

EB-2019-0055

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, (Schedule B);

AND IN THE MATTER OF an application by Newmarket-Tay Power Distribution Ltd. for an Order or Orders approving or fixing a proposed schedule of adjusted interim distribution rates, retail transmission rates and other charges, effective May 1, 2020.

NEWMARKET-TAY POWER DISTRIBUTION LTD.

RESPONSES TO PRE-SETTLEMENT CLARIFICATION QUESTIONS

MARCH 12, 2020

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Appendix A – Pre-Settlement Clarification Questions from VECC

1.0 Reference: VECC 1 b), c) & d)

Preamble: The response to VECC 1 b) indicates that there were separate audited financial statements for the NTRZ and MRZ. Furthermore the response indicates that the NTRZ financial statements include the MRZ data for the period September 7, 2018 – December 31, 2018.

Questions:

- 1.1 Copies of the statements were requested in VECC 1 c) but not provided with the interrogatory responses. Please provide.
- 1.2 If separate audited financial statements were not available for the two Rate Zones, VECC 1 d) asked for details as to how the costs were attributed between the two Rate Zones. The response provides the breakout of the cost between NTRZ and MRZ but does not provide the details as to how the breakout was done.
 - 1.2.1 Please indicate whether separate USOA records were kept for the two rates zones for the September 7, 2018 – December 31, 2018 period or whether, in some/all cases, an allocation was required between the two rate zones.
 - 1.2.2 If any allocations were required, please indicate for which accounts and, as originally requested, provide the working papers as to how the allocation was done.

Response:

- 1.1 NT Power is providing the following 2018 audited financial statements:
 - VECC 1.1 Jan to Sept 6 2018 MPUC Audited FS
 - VECC 1.1 2018 NTPower Audited FS. The financial statements included the MRZ data for the period Sept 7 to Dec 31, 2018.
- 1.2 Please be advised:

- 1.2.1 Separate USOA records were kept for the two rates zones for the September 7, 2018 – December 31, 2017 period. There are no allocations between the two rate zones.
- 1.2.2 Please see response VECC IR-1.2.1

2.0 Reference: Staff 12 b), VECC 1 c) and VECC 6 b)
Cost Allocation Model, Tab I6.1

Preamble: Staff 12 b) identifies the items that make up the Additional Charges included in the Cost Allocation Model as part of Revenues at Current Rates.

Questions:

- 2.1 In the case of NTRZ, why is it that only the Residential class has “unbilled” revenues?
- 2.2 In the case of NTRZ, why does the “LRAM 2012-2017 reversal” show up both as additional rate revenue (per Staff 12) for purposes of the Cost Allocation Model and again (in VECC 1 c) as a further adjustment to the CAM distribution revenue? It appears to have been double counted.
- 2.3 In the case of NTRZ, for each of the seven items listed under Additional Charges in Staff 12 b), please explain what they represent and why it is appropriate to include them as part of Revenues at Current Rates.
- 2.4 In the case of MRZ, please explain what “LRAM accrual 2018” represents and why it is appropriate to include it as part of Revenues at Current Rates.
- 2.5 Please provide an updated version of Staff 12 b) that incorporates the corrections noted in Staff 13 a) and VECC 2 a).

Response:

- 2.1 NTRZ unbilled was allocated only to the residential customer class due to the materiality of the amount.
- 2.2 The “LRAM 2012-2017” reversal is showing in the additional rate revenue (Staff IR# 12(b)) because LRAM from 2012-2018 is also showing in the additional rate revenue. The net result of the two adjustments is the 2018 LRAM is included in the 2018 cost allocation model.

