Ontario Energy Board | Commission de l'énergie de l'Ontario

BY EMAIL

March 19, 2020

Christine E. Long
Registrar and Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4

Dear Ms. Long:

Re: Newmarket-Tay Power Distribution Ltd. (Newmarket-Tay Power)
Updated Cost Allocation and Application for 2020 Rates
Ontario Energy Board (OEB) Staff Submission
OEB File Number: EB-2019-0055

Please find attached OEB staff's submission in the above-referenced proceeding, which is set out in two main parts. The first part is in regards to staff's views on the partial settlement proposal filed by the applicant on March 12, 2020, which addresses the cost allocation issue. The second part of the submission deals with the remaining issues raised in the application. These issues, which have historically been recognized as being mechanistic in nature in incentive rate-setting mechanism (IRM) proceedings, are not addressed by the partial settlement proposal.

OEB staff takes no issue with Newmarket-Tay Power's proposal to file a reply submission, by March 27, 2020. Newmarket-Tay Power and all intervenors have been copied on this filing.

Yours truly,

Original Signed By

Andrew Frank
Advisor, Electricity Distribution: Major Rate Applications & Consolidations
Encl.

ONTARIO ENERGY BOARD

OEB STAFF SUBMISSION

2020 ELECTRICITY DISTRIBUTION RATES

Newmarket-Tay Power Distribution Ltd.

EB-2019-0055

March 19, 2020

Introduction

Newmarket-Tay Power Distribution Ltd. (Newmarket-Tay Power) filed an incentive rate-setting mechanism (IRM) application with the Ontario Energy Board (OEB) on November 11, 2019 under section 78 of the *Ontario Energy Board Act*, *1998*, S.O. 1998, c. 15, (Schedule B) seeking approval for changes to its electricity distribution rates to be effective May 1, 2020.

In the OEB's decision (the MAADs decision) on August 23, 2018,[1] 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 ten year deferral period. During that period, it will maintain two separate rate zones: the Newmarket-Tay Power Rate Zone (NTRZ) and the Midland Rate Zone (MRZ).[2] Newmarket-Tay Power was also directed to update its cost allocation models no later than 12 months following its acquisition of all shares of Midland Power, and to include a proposal for rates to be adjusted. In this proceeding, Newmarket-Tay Power filed cost allocation models, proposals for rate adjustments, as well as applications and IRM models for each of NTRZ and MRZ.

In Procedural Order (PO) No.2, the OEB ordered that a settlement conference be convened, and that OEB staff file a submission on any settlement proposal. A settlement conference was held on February 26, 2020. The parties to the partial settlement proposal are Newmarket-Tay Power, School Energy Coalition (SEC) and Vulnerable Energy Consumers Coalition (VECC), collectively called the Parties. Newmarket-Tay Power filed a partial settlement proposal on behalf of the Parties on March 12, 2020. The settlement proposal represents a partial settlement which addresses the cost allocation studies and proposals for rate adjustments. The partial settlement proposal does not discuss any of the other (i.e. mechanistic) aspects of the IRM application (the unsettled issues).

The purpose of this document is to provide OEB staff's submission on the partial settlement proposal and the unsettled issues.

(I) Partial Settlement Proposal

In the MAADs proceeding:

> SEC submitted that given the applicants' proposed ten year deferred rebasing period, the cost allocation and rate design would remain out of date for a total of

[1] EB-2017-0269.
[2] ED-2007-0264.

> twenty years and by that time, the load shapes would be twenty-five years old. SEC argued that this results in the GS>50 class overpaying for incorrectly allocated costs and transmission charges and that the GS>50 class will continue to do so until the allocation is addressed.[3]

In consideration of SEC's submission, the OEB ordered that:

> Newmarket-Tay Power Distribution Ltd. shall update their cost allocation models and file these models with the OEB no later than twelve months following Newmarket-Tay Power Distribution Ltd.'s acquisition of all shares of Midland Power Utility Corporation. This filing shall also include a proposal that demonstrates how rates that are too high or too low relative to the OEB's cost allocation policies will be adjusted over time.[4]

OEB staff has reviewed the partial settlement proposal in the context of the MAADs decision and applicable OEB policies. OEB staff submits that the partial settlement proposal reflects a reasonable implementation of the MAADs decision in the context of the OEB's policies.

