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BY EMAIL

February 28, 2018

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: EB-2018-0055 Newmarket-Tay Power Distribution Ltd.
Application for Rates
OEB Staff Submission**

In accordance with Procedural Order No.2, please find attached the OEB Staff Submission in the above proceeding. This document is being forwarded to Newmarket-Tay Power Distribution Ltd.

Newmarket-Tay Power Distribution Ltd. is reminded that its Reply Submission is due by March 11, 2019, should it choose to file one.

Yours truly,

Original Signed By

Marc Abramovitz
Advisor, Electricity Rates & Accounting
Encl.



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2019 ELECTRICITY DISTRIBUTION RATES

Newmarket-Tay Power Distribution Ltd.

EB-2018-0055

February 28, 2019

Introduction

Newmarket-Tay Power Distribution Ltd. (Newmarket-Tay Power) filed an application with the Ontario Energy Board (OEB) on November 9, 2018 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, 2019.

In the OEB's decision (the MAADs decision¹) on August 23, 2018, Newmarket-Tay Power was granted approval to purchase and amalgamate with Midland Power Utility Corporation (Midland Power). In the MAADs decision, Newmarket-Tay Power was granted a 10 year deferral period and will be implemented by maintaining two separate rate zones Newmarket-Tay Power Main and Midland Power until the rates are re-based.² In this proceeding, Newmarket-Tay Power filed separate applications and IRM models for each of the rate zones.

The purpose of this document is to provide OEB staff's submissions on its review of the evidence submitted by Newmarket-Tay Power. Newmarket-Tay Power's two rate zones are in the final year of transition towards a fully fixed monthly distribution charge and as of May 1, 2019 the residential classes will have transitioned to a fully fixed structure.

Newmarket-Tay Power has demonstrated that no rate mitigation is required for either rate zone. Consistent with the Chapter 3 Filing Requirements, Newmarket-Tay Power has also applied the Annual IR Index factor (to the Newmarket-Tay Main rate zone) and the Price Cap IR factor (to the Midland Power rate zone) to adjust the monthly service charges and volumetric distribution rates during the incentive rate-setting years. OEB staff has no concern with Newmarket-Tay Power's proposals and notes that consistent with the *Handbook to Electricity Distributor and Transmitter Consolidations*, the MAADs decision approved the continuation of the current rate setting plans for the balance of the approved deferral period.

Newmarket-Tay Power has requested an update to its Retail Transmission Service Rates for both rate zones in order to recover the wholesale transmission rates charged by its host distributor, Hydro One, and by the IESO. The OEB approved an update to the 2019 Uniform Transmission Rates³ following the filing of the application and OEB staff will update Newmarket-Tay Power's rate generator models accordingly.

¹ EB-2017-0269

² ED-2007-0264

³ Decision and Interim Rate Order, EB-2018-0326, December 20, 2018.

OEB staff has no concern with Newmarket-Tay Power's proposals except with respect to the matters listed below.

OEB staff makes detailed submissions on the following:

- Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) - (Newmarket-Tay Power Main rate zone and Midland Power rate zone)
- Group 1 Deferral and Variance Accounts (Newmarket-Tay Power Main rate zone and Midland Power rate zone)
- Disposition of Variance Account 1576 (Newmarket-Tay Hydro – Main rate zone only)

Lost Revenue Adjustment Mechanism Variance Account

Newmarket-Tay Power originally applied to dispose of an LRAMVA debit balance of \$794,662 for its two rate zones combined, inclusive of carrying charges. The balances for each rate zone are listed below:

- Newmarket-Tay Power Main rate zone: \$463,315
- Midland Power rate zone: \$331,347

For the Newmarket-Tay Power Main rate zone, the LRAMVA debit balance of \$463,315 consists of lost revenues in 2017 from Conservation and Demand Management (CDM) programs delivered during the period from 2011 to 2017 inclusive, and associated carrying charges. The full impact of conservation savings was claimed as there were no forecasted conservation savings in the 2010 load forecast at the time Newmarket-Tay Power last rebased in 2010.⁴