In reviewing the information for this question, NTRZ determined the table provided for Staff IR# 12(b) was incorrect. The first six adjustments of the ‘Additional charges’ had incorrect arithmetic signs. There is no change to the ‘Total additional charges’ amount within the table. NTRZ is providing the following updated table:

2019 Cost Allocation billing determinants - NTRZ							
	Residential	GS<50	GS>50	Street Light	Sentinel	USL	Total
kWh	282,139,763	91,548,982	278,825,252	2,565,174	275,116	552,037	655,906,324
kW			621,805	6,897	764		629,466
# of customers	32,622	3,186	384	9,091	32	46	
2017 approved rates							
	Residential	GS<50	GS>50	Street Light	Sentinel	USL	
Fixed	21.25	30.55	138.54	3.19	3.25	17.64	
Variable-Interval	0.0075	0.0200	4.7791	15.8699	12.4522	0.0203	
Variable-Thermal			4.9127				
2018 approved rate							
	Residential	GS<50	GS>50	Street Light	Sentinel	USL	
Fixed	24.36	30.73	139.37	3.21	3.27	17.75	
Variable-Interval	0.0038	0.0201	4.8078	15.9651	12.5269	0.0204	
Variable-Thermal			4.9422				
Blended Rates							
	Residential	GS<50	GS>50	Street Light	Sentinel	USL	
Fixed	23.32	30.67	139.09	3.20	3.26	17.71	
Variable	0.0050	0.0201	4.8653	15.9334	12.5020	0.0204	
Reconciliation							
	Residential	GS<50	GS>50	Street Light	Sentinel	USL	Total
Fixed revenue	9,130,245	1,172,575	640,942	349,458	1,253	9,778	11,304,252
Variable revenue	1,420,103	1,837,083	3,025,269	109,894	9,554	11,243	6,413,146
Transformer Ownership	-	-	(438,492)	-	-	-	(438,492)
Additional charges	(230,005)	(23,248)	281,158	52,060	3,256	1,097	84,318
Total	10,320,344	2,986,410	3,508,877	511,412	14,063	22,118	17,363,224
Additional charges							
	Residential	GS<50	GS>50	Street Light	Sentinel	USL	Total
Tax savings 2012-2018	(166,778)	(51,232)	(75,986)	(9,704)	(1,031)	-	(304,731)
Unbilled	181,390	-	-	-	-	-	181,390
LRAM 2012-2018	478,308	758,352	726,055	167,047	-	-	2,129,762
LRAM 2012-2017 reversal	(373,028)	(601,643)	(547,587)	(119,065)	-	-	(1,641,323)
IFRS 2012-2018	275,519	91,385	274,653	3,455	283	324	645,620
IFRS 2012-2017 reversal	(524,823)	(174,075)	(523,173)	(6,581)	(539)	(617)	(1,229,808)
Customer count and volume timing	(100,593)	(46,035)	427,196	16,908	4,543	1,390	303,409
Total additional charges	(230,005)	(23,248)	281,158	52,060	3,256	1,097	84,318

- 2.3 The response to Staff IR# 12(b) detailed the following items:
- Tax savings 2012-2018; 2018 recording of tax savings adjustments per previous rate orders.
 - Unbilled; change of 2017 to 2018 unbilled.
 - LRAM 2012-2018; 2018 accrual of LRAM revenue from 2012-2018.
 - LRAM 2012-2017 reversal; 2018 reversal of LRAM revenue from 2012-2017 see item (c).
 - IFRS 2012-2018; 2018 adjustment to record the difference between the CGAAP and IFRS depreciation.

- f. IFRS 2012-2017 reversal; 2018 reversal of the 2012-2017 IFRS depreciation correction.
- g. Customer count and volume timing; the annual fixed CAM revenue is calculated based the blended of rates and the customer count at yearend. The annual variable CAM revenue is calculated based on blended rates and the total annual kWh and kW. This adjustment accounts for timing between the actual billing and the methodology within the CAM.

NTRZ distribution revenue adjustments (VECC #2.3 a-g) reflect the 2018 financial transactions and the removal of the financial transactions related to a prior period. It is appropriate to include the revenue adjustments because the results reflect the 2018 actual revenue levels.