OEB staff makes detailed submissions on the following:

- The unique circumstances of the proposed partial settlement
- The class revenue calculation
- The appropriate meter reading weighting factor for the General Service > 50 kW rate class in NTRZ
- The revenue-to-cost ratio adjustments
- Rate design

The Unique Circumstances of the Proposed Partial Settlement

In the MAADs decision, as noted above, Newmarket-Tay Power was directed to update its cost allocation models no later than 12 months following Newmarket-Tay Power's acquisition of all shares of Midland Power.

The partial settlement proposal identifies four ways in which this proposed cost allocation update is different from a typical cost allocation study.[5] Most of the differences center on the use of 2018 historic actual data, rather than 2020 prospective information. This includes the volume forecasts, the customer / connection forecast, and all components of the revenue requirement, including fixed assets and operating,

[3] EB-2017-0269, Decision and Order, August 23, 2018, page 16.
[4] Ibid, page 24.
[5] Partial Settlement Proposal, March 12, 2020, pages 9-10.

maintenance and administration (OM&A) expenses. The point of similarity is the use of 2019 current approved rates as the starting point for calculating revenue. The revenue calculation still reflects a difference from a typical cost of service application cost allocation in that the billing quantities used are 2018 actual rather than 2020 forecast.

OEB staff agrees with the Parties that this proposed cost allocation update is unique and different from the situation addressed by *Chapter 2 of the Filing Requirements for Electricity Distribution Rate Applications* which addresses cost of service applications, and includes the requirements for cost allocation.[6] OEB staff notes that, under the circumstances, Newmarket-Tay Power was not required to produce weather normalized forecasts of volumes, customers, or connections, nor was it required to prepare a prospective 2020 revenue requirement including forecasts of OM&A and capital expenditures. In a typical cost of service application, all of this information would be provided, and subject to review. Instead, it relied on the available 2018 historic actual information.

In the context of Newmarket-Tay Power's unique circumstances, OEB staff supports the proposed cost allocation methodology. OEB staff has not considered all options that might exist more broadly in the context of a cost allocation update absent a rebasing application. As such, while OEB staff supports the methodology as used in Newmarket-Tay Power's unique situation, OEB staff is unable to assess the suitability of this methodology more generally or in other situations. OEB staff therefore views its support for the proposed methodology as being specific to this proceeding.

The Class Revenue Calculation

As noted above, in arriving at revenue-to-cost ratios, a typical cost allocation study calculates class revenues using current approved rates, multiplied by test year forecast volumes assuming normal weather, and customer or connection counts as applicable. All class rate revenues are then scaled by a percentage to simulate an across-the-board rate adjustment such that the test year forecast revenue requirement is exactly recovered.

Newmarket-Tay Power initially proposed to use calendar 2018 actual class revenue consisting of a weighted average of the 2017 and 2018 rates in effect through calendar 2018, followed by certain adjustments to arrive at 2018 actual recorded revenue.[7] The Parties agreed that revenue would be calculated using 2019 approved rates without any adjustments multiplied by 2018 actual billing determinants. The Parties referred to this as the "Appendix H approach" since this was filed as Appendix H to the interrogatory

[6] OEB Chapter 2 Filing Requirements for Cost of Service, July 12, 2018, page 44.
[7] Response to Interrogatories, CA-Staff-12, February 7, 2020.

responses.[8] The Parties noted that “This represents one step closer to a ‘normal’ cost allocation, as it deals only with base rates, and uses the most recent rates.”[9]

In the context of this unique partial settlement proposal, OEB staff submits that the class revenue calculation is appropriate.

The Appropriate Meter Reading Weighting Factor for the General Service > 50 kW Rate Class in NTRZ

In the application as originally filed, Newmarket-Tay Power proposed a weighting factor of 1.25 for smart meters with demand in MRZ, and 10.0 for the same type of meters in NTRZ. These factors are relative to a baseline weight of 1.0 for residential. This indicates that reading a smart meter with demand costs 1.25 times as much as a residential meter in MRZ, and 10.0 times as much in NTRZ.

