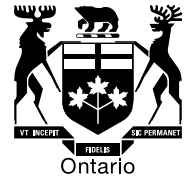


Ontario Energy Board
P.O. Box 2319
27th. Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416-481-1967
Facsimile: 416-440-7656
Toll free: 1-888-632-6273

Commission de l'énergie de l'Ontario
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone: 416-481-1967
Télécopieur: 416-440-7656
Numéro sans frais: 1-888-632-6273



BY EMAIL

December 21, 2015

Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4
Kirsten.Walli@ontarioenergyboard.ca

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Niagara-on-the-Lake Hydro Inc.
2016 IRM Distribution Rate Application
OEB Staff Submission
OEB File No. EB-2015-0091**

In accordance with Procedural Order No.1, please find attached the OEB Staff Submission in the above proceeding. This document is being forwarded to Niagara-on-the-Lake Hydro Inc. and to all other registered parties to this proceeding.

Niagara-on-the-Lake Hydro Inc. is reminded that its Reply Submission is due by January 14, 2016, should it choose to file one.

Yours truly,

Original Signed By

Georgette Vlahos
Analyst, Electricity Rates & Accounting

Encl.



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2016 ELECTRICITY DISTRIBUTION RATES

Niagara-on-the-Lake Hydro Inc.

EB-2015-0091

December 21, 2015

**OEB Staff Submission
Niagara-on-the-Lake Hydro Inc.
2016 IRM Rate Application
EB-2015-0091**

Introduction

Niagara-on-the-Lake Hydro Inc. (Niagara-on-the-Lake Hydro) filed an application with the Ontario Energy Board (the OEB) on September 25, 2015 under section 78 of the *Ontario Energy Board Act*, seeking approval for changes to the rates that Niagara-on-the-Lake Hydro charges for electricity distribution, effective May 1, 2016. The application is based on the 2016 Price Cap IR option.

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

OEB staff has no concerns with the data supporting the updated Retail Transmission Service Rates proposed by Niagara-on-the-Lake Hydro. Pursuant to the OEB's Guideline G-2008-0001, OEB staff will update the applicable data at the time of the OEB's Decision on the Application based on the Uniform Transmission Rates in place at that time.

OEB staff makes detailed submissions on the following:

- Policy Changes and Rate Mitigation
- Deferral and Variance Account Disposition
- Account 1576 Supplemental Rate Rider
- Shared Tax Adjustments

Policy Changes and Rate Mitigation

The OEB's April 2, 2015 policy¹ on electricity distribution rate design set out that distribution rates for residential customers will transition to a fully fixed rate structure from the current combination of fixed and variable charges over four years. Starting in 2016, the fixed rate will increase gradually, and the usage rate will decline.

¹ Board Policy: A New Distribution Rate Design for Residential Electricity Customers (EB-2012-0410), April 2, 2015

The OEB requires distributors to calculate the impact of this change and any other changes in the cost of distribution service to those customers who are at the 10th percentile of overall consumption, as well as the impact of the change in fixed rates to residential customers in general. Any increase of 10% or greater to low-consumption customer bills arising from changes in the IRM application, or an increase to the monthly fixed charge of greater than \$4 prior to incentive rate-setting adjustments, may result in the requirement for a longer transition period than the four years specified in the OEB policy or another mitigation strategy.

Adjustments to Niagara-on-the-Lake Hydro's rate model to implement the change in fixed rates results in an increase to the fixed charge prior to IRM adjustments of \$2.52. In response to OEB staff interrogatories, Niagara-on-the-Lake Hydro confirmed that for a typical Residential customer at the 10th percentile, bill impacts are below 10%².

OEB staff submits that the increases to the monthly fixed charge and to low consumption consumers are consistent with OEB policy.

Deferral and Variance Account Disposition

Niagara-on-the-Lake Hydro completed the Deferral and Variance Account continuity schedule included in the 2016 IRM Rate Generator Model at tab 3 for its Group 1 Deferral and Variance Accounts. Niagara-on-the-Lake Hydro's total Group 1 Deferral and Variance Account balances amount to a debit of \$364,316. The balance of Account 1589 – Global Adjustment is a debit of \$1,042,035, and is applicable only to Non-RPP customers. These balances also include interest calculated to April 30, 2016. Based on the threshold test calculation, the Group 1 Deferral and Variance Account balances equate to a debit of \$0.0019 per kWh which exceeds the pre-set disposition threshold, and as such, Niagara-on-the-Lake Hydro requested disposition of these accounts over a one-year period.