For the Midland Power rate zone, the LRAMVA debit balance of \$331,347 consists of lost revenues during the 2013 to 2017 period inclusive, from CDM programs delivered during the period from 2011 to 2017 inclusive, and associated carrying charges. Actual conservation savings were compared against forecasted conservation savings of 3,299,236 kWh included in the 2013 load forecast, which was set out in Midland Power's cost of service application for 2013 rates.⁵

⁴ Decision and Rate Order, February 24, 2011

⁵ Decision and Order, February 6, 2013

During the course of this proceeding, Newmarket-Tay Power updated its projected carrying charges on the LRAMVA balance for each rate zone with the OEB’s most recently approved prescribed interest rate. In Newmarket-Tay Power’s updated evidence, the LRAMVA balance for each rate zone included projected carrying charges to June 30, 2019. For the Midland Power rate zone, actual savings from 2015 to 2017 savings were also corrected to reflect IESO net verified savings which subsequently reduced the LRAMVA balance.

Based on these revisions, the changes in the LRAMVA balance for the two rates zones are shown in the table below.

Table 1: LRAMVA Claim

Rate Zone	Original	Updated	Change
Newmarket-Tay Power - Main	\$463,315	\$468,855	\$5,540
Midland Power	\$331,347	\$209,749	(\$121,598)

OEB staff submits that Newmarket-Tay Power’s revised LRAMVA balances (with the exception of carrying charges) have been calculated in accordance with the OEB’s CDM-related guidelines and updated LRAMVA policy.

OEB staff notes that Newmarket-Tay Power’s updated LRAMVA workform completed for its two rate zones includes interest to June 30, 2019. OEB staff submits that projected interest should only be recoverable to April 30, 2019 in order to align with the start of the disposition period for the balance in the LRAMVA. With this correction, OEB staff has determined that the LRAMVA debit balance inclusive of carrying charges should be \$208,927 for the Midland Power rate zone and \$467,008 for the Newmarket-Tay Power - Main rate zone.

As part of Newmarket-Tay Power’s reply submission, OEB staff requests that the applicant confirm the revised LRAMVA balance for each rate zone with interest calculated to April 30, 2019. OEB staff requests that revised versions of its LRAMVA workform be filed for each rate zone as part of its reply submission.

Disposition of Deferral and Variance Accounts – Group 1

Newmarket-Tay Power – Main rate zone

As per chapter 3 of the OEB’s Filing Requirements and the *Report of the Board on Electricity Distributors’ Deferral and Variance Account Review Initiative*, Group 1 account balances will be reviewed and disposed if the pre-set disposition threshold of \$0.001 per kWh is exceeded. Newmarket-Tay Power met the threshold at a total claim per kWh of \$0.001. Newmarket-Tay Power is requesting disposition for balances that cover the period January 1, 2013 to December 31, 2017. The previous rate year in which Newmarket-Tay Power received approval for disposition was 2014 for 2012 audited balances. In this application, the total amount originally requested for disposition was a debit of \$618,438. This amount includes an Account 1589 – Global Adjustment debit balance of \$1,219,133 and Account 1588 – Power debit balance of \$1,445,021. Through OEB staff interrogatories the amount requested for disposition was revised to a total debit amount of \$617,054 (see Table 1). The total claim excludes an Account 1568-LRAM Variance Account debit balance of \$468,855.

Table 2

Account Description	Account Number	Principal (as of Dec 31, 2017)	Interest (until Apr 30, 2019)	Total
LV Variance Account	1550	657,362	28,331	685,693
Smart Metering Entity Charge Variance Account	1551	38,216	2,607	40,823
RSVA - Wholesale Market Service Charge	1580	(3,111,963)	(131,998)	(3,243,961)
Variance WMS – Sub-account CBR Class B	1580	487,036	3,797	490,833
RSVA - Retail Transmission Network Charge	1584	(476,132)	(9,632)	(485,764)
RSVA - Retail Transmission Connection Charge	1586	426,004	39,272	465,276
RSVA - Power	1588	1,366,310	78,711	1,445,021
RSVA - Global Adjustment	1589	1,162,970	56,163	1,219,133
Total		549,803	67,251	617,054

In its Decision and Order on Newmarket-Tay Power’s 2018 IRM rate application⁶, the OEB raised concerns over the number of amendments that were made to the Group 1 balances throughout the discovery process in that proceeding. The OEB ordered a third-party special purpose audit of Newmarket-Tay Power’s RSVA (i.e. Group 1) accounts for the years 2013 through 2017. In addition, it was noted that Newmarket-Tay Power was using a single combined general ledger account to track the transactions for both Accounts 1588 and 1589 and was then manually segregating the transactions to present each balance separately for regulatory purposes. Such a process was

⁶ EB-2017-0062

inherently prone to error and was in violation of the OEB's *Accounting Procedures Handbook*, which requires the use of separate specific general ledger accounts for each.

