

September 9, 2022

Ms. Nancy Marconi
Registrar
Ontario Energy Board
PO Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

RE: 2023 IRM Rate Application EB-2022-0051 – Responses to OEB Staff Questions

Dear Ms. Marconi:

Please find attached Niagara Peninsula Energy Inc.'s ("NPEI's") responses to OEB Staff questions in NPEI's 2023 IRM Rate Application (EB-2022-0051) and accompanying Excel models.

NPEI hereby confirms that the documents filed in support of NPEI's 2023 IRM Rate Application, including responses to OEB Staff questions and any other supporting documentation, do not include any personal information (as that phrase is defined in the Freedom of Information and Protection of Privacy Act), that is not otherwise redacted in accordance with rule 9A of the OEB's Rules of Practice and Procedure.

If there are any questions, please contact Paul Blythin at (905) 356-2681 ext. 6064, or Paul.Blythin@npei.ca.

Yours truly,
NIAGARA PENINSULA ENERGY INC.



Paul Blythin, CPA, CGA
Director of Regulatory Affairs

Cc: Suzanne Wilson, Senior Vice-President, Finance, NPEI
Christiane Wong, Case Manager (EB-2022-0051), OEB

Niagara Peninsula Energy Inc. EB-2022-0051

Please note, Niagara Peninsula Energy Inc. (Niagara Peninsula Energy) is responsible for ensuring that all documents it files with the OEB, including responses to OEB staff questions and any other supporting documentation, do not include personal information (as that phrase is defined in the *Freedom of Information and Protection of Privacy Act*), unless filed in accordance with rule 9A of the OEB's *Rules of Practice and Procedure*.

Staff Question-1

Ref: IRM Rate Generator Model, Tab 8: STS - Tax Change

OEB staff notes that a portion of the as-filed Sheet "8. STS – Tax Change" is not complete. The sheet is reproduced below:

Summary - Sharing of Tax Change Forecast Amounts		
	2021	2023
OEB-Approved Rate Base	\$ -	\$ -
OEB-Approved Regulatory Taxable Income	\$ -	\$ -
Federal General Rate		15.0%
Federal Small Business Rate		9.0%
Federal Small Business Rate (calculated effective rate) ^{1,2}		9.0%
Ontario General Rate		11.5%
Ontario Small Business Rate		3.2%
Ontario Small Business Rate (calculated effective rate) ^{1,2}		3.2%
Federal Small Business Limit		\$ 500,000
Ontario Small Business Limit		\$ 500,000
Federal Taxes Payable		\$ -
Provincial Taxes Payable		\$ -
Federal Effective Tax Rate		0.0%
Provincial Effective Tax Rate		0.0%
Combined Effective Tax Rate	0.0%	0.0%
Total Income Taxes Payable	\$ -	\$ -
OEB-Approved Total Tax Credits (enter as positive number)	\$ -	\$ -
Income Tax Provision	\$ -	\$ -
Grossed-up Income Taxes	\$ -	\$ -
Incremental Grossed-up Tax Amount		\$ -
Sharing of Tax Amount (50%)		\$ -

Tax sharing form populated. Data extracted from revenue requirement work form filed in Niagara Peninsula Energy's 2021 cost-of-service rate application (EB-2020-0040).

	2021	2023
OEB-Approved Rate Base	\$ 167,013,952	\$ 167,013,952
OEB-Approved Regulatory Taxable Income	\$ 2,661,886	\$ 2,661,886
Federal General Rate		15.0%
Federal Small Business Rate		9.0%
Federal Small Business Rate (calculated effective rate) ^{1,2}		15.0%
Ontario General Rate		11.5%
Ontario Small Business Rate		3.2%
Ontario Small Business Rate (calculated effective rate) ^{1,2}		11.5%
Federal Small Business Limit		\$ 500,000
Ontario Small Business Limit		\$ 500,000
Federal Taxes Payable		\$ 399,283
Provincial Taxes Payable		\$ 306,117
Federal Effective Tax Rate		15.0%
Provincial Effective Tax Rate		11.5%
Combined Effective Tax Rate	26.5%	26.5%
Total Income Taxes Payable	\$ 705,400	\$ 705,400
OEB-Approved Total Tax Credits (enter as positive number)	\$ 17,315	\$ 17,315
Income Tax Provision	\$ 688,085	\$ 688,085
Grossed-up Income Taxes	\$ 936,170	\$ 936,170
Incremental Grossed-up Tax Amount		\$ -
Sharing of Tax Amount (50%)		\$ -

Question:

- Please confirm that the IRM Rate Generator Model has been updated by OEB staff correctly.

