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BY EMAIL

February 1, 2021

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

Dear Ms. Long:

**Re: Niagara-on-the-Lake Hydro Inc.
Application for 2021 Electricity Distribution Rates
OEB Staff Submission
Ontario Energy Board File Number: EB-2020-0042**

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

Niagara-on-the-Lake Hydro Inc. is reminded that its reply submission is due on February 15, 2021.

Yours truly,

Original Signed By

Kelli Benincasa
Case Manager

cc: All parties in EB-2020-0042



ONTARIO ENERGY BOARD

STAFF SUBMISSION

Niagara-on-the-Lake Hydro Inc.

2021 Rates Application

EB-2020-0042

February 1, 2021

Introduction

Niagara-on-the-Lake Hydro Inc. (Niagara-on-the-Lake Hydro) filed an incentive rate-setting mechanism (IRM) application with the Ontario Energy Board (OEB) on October 8, 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.

Consistent with the Chapter 3 Filing Requirements,¹ Niagara-on-the-Lake Hydro applied the Price Cap IR adjustment factor to adjust the monthly service charge during the incentive rate-setting years. OEB staff does not object to Niagara-on-the-Lake Hydro's proposed price cap adjustment, as noted in the section titled "Achieved Return on Equity". OEB staff has updated the 2021 IRM Model to reflect the OEB-approved 2021 price cap parameters, consistent with the election filed by Niagara-on-the-Lake Hydro.²

Niagara-on-the-Lake Hydro 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). Niagara-on-the-Lake Hydro's updated RTSRs, as filed, have been adjusted to reflect the current OEB-approved 2021 Uniform Transmission Rates (UTRs).³ OEB staff has no concerns with Niagara-on-the-Lake Hydro's requested adjustments to its RTSRs.

OEB staff makes detailed submissions on the following:

- Deferral and Variance Account (DVA) Disposition Requests
- Achieved Return on Equity (ROE)
- Lost Revenues Adjustment Mechanism Variance Account (LRAMVA) Disposition

¹ Filing Requirements for Electricity Distribution Rate Applications - 2020 Edition for 2021 Rate Applications - Chapter 3 Incentive Rate-Setting Applications, May 14, 2020

² EB-2020-0042, letter filed re: 2021 inflation factor, January 21, 2021.

³ EB-2020-0251

Deferral and Variance Account (DVA) Disposition Requests**Group 1 Accounts**Background

Niagara-on-the-Lake Hydro is requesting to dispose of a credit of \$246,223 in its Group 1 DVA balances, as of December 31, 2019, over a one-year period. This includes interest projected to April 30, 2021. The components of this credit balance are shown below:

Table 1: Group 1 DVAs Requested for Disposition

Account Name	Account Number	Principal Balance (\$) A	Interest Balance (\$) B	Total Claim (\$) C=A+B
LV Variance Account	1550	-	-	-
Smart Metering Entity Charge Variance Account	1551	(2,480)	(28)	(2,508)
RSVA - Wholesale Market Service Charge	1580	(72,634)	(2,498)	(75,132)
Variance WMS – Sub-account CBR Class A	1580	-	-	-
Variance WMS – Sub-account CBR Class B	1580	(23,504)	(556)	(24,061)
RSVA - Retail Transmission Network Charge	1584	(28,818)	(1,954)	(30,772)
RSVA - Retail Transmission Connection Charge	1586	(65,342)	(1,637)	(66,979)
RSVA - Power	1588	(11,142)	2,122	(9,020)
RSVA - Global Adjustment	1589	(35,012)	(2,738)	(37,751)
Totals for all Group 1 DVAs excluding RSVA – Global Adjustment		(203,920)	(4,551)	(208,472)
Totals for all Group 1 DVAs		(238,932)	(7,289)	(246,223)

Niagara-on-the-Lake Hydro's 2019 Group 1 accounts meet the OEB's pre-set disposition threshold of \$0.001 per kWh.

