Ontario Energy Board | Commission de l'énergie de l'Ontario

BY EMAIL

July 19, 2022

Nancy Marconi
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4

Dear Ms. Marconi:

Re: Ontario Energy Board (OEB) Staff Submission
Niagara-on-the-Lake Hydro Inc.
2022 Rate Modification Application
OEB File Number: EB-2022-0158

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

OEB staff apologizes for filing this submission, one day late. OEB staff notes that Niagara-on-the-Lake Hydro also filed its reply submission today, in advance of the July 25, 2022 deadline. Given the circumstances, Niagara-on-the-Lake Hydro may wish to refile its submission after it has had the opportunity to review OEB staff's submission.

Yours truly,

Kelli Benincasa

Kelli Benincasa
Incentive Rate-setting & Regulatory Accounting

Encl.

ONTARIO ENERGY BOARD

OEB STAFF SUBMISSION

Niagara-on-the-Lake Hydro Inc.

2022 Rate Modification Application

EB-2022-0158

July 19, 2022

Application Summary

Niagara-on-the-Lake Hydro Inc. (Niagara-on-the-Lake Hydro) filed an application with the Ontario Energy Board (OEB) on May 10, 2022, under section 78 of the *Ontario Energy Board Act, 1998* (OEB Act) seeking approval for changes to its electricity distribution rates, effective July 1, 2022.

Niagara-on-the-Lake Hydro is requesting the modification of its 2022 Large Use Service Retail Transmission Rates (Large Use RTSR), and an amendment of its Specified Customer Revenue Variance Account. The application is being driven by the planned introduction of a new Large Use customer that intends to engage in a cryptocurrency mining business (New Customer) in Niagara-on-the-Lake, and the closure of the previous Large Use customer.

The request to amend the Large Use RTSR is due to the fact that the New Customer's cryptocurrency mining operation will most likely operate 24/7 and under the current regime, Niagara-on-the-Lake Hydro would be charged by the IESO the full Uniform Transmission Rates for all additional load.

Niagara-on-the-Lake Hydro has further identified a concern that there is uncertainty as to the New Customer's future level of demand, that its operating assets are very portable, its land is leased, and its corporate structure has not been established.[1] Therefore, there is a risk that it would be easy for the New Customer to close its operation. Thus, Niagara-on-the-Lake Hydro is requesting a similar variance account to the Specified Customer Revenue Variance Account (Specified Variance Account) granted in its previous cost of service application. Niagara-on-the-Lake specifically proposes to amend the Accounting Order from its last cost of service application which established the Specified Variance Account to a more generic Large Use Customer Revenue Variance Account (Generic Variance Account) for this and any future Large Use customers.

Niagara-on-the-Lake Hydro states that the New Customer is expected to be operating within a couple of months and that the addition of the New Customer could have an impact on the utility's revenue before the approval of the annual IRM application, and approval of 2023 rates for the utility. Niagara-on-the-Lake Hydro, therefore, requests the implementation of modified rates as soon as possible.

The purpose of this document is to provide the OEB with the submissions of OEB staff based on its review of the evidence of Niagara-on-the-Lake Hydro.

[1] 2022 Rate Modification Application, page 11.

OEB Staff Submission

Large Use Customer Revenue Variance Account

Background

At the time that Niagara-on-the-Lake Hydro filed its last cost of service proceeding,[2] it had a new Large Use customer (Specified Customer) with an uncertain load. The services to supply that customer was included in the applied-for revenue requirement, and an estimated monthly load of 5 MW (60 MW annually) was included in the load forecast.[3] The Specified Variance Account was established[4] to track differences between actual revenue and revenue that would arise at the forecasted 5 MW of load.

Niagara-on-the-Lake Hydro states that the Specified Variance Account protected the utility from the uncertainties related to the Specified Customer while allowing the other customers to benefit from the increased revenues. Niagara-on-the-Lake Hydro states that, in 2021 and 2022, its other customers have benefited from credit rate riders with the clearing of the Specified Variance Account.[5] However, since the last cost of service proceeding, Niagara-on-the-Lake Hydro has lost the Specified Customer.[6]

In this proceeding, Niagara-on-the-Lake Hydro is seeking to modify the Specified Variance Account and instead create a Generic Variance Account which would apply to the New Customer and other potential additional Large Use customers. Niagara-on-the-Lake Hydro states that the New Customer's operation has an even greater uncertainty as to the future level of demand than the former Specified Customer.[7]

The connection of the New Customer will require a yet unknown level of system expansion. Niagara-on-the-Lake Hydro indicates that it is following its Conditions of Service regarding any cost recovery for system expansion capital required and that it will not commence construction until a deposit to cover 100% of the costs has been received.[8]

In response to OEB staff and intervenor interrogatories, Niagara-on-the-Lake Hydro stated that it is only able to establish an upper bound of 80 MW as the New Customer's

[2] EB-2018-0056.
[3] EB-2018-0056, Decision and Order, Exhibit N1, Page 19.
[4] EB-2018-0056, Decision and Order, Exhibit N1, Page 31.
[5] 2022 Rate Modification Application, page 11.
[6] 2022 Rate Modification Application, page 11.
[7] 2022 Rate Modification Application, page 11.
[8] Staff Interrogatory – 1, part f).

potential load. If the utility were to supply this much load, it would use two 20 MW circuits from each of two transformer stations (a total of four circuits). The New Customer is planning to locate adjacent to one station and can be served by circuits approximately 100 meters long. If service is required from the other station, those circuits would be approximately 5km each.[9] Niagara-on-the-Lake Hydro stated that the municipal transformer stations are pre-existing assets. However, the feeder lines required to connect the New Customer from either one of these two stations would need to be newly constructed.[10]

The proposal to amend the Specified Variance Account into a Generic Variance Account requires that debit balances currently accruing due to the loss of the former Specified Customer would be reduced or eliminated by the load of the New Customer, and that any rate revenue resulting from load over 5 MW is to be collected in the variance account and disposed to all customers.

