



# 2022 Rate Modification Application

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1 **1. Introduction**

2 Niagara-on-the-Lake Hydro Inc. (“NOTL Hydro”) is requesting the modification of its 2022 Large  
3 Use Service Retail Transmission Rates and the conditions of its Specified Customer Revenue  
4 Variance Account. Both of these changes are being driven by the planned introduction of a new  
5 Large Use customer in Niagara-on-the-Lake and the closure of the previous Large Use customer.  
6 Both of these changes have the objective of ensuring the sharing of revenues and expenses  
7 remains equitable across all NOTL Hydro customers. Neither of these changes will have any  
8 impact on the Net Income of NOTL Hydro.

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## 2. Executive Summary

On May 2, 2022, NOTL Hydro submitted a System Impact Assessment (SIA) request to the IESO and a Connection Impact Assessment (CIA) to Hydro One requesting the availability of 80 MW of transmission line capacity on behalf of one of its customers. This customer intends to engage in cryptocurrency mining. This has triggered this need for this application for the following reasons:

- Cryptocurrency mining differs from traditional industrial infrastructure in that a new operation can be built and established within a couple of months. Our customer currently intends to be operating as soon as possible; including potentially operating this summer. The resulting impact on rates could thus take place well before the end of the year and the approval of 2023 rates with the planned annual IRM application. The modification of rates is thus requested for implementation as soon as possible
- Like many cryptocurrency mining operations, our customer is intending to operate on a 24/7 basis. It can therefore be expected that the system peak of NOTL Hydro will increase by the full operating capacity of this new operation. Retail Transmission rates are established assuming a variety of individual peak uses across the customer base allowing for the individual Retail Transmission rate to be lower than the charge to NOTL Hydro by the IESO. As this is not the case for this business, NOTL Hydro will be charged by the IESO the full Uniform Transmission Rates for all the additional load. NOTL Hydro is therefore requesting the Retail Transmission rates for its Large Use Service Classification be modified to match the Uniform Transmission Rates.
- In its 2019 Decision and Order (EB-2018-0056), NOTL Hydro was granted a Specified Customer Revenue Variance Account. This allowed NOTL Hydro to book any monthly distribution revenue above or below 5 MW from this customer to the variance account. This protected NOTL Hydro from the uncertainties related to this customer while allowing the other NOTL Hydro customers to benefit from the increased revenues. This customer has subsequently ceased operations and has the property up for sale, vindicating the benefit of this account. With the planned new cryptocurrency mining customer, NOTL Hydro is seeking to amend this Draft Accounting Order to a general Large Use Customer Revenue Variance Account. The cryptocurrency mining operation has an even greater uncertainty as to the future level of demand. It would also be much easier to close the operation as the operating assets, the servers, are very portable and the land is leased

1           rather than owned. A similar variance account is thus requested. Under this amended  
2           order, the 5 MW variance account would apply to each Large Use customer. NOTL Hydro  
3           is only expecting one Large Use customer at any point in time but does note that the  
4           cryptocurrency mining operation has not established their corporate structure and has  
5           indicated that it may be subject to change.

1 **3. Administration**

2 **3.1 Contact Information**

3 Application contact information is as follows:

4 Applicants Name: Niagara-on-the-Lake Hydro Inc.  
5 Applicants Address: PO Box 460  
6 8 Henegan Road  
7 Niagara-on-the-Lake, ON  
8 L0S 1T0

9  
10 Applicants Contacts: Tim Curtis  
11 President  
12 Email: tcurtis@notlhydro.com  
13 Phone: 905-468-4235 ext. 550  
14 Fax: 905-468-3861

15  
16 Applicants Counsel: Jonathan Myers, Torys LLP  
17 Email: Jmyers@torys.com  
18 Phone: 416-865-7532  
19

20 **3.2 Internet Address and Social Media Accounts**

21  
22 The Applicant's website address is [www.notlhydro.com](http://www.notlhydro.com)

23 Twitter: @notlhydro - <https://twitter.com/notlhydro>

24 Facebook: <https://www.facebook.com/NOTLhydro/>

25 LinkedIn: <https://www.linkedin.com/company/niagara-on-the-lake-hydro/>

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1 **3.3 Statement of Publication**

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3 The only NOTL Hydro customer to be directly affected by this application is the potential new  
4 large customers. This customer has been made aware that this application is being made.

5 All NOTL Hydro customers are indirectly affected by this application due to the treatment of  
6 variance accounts.

7 Upon receiving the Letter of Direction and the Notice of Application and Hearing from the Board,  
8 NOTL Hydro will forward them to the potential large customer. NOTL Hydro is not proposing to  
9 publish the Notice of Application in any newspapers due to its limited direct impact.

10 This application and all documents related to this application will be made available on NOTL  
11 Hydro's website at: [www.notlhydro.com](http://www.notlhydro.com). The application will also be available on the OEB's  
12 website at [www.ontarioenergyboard.ca](http://www.ontarioenergyboard.ca), under Board File Number EB-2022-0158.

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## 4. Legal Application

**IN THE MATTER OF THE** *Ontario Energy Board Act, 1998*; S.O. 1998, c.15, Schedule B, as amended;

**AND IN THE MATTER OF** an Application by Niagara-on-the-Lake Hydro Inc. for an Order or Orders under section 78 of the OEB Act effective July 1, 2022.