As part of its 2020 IRM proceeding⁴, Niagara-on-the-Lake Hydro confirmed that it implemented the OEB's February 21, 2019 Accounting Guidance for Account 1588 and

⁴ EB-2019-0056

Account 1589 (Accounting Guidance)⁵. Niagara-on-the-Lake Hydro also confirmed that it reviewed its 2017 and 2018 account 1588 and 1589 balances in the context of the Accounting Guidance and expressed confidence that there were no systemic issues in its Regulated Price Plan (RPP) settlements and related accounting processes. In its decision and rate order, the OEB approved disposition of Niagara-on-the-Lake Hydro's 2018 Group 1 balances on a final basis. In addition, the OEB also directed Niagara-on-the-Lake Hydro to amend certain aspects of its accounting processes to better align with the Accounting Guidance on a go forward basis. In the current proceeding, Niagara-on-the-Lake Hydro confirmed that it has made those changes.

Submission

OEB staff notes that Niagara-on-the-Lake Hydro has applied the Accounting Guidance to its 2019 balances. OEB staff has reviewed the evidence supporting Niagara-on-the-Lake Hydro's 2019 Group 1 accounts and supports disposition of those balances. OEB staff submits that the 2019 Group 1 DVA balances should be disposed on a final basis.

Specified Customer Revenue Variance Account

Background

Niagara-on-the-Lake Hydro is requesting disposition of Account 1508 - Other Regulatory Asset, Sub-account Specified Customer Revenue Variance Account in the credit amount of \$30,248, over a one-year period. The sub-account was established in Niagara-on-the-Lake Hydro's 2019 cost of service rate application to capture variances between actual distribution revenue and the forecasted distribution revenue reflected in the rate application for a specific Large Use customer. The reason for the sub-account is that the load forecast for the one customer that was included in the Large Use Customer Class was uncertain at time of the 2019 cost of service proceeding, and it was quite large relative to the company's total load. The parties agreed that it was appropriate that neither the distributor nor customers bear the benefit or burden of currently unknown variances in the large customer's load, and that a variance account was appropriate.

The variance in the sub-account was to be disposed after the audit of the sub-account each year.

⁵ Accounting Procedures Handbook Update – Accounting Guidance Related to Commodity Pass-Through Accounts 1588 & 1589

Submission

OEB staff supports the proposed disposition of the sub-account which is consistent with the settlement proposal accepted by the OEB in Niagara-on-the-Lake Hydro's 2019 cost of service application⁶. The OEB-approved settlement proposal in that application stated the following regarding the account:

The Parties agree that the new account will be cleared annually via a rate rider which will be in effect for one year by allocating the balance of the variance account across customer classes based on customer class revenue.⁷

OEB staff notes that the sub-account is a Group 2 account. As stated in the Chapter 3 Filing Requirements for Electricity Distributors⁸, disposition of Group 2 accounts is excluded from incentive rate-setting applications and is to be addressed at a distributor's next cost of service application. However, given that the annual disposal of the account was agreed upon in the OEB accepted settlement proposal, OEB staff submits that an exception should be made to allow for annual disposition in this circumstance.

OEB staff has further reviewed the supporting calculations⁹ of the sub-account and has no concerns with the amounts. Therefore, OEB staff agrees with the proposed disposition of the balance in Account 1508 Other Regulatory Asset, Sub-account Specified Customer Revenue Variance Account as part of this proceeding.

Achieved Return on Equity (ROE)

Background

The Chapter 3 Filing Requirements for Electricity Distributors state that a regulatory review may be triggered if a distributor's earnings are outside of a dead band of +/- 300

⁶ EB-2018-0131

⁷ Page 31 of Schedule A, Decision and Order, Niagara-on-the-Lake Hydro Inc., April 11, 2019, EB-2018-0056

⁸ Page 34, Filing Requirements for Electricity Distribution Rate Applications - 2020 Edition for 2021 Rate Applications. Chapter 3 Incentive Rate-Setting Applications, May 14, 2020.