Response

- NPEI confirms that the 2021 OEB approved rate base of \$167,013,952 in the updated 2023 IRM Rate Generator Model is correct.

In reviewing the updated 2023 IRM Rate Generator Model provided by OEB Staff, NPEI has determined that the OEB-approved regulatory taxable income that was included in the final Revenue Requirement Workform (“RRWF”) Model filed in NPEI’s 2021 Cost of Service (“COS”) Rate Application (EB-2020-0040) was incorrect. The regulatory taxable income approved by the OEB in NPEI’s 2021 COS Rate Application is \$1,159,568, which agrees to the final 2021 PILs Model.

NPEI also determined that in the final RRWF Model in NPEI’s 2021 COS Rate Application (EB-2020-040), on Sheet 3. Data Input Sheet, the Interrogatory Response column (Column M) did not include the actual Interrogatory Response data, but contained the Per Board Decision data in error.

NPEI has corrected the 2021 RRWF for the following items:

1. On Sheet 3. Data Input Sheet, cell U44 has been corrected to reflect the actual adjustment to taxable income of (\$4,412,017), such that the Per Board Decision taxable income on Sheet 6. Taxes_PILs reflects the correct OEB-approved taxable income of \$1,159,658, which now agrees to the final 2021 PILs model in NPEI’s 2021 COS Rate Application (EB-2020-0040).
2. On Sheet 3. Data Input Sheet, column M has been corrected to reflect the actual Interrogatory Response data, which now agrees with the version of the RRWF that was filed along with NPEI’s Interrogatory Responses in its 2021 COS Rate Application (EB-2020-0040).

The corrections made on Sheet 3. Data Input Sheet are shown in Table 1 below.

Table 1 - Sheet 3. Data Input Sheet from the Corrected 2021RRWF

	Initial Application	(2)	Adjustments	Interrogatory Responses	(6)	Adjustments	Per Board Decision
1	<u>Rate Base</u>						
	Gross Fixed Assets (average)	\$314,442,219		\$ 313,235,285			\$311,950,259
	Accumulated Depreciation (average)	(\$157,819,664)	(\$1,206,934)	(\$157,361,622)	(\$1,285,026)	\$10,497	(\$157,351,125)
	Allowance for Working Capital:						
	Controllable Expenses	\$20,384,010		\$ 20,384,010	(\$650,000)		\$19,734,010
	Cost of Power	\$157,344,654	\$3,100,691	\$ 160,445,345	(\$14,648,445)		\$145,796,900
	Working Capital Rate (%)	7.50%	\$0	7.50%	\$0		7.50%
2	<u>Utility Income</u>						
	Operating Revenues:						
	Distribution Revenue at Current Rates	\$32,474,115	(\$13,588)	\$32,460,527	\$0		\$32,460,527
	Distribution Revenue at Proposed Rates	\$34,869,338	(\$167,346)	\$34,701,992	(\$739,146)		\$33,962,846
	Other Revenue:						
	Specific Service Charges	\$264,866	\$744	\$265,610	\$78		\$265,688
	Late Payment Charges	\$341,000	\$0	\$341,000	\$0		\$341,000
	Other Distribution Revenue	\$2,148,156	\$4,503	\$2,152,659	(\$5,160)		\$2,147,499
	Other Income and Deductions	\$217,315	\$0	\$217,315	\$0		\$217,315
	Total Revenue Offsets	\$2,971,337	\$5,247	\$2,976,584	(\$5,082)		\$2,971,502
	Operating Expenses:						
	OM+A Expenses	\$20,120,915	\$ -	\$ 20,120,915	(\$650,000)		\$19,470,915
	Depreciation/Amortization	\$8,442,650	\$41,353	\$ 8,484,003	(\$20,992)		\$8,463,011
	Property taxes	\$263,095		\$ 263,095			\$263,095
	Other expenses						
3	<u>Taxes/PILs</u>						
	Taxable Income:						
	Adjustments required to arrive at taxable income	(\$2,404,794)	\$21,020	(\$2,383,774)	(\$2,028,243)		(\$4,412,017)
	Utility Income Taxes and Rates:						
	Income taxes (not grossed up)	\$245,553	\$9,324	\$254,877	\$35,093		\$289,970
	Income taxes (grossed up)	\$334,086		\$346,771			\$394,517
	Federal tax (%)	15.00%	\$0	15.00%	\$0		15.00%
	Provincial tax (%)	11.50%	\$0	11.50%	\$0		11.50%
	Income Tax Credits	(\$17,315)	\$0	(\$17,315)	\$0		(\$17,315)
4	<u>Capitalization/Cost of Capital</u>						
	Capital Structure:						
	Long-term debt Capitalization Ratio (%)	56.0%	\$0	56.0%	\$0		56.0%
	Short-term debt Capitalization Ratio (%)	4.0%	\$0	4.0%	\$0		4.0%
	Common Equity Capitalization Ratio (%)	40.0%	\$0	40.0%	\$0		40.0%
	Preferred Shares Capitalization Ratio (%)	0.0%	\$0	0.0%	\$0		0.0%
		100.0%		100.0%			100.0%