- 2.4 MRZ LRAM 2018 accrual is the accrual of the 2018 LRAM revenue. It is appropriate to include the 2018 LRAM accrual because the results reflect the 2018 actual revenue levels.
- 2.5 The response to Staff IR# 12(b) and VECC clarifying IR# 2.2 for NTRZ incorporates the transformer allowance correction found in Staff IR# 13(a).

MRZ is providing the following updated table reflecting the customer count correction found in VECC IR# 2(a):

2019 Cost Allocation billing determinants - MRZ updated for VECC Clarifying Question #2.5						
	Residential	GS<50	GS>50	Street Light	USL	Total
kWh	50,684,558	24,374,249	113,618,428	519,881	395,009	189,592,125
kW			282,755	1,411		284,166
# of customers/connections	6,453	771	108	1,492	11	8,835
# devices				1,846		
2017 approved rates						
	Residential	GS<50	GS>50	Street Light	USL	
Fixed	23.20	22.62	63.93	3.87	10.46	
Variable	0.01070	0.01670	3.25810	8.93200	0.01120	
2018 approved rates						
	Residential	GS<50	GS>50	Street Light	USL	
Fixed	26.99	22.79	64.41	3.90	10.54	
Variable	0.0054	0.0168	3.2825	8.9990	0.0113	
Blended Rates						
	Residential	GS<50	GS>50	Street Light	USL	
Fixed	25.73	22.73	64.25	3.89	10.51	
Variable	0.0072	0.0168	3.2744	8.9767	0.0113	
Reconciliation						
	Residential	GS<50	GS>50	Street Light	USL	Total
Fixed revenue	1,992,170	210,329	83,268	86,171	1,388	2,373,326
Variable revenue	363,239	408,675	925,844	12,662	4,450	1,714,871
Transformer ownership			(116,073)			(116,073)
Additional charges	115,428	(26,833)	103,081	(16,880)	19	174,815
	2,470,837	592,171	996,120	81,954	5,857	4,146,939
Additional charges						
	Residential	GS<50	GS>50	Street Light	USL	Total
Customer count and volume timing	20,331	2,559	1,262	1,198	19	25,368
LRAM accrual 2018	95,097	(29,392)	101,820	(18,078)	0	149,446
Total	115,428	(26,833)	103,081	(16,880)	19	174,815

3.0 Reference: Staff 9 a)

Questions:

- 3.1 Do poles >35 feet cost more to purchase and install than poles \leq 35 feet?
 - 3.1.1 If so, what is the difference in the cost of a typical installed pole in each size category as used in the NTRZ and MRZ rate zones?
- 3.2 Does conductor >750 V cost more to purchase and install per km than conductor < 750 V?
 - 3.2.1 If so, what is the difference in the cost per km of a typical conductor in each size category as used in the NTRZ and MRZ rate zones?
- 3.3 What is the basis for the breakout of the MRZ assets in accounts 1840 and 1845 as between primary and secondary?

Response:

- 3.1 The following table provides the estimated installed cost per pole by rate zone:

Height	Estimated Installed Cost per Pole	
	NRZ	MRZ
30	\$1,850	\$1,665
35	\$1,950	\$1,765
40	\$2,250	\$2,065
45	\$2,450	\$2,265
50	\$2,550	\$2,365
55	\$2,750	\$2,565
60	\$3,400	\$3,215
65	\$3,850	\$3,665
70	\$5,300	\$5,115