⁹ IRR Staff-1

basis points from the OEB-approved ROE.¹⁰ 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.¹¹ Niagara-on-the-Lake Hydro is requesting an adjustment to its base rates in the current proceeding.

Niagara-on-the-Lake Hydro's 2019 ROE reported in the OEB's *Reporting and Record-Keeping Requirements* (RRR) 2.1.5.6 - Regulated Return on Equity was 14.38%, 5.4% (or 540 basis points) greater than its 2019 approved ROE of 8.98%. Niagara-on-the-Lake Hydro noted some main reasons for the over-earning and adjusted its reported ROE for these reasons.¹² Its adjusted ROE is 9.34%,¹³ and reflects the following:

- adjustments related to Incremental Capital Module (ICM)
- removal of LRAM
- adjustment for the delay of in-service date of a transformer
- adjustment related to deemed interest

Niagara-on-the-Lake-Hydro rebased its base rates effective May 1, 2019. Niagara-on-the-Lake Hydro noted that its ROE approved in its 2014 cost of service proceeding (9.36%)¹⁴ applies to four months of earnings in 2019, and its ROE approved in its 2019 cost of service proceeding (8.98%) applies to eight months of earnings in 2019, resulting in a 2019 blended approved ROE of 9.11%.¹⁵ Niagara-on-the-Lake Hydro noted that its adjusted ROE is within 300 basis points of approved ROE.

Submission

OEB staff submits that, after making appropriate adjustments to its 2019 reported ROE, Niagara-on-the-Lake Hydro's ROE is within 300 basis points of approved ROE. The adjustments proposed by Niagara-on-the-Lake Hydro are discussed in detail below.

OEB staff notes that the company's proposed blended approach to the deemed ROE is a deviation from the manner in which the OEB requires utilities to file RRR 2.1.5.6. However, OEB staff is of the view that Niagara-on-the-Lake Hydro's approach provides

¹⁰ Filing Requirements for Electricity Distribution Rate Applications - 2020 Edition for 2021 Rate Applications. Chapter 3 Incentive Rate-Setting Applications, May 14, 2020.

¹¹ Ibid.

¹² In its pre-filed evidence, Niagara-on-the-Lake Hydro also made adjustments related to Account 1576 rate riders

¹³ IRR Staff-6

¹⁴ EB-2013-0155

¹⁵ IRR Staff-6

a more precise calculation for purposes of determining the over earnings threshold for this proceeding, and therefore OEB staff does not oppose using 9.11% as the ROE comparator.

ICM Amounts

One adjustment relates to ICM amounts that were included in Niagara-on-the-Lake Hydro's rate base and depreciation amounts approved in its 2019 cost of service proceeding, but were not included in its actual reported 2019 rate base and depreciation figures. These amounts were included in Account 1508 sub-accounts instead.

Typically, amounts in ICM related sub-accounts are transferred to the appropriate capital, depreciation and revenue accounts upon the OEB's approval to include the ICM in rate base.¹⁶ Niagara-on-the-Lake Hydro indicated that the sub-accounts will be disposed after the audit of December 31, 2019 balances, including the Account 1508 sub-accounts, is completed in 2020. Niagara-on-the-Lake Hydro has adjusted its ROE calculation to remove the impact of differences in the treatment of ICM-related amounts between approved ROE and actual ROE. OEB staff supports this adjustment to ROE as the ICM related asset was in-service in 2019 and should be reflected in rate base and depreciation, regardless of the regulatory accounting treatment of ICM-related sub-accounts. The impact of this adjustment, including the related deemed interest expense adjustment, is to reduce regulatory net income by approximately 7%.