NPEI has corrected the 2023 IRM Rate Generator Model, Sheet 8. STS – Tax Change, cell H18, to reflect the correct 2021 OEB-approved regulatory taxable income of \$1,159,568, as shown in Table 2 below:

Table 2 - Sheet 8. STS – Tax Change from the Corrected 2023 IRM Rate Generator Model.

	2021	2023
OEB-Approved Rate Base	\$ 167,013,952	\$ 167,013,952
OEB-Approved Regulatory Taxable Income	\$ 1,159,568	\$ 1,159,568
Federal General Rate		15.0%
Federal Small Business Rate		9.0%
Federal Small Business Rate (calculated effective rate) ^{1,2}		15.0%
Ontario General Rate		11.5%
Ontario Small Business Rate		3.2%
Ontario Small Business Rate (calculated effective rate) ^{1,2}		11.5%
Federal Small Business Limit		\$ 500,000
Ontario Small Business Limit		\$ 500,000
Federal Taxes Payable		\$ 173,935
Provincial Taxes Payable		\$ 133,350
Federal Effective Tax Rate		15.0%
Provincial Effective Tax Rate		11.5%
Combined Effective Tax Rate	26.5%	26.5%
Total Income Taxes Payable	\$ 307,286	\$ 307,286
OEB-Approved Total Tax Credits (enter as positive number)	\$ 17,315	\$ 17,315
Income Tax Provision	\$ 289,971	\$ 289,971
Grossed-up Income Taxes	\$ 394,518	\$ 394,518
Incremental Grossed-up Tax Amount		\$ -
Sharing of Tax Amount (50%)		\$ -

Sheet 6. Taxes_PILs from the corrected 2021 RRWF model is shown in Table 3 below:

Table 3 - Sheet 6. Taxes_PILs from the Corrected RRWF Model

Taxes/PILs

Line No.	Particulars	Application	Interrogatory Responses	Per Board Decision
<u>Determination of Taxable Income</u>				
1	Utility net income before taxes	\$5,791,971	\$5,652,380	\$5,571,585
2	Adjustments required to arrive at taxable utility income	(\$2,404,794)	(\$2,383,774)	(\$4,412,017)
3	Taxable income	<u>\$3,387,177</u>	<u>\$3,268,606</u>	<u>\$1,159,568</u>
<u>Calculation of Utility income Taxes</u>				
4	Income taxes	\$245,553	\$254,877	\$289,970
6	Total taxes	<u>\$245,553</u>	<u>\$254,877</u>	<u>\$289,970</u>
7	Gross-up of Income Taxes	\$88,533	\$91,894	\$104,547
8	Grossed-up Income Taxes	<u>\$334,086</u>	<u>\$346,771</u>	<u>\$394,517</u>
9	PILs / tax Allowance (Grossed-up Income taxes + Capital taxes)	<u>\$334,086</u>	<u>\$346,771</u>	<u>\$394,517</u>
10	Other tax Credits	(\$17,315)	(\$17,315)	(\$17,315)
<u>Tax Rates</u>				
11	Federal tax (%)	15.00%	15.00%	15.00%
12	Provincial tax (%)	11.50%	11.50%	11.50%
13	Total tax rate (%)	<u>26.50%</u>	<u>26.50%</u>	<u>26.50%</u>

Sheet T0, PILs Tax Provision Test from NPEI's final 2021 PILs model is shown in Table 4 below:

