

EB-2020-0042

Niagara-on-the-Lake Hydro Inc. (NOTL Hydro)

**Application for electricity distribution rates and other
charges beginning May 1, 2021**

VECC Interrogatories January 4, 2020

Please see Niagara-on-the-Lake Hydro (NOTLH) Responses below in blue.

VECC-1

Ref #1: Manager's Summary Page 31

Ref #2: OEB ELECTRICITY REPORTING & RECORD KEEPING REQUIREMENTS Effective March 31, 2020

Ref #3: Manager's Summary P33 Table 32

At Reference #1, NOTL Hydro indicates its 2019 distributor earnings were above the 300 basis points dead band as per its 2019 RRR filing for 2.1.5.6.

At Page 18 of Reference #2 (2.1.5.6), the OEB indicates "A distributor shall report the regulatory return on equity earned in the preceding fiscal year. The reported return is to be calculated on the same basis as was used in establishing the distributor's base rates.

At Reference #3, NOTL Hydro provides amounts for the achieved ROE amount (\$), the Regulated Deemed Equity (\$) and the ROE (%).

- a) Please provide all calculations to support the achieved amounts in Table 32 on the same basis as was used in establishing the distributor's base rates.
- b) Please provide a copy of NOTL's 2019 RRR filing for 2.1.5.6.

NOLTH Response

- a) The achieved amounts are taken directly from NOTLH's 2.1.5.6 which is provided as appendix A to the responses to OEB Staff interrogatories
- b) Attached as appendix A to OEB Staff interrogatories

VECC-2

Ref: Manager's Summary P31

NOTL Hydro indicates that one of the reasons for the variances in ROE amounts is that amounts related to the ICM were included in the CoS in rate base and depreciation expense. These amounts were held in account 1508 as of the 2019 year-end and were therefore not included in the calculation of deemed equity. This was due to the fact that the rate rider did not expire until April 30, 2019. These accounts will be disposed of in 2020 now that the final balances have been audited. NOTL has not booked interest on the ICM since April 30, 2019.

- a) Please provide details of the ICM including a project description, inservice amounts by year, commencement date and inservice date.
- b) Please confirm the ICM amounts included in 2019 rate base and the depreciation expense.
- c) Please provide the start date for the ICM rate riders.

NOLTH Response

- a) The ICM was for a new transformer for the NOTL transmission station, the transformer was placed in service in 2015 and total spend on the project was \$2,565,528. Further details can be found on page 51 of Exhibit 2 from NOTLH 2019 CoS.
- b) The amount included in the 2019 rate base are the same as those included in table 32 in the Manager's Summary.
- c) May 1, 2015.

VECC-3

Ref: Manager's Summary P32

NOTL Hydro indicates that one of the reasons for the variances in ROE amounts is that NOTL Hydro included the purchase of a new 83MVA transformer at a cost of \$3.3m in the CoS in rate base and depreciation expense (half year). Unexpected delays from the manufacturer caused the completion of this project to occur in 2020. The capital amounts spent on the project were included in CWIP at the end of 2019 and therefore not included in the calculation of deemed equity. In addition, no depreciation was taken as the asset was not in use during the year.

- a) Please provide the start date and forecast and actual inservice date for the project.
- b) Please confirm the forecast project amounts included in CWIP at the end of 2019.
- c) Please provide the actual project amounts.

NOLTH Response

- a) The first expenses related to the project were incurred in July 2018, although it had been in NOTLH capital plans for many years. The project was expected to be completed in the fourth quarter of 2019 but due to unforeseen delays the transformer was placed in service in June 2020.
- b) The actual project amount in CWIP at the end of 2019 was \$1.5m.
- c) The actual project amount capitalized in 2020 was \$2.8m.

VECC-4

Ref: Manager's Summary P32

Please explain why the LRAM amount of \$196,000 was not included in the RRWF in the CoS.

NOLTH Response

The LRAMVA approved in NOTLH 2019 CoS was not included in the RRWF for 2019 because the claim related to 2016 and 2017 lost revenues and had no impact on future revenue requirements. Impacts of CDM programs for 2019 were reflected in the Load Forecast submitted with that application.