3.2 The following table provides the cost per km of a typical conductor in each size category by rate zone:

Voltage	# of Phases	Size	Estimated Cost per km	
			NRZ	MRZ
Primary	1	#2 AWG	\$13.14	\$10.35
Primary	1	1/0 AWG	\$13.54	\$10.75
Primary	1	3/0 AWG	\$14.09	\$11.30
Primary	1	4/0 AWG	\$15.07	\$12.28
Primary	1	336 kcmil	\$15.44	\$12.65
Primary	1	556 kcmil	\$16.69	\$13.90
Primary	3	#2 AWG	\$22.57	\$17.61
Primary	3	1/0 AWG	\$24.52	\$19.56
Primary	3	3/0 AWG	\$26.17	\$21.21
Primary	3	4/0 AWG	\$29.11	\$24.15
Primary	3	336 kcmil	\$30.22	\$25.26
Primary	3	556 kcmil	\$33.97	\$29.01
Secondary	1	#2 AWG	\$16.74	\$13.95
Secondary	1	1/0 AWG	\$18.65	\$15.86
Secondary	1	3/0 AWG	\$21.94	\$19.15
Secondary	1	4/0 AWG	\$24.48	\$21.69

3.3 In reviewing the information for this question, NT Power has determined the account balances for MRZ were incorrect. Similar to NTRZ rate zone, MRZ does not own secondary level distribution assets in accounts 1840 and 1845. Underground conduits and conductors on the secondary level are considered to be 1855 - Services. However, in the previously submitted MRZ Cost Allocation model, the account balances in accounts 1840 and 1845 contained balances associated with 1855 – Services.

MRZ is confirming an updated cost allocation model (NTPowerMRZ_ClarifyingIR_SUB_CA_20200221) is attached reflecting the following corrections:

- CA Sheet I.3 cell D142 updated from \$868,788 to \$312,764 (APH 1840).
- CA Sheet I.3 cell D143 updated from \$915,839 to \$329,702 (APH 1845).
- CA Sheet I.3 cell D145 updated from \$353,420 to \$1,495,582 (APH 1855).
- CA Sheet I.4 cell D48 updated from 36% to 100% (1840 - Primary).
- CA Sheet I.4 cell D49 updated from 64% to 0% (1840 - Secondary).

- CA Sheet I.4 cell D52 updated from 36% to 100% (1845 - Primary).
- CA Sheet I.4 cell D53 updated from 64% to 0% (1845 - Secondary).

4.0 Reference: VECC 3 d)

Questions:

- 4.1 It is noted that for NTRZ the 2018 Collection costs (\$651,496) are higher than the 2018 Billing costs (\$514,849). However, in the case of MRZ the Collection costs are substantially less than the Billing costs as is generally the case with other utilities making 2020 COS applications. Please explain why the Collection costs in NTRZ are so high (relative to the Billing costs).

Response:

- 4.1 NTRZ currently outsources billing to a 3rd party vendor. NTRZ's Customer Service department provides collections for the Newmarket-Tay rate zone. This cost structure is reflected within the Billing and Collection general ledger accounts.

5.0 Reference: VECC 3 b), c) & g)

Questions:

- 5.1 The charges set out in VECC 3 c), Appendix B (page 2) make it clear that GS<50 customers are responsible for the costs of connection assets. However, it is not evident from the chart on page 2 that GS<50 customers are responsible for the cost of any secondary distribution assets required to serve them. Please clarify where this requirement is stated in Appendix B.
- 5.2 VECC 3 c), Appendix B (page 2) indicates that in the case of Residential Subdivision Agreement there is no utility allowance for connection assets and the customer/developer pays the full cost. In such circumstances does the customer/developer also pay the full cost of the secondary distribution assets?
- 5.2.1 If yes, does the Residential secondary customer base in Tab I6.2 reflect this fact?
- 5.2.2 If not, and the secondary assets are paid for by NT, why is the services weighting factor of 1 applied to the full Residential secondary base customer count?
- 5.3 VECC 3 g) explains that, for NTRZ, there are GS<50 customers in commercial malls that are supplied by Line Transformers owned by the mall owner and not NT which explains why the GS<50 customer base counts and 4 NCP values for Line Transformer are less than those for Primary. Does the same explanation apply to Residential customers in condominiums and serve to explain why, for NTRZ, the Residential customer base counts and 4 NCP values for Line Transformer and Secondary are less than those for Primary?
- 5.3.1 If not, what is the reason for the differences in the customer counts and 4NCP values?