Account 1576 Rate Riders

Niagara-on-the-Lake Hydro initially proposed to adjust its ROE calculation for the depreciation impact resulting from rate riders related to the previously approved disposition of Account 1576, which were effective until April 30, 2019. The recording of these rate riders includes a credit entry of \$90,000 to depreciation expense¹⁷ in 2019 that was not reflected in Niagara-on-the-Lake Hydro's approved 2019 depreciation expense. In response to interrogatories regarding whether there would also be an associated revenue impact from the Account 1576 rate riders¹⁸, Niagara-on-the-Lake Hydro agreed that the Account 1576 rate riders would also have resulted in a reduction of revenues, the reduction of which was also not reflected in the approved 2019

¹⁶ March 2015 Accounting Procedures Handbook, #14

¹⁷ Per the March 2015 Accounting Procedures Handbook Guidance, the related journal entries that disposes of Account 1576 include i) debit entries to distribution revenues and other income to record the rate rider amounts refunded, and ii) credit entries to depreciation expense.

¹⁸ IRR Staff-6

revenue requirement. Niagara-on-the-Lake Hydro indicated that the \$90,000 impact to depreciation expense was offset by an \$89,993 impact to revenues, and it is no longer seeking an adjustment to reported ROE relating to Account 1576. OEB staff agrees that no adjustment should be made.

LRAMVA

Niagara-on-the-Lake Hydro noted that the OEB's approval to dispose \$196,000 of LRAMVA balances in its 2019 cost of service proceeding resulted in the recognition of \$196,000 in 2019 distribution revenues. These amounts related to lost revenues associated with the 2016-2017 program years and were not reflected in the approved 2019 revenue requirement. Therefore, Niagara-on-the-Lake Hydro adjusted its ROE to remove the LRAM revenues from distribution revenues. OEB staff agrees with this treatment as the \$196,000 is for the recovery of lost revenues relating to 2016 and 2017 and should not have any impact to 2019 revenues and the calculated 2019 ROE.

In its response to interrogatories¹⁹, Niagara-on-the-Lake Hydro indicated that it does not feel it is appropriate to adjust the 2019 reported ROE to include LRAM revenues pertaining to the 2019 program year as this practice would require distributors to go back and recalculate prior year(s)' ROE, and would be inconsistent with past practices. OEB staff does not agree. OEB staff's view is that the LRAM revenues relating to the 2019 year should be included in the calculated 2019 revenues and ROE. Niagara-on-the-Lake Hydro's achieved ROE, and potential over-earnings, are being reviewed in this proceeding. Including the 2019 LRAM amounts in revenues would result in a more accurate achieved ROE calculation, ensuring the 2019 ROE calculation captures only activities that occurred in 2019.

Overall, OEB staff calculates that regulatory net income will be reduced by approximately 10% if all applicable LRAM adjustments are made.

OEB staff also notes that it is not aware of a case for an electricity distributor where an adjustment to account for the timing of LRAM revenues was made in establishing a normalized actual ROE calculation for purposes of either an ICM request or a request for an inflationary increase. However, OEB staff notes that this type of adjustment has been accepted in the past by the OEB in determining the actual ROE to be used in

¹⁹ IRR Staff-7

calculating the outcomes of any particular year that is subject to an earnings sharing mechanism.²⁰

Delay of In-service Transformer

Niagara-on-the-Lake Hydro noted that a 83MVA transformer and associated depreciation was included in its approved 2019 rate base and depreciation amounts, but the transformer was not put into service until 2020. Therefore, the transformer and associated depreciation were not included in the 2019 ROE. Niagara-on-the-Lake Hydro proposed to adjust its 2019 ROE to include the transformer in rate base and to include the associated depreciation. In response to interrogatories²¹, Niagara-on-the-Lake Hydro indicated that the 2019 ROE should be adjusted to include the transformer in rate base because its high ROE is not due to excess earnings but due to the timing of the recognition of items in rate base. Niagara-on-the-Lake Hydro further stated that the objective of the over-earnings off ramp is to provide a mechanism to manage rates if a distributor that is generating too much revenue, but this will automatically self-correct for Niagara-on-the-Lake Hydro in 2020 as the transformer will be included in rate base at that time.