Table 4 - Sheet T0. PILs Tax Provision Test

PILs Tax Provision - Test Year

						Wires Only	
Regulatory Taxable Income						I1	\$ 1,159,568 A
	Tax Rate	Small Business Rate (If Applicable)	Taxes Payable	Effective Tax Rate			
Ontario (Max 11.5%)	11.5%	11.5%	\$ 133,350	11.5%	B		
Federal (Max 15%)	15.0%	15.0%	\$ 173,935	15.0%	C		
Combined effective tax rate (Max 26.5%)							26.50% D = B + C
Total Income Taxes							\$ 307,286 E = A * D
Investment Tax Credits							\$ 17,315 F
Miscellaneous Tax Credits							G
Total Tax Credits							\$ 17,315 H = F + G
Corporate PILs/Income Tax Provision for Test Year							\$ 289,970 I = E - H
Corporate PILs/Income Tax Provision Gross Up ¹						73.50% J = 1-D	\$ 104,547 K = I/J-I
Income Tax (grossed-up)							\$ 394,518 L = K + I

As shown the tables above, the OEB-approved regulatory taxable income in the corrected 2023 IRM Rate Generator Model and the corrected 2021 RRWF are now consistent with the final OEB-approved 2021 PILs Model.

NPEI has included the following Excel models along with these responses:

- The corrected final 2021 RRWF model
(NPEI_2021_Final_RRWF_Corrected_20220909.xlsm)
- The corrected 2023 IRM Rate Generator Model
(NPEI_2023-IRM-Rate Generator-Model_20220909.xlsm)
- The final 2021 PILs model for reference
(NPEI_Final_2021_Test_year_Income_Tax_PILs_20220909.xlsm)

Staff Question - 2

Ref: IRM Rate Generator Model, Tabs 11-14

OEB staff has updated the IRM Rate Generator Model in the following areas:

Hydro One Sub-Transmission Rates		Unit	2021		2022		2023	
Rate Description			Rate		Rate		Rate	
Network Service Rate	kW	\$	3.3980	\$	4.3473	\$	4.3473	
Line Connection Service Rate	kW	\$	0.8128	\$	0.6788	\$	0.6788	
Transformation Connection Service Rate	kW	\$	2.0458	\$	2.3670	\$	2.3670	
Both Line and Transformation Connection Service Rate	kW	\$	2.8586	\$	3.0055	\$	3.0458	

Tab 11: RTSR – UTRs & Sub-Tx, cells E35, I39, L39 and L41

The HONI Sub-transmission charges have been updated, as per EB-2020-0030 and EB-2021-0032 shown below:

Hydro One Sub-Transmission Rates				
		2021	2022	2023
Network Service Rate	\$/kW	3.4778	4.3473	4.3473
Line Connection Service Rate	\$/kW	0.8128	0.6788	0.6788
Transformation Connection Service Rate	\$/kW	2.0458	2.3267	2.3267
Both Line and Transformation Connection Service Rate	\$/kW	2.8586	3.0055	3.0055

Tab 13: RTSR – Current Wholesale

Tab 14: RTSR – Forecast Wholesale

The Transformation Connection Rate columns have been updated in Tabs 13 & 14.

Question:

- Please confirm that the IRM Rate Generator Model has been updated by OEB staff correctly. (Please note there will be further updates before the final issuance of the Decision)

Response

- NPEI confirms that the Hydro One Sub-Transmission Rates have been correctly updated by OEB Staff in NPEI's 2023 IRM Rate Generator Model.

Staff Question – 3**Ref: Lost Revenue Adjustment Mechanism Variance Account (LRAMVA)**

Please confirm that Niagara Peninsula Energy will not be seeking to dispose of any balance in the LRAMVA due to LRAM-eligible CDM activities funded by the IESO through the Conservation First Framework or Interim Framework in a future year's application.

- a) If not confirmed, please explain why a request for disposition was not submitted as part of this application.
- b) If confirmed, please also confirm that Niagara Peninsula Energy has verified that, relative to the LRAMVA threshold (if any) established in Niagara Peninsula Energy's most recent rebasing application, the balance in the LRAMVA, and any prospective LRAM-eligible amounts until the next rebasing, are either zero or a debit (i.e., not a credit that would need to be refunded to customers).

Response

NPEI confirms that it will not be seeking to dispose of any balance in the LRAMVA due to LRAM-eligible CDM activities funded by the IESO through the Conservation First Framework or Interim Framework in a future year's application. NPEI received OEB approval to dispose of all LRAMVA balances related to the Conservation First Framework in its 2021 COS Rate Application (EB-2020-0040).

- a) Not applicable.
- b) NPEI confirms that the balance in NPEI's LRAMVA account, and any prospective LRAM-eligible amounts until the next rebasing, are zero. NPEI's most recent COS Rate Application (EB-2020-0040) for rates effective January 1, 2021, did not include an LRAMVA threshold, due to the cancelation of the Conservation First Framework in 2019.