on billing cycles. The billing periods for RPP customers may not align to a calendar month.

1. NPEI agrees that during 2018, RPP settlements were performed on a one-month lag basis.

As explained above in part a), NPEI’s current RPP settlement process involves submitting the initial RPP settlement data by day 4 after month end based on estimates, followed by true-ups once actual rates and consumption volumes are available.

**Staff Question #6**

Preamble:

Niagara Peninsula has request to dispose of a debit amount of approximately $386K in Account 1588. This appears to be high, given that only the amounts related to differences in utility’s line losses built in rate and actual losses should remain in this account after IESO settlements for RPP have been completed and reflected in the correct year.

1. Please review the amounts recorded in Account 1588 for year 2018.
2. The OEB issued the Illustrative Commodity Model in February 2019. One of the Tabs in this model may be used to validate the balances recorded in the books for the year. Using the actual data, please complete and file the Tab “Final RSVA Balances” in the Illustrative Commodity model.

**Response:**

NPEI has completed the “Final RSVA Balances” Tab from the OEB’s Illustrative Commodity Model for each month in 2018. The table below compares the Account 1588 Principal Balance proposed for disposition to the 2018 total results of the Final RSVA Balances file.



The OEB’s *Q&A’s for Accounting Guidance on Accounts 1588 and 1589,* Question 29, states:

*“****Q29. When considering the new accounting guidance in the context of historical account balances, what is considered a material adjustment that would require an adjustment to historical balances?***

*A29. In general, the materiality threshold to be used in assessing total adjustments to historical balances of each commodity account is as follows:*

* *Account 1589 – 0.5% of annual GA costs (Account 4707 Charges – Global Adjustment) from the year pertaining to the balance requested for disposition.*
* *Account 1588 – 0.5% of Annual Cost of Power (Account 4705 – Power Purchased) from the year pertaining to the balance requested for disposition.”*

For NPEI’s Account 1588, 0.5% of expected annual cost of power would be 0.5% \* $66,137,891 = $330,689. NPEI’s expected Account 1588 variance is $424,806, and NPEI’s Account 1588 principal balance prosed for disposition is $358,593. The difference is $66,213, which is 0.1% of expected annual cost of power.

As indicated in the Application (Section 3.2.5.3), NPEI has reviewed its historical commodity account balances in the context of the new accounting guidance and has not identified any systemic issues.

Further, the comparison between the Account 1588 Principal Balance proposed for disposition to the 2018 total results of the Final RSVA Balances file, as shown in the table above, results in a difference of 0.1%, which is within the materiality threshold described in Question 29 of the Q&A.

**Attachments**

Attachment A - Final 2015 RRWF from NPEI’s 2016 IRM Rate Application (EB-2015-0090)

Attachment B – Originally Filed and Revised GA Analysis Workforms