OEB staff disagrees with Niagara-on-the-Lake Hydro and submits that the transformer should not be adjusted for in the calculation of the 2019 ROE. Niagara-on-the-Lake Hydro's approved ROE allowed for a return on the transformer under the assumption that the transformer would be in-service in 2019. Generally, the expectation is that only in-service additions are added to rate base and allowed a return. The transformer was not in service in 2019, but Niagara-on-the-Lake Hydro earned a return on the transformer as the transformer was included in its approved 2019 rate base. Therefore, Niagara-on-the-Lake Hydro was over-earning on the transformer.

OEB staff also notes that the timing of the transformer going into service is a forecasting difference and not a misalignment between elements that form part of the ROE calculation and elements included/excluded in the approved revenue requirement (like the three items discussed above). Furthermore, the reported ROE calculation requires actual rate base to be used and not approved rate base.²² Therefore, OEB staff submits

²⁰ Hydro Ottawa Limited, Decision and Order for Custom IR application for Jan 1, 2021-Dec. 31, 2025, November 19, 2020 (EB-2019-0261)

²¹ IRR Staff-8

²² Page 16 of RRR 2.1.5.6 ROE Complete Filing Guide, March 2016

that the delay in the transformer going into service should not be an adjustment to Niagara-on-the-Lake Hydro's 2019 achieved ROE.

Deemed Interest Adjustment

Niagara-on-the-Lake Hydro has also adjusted the deemed interest in the ROE calculation to reflect the impact from the above noted rate base adjustments in the same manner as that in the ROE calculation, as reported in RRR. OEB staff agrees with the nature of this adjustment, but submits that the adjustment amount calculated should exclude the impact from the transformer adjustment as noted above.

Overall Conclusions

For the reasons set out above, OEB staff submits that Niagara-on-the-Lake Hydro's 2019 ROE should be adjusted to 10.89%²³ as shown below. OEB staff notes that Niagara-on-the-Lake Hydro's adjusted 2019 ROE would be within 300 basis points of its approved ROE. Therefore, OEB staff does not object to Niagara-on-the-Lake Hydro's request to adjust its base rates in this proceeding.

Table 2: Summary of Adjustments to 2019 ROE

RRR Regulated Net Income			\$1,492,779
Adjustments	1. LRAM relating to years prior to 2019	\$(195,530)	
	2. LRAM relating to 2019	\$42,553	
	3. ICM depreciation	\$(53,433)	
	4. Depreciation for transformer	\$ -	
	5. Account 1576 related depreciation and revenues	\$ -	
	6. Deemed interest adjustment relating to rate base adjustments ²⁴ (2,352,396*60%*3.82%)	\$ (53,917)	\$ (260,327)
Adjusted Regulated Net Income			\$1,232,452
RRR Regulated Deemed Equity			\$10,379,020
Adjustments:	1. ICM rate base impact ²⁵ (2,352,396*40%)	\$ 940,958	

²³ OEB staff notes that Niagara-on-the-Lake Hydro confirmed the fraud that occurred at the utility did not have an impact on its ROE calculation as per IRR VECC-5

²⁴ IRR-Staff-6

²⁵ Ibid.

2. Addition of transformer	\$ -	\$ 940,958
Adjusted Regulated Deemed Equity		\$11,319,978
Adjusted Achieved ROE		10.89%
Deemed ROE		9.11%
Difference		1.78%

Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) Disposition

Background

Niagara-on-the-Lake Hydro's pre-filed evidence included a request to dispose of a LRAMVA debit balance of \$192,684. This balance included lost revenues from Conservation and Demand Management (CDM) programs delivered in 2018 and 2019, as well as persisting savings from 2011-2017 programs in 2018 and 2011-2018 programs in 2019.

Niagara-on-the-Lake Hydro filed a Participation & Cost (P&C) Report in support of its claim, and a supplemental spreadsheet to claim additional savings from business retrofit programs that were not captured in the P&C Report.²⁶ Niagara-on-the-Lake Hydro proposed to recover its LRAMVA balance over 24 months to be consistent with the period over which the balance has accumulated.