Niagara-on-the-Lake Hydro Inc. (“NOTL Hydro”) is a licensed distributor of electricity under distribution license ED-2002-0547 issued by the Ontario Energy Board (the “OEB” or the “Board”) under the *Ontario Energy Board Act, 1998* (the “Act”).

NOTL Hydro hereby applies to the Board pursuant to section 78 of the Act for an Order or Orders effective July 1, 2022.

- An Order amending NOTL Hydro’s Large Use Service Classification Retail Transmission rates;
- An Order amending the Specified Customer Revenue Variance Account to a general Large Use Customer Revenue Variance Account;

## 5. Retail Transmission Rates

NOTL Hydro's Large Use Service Classification Retail Transmission rates were approved on December 9, 2021 (EB-2021-0045). They are:

Network Service Rate	\$/KW 3.4872
Line and Transformation Connection Service Rate	\$/KW 0.8937

Like many cryptocurrency mining operations, our customer is intending to operate on a 24/7 basis. There is a direct correlation between the amount of electricity used and the revenue of the cryptocurrency mining operation as the electricity drives the servers that generate the cryptocurrency mining revenue. It is therefore expected that the cryptocurrency mining operation will operate close to operating capacity at most times. This means the NOTL Hydro peaks for the purposes of calculating the Network Service Charge and the Line Connection Service Charge as administered by the IESO will increase by the full amount of the demand of the cryptocurrency mining operation. The charge to NOTL Hydro will therefore increase by this level of demand multiplied by the respective rates.

At 20 MW, the difference between the Provincial Transmission Rates and the NOTL Hydro approved rates is \$39,182 per month or \$470,184 annually. This shortfall will accumulate in the NOTL Hydro variance accounts and would subsequently have to be recovered from all NOTL Hydro ratepayers. It would also be a cash shortfall for NOTL Hydro with the resulting interest costs. NOTL Hydro does not consider this equitable or good planning.

NOTL Hydro is therefore requesting an amendment to its Large Use Service Classification Retail Transmission rates so that they match the Provincial Transmission Rates as approved by the OEB (EB-2022-0084). The NOTL Hydro rates would become:

Network Service Rate	\$/KW 5.46
Line and Transformation Connection Service Rate	\$/KW 0.88

NOTL Hydro is not subject to the Transformation Connection Service Rate as it owns its own transformation stations. This Provincial Transmission Rate has therefore not been included.

1 The Retail Transmission rates are used solely to pay the Provincial Transmission Rates. Any  
2 excess earnings or shortfall is subsequently cleared via the annual variance accounts. At no point  
3 do the Retail Transmission rates have an impact on the net income of NOTL Hydro. This rate  
4 change is being made not to benefit or protect NOTL Hydro but to ensure all NOTL Hydro  
5 customers are treated fairly.

6 The SIA and CIA applications submitted to the IESO and Hydro One request a July 2022 in-  
7 service date. By their nature, cryptocurrency mining operations can be brought into service and  
8 be brought to scale significantly quicker than the traditional industrial or mining Large Use  
9 customer. The operations of this customer could therefore have a significant financial impact in  
10 2022. For this reason, NOTL Hydro has requested a mid-year adjustment to its rates rather than  
11 include this request as part of its planned 2023 Incentive Rate-Setting Mechanism (IRM)  
12 application. This also has the benefit of keeping the 2023 IRM largely formulaic.

## 6. Large Use Customer Revenue Variance Account

In its 2019 Decision and Order (EB-2018-0056), NOTL Hydro was granted a Specified Customer Revenue Variance Account. This allowed NOTL Hydro to book any monthly distribution revenue above or below 5 MW from this customer to the variance account pursuant to a Draft Accounting Order.

This variance account protected NOTL Hydro from the uncertainties related to this customer while allowing the other NOTL Hydro customers to benefit from the increased revenues. The other NOTL Hydro customers benefited from the initial reduction in rates due to the revenue from the 5 MW being booked. In 2021 and 2022 they have also benefited from credit rate riders with the clearing of the variance accounts. The customer at the time of the order has subsequently ceased operations and has its property in Niagara-on-the-Lake up for sale. The value of a variance account such as this has been clearly validated.

NOTL Hydro is seeking to amend this Order to instead have a general Large Use Customer Revenue Variance Account. The cryptocurrency mining operation has an even greater uncertainty as to the future level of demand. It would also be much easier to close the operation as the operating assets, the servers, are very portable and the land is leased rather than owned. Under this amended order, the 5 MW variance account would apply to each Large Use customer. NOTL Hydro is only expecting one Large Use customer at any point in time but does note that the cryptocurrency mining operation has not established their corporate structure and has indicated that it may be subject to change. A specified customer cannot be named at this time.

By the adaption of this Large Use Customer Variance Account, NOTL Hydro is maintaining its own revenue at current levels and earmarking any increase in revenues immediately to be passed on to all its customers on an annual basis and subject to Board review. Without this change, all new revenues would accrue to NOTL Hydro as income.

NOTL Hydro does note that it expects to incur some ongoing incremental costs with this new customer. NOTL Hydro will take these into account when requesting rates during its next Cost of Service rate application.