VECC-5

Ref:

<https://www.niagaranow.com/news.phtml/4499-hydro-worker-fired-after-250k-fraud-discovered>
<https://www.niagaranow.com/news.phtml/4568-fired-hydro-manager-repays-77-of-stolen-money>

Two articles in Niagara Now dated September 22, 2020 and October 6, 2020, respectively, at the references above, detail how a longtime employee of Niagara-on-the-Lake Hydro has been fired after admitting to setting up a fake invoicing scheme and defrauding the utility of more than \$250,000. The former staff member, a senior manager, has promised to pay back the money. The manager had repaid 30 per cent of the stolen money as of Tuesday, September 22, 2020 and 77 percent as of October 2020. The exact total of how much was stolen has not been revealed. The scheme involved phony invoices issued and paid over an 18-month period.

- a) Please provide the exact amount defrauded.
- b) Please provide NOTL Hydro's OM&A expenses in 2019.
- c) How much of NOTL Hydro's Distribution Expenses in 2019 involve phony invoices?
- d) Are these expenses included in the ROE calculation? If yes, what would the difference in 2019 ROE be if they were excluded?
- e) Please discuss what controls NOTL Hydro has now put in place to prevent this situation from occurring in the future.

NOLTH Response

- a) As noted, the exact amount defrauded has not been publicly revealed. The amount defrauded made public at this time is that it is in excess of \$425k. 94% of the amount defrauded has now been recovered and NOTL Hydro still expects to recover 100%.

- b) NOTL Hydro's OM&A expenses in 2019 were \$2,875,105.
- c) There were \$0 of phony invoices in NOTL Hydro distribution expenses. None of the OM&A in 2019 included the phony invoices.
- d) There were no payments from the fraud included in the ROE calculation either as operating expenses or capital expenditures.
- e) The manager who committed the fraud was able to get a phony company set-up as a vendor in NOTL Hydro's accounts payable system. To prevent this in the future, a form has been created which vendors must complete. As part of the approval of the form, background checks are now made on the companies to ensure they are legitimate. This form and process is being applied to existing vendors as well as new ones.

VECC-6

Ref: OEB Filing Requirements For Electricity Distribution Rate Applications - 2020 Edition for 2021 Rate Applications - Chapter 3 Incentive Rate-Setting Applications May 14, 2020 - 3.3.5 Off-ramps P33

The Filing Requirements state, "For each of the OEB's three rate-setting options, a regulatory review may be triggered if a distributor's earnings are outside of a dead band of +/- 300 basis points from the OEB approved return on equity. The OEB monitors results filed by distributors as part of their reporting and record-keeping requirements and determines if a regulatory review is warranted. Any such review will be prospective, and could result in modifications, termination or the continuation of the respective Price Cap IR or Annual IR Index plan for that distributor. A distributor whose earnings are in excess of the dead band is expected to refrain from seeking an adjustment to its base rates through a Price Cap IR or Annual IR Index plan."

Please explain further why NOTL should be eligible for the Price Cap Index adjustment given its achieved ROE in 2019.

NOLTH Response

NOTLH should be eligible for the Price Cap Index adjustment because the ROE calculation when adjusted for LRAMVA and ICM accounting entries and timing of capital purchases is within +/- 300 basis points of the OEB approved return on equity.

- a) The LRAMVA amount included in NOTLH trial balance for RRR purposes relates to lost energy sales as a result of CDM initiatives that occurred in 2016 and 2017 and are only booked in 2019 because that is when the amounts were approved for disposition by the OEB. Only a portion of that amount was even actually recovered in 2019 because the recovery was approved over a 24-month period starting May 1, 2020.
- b) The ICM was held in account 1508 for the purposes of the NOTLH trial balance for RRR in 2019 due to the requirement to have the account balances audited before disposition. The rate riders for the ICM ended April 30, 2019 and now that those balances have been externally audited, they will be moved from account 1508 to the appropriate accounts and for the purpose of the NOTLH trial balance for RRR in 2020. Although, the movement of the amounts from account 1508 was not completed in 2019, the amount of the ICM should be included in rate base as was contemplated and approved in the 2019 CoS.

- c) The 83MVA transformer project was included in rate base, at half of its value due to use of average NBV to calculate rate base, in the 2019 CoS. NOTLH does not feel that a 6-month delay in the completion of this project should prohibit its eligibility for the Price Cap Index adjustment, which would impact NOTLH rates every year until its next CoS application which would be for 2024 rates.

VECC-7

Please provide the forecast ROE for 2020 and 2021 compared to the target and provide any relevant supporting details.

NOLTH Response

Please see response to OEB staff question 4c for forecast ROE for 2020. Including the price cap index adjustment of 1.9% (2.2% price escalator - 0.3% stretch factor) NOTLH forecasts its ROE for 2021 to be 7.4%. Excluding the price cap adjustment NOTLH forecast is ROE for 2021 to be 6.7%.