Ontario Energy Board | Commission de l'énergie de l'Ontario

BY EMAIL

October 29, 2020

Christine E. Long
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4

Dear Ms. Long:

Re: Canadian Niagara Power Inc.
Application for 2021 Electricity Distribution Rates
OEB Staff Submission
Ontario Energy Board File Number: EB-2020-0008

In accordance with Procedural Order No. 1, please find attached OEB staff's submission in the above proceeding. Canadian Niagara Power and all intervenors have been copied on this filing.

Canadian Niagara Power Inc. is reminded that its reply submission is due on November 12, 2020.

Yours truly,

Original Signed By

Marc Abramovitz
Case Manager

cc: All parties in EB-2020-0008

Ontario

ONTARIO ENERGY BOARD

STAFF SUBMISSION

Canadian Niagara Power Inc.

2021 Electricity Distribution Rates

EB-2020-0008

October 29, 2020

Introduction

Canadian Niagara Power Inc. (Canadian Niagara Power) filed an incentive rate-setting mechanism (IRM) application with the Ontario Energy Board (OEB) as updated on October 15, 2020 under section 78 of the *Ontario Energy Board Act*, 1998 (OEB Act) seeking approval for changes to its electricity distribution rates to be effective January 1, 2021.

The purpose of this document is to provide the OEB with the submissions of OEB staff based on its review of the evidence submitted by Canadian Niagara Power.

Consistent with the Chapter 3 Filing Requirements,[1] Canadian Niagara Power applied the Price Cap IR adjustment factor to adjust the monthly service charge during the incentive rate-setting years. OEB staff has no concerns with Canadian Niagara Power's proposed price cap adjustment. OEB staff will update the 2021 IRM Model to reflect the 2021 price cap parameters pursuant to the process that the OEB may lay out for implementation once available.

Canadian Niagara Power has requested an update to its Retail Transmission Service Rates (RTSRs) to recover the wholesale transmission rates charged by the Independent Electricity System Operator (IESO) and its host distributor, Hydro One Networks Inc. (Hydro One)[2]. Canadian Niagara Power's updated RTSRs, as filed, have been adjusted to reflect the current OEB-approved interim 2020 Uniform Transmission Rates (UTRs) and the current Hydro One sub-transmission RTSRs.[3] OEB staff has no concerns with Canadian Niagara Power's requested adjustments to its RTSRs.

OEB staff makes detailed submissions on the following:

- Group 1 Deferral and Variance Accounts (DVA)
- Lost Revenues Adjustment Mechanism Variance Account (LRAMVA)
- Z-Factor – November 2019 Windstorm

[1] Filing Requirements For Electricity Distribution Rate Applications - 2020 Edition for 2021 Rate Applications - Chapter 3 Incentive Rate-Setting Applications, May 14, 2020
[2] Manager's Summary, Page 8
[3] If the OEB approves an update to the 2020 OEB-approved interim UTRs, issues new 2021 UTRs, or issues new 2021 Hydro One sub-transmission RTSRs prior to the Decision and Order for Canadian Niagara Power's 2021 rates, OEB staff will update Canadian Niagara Power's rate generator model accordingly.

Request for Disposition of Group 1 Accounts

Background

Canadian Niagara Power is requesting to dispose of a credit of $409,060 in its Group 1 DVA balances, as of December 31, 2019, over a one-year period. This includes interest projected to December 31, 2020. The components of this credit balance are shown below.