Bill Impacts of the Variance Account

In response to interrogatories, Niagara-on-the-Lake Hydro provided bill impacts comparing a scenario with no rate rider scenario to one where the New Customer uses 20 MW each month and a surplus of $339,000 is refunded to all customers.[11] It also provided a scenario where a Large Use customer is lost and a shortfall of $159,000 is collected from all other customers.[12] The latter scenario is effectively the situation that the utility is currently in with the loss of the former Specified Customer and no new usage attributable to the New Customer yet.[13]

OEB staff notes that the bill reduction benefit to customers as proposed and for the 20 MW load provided would be the combination of both impacts noted above. The removal of the debit rider and the addition of the credit rider, results in approximately $498,000 or a 2% total bill reduction for residential customers and a 11% reduction for Street Lighting rate class. The total magnitude of the bill impact would depend on the ultimate size of the New Customer. If the New Customer was to leave at the end of a full calendar year of service, the opposite impacts could apply.

[9] Staff Interrogatory – 1, part d).
[10] Staff Interrogatory – 1, part e).
[11] Staff Interrogatory – 5, part b).

[13] Staff Interrogatory – 5, part c).

Submission

The proposal to amend the Specified Variance Account to make it a Generic Variance Account has the potential to create significant impacts providing bill benefits to other customers with the addition of the New Customer. Conversely, the loss of the New Customer under this proposal could lead to bill increases for other customers.

This has been demonstrated through the current experience with the Specified Variance Account wherein Niagara-on-the-Lake's customers benefited from credit rate riders with the clearing of the Specified Variance Account until the Specified Customer ceased operations. Now that the Specified Customer has ceased operations, other customers no longer benefit from the Specified Variance Account.

OEB staff notes that there are existing mechanisms that deal with the risks of a large customer ceasing operations which could be applied to the New Customer connection. In another recent case[14] OEB staff supported a settlement proposal that did not allow for that is less than the materiality threshold of the distributor.

OEB staff is of the view that the circumstances in the current application may warrant different treatment on a non-precedent basis. OEB staff supports the proposed amendments to the existing Specified Variance Account, based on the unique circumstances of this application, specifically:

1. The existence of the Specified Variance Account, which remains active until the utility next rebases (depending on the outcome of that proceeding), and
2. A customer with a potential load of 80 MW represents a significant portion of the utility's revenue which would exceed the utility's materiality threshold.

[14] EB-2021-0056, Rideau St. Lawrence Distribution Inc.

Retail Transmission Service Rates

Background

Niagara-on-the-Lake Hydro proposes to set the Large Use RTSR to match the Uniform Transmission Rates (UTRs). Normally, 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 the utility by the IESO.

Niagara-on-the-Lake Hydro reasoned that it expects the New Customer to operate continuously at 100% load.[15] Therefore, each incremental MW of load from this customer is an incremental MW of load subject to UTRs. Based on this assumption, the existing Large Use RTSRs could result in an under recovery from the New Customer, which would then be recovered from all customers. However, in response to interrogatories, Niagara-on-the-Lake Hydro clarified that plans to operate 24/7 full load could always change.[16]

Niagara-on-the-Lake Hydro states that:

> 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.[17]

The load could be up to 80 MW, in which case the expense would be four times larger. Alternatively, if the New Customer decides to operate at times of low system load, the cost could be much less. In that case, Niagara-on-the-Lake Hydro could significantly over-collect RTSRs and would subsequently be expected to return it by rate rider to all customers.

[15] 2022 Rate Modification Application, page 9.
[16] Staff Interrogatory – 2, part a).
[17] 2022 Rate Modification Application, page 9.

Submission

Niagara-on-the-Lake Hydro's calculation is based on the expectation that the New Customer will operate 24/7 full load. If the peak load of the New Customer occurs at a time other than at the peak load of the utility's other customers, the incremental expense will be less. The incremental UTR expense is very dependent on both the load of the New Customer and the hours it chooses to operate, both of which are unknown at this time. As identified in Niagara-on-the-Lake Hydro's calculation, this expense also has the potential to be material to the utility and its other customers.

OEB staff notes that the proposed Large Use RTSR would then apply to any new Large Use customers. Niagara-on-the-Lake Hydro indicates that Large Use customers are infrequent for it, and it does not expect any additional customers in this rate class.

OEB staff supports the proposal for Large Use RTSRs as submitted. OEB staff also notes that Niagara-on-the-lake Hydro is scheduled to file its next cost of service application in 2023 for 2024 rates. At that time, the operating characteristics of the New Customer will likely be better understood. The RTSR rates for the Large Use rate class, including the New Customer and any other potential customers should then be revisited.

- All of which is respectfully submitted -