As ordered by the OEB, Newmarket-Tay Power engaged an audit firm (Collins Barrow Kawarthas LLP) to conduct a special purpose audit of its Group 1 accounts for the period 2013 through 2017. The Group 1 principal balances presented in Table 2 above agree to the final audited balances presented in the Collins Barrow audit report. Based on the audit report and the responses provided by the Applicant to address concerns raised by OEB staff during the interrogatory process, OEB staff submits that it has no concerns with the disposition of the December 31, 2017 Group 1 account balances as presented in Table 2 above, to be disposed of on an interim basis.

As a bi-product of the special purpose audit, Newmarket-Tay Power also listed a number of process changes that it has implemented in order to enhance the accuracy of its balances recorded in Accounts 1588 and 1589, including the allocation of its monthly IESO Global Adjustment charge between its RPP and non-RPP customers using actual consumption, the elimination of a one month lag in reporting Class A consumption to the IESO, and enhanced unbilled revenue calculations.⁷ Furthermore, Newmarket-Tay Power has also indicated that it has reorganized its general ledger and is now compliant with the OEB's *Accounting Procedures Handbook* with respect to recording transactions for Accounts 1588 and 1589 into separate individual general ledger accounts.⁸ OEB staff submits that it is satisfied that the concerns raised in Newmarket-Tay Power's 2018 IRM rate application have been adequately addressed by the applicant.

Midland Power Rate Zone

The Midland Power rate zone exceeded the threshold at a total claim per kWh of \$0.0020. Newmarket-Tay Power is requesting disposition for the period January 1, 2017 to December 31, 2017. The previous rate year in which disposition was approved for the Midland Power rate zone was 2018, for 2016 audited balances. In this application, the total amount originally requested for disposition was a debit of \$368,261. This amount includes an Account 1589 – Global Adjustment debit balance of \$230,348 and Account 1588 – Power debit balance of \$78,667. Through OEB staff interrogatories the amount requested for disposition was revised to a total debit amount of \$362,374 (see Table 3).

⁷ Response to OEB Staff IR #10a, February 11, 2019

⁸ Updated response to OEB Staff IR #10a, February 26, 2019

The total claim excludes an Account 1568-LRAM Variance Account debit balance of \$209,749.

Table 3

Account Description	Account Number	Principal (as of Dec 31, 2017)	Interest (until Apr 30, 2019)	Total
LV Variance Account	1550	261,175	9,090	270,264
Smart Metering Entity Charge Variance Account	1551	(2,803)	(96)	(2,899)
RSVA - Wholesale Market Service Charge	1580	(172,890)	(1,357)	(174,247)
Variance WMS – Sub-account CBR Class B	1580	(1,353)	(950)	(2,303)
RSVA - Retail Transmission Network Charge	1584	(31,966)	(1,294)	(33,260)
RSVA - Retail Transmission Connection Charge	1586	(17,015)	(1,224)	(18,240)
RSVA - Power	1588	74,216	4,451	78,667
RSVA - Global Adjustment	1589	222,585	7,763	230,348
Disposition and Recovery/Refund of Regulatory Balances (2015)	1595	0	(5,887)	(5,887)
Disposition and Recovery/Refund of Regulatory Balances (2016)	1595	87,522	(67,593)	19,929
Total		419,471	(57,098)	362,374

OEB staff supports Newmarket-Tay Power’s request to dispose of its Midland Power rate zone December 31, 2017 Group 1 DVA balances. As per the OEB’s current approach to disposition of DVAs, this disposition should be on an interim basis.

Disposition of Variance Account 1576 Balance

Newmarket-Tay Power – Main Rate Zone Only

Newmarket-Tay Power has applied to establish a one-year rate rider for interim clearance of the 2017 balance of Account 1576.