Response:

- 5.1 As indicated on the chart on page 2 of Appendix B, the ownership demarcation points for GS<50 customers are as follows:
- Overhead Service: top of the Consumer's mast
 - Underground Service: secondary bushing of the padmount transformer

The GS<50 customer is responsible for the costs of any secondary distribution assets owned by them, i.e. the service conduit and conductor downstream from the secondary bushing of the padmount transformer.

5.2

5.2.1 Similar to 5.1, the customer is responsible for the costs of connection assets owned by them. The customer/developer does not pay the full cost of the secondary distribution assets for Residential Subdivision Agreements.

5.2.2 NTRZ followed the methodology outlined in the Cost Allocation model instructions for Worksheet I5.2 Weighting Factors. The following table provides the supporting documentation for the weighting factors for Service Account 1855:

	Residential	GS <50	GENERAL SERVICE 50 TO 4,999 KW	Street Light	SENTINEL LIGHTING	UNMETERED SCATTERED LOAD
Typical Cost for Overhead, Single Phase Service	\$1,500	\$1,700	N/A ⁽¹⁾	N/A ⁽¹⁾	N/A ⁽¹⁾	N/A ⁽¹⁾
Typical Cost for Overhead, Three Phase Service	\$3,500	\$3,900	N/A ⁽¹⁾	N/A ⁽¹⁾	N/A ⁽¹⁾	N/A ⁽¹⁾
Typical Cost for Underground, Single Phase Service	\$2,500	\$2,800	N/A ⁽¹⁾	N/A ⁽¹⁾	N/A ⁽¹⁾	N/A ⁽¹⁾
Typical Cost for Underground, Three Phase Service	\$6,500	\$7,300	N/A ⁽¹⁾	N/A ⁽¹⁾	N/A ⁽¹⁾	N/A ⁽¹⁾
Total Number of Customers	32,622	3,186	N/A ⁽¹⁾	N/A ⁽¹⁾	N/A ⁽¹⁾	N/A ⁽¹⁾
Secondary Customer Base	31,146	242	N/A ⁽¹⁾	N/A ⁽¹⁾	N/A ⁽¹⁾	N/A ⁽¹⁾
Secondary Customer Base (Overhead, Single Phase)	6,246	133	N/A ⁽¹⁾	N/A ⁽¹⁾	N/A ⁽¹⁾	N/A ⁽¹⁾
Secondary Customer Base (Overhead, Three Phase) ⁽²⁾	0	0	N/A ⁽¹⁾	N/A ⁽¹⁾	N/A ⁽¹⁾	N/A ⁽¹⁾
Secondary Customer Base (Underground, Single Phase)	24,900	109	N/A ⁽¹⁾	N/A ⁽¹⁾	N/A ⁽¹⁾	N/A ⁽¹⁾
Secondary Customer Base (Underground, Three Phase) ⁽²⁾	0	0	N/A ⁽¹⁾	N/A ⁽¹⁾	N/A ⁽¹⁾	N/A ⁽¹⁾
Average Cost per Secondary Customer	\$2,195.42	\$166.76	N/A ⁽¹⁾	N/A ⁽¹⁾	N/A ⁽¹⁾	N/A ⁽¹⁾
Weighting Factor Relative to Residential Customer	1	0.07596	0	0	0	0
Notes						
(1) NT Power does not own 1855 services in applicable rate class.						
(2) NT Power does not own three phase services recorded in 1855.						

5.3 Yes, the same explanation applies to Residential customers in condominiums.

5.3.1 Not applicable.

6.0 Reference: Staff 12 c)

Questions:

- 6.1 Please provide an updated response to Staff 12 c) (including the full excel Cost Allocation Model) that incorporates the corrections arising due to the interrogatory responses.

Response:

- 6.1 The response to Staff IR# 12 (c) for NTRZ incorporates corrections arising due to the interrogatory responses.

