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February 1, 2021

VIA E-MAIL

Ms. Christine Long
Registrar and Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th floor
P.O. Box 2319
Toronto, ON M4P 1E4

Dear Ms. Long:

**Re: EB-2020-0042 – Niagara-on-the-Lake Hydro Inc. 2021 Electricity Distribution Rates
Final Submissions of Vulnerable Energy Consumers Coalition (VECC)**

Attached please find VECC's final submissions in the above proceeding.

Yours truly,

John Lawford

Counsel for VECC

c/o John Lawford

Copy to: Jeff Klassen, Niagara-on-the-Lake Hydro Inc.

EB-2020-0042

Niagara-on-the-Lake Hydro Inc.

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

**Final Submissions of VECC
February 1, 2021**

Niagara-on-the-Lake Hydro Inc. (NOTL Hydro) filed an incentive regulation mechanism application with the Ontario Energy Board (OEB) on October 8, 2020 under section 78 of the Ontario Energy Board Act, 1998, S.O. 1998, c. 15, (Schedule B) seeking approval for changes to the rates that Niagara-on-the-Lake Hydro charges for electricity distribution, beginning May 1, 2021.

VECC was granted intervenor status in NOTL Hydro's application regarding NOTL Hydro's proposed 2021 rate increase in the context of its 2019 earnings. NOTL Hydro is requesting the full inflation factor of 2.2% less its stretch factor of 0.3% for a net inflation factor of 1.9% for 2021 rates.¹

For the reasons discussed below, VECC submits the OEB should approve NOTL Hydro's proposed Price Cap IR increase of 1.9% for 2021.

2019 Earnings

The table below shows NOTL Hydro's earnings over the period 2014 to 2019², comparing the deemed Return on Equity (ROE) included in base rates to the actual ROE achieved.

Return on Equity (ROE) %	2014	2015	2016	2017	2018	2019
ROE Deemed (included in base rates)	9.36	9.36	9.36	9.36	9.36	8.98
ROE Actual	10.85	8.9	7.44	9.81	10.12	14.38
<i>% variance</i>	1.49	-0.46	-1.92	0.45	0.76	5.4
Average ROE 2014 to 2018	9.42%					

Under OEB policy, 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. Any such review

¹ NOTL Letter dated January 21, 2021

² NOTL Yearbooks; 2018 and 2019

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.

NOTL Hydro's deemed rate of return approved in its 2019 Cost of Service (CoS) is 8.98% while the achieved rate of return for 2019 was 14.38%, which is 240 basis points above the 8.98 +/- 300 basis points deadband. A distributor whose earnings are in excess of the deadband can refrain from seeking an adjustment to its base rates as part of its application. NOTL Hydro is seeking an adjustment to its base rates.

Reasons for NOTL Hydro's Overearnings in 2019

NOTL Hydro's RRR Filing (Form 2.1.5.6) indicates NOTL Hydro achieved an ROE of \$1,492,779 for 2019, which is \$398,764 greater than NOTL Hydro's deemed ROE of \$1,094,015 as approved in its 2019 CoS application.³

NOTL Hydro - E2.1.5.6 Regulated Return on Equity (ROE)	Deemed last COS (2019)	Achieved 2019
Total Rate Base	\$30,456,976	\$25,947,551
Regulated Equity (40%)	\$12,182,790	\$10,379,020
ROE Amount	\$1,094,015	\$1,492,779
ROE	8.98%	14.38%

NOTL Hydro's evidence is that the variance in ROE can be explained through four main one-time differences from NOTL Hydro's 2019 Cost of Service Application and 2019 actual results. When NOTL Hydro adjusts its ROE to account for the impact of these four drivers, the 2019 ROE is 9.36% which is within well within the +/-3% range.⁴

VECC supports two of the four 2019 ROE adjustments as follows:⁵

1. Change in Depreciation Expense (\$53,433) - ICM

Amounts related to the ICM for a new transformer were included in the CoS application in rate base and depreciation expense but these amounts were not included in the actual 2019 rate base and depreciation expense. Instead the ICM amounts were held in account 1508 as of the 2019 year end because the rate rider did not expire until April 30, 2019.

VECC agrees it is appropriate to adjust the 2019 ROE to account for the ICM as the transformer was inservice in 2019 and these amounts should be treated as though they were included in rate base and depreciation for the purposes of calculating ROE.