In response to interrogatories, Newmarket-Tay Power explained that smart meters with demand are read electronically in MRZ, however “Smart meters with demand are read manually in NTRZ due to metering and system restrictions.”[10] It went on to explain that:

> NT Power is in the process of upgrading approximately 300 GS (>50 and <200) meters to smart meters with interval capability. These meters will be able to leverage cellular communication infrastructure to read the meters remotely in 2020.[11]

The Parties agreed to reduce the meter reading weighting factor for a smart meter with demand to 1.25 in the NTRZ. This brings the weighting factor to the same level as MRZ. The Parties also agreed to reduce the meter reading costs in NTRZ by $28,000 to reflect the estimated cost savings.

[8] Response to Interrogatories, Appendix H, February 7, 2020.
[9] Partial Settlement Proposal, March 12, 2020, page 14.
[10] Response to Interrogatories, CA-Staff-17, February 7, 2020.
[11] Response to Interrogatories, CA-Staff-17, February 7, 2020.

The proposed meter reading weighting factors are shown in the table below:

Table 1
Meter Reading Weighting Factors
(Costs Relative to Residential Smart Meters)

	NTRZ As Filed[12]	NTRZ Proposed Partial Settlement[13]	MRZ As Filed and Proposed Partial Settlement[14]
Smart Meter	1.0	1.0	1.0
Smart Meter with Demand	10.0	1.25	1.25
Interval	4.0	4.0	4.0

OEB staff notes that it is unusual to update one piece of information relative to the vintage of all other information in a cost allocation exercise without updating all related information.[15] However, the change in cost of reading smart meters with demand is known to be taking place in 2020, the first rate year for which this cost allocation study is to be applied. This cost allocation study is then expected to underpin rates for a total of eight years until Newmarket-Tay Power's next cost of service application, which is anticipated for 2028.[16] In light of the change to meter reading costs expected, and the eight year time horizon that this cost allocation is expected to underpin rates, OEB staff submits that this approach is reasonable.

The Revenue-to-cost Ratio Adjustments

OEB staff notes that the proposed revenue-to-cost ratios for all rate classes are within the OEB's guideline ranges as shown in the tables below. The tables show the updated ratios resulting from the proposed cost allocation models, as well as the proposed ratios after rate design.

[12] NTRZ Cost Allocation Model, Tab I7.2 Meter Reading, November 11, 2019.
[13] NTRZ Partial Settlement Proposal Cost Allocation Model, tab I7.2 Meter Reading, March 12, 2020.
[14] MRZ Partial Settlement Proposal Cost Allocation Model, tab I7.2 Meter Reading, March 12, 2020.
[15] EB-2014-0002, Decision and Order, December 11, 2014, page 6.
[16] Response to Interrogatories, 1.0-SEC-6, February 7, 2020.

Table 2
Proposed Revenue to Cost Ratios in NTRZ[17]

Rate Class	Model Result (%)	Proposed Adjusted (%)	OEB Target Range (%)
Residential	92.88	94.98	85 – 115
General Service less than 50 kW	116.30	116.30	80 – 120
General Service 50 to 4,999 kW	105.07	105.07	80 – 120
Sentinel Lighting	115.78	115.78	80 – 120
Street Lighting	261.74	120.00	80 – 120
Unmetered Scattered Load	204.73	120.00	80 – 120

Table 3
Proposed Revenue to Cost Ratios in MRZ[18]

Rate Class	Model Result (%)	Proposed Adjusted (%)	OEB Target Range (%)
Residential	100.25	100.25	85 – 115
General Service less than 50 kW	117.34	117.34	80 – 120
General Service 50 to 4,999 kW	85.40	90.08	80 – 120
Street Lighting	250.33	120.00	80 – 120
Unmetered Scattered Load	120.07	120.07	80 – 120

OEB staff submits that the proposed revenue to cost adjustments are appropriate.