Table 1: Group 1 DVA Balances

Account Name	Account Number	Principal Balance ($) A	Interest Balance ($) B	Total Claim ($) C=A+B
LV Variance Account	1550	15,764	603	16,367
Smart Metering Entity Charge	1551	(6,273)	(136)	(6,409)
RSVA - Wholesale Market Service Charge	1580	(18,069)	5,678	(12,391)
Variance WMS – Sub-account CBR Class A	1580	0	0	0
Variance WMS – Sub-account CBR Class B	1580	(146,153)	(8,676)	(154,829)
RSVA - Retail Transmission Network Charge	1584	4,448	(1,265)	3,183
RSVA - Retail Transmission Connection Charge	1586	(232,145)	(6,029)	(238,175)
RSVA - Power	1588	(72,107)	25	(72,082)
RSVA - Global Adjustment	1589	51,924	3,350	55,275
Totals for all Group 1 DVA accounts excluding RSVA – Global Adjustment		(454,535)	(9,800)	(464,335)
Totals for all Group 1 DVA accounts		(402,610)	(6,450)	(409,060)

Based on the threshold test calculation, Canadian Niagara Power’s Group 1 DVA balances equate to a credit of $0.0009 per kWh. Although the $0.0009 per kWh is below the OEB’s disposition threshold of $0.001 per kWh, Canadian Niagara Power has requested disposition of its Group 1 DVAs as the disposition threshold was almost met and the disposition would result in a refund to customers.

In its application, Canadian Niagara Power confirmed that it has followed the accounting guidance related to Accounts 1588 and 1589[4], as mandated by the OEB in 2019 and that the 2019 balances have been prepared in accordance with this guidance. The OEB approved disposition of Canadian Niagara Power's 2018 balances on a final basis as part of its 2020 IRM proceeding, as Canadian Niagara Power was able to demonstrate that, upon implementation, the impact of the OEB's February 21, 2019 guidance on those balances was not material and adjustments were not required to those accounts.[5]

<u>Submission</u>

OEB staff supports Canadian Niagara Power's request to dispose of its Group 1 DVAs on a final basis. OEB staff has reviewed the 2019 balances and the supporting pre-filed evidence substantiating these balances. In OEB staff's opinion, the Group 1 DVA balances are reasonable and, with respect to commodity accounts 1588 and 1589, in alignment with the OEB's 2019 Accounting Guidance.

OEB staff further supports Canadian Niagara Power's request to dispose of its Group 1 DVAs despite not reaching the OEB's disposition threshold. OEB staff sees benefit in disposing of an accumulated credit balance to Canadian Niagara Power's customers, in part, to offset the bill impacts resulting from Canadian Niagara Power's request for z-factor relief and the inflationary increase in base distribution rates. This is particularly helpful to customers given the current economic environment.

Request for Disposition of Account 1568 LRAMVA

<u>Background</u>

In its pre-filed evidence, Canadian Niagara Power requested disposition of $195,398 in lost revenues associated with conservation activities pertaining to the 2016 to 2019 period, including carrying charges projected to December 31, 2020. Canadian Niagara Power filed its 2019 Participation & Cost (P&C) report and 2017 Final Verified Annual Local Distribution Company (LDC) Conservation Demand Management (CDM) Program Results report in support of its LRAMVA claim. Canadian Niagara Power's proposed disposition period of the LRAMVA balances is 12 months, with the exception of the balances allocated to the Streetlighting rate class, which Canadian Niagara Power proposed to dispose of over 48 months. Canadian Niagara Power proposed an

[4] Accounting Guidance Related to Commodity Pass-Through Accounts 1588 & 1589, February 21, 2019.
[5] EB-2019-0024, Decision and Order, Page 9

extended LRAMVA collection period in this rate class in order to mitigate bill impacts, which were forecast to be over 12% without a bill mitigation strategy[6].

In response to OEB staff interrogatories[7], Canadian Niagara Power made several updates to the LRAMVA balance. One particularly significant adjustment was the removal of street lighting energy and demand savings from the SaveOnEnergy Retrofit program for the 2016 to 2019 period and the reporting of streetlighting energy and demand savings as an independent program from 2016 to 2019. Other adjustments made by Canadian Niagara Power to its LRAMVA claim, from amounts originally filed, were generally minor. The net impact of these changes was an increase to the LRAMVA balance of $124,884, and a revised claim of $320,282.