Effective January 1, 2012, Newmarket-Tay Power implemented new asset useful lives and has recorded the financial differences in Account 1576. Newmarket-Tay Power proposed in the 2018 IRM application⁹ to continue to clear the 1576 balance annually until its next cost of service proceeding. In its decision on Newmarket-Tay Power’s 2018 rates, the OEB approved the disposition of account 1576 for the credit balance accrued in the 2016 year of \$1,593,745 over a one-year period on an interim basis.

In this proceeding, Newmarket-Tay Power is requesting the approval for a one-year interim clearance of the 2017 balance of Account 1576 in the credit amount of \$1,614,028. Newmarket-Tay Power notes that no carrying charges have been applied to this balance and it will also continue to use this account until its next cost of service rate application.

⁹ EB-2017-0062

The table below summarizes the proposed rate rider by class over a one-year period.

Table 4: Account 1576 Rate Rider by Customer Class

Customer Class	Units of Measure	2017 Metered kWh	% Allocation	2017 Allocator	Allocation of Account 1576	Occurance of Allocator	1 Year Rate Rider
Residential	# of Customers	260,534,762	41.56%	32,185	\$ (670,810)	12	\$ (1.73686)
GS<50 kW	kWh	88,737,652	14.16%	88,737,652	\$ (228,477)	1	\$ (0.00257)
GS>50 kW	kW	274,428,086	43.78%	740,036	\$ (706,582)	1	\$ (0.95479)
Unmetered Scattered Load	kWh	266,413	0.04%	266,413	\$ (686)	1	\$ (0.00257)
Sentinel Lighting	kW	278,160	0.04%	278,160	\$ (716)	1	\$ (0.00257)
Street Lighting	kW	2,624,147	0.42%	7,065	\$ (6,757)	1	\$ (0.95634)
Total		626,869,220			\$ (1,614,028)		

In response to interrogatories, Newmarket-Tay Power updated its claim to account for a \$10,000 transcription error in its opening net PP&E balance. The 2017 credit balance in account 1576 has been updated to a credit balance of \$1,603,325.

The table below summarizes the updated rate riders by class over a one-year period.

Table 5: Account 1576 Rate Rider by Customer Class

Customer Class	Units of Measure	2017 Metered kWh	% Allocation	2017 Allocator	Allocation of Account 1576	Occurance of Allocator	1 Year Rate Rider
Residential	# of Customers	260,534,762	41.56%	32,185	\$ (666,362)	12	\$ (1.72534)
GS<50 kW	kWh	88,737,652	14.16%	88,737,652	\$ (226,962)	1	\$ (0.00256)
GS>50 kW	kW	274,428,086	43.78%	740,036	\$ (701,897)	1	\$ (0.94846)
Unmetered Scattered Load	kWh	266,413	0.04%	266,413	\$ (681)	1	\$ (0.00256)
Sentinel Lighting	kW	278,160	0.04%	278,160	\$ (711)	1	\$ (0.00256)
Street Lighting	kW	2,624,147	0.42%	7,065	\$ (6,712)	1	\$ (0.94999)
Total		626,869,220			\$ (1,603,325)		

OEB staff submits it has no concerns with the data supporting the disposition of the deferral and variance Account 1576 balance for Newmarket-Tay Power. OEB staff supports Newmarket-Tay Power's request to return \$1,603,325 to Newmarket-Tay Power customers over a proposed one-year period on an interim basis. OEB staff notes that the same rate rider derivation methodology was used and approved in Newmarket-Tay Power's 2018 application.

In light of Newmarket-Tay Power's recent merger with Midland Power and the OEB's approval to defer its rebasing for 10 years, OEB staff suggests an alternate approach to address the continued annual variance in Account 1576 for future applications in the

interests of increased efficiency. OEB staff suggests that Newmarket-Tay Power can dispose the balance of Account 1576 based on a forecast to the end of 2019 in its 2020 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 recently approved by the OEB in Whitby Hydro Electric Corporation's 2019 IRM application.¹⁰ This alternative plan would also require the approval of prior year interim dispositions (2012-2017) to be approved on a final basis.

All of which is respectfully submitted

¹⁰ Decision and Rate Order, December 20, 2018