Rate Design

The partial settlement proposal includes adjustments to 2019 approved rates.[19] These adjustments are calculated by maintaining the existing fixed-variable proportions from the 2019 approved rates, with the exception of the General Service 50 to 4,999 kW rate class in MRZ, where the entire increase due to cost allocation is applied to the variable charge.[20] The current fixed charge of $65.09 is already above the minimum system with peak load carrying capability adjustment of $51.48.[21] The Residential rate classes in both rate zones completed their transitions to fully fixed rates in 2019, therefore the increase in Residential fixed charge in NTRZ does not represent a change to the existing fixed-variable proportion.

[17] Partial Settlement Proposal, March 12, 2020, page 12.
[18] Ibid.
[19] Cost Allocation Application Filing, November 11, 2019, page 19.
[20] Partial Settlement Proposal, March 12, 2020, page 13.
[21] MRZ Cost Allocation Model, Tab O2 Fixed Charge | Floor | Ceiling, February 7, 2020.

OEB staff submits that proposed adjustments to 2019 base rates as identified in the partial settlement proposal[22] and below are appropriate.

Table 4
Proposed Rate Adjustments in NTRZ

Rate Class	Fixed Charge Existing Charge ($)	Fixed Charge Adjustment ($)	Fixed Charge Adjusted Charge ($)	Variable Charge Existing Charge ($)	Variable Charge Adjustment ($)	Variable Charge Adjusted Charge ($)
Residential	27.61	0.74	28.35	-	-	-
Street Lighting	3.24	(1.95)	1.29	16.1088	(9.6785)	6.4303
Unmetered Scattered Load	17.91	(7.92)	9.99	0.0206	(0.0091)	0.0115

Table 5
Proposed Rate Adjustments in MRZ

Rate Class	Fixed Rate Existing Charge ($)	Fixed Rate Adjustment ($)	Fixed Rate Adjusted Charge ($)	Variable Rate Existing Charge ($)	Variable Rate Adjustment ($)	Variable Rate Adjusted Charge ($)
General Service 50 to 4,999 kW	65.09	-	65.09	3.3170	0.2073	3.5243
Street Lighting	3.94	(2.31)	1.63	9.0935	(5.3204)	3.7731

Conclusion

Newmarket-Tay Power was required to update its cost allocation models and adjust rates accordingly during a deferred rebasing period. This necessitated the unique circumstance of a cost allocation update in the absence of a cost of service. Newmarket-Tay Power proposed to use a 2018 historic actual year as the basis for the study. The Parties proposed to use 2019 rates to calculate the nominal revenue to be used in the models and to make no further adjustments. In addition, they have agreed to refine the Meter Reading Weighting Factor for the General Service > 50 kW rate class to better reflect known changes in costs starting in 2020. OEB staff submits that in the context of Newmarket-Tay Power's unique circumstances, the proposed cost allocation models and rate updates are appropriate.

[22] Partial Settlement Proposal, March 12, 2020, page 14.

(II) Unsettled Issues

OEB staff notes that Procedural Order No.2 does not include a provision for Newmarket-Tay Power to file a reply submission. In a letter dated March 12, 2020, Newmarket-Tay Power has proposed that OEB staff files this submission, and requested the opportunity to file a reply submission on March 27, 2020. OEB staff supports Newmarket-Tay Power's proposal to file a reply submission, should it wish to.

Consistent with the Chapter 3 Filing Requirements, Newmarket-Tay Power has applied the Annual IR Index factor (to NTRZ) and the Price Cap IR factor (to MRZ) to adjust the monthly service charges and volumetric distribution rates[23] 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 the IESO, and by its host distributor, Hydro One. The RTSRs were updated through the interrogatory process to reflect updates to the 2020 Uniform Transmission Rates[24] and to Hydro One's Sub-Transmission Host-RTSRs[25] following the filing of the application.

Newmarket-Tay Power has demonstrated that no rate mitigation is required for either rate zone.

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

OEB staff makes detailed submissions on the following:

- Proposal for Account 1576
- Lost Revenue Adjustment Mechanism Variance Account (LRAMVA)
- Group 1 Deferral and Variance Accounts

Proposal for Account 1576

In its decision and order on Newmarket-Tay Power's 2019 Annual IR application, the OEB approved a disposition of Account 1576 totalling a credit of $1,603,325 as of

[23] Volumetric distribution rates do not apply to the residential rate class.
[24] EB-2019-0296, Decision and Interim Rate Order, December 19, 2019.
[25] EB-2019-0043, Decision and Order, December 17, 2019.