<u>Submission</u>

OEB staff has reviewed the adjustments prepared by Canadian Niagara Power and is unable to reconcile the updated energy and demand savings for the street lighting program with the revised LRAMVA claim. OEB staff suggests that, as part of its reply submission, Canadian Niagara Power specifically outline all SaveOnEnergy Retrofit and Streetlighting project energy and demand savings for each year and identify how these result in the updated LRAMVA balance. Any other additional supporting explanations that would help the OEB understand how these adjustments correlated with the updated claim amounts should also be provided.

If these adjustments can be reconciled based on further information provided by Canadian Niagara Power in its reply submission, OEB staff would support the disposition of the Residential, GS < 50 kW, and GS > 50 kW rate class LRAMVA balances over a proposed recovery period of 12 months.

With respect to Canadian Niagara Power's bill mitigation strategy in its street lighting rate class, OEB staff notes that Canadian Niagara Power's proposal results in a gradually paced recovery of the lost revenues over the next four years. In its interrogatory responses, Canadian Niagara Power included Table A, reproduced below, which identifies the total bill impacts based on proposed rates and compares the proposed 48-month recovery period with three shorter, alternative recovery periods. It is important to note that although the bill impacts were less severe, a bill mitigation strategy was still required prior to CNPI's revision to its LRAMVA claim.

[6] EB-2020-0008 Application, Page 17 of 24, August 7, 2020
[7] EB-2020-0008 Applicant Response to Interrogatories, October 15, 2020

Table A[8]

Disposition Period	LRAMVA Rate Rider ($/kW)	Total Bill Impacts – Street Lighting Rate Class			
		2020	2021	Change 2020 to 2021	
				$	%
12 Months	25.0829	1,742.71	2,155.08	412.37	23.7%
24 Months	12.5415	1,742.71	1,942.51	199.80	11.5%
36 Months	8.3610	1,742.71	1,871.65	128.94	7.4%
48 Months	6.2707	1,742.71	1,836.22	93.51	5.4%

For a 36-month recovery period, the forecasted overall bill impact would be less than 10% year-over-year. While OEB staff does not oppose Canadian Niagara Power's proposal for a 48-month recovery, OEB staff recommends a shorter disposition period of 36 months. In OEB staff's view, a 36-month collection timeline results in a reasonable bill impact to this rate class (well below the 10% threshold requiring mitigation), without an additional year of carrying charges being levied upon this class, as would be required under the 48-month recovery period.

Z-Factor Claim

On October 31, 2019, a severe windstorm struck Canadian Niagara Power's service area causing significant damage to its distribution system. 19,225 (approximately 65%) of Canadian Niagara Power's customers were impacted by the storm. Canadian Niagara Power was able to restore power to more than 90% of the affected customers by the morning of November 2, 2019. To aid in restoring power, Canadian Niagara Power obtained assistance from two neighbouring LDCs (Niagara Peninsula Energy Inc. and Welland Hydro Electric System Corp.) and also engaged a number of third-party contractors.

Canadian Niagara Power is requesting the recovery of a z-factor claim in the amount of $261,587, representing the incremental operation, maintenance and administration (OM&A) costs incurred. Canadian Niagara Power is not seeking to recover any capital-related costs associated with the wind storm through the z-factor mechanism and is therefore absorbing and forgoing the incremental depreciation expense and return on rate base in the 2021 rate year.[9] Canadian Niagara Power is requesting that the amount

[8] Response to OEB staff interrogatory #9
[9] Response to OEB staff interrogatory #6a

be allocated across all rate classes, in proportion to its last OEB-approved revenue by rate class and recover the allocated amounts through fixed rate riders based on the most recently reported actual customer counts. Canadian Niagara Power requested a disposition period of 12 months beginning January 1, 2021 and ending December 31, 2021.

