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BY EMAIL

November 4, 2021

Ms. Christine E. Long  
Registrar  
Ontario Energy Board  
2300 Yonge Street, 27<sup>th</sup> Floor  
Toronto, ON M4P 1E4  
[Registrar@oeb.ca](mailto:Registrar@oeb.ca)

Dear Ms. Long:

**Re: Ontario Energy Board (OEB) Staff Submission  
Niagara-on-the-Lake Hydro Inc.  
Application for 2022 Rates  
OEB File Number: EB-2021-0045**

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Please find attached OEB staff's submission in the above referenced proceeding, pursuant to Procedural Order No. 1.

Yours truly,

Vince Mazzone  
Case Manager

Encl.

cc: All parties in EB-2021-0045



# **ONTARIO ENERGY BOARD**

## **OEB Staff Submission**

**Niagara-on-the-Lake Hydro Inc.**

**2022 Electricity Distribution Rates**

**EB-2021-0045**

**November 4, 2021**

## Application Summary

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 August 5, 2021 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, 2022.

Consistent with Chapter 3 of the Filing Requirements,<sup>1</sup> Niagara-on-the-Lake Hydro applied the Price Cap Incentive Rate-setting adjustment factor to adjust the monthly service charge during the incentive rate-setting years. Niagara-on-the-Lake Hydro's application is based on the 2021 placeholder value of 1.90%. The annual adjustment follows an OEB-approved formula that includes components for inflation and the OEB's expectations of efficiency and productivity gains. The components in the formula are approved by the OEB annually. The formula prescribes a rate adjustment equal to the inflation factor minus the distributor's X-factor.<sup>2</sup>

On August 6, 2021, the OEB issued a notice on its own motion to initiate a proceeding to consider the inflation factor to be used to set rates for electricity transmitters and electricity and natural gas distributors for the year 2022.<sup>3</sup> If the OEB's decision on the 2022 inflation parameters is issued following the close of record for this proceeding, OEB staff intends to update Niagara-on-the-Lake Hydro's 2022 IRM Model to reflect the OEB-approved 2022 inflation factor, and resulting price cap adjustment, pursuant to the process that the OEB may lay out for implementation once available.

Niagara-on-the-Lake Hydro has also requested an update to its Retail Transmission Service Rates (RTSRs) to recover the wholesale transmission rates charged by the Independent Electricity System Operator (IESO). OEB staff notes that in the event the Uniform Transmission Rates (UTRs) change effective January 1, 2022, OEB staff intends to update Niagara-on-the-Lake Hydro's 2022 IRM Model to reflect the impacts of any changes in the UTRs prior to the issuance of a decision and order.

OEB staff makes detailed submissions on the following:

- Deferral and Variance Account (DVA) Disposition Requests
- Request to Align Rate Year and Fiscal Year

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<sup>1</sup> Filing Requirements for Electricity Distribution Rate Applications – 2021 Edition for 2022 Rate Applications – Chapter 3 Incentive Rate-Setting Applications, June 24, 2021

<sup>2</sup> Ibid, p. 5

<sup>3</sup> EB-2021-0212

**OEB Staff Submission****Deferral and Variance Account Disposition Requests****Group 1 Deferral and Variance Accounts****Background**

Niagara-on-the-Lake Hydro is requesting to dispose of a net credit balance of \$373,044 in its Group 1 DVAs, as of December 31, 2020, over a one-year period. This includes interest projected to December 31, 2021. The components of this credit balance are shown below:

**Table 1: Group 1 DVAs Requested for Disposition**

<b>Account Name</b>	<b>Account Number</b>	<b>Principal Balance (\$) A</b>	<b>Interest Balance (\$) B</b>	<b>Total Claim (\$) C=A+B</b>
LV Variance Account	1550	-	-	-
Smart Metering Entity Charge Variance Account	1551	(1,900)	(100)	(2,000)
RSVA - Wholesale Market Service Charge	1580	(134,440)	(1,375)	(135,815)
Variance WMS – Sub-account CBR Class A	1580	-	-	-
Variance WMS – Sub-account CBR Class B	1580	(5,314)	(111)	(5,426)
RSVA - Retail Transmission Network Charge	1584	(126,386)	(278)	(126,664)
RSVA - Retail Transmission Connection Charge	1586	(82,566)	(521)	(83,087)
RSVA - Power	1588	(10,657)	(61)	(10,718)
RSVA - Global Adjustment	1589	(6,648)	1,914	(4,734)
Disposition and Recovery of Regulatory Balances (2016)	1595	-	(6,326)	(6,326)
Disposition and Recovery of Regulatory Balances (2017)	1595	1,656	69	1,725
<b>Totals for Group 1 DVAs</b>		<b>(366,256)</b>	<b>(6,788)</b>	<b>(373,044)</b>