December 31, 2017 for NTRZ. The disposition was approved over one year with a rate rider effective until April 30, 2020. In that proceeding, OEB staff suggested:

> …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.[26]

The OEB concluded that Newmarket-Tay Power "should consider its rate making alternatives to avoid annual dispositions of Account 1576, as suggested by OEB staff."[27]

In this proceeding, Newmarket-Tay Power is proposing "to request final disposition of Account 1576 following the 2019 fiscal audit for the 2021 IRM application."

OEB staff submits that Newmarket-Tay Power could have requested interim disposition of the 2018 and forecasted 2019 balances, but did not do so. OEB staff submits that when requesting disposition of Account 1576 in 2021 on a final basis, Newmarket-Tay Power should include the 1576 balance for year 2020 on a forecast basis, and propose a change to base rates as per the OEB Decision and Order. This will ensure that all 1576 differences are disposed up to the point where base rates change to reflect the updated accounting policies.

Lost Revenue Adjustment Mechanism Variance Account

Newmarket-Tay Power applied to recover a debit LRAMVA balance for its NTRZ of $446,588. This amount is for lost revenues in 2018 from conservation and demand management (CDM) programs delivered in 2018, as well as lost revenues from persisting CDM program savings from programs delivered between 2011 and 2017, and projected carrying charges as of April 30, 2020. Actual savings comprise the total LRAMVA amount as the NTRZ did not have an approved LRAMVA threshold.

Newmarket-Tay Power also applied to recover a debit LRAMVA balance for its MRZ of $92,978. This amount is for lost revenues in 2018 from CDM programs delivered in 2018, as well as lost revenues from persisting savings from programs delivered between 2011 and 2017, and projected carrying charges as of April 30, 2020. Actual savings were compared to a LRAMVA threshold of 3,299,236 kWh consistent with the amount approved in its 2013 COS decision.[28]

The disposition of the LRAMVA balances is requested over a 12-month period.

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[26] EB-2018-0055, Decision and Order, April 18, 2019, page 19.
[27] Ibid, page 20.
[28] EB-2012-0147, Decision and Order, January 17, 2013.

In response to OEB staff interrogatories, Newmarket-Tay Power updated its LRAMVA balance for its NTRZ to correct small savings discrepancies. This change resulted in an increase of $1,424 and updated NTRZ LRAMVA amount of $448,012. Additionally, Newmarket-Tay Power made several revisions to its MRZ LRAMVA, including excluding persisting savings from 2011 to 2013 that were incorporated in its CDM threshold approved in its 2013 COS decision and correcting small savings discrepancies. These changes resulted in a decrease of $26,440 and an updated MRZ LRAMVA amount of $66,538.

OEB staff supports the updated LRAMVA balances requested for disposition. OEB staff submits that the balances are calculated in accordance with the OEB's CDM Guidelines and LRAMVA policy, and supports the balances noted in Table 6 and Table 7 below:

Table 6 NTRZ - LRAMVA Balances for Disposition

Account Name	Account Number	Actual CDM Savings ($) A	Forecasted CDM Savings ($) B	Carrying Charges ($) C	Total Claim ($) D=(A-B)+C
LRAMVA	1568	434,272	n/a	13,740	448,012

Table 7 MRZ - LRAMVA Balances for Disposition

Account Name	Account Number	Actual CDM Savings ($) A	Forecasted CDM Savings ($) B	Carrying Charges ($) C	Total Claim ($) D=(A-B)+C
LRAMVA	1568	113,180	48,682	2,040	66,538

OEB staff notes that the transactions recorded in the deferral and variance account (DVA) continuity schedules for LRAMVA reflect additional transactions beyond those from LRAMVA models. In response to interrogatories requesting an explanation of what these transactions relate to, Newmarket-Tay Power explained that it "revised the entries for Account 1568 in the Generator Model on Tab 3. Continuity Schedule in cell address Z43-BL43 to reflect the disposition balances."[29] Newmarket-Tay Power responded similarly with respect to continuity in MRZ.[30] In OEB staff's view, neither response clarified what these additional transactions relate to. In response to the question regarding the NTRZ, Newmarket-Tay Power also stated that "The variance between the

[29] Interrogatory Response, NTRZ-Staff-24, February 7, 2020.
[30] Interrogatory Response, MRZ-Staff-29, February 7, 2020.