A detailed categorization of the expenses to be recovered is set out in table B below:

Table B[10]

Description	**Amount**
Labour – Overtime	$102,267
Materials	$8,000
LDC Mutual Aid Costs	$84,802
Contracted Services – Line Services	$39,651
Contracted Services – Excavation and Tree Removal	$22,155
Other	$1,175
Interest Forecast	$3,537
Z-Factor Amount Requested for Recovery	**$261,587**

Based on the OEB's *Report on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors*[11] dated July 14, 2008, z-factors are intended to provide for unforeseen events outside of a distributor's management control. The cost to the distributor must be material and its causation clear. In order for amounts to be considered for recovery by way of a z-factor, the amounts must satisfy the following three eligibility criteria:

- Causation – Amounts should be directly related to the z-factor event. The amount must be clearly outside of the base upon which rates were derived.

- Materiality – The amounts must exceed the OEB-defined materiality threshold and have a significant influence on the operation of the distributor; otherwise they should be expensed in the normal course and addressed through organizational productivity improvements.

[10] Manager's Summary, Schedule 1, Page 1
[11] http://www.ontarioenergyboard.ca/oeb/_Documents/EB-2007-0673/Report_of_the_Board_3rd_Generation_20080715.pdf

- Prudence – The amounts must have been prudently incurred. This means that the distributor's decision to incur the amounts must represent the most cost-effective option (not necessarily least initial cost) for ratepayers.

Causation

In its application, Canadian Niagara Power has provided the following comments with respect to causation:

- The incremental costs were directly related to repairs to Canadian Niagara Power's distribution system and restoration of service as a result of the October/November 2019 windstorm.[12]
- The costs are supported by invoicing from the various LDCs and contractors that assisted with restoration efforts, as well as timesheet and material charges to work orders created to track the costs of this specific storm event.[13]
- The claim includes incremental labour costs incurred by Canadian Niagara Power staff, materials, and third-party contractors.[14]
- Canadian Niagara Power has provided a breakdown of incremental labour costs by department.[15]
- Canadian Niagara Power secured the services of other LDCs through pre-existing mutual aid agreements. Other contractors that assisted with the restoration effort had existing contractual relationships with Canadian Niagara Power, and as such provided services at predetermined hourly rates.[16]
- The combination of heavy rain and flooding, followed by extreme and long-lasting wind gusts caused tree failures, pole failures and downed wires to an extent that would not have occurred under normal weather conditions.[17]
- Canadian Niagara Power could not have reasonably designed or managed its distribution system to avoid all of the damage and outages resulting from this windstorm.[18]
- Canadian Niagara Power has not experienced such an extensive amount of weather-related damage to its distribution system since a severe early-season

[12] Manager's Summary Page 22-24
[13] Ibid., Page 22-23
[14] Application, Schedule I, Page 1
[15] OEB Staff Question #2a
[16] Ibid., Page 23
[17] Ibid., Page 22
[18] Ibid.

snowstorm in October 2006, the costs of which were also subject to a z-factor claim.[19]

- Due to the infrequent and extreme nature of such events, Canadian Niagara Power has not planned or budgeted for such events. In 2019, Canadian Niagara Power budgeted less than $25,000 for OM&A related to outage/storm response.[20]

Table C
O&M Outage/Storm Response Budget vs. Actual (excluding carrying charges)

Year	Budget ($) (A)	Actual ($) (non Z-Factor) (B)	Actual ($) (Z-Factor) (C)	Variance (B+C) - (A)
2015	$-	$36,325	$-	$36,325
2016	$16,500	$-	$-	$(16,500)
2017	$39,977	$13,553	$-	$(26,424)
2018	$69,894	$89,766	$-	$19,872
2019	$24,313	$83,981	$258,050	$317,718
2020 YTD	$25,391	$12,261	$-	$(13,130)
Total	**$176,075**	**$235,886**	**$258,050**	**$317,861**

