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**Commission de l'énergie
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BY EMAIL

January 26, 2017

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

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Newmarket-Tay Power Distribution Ltd.
2017 IRM Distribution Rate Application
OEB Staff Submission
OEB File No. EB-2016-0275**

In accordance with Procedural Order No.1, please find attached the OEB Staff Submission in the above proceeding. This document is being forwarded to Newmarket-Tay Power Distribution Ltd. and to all other registered parties to this proceeding.

Newmarket-Tay Power Distribution Ltd. is reminded that its Reply Submission is due by February 9, 2017, should it choose to file one.

Yours truly,

Original Signed By

Kelli Benincasa
Analyst, Electricity Rates & Accounting
Encl.



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2017 ELECTRICITY DISTRIBUTION RATES

Newmarket-Tay Power Distribution Ltd.

EB-2016-0275

January 26, 2017

**OEB Staff Submission
Newmarket-Tay Power Distribution Ltd.
2017 IRM Rate Application
EB-2016-0275**

Introduction

Newmarket-Tay Power Distribution Ltd. (Newmarket-Tay Power) filed an application with the Ontario Energy Board (OEB) on November 9, 2016 under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the rates that Newmarket-Tay Power charges for electricity distribution, effective May 1, 2017.

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 Newmarket-Tay Power.

Retail Transmission Service Rates

OEB staff has no concerns with the data supporting the updated Retail Transmission Service Rates proposed by Newmarket-Tay Power. Pursuant to the OEB's Guideline G-2008-0001, OEB staff notes that the OEB has approved the 2017 Sub-Transmission Class RTSRs for Hydro One Networks Inc. to use for billing embedded distributors¹. OEB staff will further update the applicable data in the IRM model prior to the issuance of the OEB's decision on the application.

Tax-Savings

OEB staff notes that the Shared Tax-Savings portions of the Rate Generator Model reflect the Revenue Requirement Work Form from the OEB's cost of service decision (EB-2009-0269). OEB staff has no concerns with the information as filed.

Disposition of Deferral and Variance Account 1576 Balance

This application is based on the Annual IR Index option. Newmarket-Tay Power also applied in this application for the establishment of a 1576 rate adder which is a refund to customers. Under normal circumstances, an Annual IR Index application would not

¹ Decision and Rate Order, EB-2016-0081, December 21, 2016

involve any requests (beyond the base rate adjustments) other than tax savings or a Z factor. OEB staff however notes that it would be appropriate to allow the disposition to commence at this time given the efficiencies gained by combining this request with the base rate application and given that Newmarket-Tay Power will likely remain on the Annual IR method until it rebases in 2020. OEB staff also notes that it is in the best interest of Newmarket-Tay Hydro's customers to commence refunding the money at this time given the size of the refund.

Newmarket-Tay Power made changes to its depreciation and capitalization policies effective January 1, 2012. It has recorded the financial difference arising from changes to its depreciation and capitalization policies in Account 1576 for 2012 - 2015. As a result of asset componentization and the reassessment of the remaining useful lives of all its distribution assets, Newmarket-Tay Power has recorded significantly lower depreciation expense for 2012 - 2015.

Newmarket-Tay Power has proposed to continue to use Account 1576 until such time as a full disposition is approved during the next cost based rate application. Newmarket-Tay Power indicated in its interrogatory responses that it will be filing a cost of service application for 2020 rates. Newmarket-Tay Power is seeking an interim disposition of Account 1576 to begin the return of funds to customers associated with balances that have accumulated to December 31, 2015. The rate adder represents a return of \$6,382,286 to Newmarket-Tay Power customers over a proposed one-year period on an interim basis.

In the interrogatory phase, OEB staff requested that Newmarket-Tay Power provide bill impacts for a two-year disposition of Account 1576:

Bill Impacts Table: 1-Year vs. 2-Year

Newmarket-Tay Power Distribution Bill Impacts				
	One Year \$	One Year %	Two Year \$	Two Year %
Residential	-\$ 6.94	-5.32%	-\$ 3.58	-2.74%
GS less than 50 kW	-\$ 1.01	-0.28%	-\$ 0.21	-0.06%
GS 50 to 4.999	-\$ 116.79	-0.33%	-\$ 41.24	-0.11%
Unmetered Scattered Load	-\$ 0.28	-0.86%	-\$ 0.20	-0.61%
Sentinel	-\$ 0.20	-0.26%	-\$ 0.07	-0.08%
Street Lighting	-\$ 101.16	-0.12%	-\$ 9.36	-0.01%

OEB staff requested Newmarket-Tay Power to comment on a two-year versus one-year disposition. Newmarket-Tay Power noted that it experienced a customer gain of 4,439 in 2016 and a similar significant increase is expected in 2017. Newmarket-Tay Power suggested that, in this light, the greater inter-generational inequity of a two-year, versus one-year, disposition period be considered. Newmarket-Tay Power also stated a two-year disposition would increase costs by \$419,205 and that they currently have the financial capacity for a one-year clearance. Furthermore, Newmarket-Tay Power will be seeking to dispose of Account 1576 balances on an interim basis in all subsequent Annual IRM applications until it files its next cost of service application (planned for 2019). As such Newmarket-Tay Power suggests a one-year disposition is appropriate as it avoids the need for two concurrent Account 1576 rate riders in 2018.

OEB staff is not opposed to a one year disposition but does note that the applicant has not identified on the record the impacts arising from its 2018 IRM application which will dispose of the 2016 balance. This one year accumulation of credits will replace the large \$6 million amount (representing four years of over-collection) that is being disposed as part of this proceeding and may lead to a spiking of bill impacts. OEB staff is of the view that Newmarket-Tay Power should provide information on bill impacts for 2018, assuming a standard, mechanistic Annual IR Index application using the current inflation and productivity factors. OEB staff has estimated the total bill impact to be approximately 4%.

In terms of the applicant's plan going forward, since Property Plant and Equipment differences will continue to be recorded in Account 1576 until Newmarket-Tay Power's next rebasing, OEB staff suggests an alternate approach to addressing Account 1576 in the interests of increased efficiency. OEB staff suggests that Newmarket-Tay Power can dispose the balance of Account 1576 to the end of 2017 in its 2018 IRM application on a final basis, and in the same application, apply to reduce base distribution rates such that the deferral account will no longer be required. A similar adjustment was approved by the OEB in Enersource Hydro Mississauga Inc.'s 2017 IRM application². This alternative plan would also require the approval of the 2015 year-end balance to be approved on a final basis but that approval should wait until the 2018 IRM application in the event the applicant uncovers errors or the need for adjustments following its preparation of the 2016 balance for submission to the OEB.

² Decision and Rate Order, EB-2016-0002, December 8, 2016

In either scenario, OEB staff submits that it has reviewed and has no concerns with the data supporting the disposition of the 2015 deferral and variance Account 1576 balance for Newmarket-Tay Power.

All of which is respectfully submitted