1568 account balance Generator Model and the approved disposition will be adjusted within the 2020 financial records."[31]

OEB staff notes that the revised continuity schedules filed in response to OEB staff interrogatories, as summarized in the table below, still contain transactions beyond those in the LRAMVA model:

Table 8
LRAMVA Continuity per Rate Generator Models

	NTRZ ($)[32]	MRZ ($)[33]
2017 Principal Adjustments		130,426
2017 Interest Adjustments		2,570
2018 Transactions	2,129,761	149,446
2018 Interest		6,919
Less: 2018 Principal Disposition	1,197,288	
Less: 2019 Principal Disposition	452,235	201,275
Less: 2019 Interest Disposition	14,773	7,652
Projected Interest to December 31, 2019	10,469	1,713
Projected Interest to April 30, 2020	3,490	571
Total Claim	**479,424**	**82,718**

OEB staff submits that the only transactions that should be recorded in the continuity schedules, for the purpose of calculating an amount to be disposed, are the principal and carrying charges amounts as calculated in the LRAMVA models for 2018 and presented in Tables 1 and 2 above. Those amounts are $434,272 principal and $13,740 carrying charges for NTRZ and $64,497 principal and $2,041 interest for MRZ. This reflects a total claim of $448,012 for NTRZ and $66,538 for MRZ.

However, OEB staff notes that the allocation of the claim to rate classes, which is used to calculate the rate riders, is based on correct amounts. As a result, OEB staff submits that the calculated rate riders are appropriate.

[31] Interrogatory Response, NTRZ-Staff-24 b), February 7, 2020.
[32] NTRZ Rate Generator Model, February 7, 2020.
[33] MRZ Rate Generator Model, February 7, 2020.

Disposition of Deferral and Variance Accounts – Group 1

Newmarket-Tay 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. For NTRZ, Newmarket-Tay Power does not meet the threshold and Newmarket-Tay Power is not requesting disposition.

With the exception of Account 1595, NTRZ last disposed of its Group 1 account balances up until December 31, 2017 in its 2019 rate application. Therefore, the current application reflects principal transactions in 2018 only for Group 1 accounts other than Account 1595. OEB staff has no concerns with not disposing of the Group 1 accounts at this time for NTRZ.

However, OEB staff submits that Newmarket-Tay Power does not appear to be properly accounting for Account 1595 for NTRZ as it has balances in Account 1595 sub-accounts dating back to 2008[34] (as per its 2018 2.1.7 RRR reporting) and showed residual amounts in sub-accounts for 2015 and 2016, which had already been disposed in 2019.[35]

In its 2019 Decision and Rate Order, the OEB required the utility to file the results of its 2018 year-end audit and provide a detailed breakdown of the balance of Account 1595 for disposition in its 2020 IRM proceeding. OEB staff submits that Newmarket-Tay Power did not fulfill this requirement in this proceeding. Newmarket-Tay Power has indicated it is currently working with the external auditors to reconstruct NTRZ DVA Account 1595.

Newmarket-Tay Power did not file an Account 1595 Workform for any of the sub-accounts with balances in this application. It states that "NTRZ intends on meeting the requirements for disposition in the 2021 IRM application". When the Account 1595 Workforms were requested in interrogatories, Newmarket-Tay Power responded that it "has experienced staff turnover and is currently working with the external auditors to reconstruct NTRZ DVA account 1595 to ensure compliance for the December 31, 2019 financial records."[36]

[34] Interrogatory Response, G-Staff-2 f) – Table, February 7, 2020.
[35] Interrogatory Response, G-Staff-2 b), February 7, 2020.
[36] Interrogatory Response, G-Staff-2 a), February 7, 2020.