OEB staff questioned the appropriateness of including 2011-2016 persistence in the 2019 LRAMVA balance, and the appropriateness of claiming lost revenues for the residential class in 2019, given Niagara-on-the-Lake Hydro completed its transition to a fixed residential charge as of May 1, 2019.

Niagara-on-the-Lake Hydro responded to OEB staff's concerns by proposing to re-calculate their 2019 lost revenues using an alternative approach that distinguishes lost revenue amounts related to pre- and post-May 2019 periods. By using its proposed calculation method, Niagara-on-the-Lake Hydro is able to claim 2011-2016 persisting savings up to the effective date of its last rebasing, and satisfy the request to remove both the 2011-2016 persisting savings and the 2019 lost revenues from the residential class, after May 1, 2019.²⁷ the OEB has previously accepted similar utility-specific

²⁶ See "NOTL Detail CDM Savings" excel spreadsheet filed on Oct 8, 2020

²⁷ Response to Staff-14

approaches to measure lost revenue impacts more precisely.²⁸ In addition, OEB staff is of the view that the Niagara-on-the-Lake Hydro's proposed approach and adjustments made to the components of the LRAMVA calculation appropriately compensate it for lost revenue impacts experienced during 2019.

While OEB staff does not oppose disposing of the LRAMVA balance over 24 months, OEB staff recommends a shorter disposition period of 12 months to minimize intergenerational inequity, as the total bill impact for all customer classes would still be well below 10%. Furthermore, for the majority of customer classes, a shorter disposition period would still result in an overall bill decrease (see table below).

Table 3: Comparison of Total Bill Impacts (by varying the disposition period for the LRAMVA balance only²⁹)

Change in Total Bill (%) between May 1, 2021 and April 30, 2021 bill for all customer classes	12-month disposition period	24-month disposition period
RESIDENTIAL SERVICE CLASSIFICATION - RPP	-0.5%	-0.6%
GENERAL SERVICE LESS THAN 50 KW SERVICE CLASSIFICATION – RPP	-0.5%	-0.8%
GENERAL SERVICE 50 to 4,999 kW SERVICE CLASSIFICATION - Non-RPP (Other)	-2.3%	-2.5%
LARGE USE SERVICE CLASSIFICATION - Non-RPP (Other)	-2.6%	-2.6%
UNMETERED SCATTERED LOAD SERVICE CLASSIFICATION - RPP	-0.7%	-0.7%
STREET LIGHTING SERVICE CLASSIFICATION - RPP	3.9% ³⁰	-2.5%
RESIDENTIAL SERVICE CLASSIFICATION - Non-RPP (Retailer)	0.0%	0.0%
GENERAL SERVICE LESS THAN 50 KW SERVICE CLASSIFICATION - Non-RPP (Retailer)	-1.9%	-2.0%
GENERAL SERVICE 50 to 4,999 kW SERVICE CLASSIFICATION - Non-RPP (Retailer)	-1.9%	-2.2%
STREET LIGHTING SERVICE CLASSIFICATION - Non-RPP (Other)	-2.3%	-2.5%
GENERAL SERVICE 50 to 4,999 kW SERVICE CLASSIFICATION - Non-RPP (Other)	3.2%	-3.1%

²⁸ EB-2019-0066, Decision and Rate Order, April 16, 2020 (Rideau St. Lawrence)

²⁹ Scenario results were derived from an updated version of the Rate Generator Model which includes all other model updates (e.g. Jan 1, 2021 UTRs, TOU prices, etc.) however the bill impacts do not capture a change in commodity prices as they remain constant. OEB staff only adjusted the LRAMVA disposition period to approximate the bill impact changes by customer class.

³⁰ OEB staff notes that if a 12 month disposition period were used rather than 24 months, the street lighting LRAMVA rider would be 40% higher than the previous year's volumetric rider, as opposed to being 30% lower than the previous year's volumetric rider, which would cause the total bill to increase.

All of which is respectfully submitted