Based on the threshold test calculation, Niagara-on-the-Lake Hydro's Group 1 DVAs equate to a credit of \$0.0017 per kWh which exceeds the OEB's disposition threshold of \$0.001 per kWh.

**Submission**

OEB staff has reviewed the evidence supporting Niagara-on-the-Lake Hydro's 2020 Group 1 accounts and supports disposition of those balances as proposed in the application.

## **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 \$50,845 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 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. In Niagara-on-the-Lake Hydro's 2019 cost of service settlement agreement, 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. In addition, the parties agreed on the cost allocation and rate design methodologies for this variance account.

The variance in the sub-account is to be disposed after the audited balances of the sub-account are available each year. Niagara-on-the-Lake Hydro's 2019 balance in the variance account was disposed in its 2021 IRM rate application. In its response to an OEB staff interrogatory, Niagara-on-the-Lake Hydro provided a mapping of the account balance requested for disposition to the line item of Net Movement in Regulatory Balances in Niagara-on-the-Lake Hydro's 2020 Audited Financial Statements (AFS).<sup>4</sup>

The approved accounting order in the 2019 cost of service proceeding stated that "the rate rider will be determined by allocating the balance of the variance account across customer classes based on customer class revenue. Within each customer class it will be allocated across customers based on kwh."<sup>5</sup> OEB staff notes that Niagara-on-the-Lake Hydro proposes to allocate the variance to residential customers based on the number of customers rather than consumption. In its response to an OEB staff interrogatory, Niagara-on-the-Lake Hydro stated that it does not object to allocating to residential customers on a kWh basis, if required.<sup>6</sup>

### **Submission**

OEB staff supports the proposed balance in Account 1508 sub-account Specified Customer Revenue Variance Account. The requested balance represents the variance in 2020 and matches to the 2020 AFS. However, OEB staff submits that the allocation

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<sup>4</sup> OEB Staff Interrogatory-1, October 18, 2021

<sup>5</sup> EB-2018-0056, Niagara-on-the-Lake Hydro's 2019 Cost of Service Decision and Order, Appendix I Draft Accounting Order for Specified Customer Revenue Variance Account

<sup>6</sup> Ibid

of the variance to residential customers should be in accordance with the accounting order approved in Niagara-on-the-Lake Hydro's decision and order for 2019 rates. As Niagara-on-the-Lake Hydro has already explained that it is not opposed to such allocation, OEB staff invites Niagara-on-the-Lake Hydro to update allocated balances and associated rate riders as part of its reply submission.

## **Request to Align Rate Year and Fiscal Year**

### **Background**

Niagara-on-the-Lake Hydro is requesting to change its rate year from its current May 1 to April 30 timeline, to January 1 to December 31, to align with its fiscal year. Niagara-on-the-Lake Hydro initially proposed the establishment of a variance account to record the additional distribution revenue earned as a result of raising rates sooner than they otherwise would be. In the variance account, Niagara-on-the-Lake Hydro would track the difference between the distribution rates to be approved in this application and its 2021 approved rates for the period from January 1, 2022 to April 30, 2022. These amounts, inclusive of carrying charges, would be returned to customers as a rate rider once the balances of the account are final and audited. Niagara-on-the-Lake Hydro provided a draft accounting order with its application.