MRZ is providing an updated cost allocation model (Appendix H Clarifying IRs updated MRZ_SUB_CA_20200221) reflecting the following corrections to:

- CA Sheet I.3 cell D142 updated from \$868,788 to \$312,764
- CA Sheet I.3 cell D143 updated from \$915,839 to \$329,702
- CA Sheet I.3 cell D145 updated from \$353,420 to \$1,495,582

- CA Sheet I.4 cell D48 updated from 36% to 100%
- CA Sheet I.4 cell D49 updated from 64% to 0%
- CA Sheet I.4 cell D52 updated from 36% to 100%
- CA Sheet I.4 cell D53 updated from 64% to 0%

Appendix B – Pre-Settlement Clarification Questions at Settlement Conference

Question 1

Reference: VECC-1

Question: Please reconcile the difference in the Finance, Income and Expense.

Response:

For the Newmarket-Tay Rate Zone Cost Allocation Model:

\$1.3 million dollars is the number from the audited financial statements, which is the net finance income of \$566,837 and finance expense of \$1,832,652. The number in the Cost Allocation Model is \$1.8 million.

For the Midland Rate Zone Cost Allocation Model:

\$303,000 is the number from the audited financial statements, which is the net finance income of \$33,247 and finance expense of \$336,289. The number in the Cost Allocation Model is \$336,000.

Question 2

Reference: Staff-12, VECC Pre-Settlement Follow-Up 2.2

Question: Why did Newmarket-Tay Power Distribution Ltd. (“NT Power”) not do a reversal for 2012-2017 tax savings?

Response: NT Power has reserved out 2012-2017 tax savings and do not consider there to be an impact on the Cost Allocation Model because it simply changes the calculation of the final, balancing line – “Customer Count and Volume Timing”.

Question 3

Reference: VECC Pre-Settlement Follow-Up 5

Question: Is the number “242” the correct number of secondary customers for GS<50 customer class? Is the number “31,146” the correct number of secondary customers for Residential customer class?

Response:

The number 242 is correct for secondary customers for GS<50 customer class because 242 represents only the “legacy customers” where they have secondary service that is owned by

NT Power. With regards to secondary allocation for new GS<50 customers, NT Power has considered both overhead and underground connections. For overhead connections, NT Power confirms that no new GS<50 customers have been connected via overhead. For underground connections, new GS<50 customers are not being allocated any secondary costs because those customers own and pay for all the secondary assets downstream of their demarcation point (the pad mount transformer).

The number 31,146 is correct for secondary customers. The Distribution System Code (“DSC”) draws a distinction between expansions and enhancements. Consistent with the beneficiary pays principle, under the DSC, the developer pays for new expansions and through the contestability procedure, installs the new expansions. Upon commissioning, ownership of those assets are transferred to NT Power. NT Power is responsible for the costs and responsibility related to ongoing operations and maintenance of the secondary system and not the developer.

Question 4

Reference: Staff-8

Question: Explain why there is a change in GS>50 demand from 740,036 kW in 2017 to 621,805 kW in 2018.

Response: NT Power has identified an error in the GS>50 demand reported in Staff-8. The 740,036 kW reported included a double count of the retailer demand of 109,844 and a single MP of 9,614. The removal of the double count results in a GS>50 demand of 620,577 kW, which is close to the 2018 demand of 621,805 kW.

Question 5

Reference: Staff-18

Question: Which of the adjustments listed in Staff-18 drive reductions in Street Lighting?

Response: The reductions in Street Lighting were driven by adjustments in: ii, iii, iv, v, and vii in Staff-18. NT Power identified an error in MRZ model Sheet I6.2 - Customer Data. Cells D21 and E21 were corrected to reflect the correct number of residential customers in Staff-18. The number of residential customers should have also been corrected in cells D22, D23, D24, and D25. These numbers have been corrected and it is reflected in the updated Appendix H filed with the Settlement Proposal.