In its interrogatories, OEB staff queried Niagara-on-the-Lake Hydro on the balance in its Account 1589 – Global Adjustment noting that it is about three times higher relative to 2013 balances. In its response, Niagara-on-the-Lake Hydro indicated that the variation observed is caused by the timing of posting and the periods covered in the RPP settlement true-ups. Niagara-on the Lake Hydro noted that if the timing of postings was

² \$ Change in Sub-total C/Total Bill on TOU (including HST)

aligned with RPP settlement true-ups, the Global Adjustment amount for 2013 would have been a debit of \$162,349, not a credit of \$531,256. Similarly, the 2014 Global Adjustment amount would have been a debit of \$171,935, not a debit of \$1,020,143³.

Niagara-on-the-Lake Hydro went on further to say that it recognizes that this timing variation has caused significant differences in the variance account amounts. Going forward, Niagara-on-the-Lake Hydro will ensure that the true-ups are properly aligned to the appropriate years.

OEB staff is satisfied with Niagara-on-the-Lake Hydro's explanation regarding the quantum in the Global Adjustment account and its proposal to mitigate the volatility in account balances on a going-forward basis.

OEB staff has reviewed Niagara-on-the-Lake Hydro's Group 1 Deferral and Variance Account balances and notes that the principal balances as of December 31, 2014 reconcile with the balances reported as part of the *Reporting and Record-keeping Requirements*. Also, the pre-set disposition threshold has been exceeded. Accordingly, OEB staff takes no issue with Niagara-on-the-Lake Hydro's request to dispose of its 2014 Deferral and Variance Account balances at this time.

With respect to disposition period, OEB staff notes that although the non-RPP bill impacts are not over the 10% threshold required for mitigation, they are very close. In order to mitigate the overall bill impacts for non-RPP customers given the magnitude of the Global adjustment balance, OEB staff submits that the OEB may wish to consider disposing of Account 1589 – Global Adjustment over a two-year period (applicable to all rate classes) and all other Group 1 accounts over the requested one-year period.

OEB staff has summarized the approximate bill impacts⁴ for the affected non-RPP customers based on the data provided by Niagara-on-the-Lake Hydro for the OEB's consideration.

³ Interrogatory Responses, Niagara-on-the-Lake Hydro (EB-2015-0091), Page 7

⁴ Bill impacts updated to include the 2.1% price escalator as a proxy.

**Table 1: % Total Bill Impact Comparison for Non-RPP Customer Groups
Sub-Total C/Total Bill (Including Taxes)⁵**

Rate Class	As Proposed All DVAs over one year	Alternative Option Group 1 DVAs over one year except GA which is over 2 years
Residential (800 kWh)	9.53%	5.51%
Residential 10 th Percentile (365 kWh)	9.54%	6.72%
GS<50 kW (2,000 kWh)	9.23%	5.39%
GS>50 kWh	11.36%	6.76%

Account 1576 Supplemental Rate Rider

Niagara-on-the-Lake Hydro has proposed disposition of a supplemental balance in Deferral Account 1576 of \$202,237 as a refund to customers over a three year term. Account 1576 tracks the differences arising from the update to asset useful lives and changes in capitalization policy. Niagara-on-the-Lake Hydro implemented the changes to both effective January 1, 2013. Niagara-on-the-Lake Hydro's last rebasing application was for 2014 rates. Niagara-on-the-Lake Hydro is on a May 1 rate year. Account 1576 is a Group 2 account that normally would not be considered as part of an IRM application.

For the 2013 calendar year, Account 1576 tracked these differences from January 1 to December 31 (January 1, 2014 being the commencement of the next cost of service test year). The balance of \$893,861 in Account 1576 was disposed in the 2014 cost of service application. Niagara-on-the-Lake Hydro did not alter its rate year in the rebasing application.

In the current IRM application, Niagara-on-the-Lake Hydro has proposed that since their

⁵ Excludes the removal of the Ontario Clean Energy Benefit and all other regulatory charges.