In response to OEB staff interrogatories on the request to establish a variance account, Niagara-on-the-Lake Hydro explained that it is no longer requesting the establishment of a variance account.<sup>7</sup> Niagara-on-the-Lake Hydro indicated that it would prefer to use an alternate approach, whereby instead of using a variance account to return the impacts to customers at a later date, there would be a one-time adjustment made for the stub period (January 1, 2022 to April 30, 2022) via a four-month rate rider.<sup>8</sup>

Niagara-on-the-Lake Hydro provided the calculation for the four-month rate rider for each rate class. The totals were calculated based on forecast consumption during the four-month stub period multiplied by the difference between the current and proposed rates for each class.<sup>9</sup> The total credit and rate riders calculated by Niagara-on-the-Lake Hydro for each rate class are as follows, including the monthly fixed charge (MFC) component and the distribution variable rate (DVR) component:

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<sup>7</sup> OEB Staff Interrogatory-2, October 18, 2021

<sup>8</sup> OEB Staff Interrogatory-3b, October 18, 2021

<sup>9</sup> OEB Staff Interrogatory-3c, October 18, 2021

**Table 2: Rate Year Alignment Rate Riders**

Rate Class	Unit	Rate Year Alignment Revenue to Refund to Customers (MFC) \$	Rate Year Alignment Revenue to Refund to Customers (DVR) \$	Rate Year Alignment Rate Rider (MFC) \$	Rate Year Alignment Rate Rider (DVR) \$
Residential	kWh	(18,326.64)	-	(0.57)	-
GS<50 KW	kWh	(4,102.80)	(2,663.27)	(0.78)	(0.0002)
GS>50 kW	kW	(2,286.60)	(2,980.44)	(5.55)	(0.0464)
Large Use	kW	(290.80)	(1,360.18)	(72.70)	(0.0464)
Unmetered Scattered Load	kWh	(50.40)	(8.24)	(0.42)	(0.0001)
Street Lighting	kW	(1,202.88)	(26.58)	(0.14)	(0.0341)

Submission

In its letter of April 15, 2010, concluding the Rate Year Alignment consultation, the OEB found that it expects a distributor to include an analysis of the benefits and ratemaking implications, if any, of the alignment as part of its application.<sup>10</sup> The OEB has since not required such an analysis as part of cost of service applications per the Chapter 2 Filing Requirements.<sup>11</sup> In addition, while rate year alignment is not on the list of exclusions identified in the Chapter 3 Filing Requirements, that section makes it clear that those items are just examples.<sup>12</sup>

OEB staff notes that the OEB has previously approved an approach to rate year alignment in an IRM application similar to the approach proposed by Niagara-on-the-Lake Hydro.<sup>13</sup> Furthermore, OEB staff's view is that there are enduring benefits and efficiencies associated with having a fiscal period aligned with a rate-setting period such as a timelier DVA disposition process, the ability to align underlying costs structures and the associated rates to recover those costs, and alignment of approved and achieved return on equity comparisons. OEB staff therefore does not oppose the alignment request.

While Niagara-on-the-Lake Hydro had initially requested approval for the establishment of a new variance account to record the additional distribution revenue resulting from rate year realignment, OEB staff is satisfied with a one-time adjustment with no further true up as any differences between the variance account approach and the one-time

<sup>10</sup> OEB Letter, April 15, 2010, p. 2 and Appendix B

<sup>11</sup> Filing Requirements for Electricity Distribution Rate Applications - 2021 Edition for 2022 Rate Applications - Chapter 2 Cost of Service Applications, June 24, 2021, section 2.0.5

<sup>12</sup> Filing Requirements for Electricity Distribution Rate Applications - 2021 Edition for 2022 Rate Applications - Chapter 3 Incentive Rate-Setting Applications, June 24, 2021, section 3.4

<sup>13</sup> EB-2020-0013, Elexicon Energy Inc., Decision and Rate Order, December 17, 2020

adjustment approach would be immaterial. While there is no requirement for a true up as a result of an alignment between the rate and fiscal years, OEB staff takes no issue with the proposal to refund these amounts to customers as Niagara-on-the-Lake Hydro has considered the rate implications from a rate payer's perspective. In addition, the implementation of the alignment, including the refund to customers for the subject period is mechanistic.

OEB staff notes that the rate rider calculation is based on the 2021 place holder Price Cap Index. As discussed in Application Summary section above, the OEB has initiated a proceeding on its on motion to consider the inflation factor to be used for 2022 electricity rates. If the OEB's decision on the 2022 inflation parameters is issued following the close of record for this proceeding, OEB staff intends to update the rate riders in Niagara-on-the-Lake Hydro's 2022 IRM Model, including the rate year alignment riders, to reflect the OEB-approved 2022 inflation factor once the OEB renders a decision pursuant to the process that the OEB may lay out for implementation once available.

~All of which is respectfully submitted~