³ Board Staff IR-5 Appendix A

⁴ Manager's Summary P 33 Table 32

⁵ Manager's Summary P 31-32

2. Change in Depreciation Expense (\$33,434) – New Transformer

NOTL Hydro included the purchase of a new 83MVA transformer at a cost of \$3.3 million in the CoS in rate base and the depreciation expense (half year). However, unexpected delays from the manufacturer caused the completion of this project to occur in 2020. The project was expected to be completed in the fourth quarter of 2019 but was placed in service in June 2020.⁶ The capital amounts spent on the project were included in CWIP at the end of 2019 and no depreciation was taken as the asset was not in use during the year.

Given the transformer was not inservice in 2019 as planned, NOTL Hydro over-earned on the transformer in 2019. The ROE should not be adjusted to remove the impact from the delay in this capital project.

3. Change in Depreciation Expense (\$89,993)

NOTL Hydro's 1576 Rate Riders (accounting changes GAAP to IFRS) were in effect until April 30, 2019 resulting in a \$90,000 credit to depreciation expense. These rate riders expired when the new CoS rates came into effect on May 1, 2019 and were therefore not included in the depreciation expense of the approved revenue requirement in the 2019 CoS.

In response to Board Staff interrogatory 6(b), NOTL Hydro agreed that the ROE revenues should have also been increased by an offsetting amount of \$89,993. Since the two adjustments net zero, NOTL Hydro's proposed adjustment to depreciation expense related to 1576 Rate Riders should be removed from the ROE reconciliation calculation.

4. Change in Distribution Revenue (\$195,530)

An LRAM amount of \$195,000 approved in the CoS application was booked to distribution revenue in 2019 with an offsetting debit to account 1568, but this amount was not included in revenue in the CoS application.

The LRAM relates to 2016 and 2017 lost revenues and has no impact on 2019 revenue requirement. Thus, VECC supports NOTL Hydro's adjustment to 2019 ROE to remove the LRAM revenues from distribution revenues.

In considering the above, VECC calculates an adjusted 2019 ROE of 10.99% which is within 300 basis points of its approved ROE of 8.98%. VECC does not object to NOTL Hydro's request to adjust its base rates in this proceeding.

⁶ VECC IR-3

Drivers of 2019 Overearnings - ROE Reconciliation		
Achieved 2019 ROE		\$1,492,779
Remove Depreciation Impacts (Driver #1)	-\$53,433	
Remove LRAM included in Distribution Revenue (Driver #4)	-\$195,530	
Total Adjustments		-\$248,963
Adjusted ROE		\$1,243,816
Achieved Regulated Deemed Equity		\$10,379,020
Add ICM - Full Year	\$2,352,396	
Impact to Deemed Equity (40%)		\$940,958
Adjusted Regulated Deemed Equity		\$11,319,978
Adjusted ROE %		10.99%

NOTL Hydro's 2019 distribution rates were approved by the OEB and include an expected (deemed) regulatory return on equity of 8.98% effective May 1, 2019. VECC submits a regulatory return on equity of 8.98% should be used as the 2019 ROE comparator, not the blended approved ROE of 9.11% put forward by NOTL Hydro.⁷

All of which is respectfully submitted.

⁷ Board Staff IR-6

The OEB allows

a distributor to earn within +/- 3% of the expected return on equity. If a distributor performs outside of this range, it may trigger a

regulatory review of the distributor's financial structure by the OEB.

☐ Profitability: Regulatory Return on Equity – Achieved

Niagara-on-the-Lake Hydro achieved a ROE of 14.38% in 2019, which was above the 9.98 +/-3% range allowed by the OEB (see

above paragraph). Actual ROE in 2019 was outside the +/-3% range due to several one-time impacts. Adjusted for those impacts,

Niagara-on-the-Hydro's ROE for 2019 was 9.36% well within the +/-3% range. The average ROE over the previous 5 years (2014 to

2018) was 9.42%, which is indicative of a financially healthy organization.

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%.

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.

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.

that earnings were impacted by four one-time events. NOTL Hydro provided the drivers associated with the over-earnings in 2019⁸ as shown in Table 1.

NOTL Hydro's states the variances in ROE can be explained through four main differences from NOTL Hydro's 2019 Cost of Service Application and 2019 actual results as follows⁹:

NOTL Hydro indicates it 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.¹⁰

⁸ Manager's Summary P 31-32

⁹ Manager's Summary P32

¹⁰ VECC IR-6