In response to an interrogatory[21], Canadian Niagara Power provided its actual 2019 OM&A costs by category. OEB staff is of the view that it would be helpful to the OEB if Canadian Niagara Power would extend this information and compare its 2019 OEB-approved total OM&A, adjusted for inflation, versus its total 2019 OM&A spending. OEB staff suggests that Canadian Niagara Power file this comparison as part of its reply submission as it would assist the OEB in confirming that the costs are incremental to what underpins rates. OEB staff would consent to Canadian Niagara Power filing such new evidence in its reply submission, but respectfully reserves the right to test any such evidence through a subsequent interrogatory process. In this regard, if Canadian Niagara Power files the new evidence in its reply submission, and OEB staff feels that a further round of interrogatories is warranted, OEB staff will notify the OEB by written submission within 3 days of the filing of the reply submission.[22]

[19] Ibid.
[20] VECC Question #1b, see Table C
[21] Response to SEC Question #2
[22] Intervening parties may file a similar correspondence.

Subject to this confirmation, OEB staff submits that Canadian Niagara Power has demonstrated that the amounts sought for recovery are directly related to the windstorm and outside of the base upon which Canadian Niagara Power's cost of service rates were set.

Materiality

OEB staff notes that the OEB's materiality threshold for a z-factor claim is 0.5% of distribution revenue requirement for a distributor with a distribution revenue requirement greater than $10 million and less than or equal to $200 million.

Canadian Niagara Power has an approved revenue requirement of $21,388,669 from its 2017 cost-of-service application and a corresponding materiality threshold of $106,943.OEB staff submits that the claim is material.

Prudence

The OEB's *Filing Requirements for Electricity Distribution Rate Applications* issued on July 12, 2018, state that applicants are to notify the OEB promptly by letter to the Board Secretary of all z-factor events. Failure to notify the OEB within six months of the event may result in disallowance of the claim. OEB staff notes that on December 19, 2019, Canadian Niagara Power filed a Major Events Day report and letter notifying the OEB of its intention to file a z-factor claim in its next IRM application.

In its application, Canadian Niagara Power has provided the following comments with respect to prudence[23]:

- Canadian Niagara Power deployed all available line crews and obtained assistance from neighboring LDCs and third-party contractors to repair damage and restore power to as many customers as possible within a reasonable period of time.
- Canadian Niagara Power deployed all available internal resources to the restoration effort and issued the vast majority of required materials directly from stores to minimize premiums for emergency purchases and expedited delivery.

OEB staff appreciates that in a situation arising from extraordinary events, Canadian Niagara Power was able to restore power to its customers expeditiously. OEB staff

[23] Manager's Summary Page 22-24

submits that Canadian Niagara Power acted prudently in promptly securing assistance to restore power and did so in a cost-effective way, given the circumstances.

In summary, based on its review of the evidence, OEB staff submits that the criteria of causation, materiality and prudence were met subject to CNPI confirming the 2019 OM&A amounts. OEB staff further acknowledges that Canadian Niagara Power is forgoing the capital-related funding in 2021 associated with this storm, absorbing a portion of these costs that may otherwise be requested for collection from its ratepayers.

Allocation and Rate Design

In its application, Canadian Niagara Power states that, consistent with the OEB's Decision on Burlington Hydro Inc.'s Z-factor claim for 2019 rates[24], Canadian Niagara Power has allocated the costs associated with the wind storm to all rate classes, on the basis of its last-approved distribution revenues. Canadian Niagara Power is requesting that the amount be recovered by means of a fixed rider, over a 12-month period. Canadian Niagara Power is also proposing to use the number of customers as of December 31, 2019, as submitted in its 2019 Record-keeping and Reporting Requirements filing, as the billing determinant to calculate rate riders in order to reduce the likelihood of over-recovering the z-factor claim.

OEB staff submits that Canadian Niagara Power's proposal to allocate the costs associated with the windstorm on the basis of distribution revenue and the most recent filed customer numbers as the billing determinant is reasonable, as is its request for a 12-month recovery period.

All of which is respectfully submitted

[24] EB-2018-0021, Decision and Order, March 28, 2019, pp. 13-14.