2013 rates (under IRM) remained in effect until May 1, 2014, its rates at that time were still over recovering on depreciation expense. Accordingly, it has proposed an additional refund of \$202,237 to customers for the stub period January 1, 2014 to April 30, 2014 over the remaining 3 years of the 5-year period that the original 1576 rate rider was approved to be in effect, i.e. until April 30, 2019. Niagara-on-the-Lake Hydro proposed a variable rate rider.

In its interrogatories, OEB staff noted that the OEB's letter issued on July 16, 2015 titled *Implementing a New Rate Design for Electricity Distributors* notes that going forward, any new "other" charges related to distribution⁶ will be applied on a fixed basis. In its responses, Niagara-on-the-Lake Hydro agreed that for the Residential rate class, the supplemental rate rider for Account 1576 should be on a fixed basis. Niagara-on-the-Lake Hydro provided revised calculations to take this into consideration.

While Niagara-on-the-lake Hydro has agreed that the supplemental Account 1576 rate rider should be on a fixed basis, the calculation shows the amounts to 4 decimal places. OEB staff notes that, should the OEB approve this rate rider, it should be rounded to 2 decimal places as per the OEB's standard practice for fixed rate riders.

OEB staff notes that the OEB's letter⁷ and subsequent communications regarding this account have stayed silent on the approach to be taken for distributors who file for May 1 rates with respect to differences arising from the update to asset useful lives and changes in capitalization policy that don't take effect until May 1 of the test year. However, OEB staff is in agreement with Niagara-on-the-Lake Hydro that because differences arising from the update to asset useful lives and changes in capitalization policy were based on a calendar year, there is a 4-month stub period that should be trued up since 2013 rates remained in effect until May 1, 2014. This would be consistent with the spirit of the policy that requires the impacts of changes to depreciation and capitalization to be captured leading up to the effective date of the next cost of service rate order. Furthermore, the amount to be disposed is a credit to customers and Niagara-on-the-Lake Hydro's approach to recording balances in this account were reviewed in the last cost of service application. OEB staff supports Niagara-on-the-Lake

⁶ Examples of distribution-related charges are funding mechanisms for additional infrastructure investment (ICM/ACM) or the recovery of unforeseen costs from storm damage (Z-Factor).

⁷ The OEB's letter, issued July 17, 2012 entitled Regulatory accounting policy direction regarding changes to depreciation expense and capitalization policies in 2012 and 2013 indicated the OEB's approval of Account 1576, Accounting Changes Under CGAAP, for distributors to record the financial differences arising as a result of the election to make these accounting changes under CGAAP in 2012 or to make these changes as mandated by the Board in 2013, if applicable.

Hydro's request to refund the amount over a three year-period.

Shared Tax Adjustments

The OEB approves an amount for taxes in a distributor's cost of service proceeding that is based on the tax rates in place at the time. Legislated changes in tax rates impact the amount of taxes that a distributor pays in the period between cost of service proceedings, but it does not alter the amount that ratepayers contribute towards the cost of taxes unless the rates are updated by an order of the OEB.

The OEB has determined that a 50/50 sharing of the impact of legislated tax changes between shareholders and ratepayers is appropriate during the intervening years between cost of service applications. The shared tax change amount will be assigned to customer rate classes in the same proportions as the OEB-approved distribution revenue by rate class from a distributor's last cost of service proceeding.

As originally filed, the application included total tax adjustments of \$42,938 resulting in a shared amount of \$21,469 to be collected from rate payers.

OEB staff submits that this amount has been accurately calculated. OEB staff's interrogatory about the assumed tax rate stemmed from its uncertainty about the timing of tax changes in 2014 relative to Niagara-on-the-Lake Hydro's rates decision that year. Following a more thorough review, OEB staff agrees that the tax rates at the time that Niagara-on-the-Lake Hydro's rates were rebased was 15.5% and that this rate is therefore the appropriate amount against which to evaluate the amount of tax sharing given changes in tax rates since the date that the utility's rates were set.

OEB staff further notes that the Shared Tax-Adjustment portion of the Rate Generator Model reflects the Revenue Requirement Work Form approved in the OEB's decision in Niagara-on-the-Lake Hydro's previous cost of service application (EB-2013-0155). OEB staff has no concerns with the information as filed.

All of which is respectfully submitted