OEB staff agrees with Newmarket-Tay Power's proposal to not dispose of the balance in account 1595.

Commodity Accounts 1588 and 1589 - NTRZ

As of December 31, 2018, NTRZ had a high debit balance of $4,378,300,[37] in Account 1588 net of interim disposition in the 2019 proceeding (i.e. the balances reflect accumulation of transactions for 2018 only). OEB staff submits that the 2018 annual 2.1.7 filing showed a balance of $64,958,062 in Account 4705, power expense, and that the variance recorded in Account 1588 was $4,531,649 on a combined basis for the two rate zones (the 2.1.7 is reported on a combined basis). The variance represents 7% of Account 4705 for the year. OEB staff submits that the variance in Account 1588 should be relatively small, as the account balance should only relate to unaccounted for energy differences.

In its 2018 rate proceeding,[38] the OEB did not approve disposition of NTRZ's Group 1 accounts, which had been accumulating since 2013, due to accuracy concerns. The OEB also required Newmarket-Tay Power to complete a third-party special purpose audit of all of its Group 1 accounts, and file the audit report with the OEB with the application for disposition of balances in 2019. The audit was completed in November 2018.

Newmarket-Tay Power stated that:

> NT Power confirms a review of the new Accounting Guidance has been implemented for both MRZ and NTRZ. It has been determined a reconciliation of the financial and regulatory balances is warranted for the 2019 year-end financial records.[39]

Newmarket-Tay Power has also indicated that:

> An incorrect application of the settlement process in 2018 resulted in an amount of $3.3m not received from the IESO. The settlement data gathering and reporting process was reviewed and corrected in 2019.[40]

Newmarket-Tay Power's accounting and settlement practices do not appear to be generating transactions in accounts 1588 RSVA power and 1589 GA that are in line with the February 2019 OEB guidance on the commodity accounts given the discrepancies noted by Newmarket-Tay Power above. OEB staff submits that for the

[37] Interrogatory Response, G-Staff-7, Rate Generator Models for each rate zone, February 7, 2020.
[38] EB-2017-0062.
[39] Interrogatory Response, G-Staff-3, February 7, 2020.
[40] Interrogatory Response, G-Staff-4, February 7, 2020.

NTRZ all commodity pass- through variances from 2013 to 2018 should be reviewed (as dispositions for these years are not final) as the new accounting guidance had not been issued at the time of Newmarket-Tay Power's third party audit. OEB staff submits that Newmarket-Tay Power reviewed and corrected its settlement data gathering and reporting process in 2019, and found a material error of $3.3 million, and a similar review of the variances for 2013 – 2017 is warranted. OEB staff submits the review of the settlement data gathering process in view of the OEB's accounting guidance should be extended to the amounts that were approved on an interim basis (2013-2017), in the interest of ensuring the accuracy of final disposition.[41]

Midland Rate Zone

In this application, the total amount requested for disposition is a debit of $169,444. This amount excludes Accounts 1588, 1589, and 1595, for which MRZ is not proposing disposition. For the account balances requested for disposition, Newmarket-Tay Power did not meet the disposition threshold at a total claim per kWh of $0.0009. However, Newmarket-Tay Power is requesting disposition for the period January 1, 2018 to December 31, 2018.

For MRZ, Newmarket-Tay Power last disposed of its December 31, 2017 Group 1 account balances including the balances of its Account 1595, sub-accounts (2015) and (2016) in its 2019 rate application. Account 1595, sub-account (2017) was not disposed in the 2019 rate application as it wasn't eligible for disposition at that time.

Despite having disposed of Account 1595 sub-accounts (2015) and (2016), MRZ showed transactions for sub-account (2016) in its continuity schedule.[42] In response to Interrogatories, Newmarket-Tay Power confirmed that the sub-accounts (2015) and (2016) had been disposed and explained that residual balances would be written off within the 2019 financial records.[43] It filed an updated Rate Generator Model, which then included balances for sub-accounts (2013), (2015) and (2016).[44] Similar to NTRZ, when OEB staff requested Account 1595 Workforms, Newmarket-Tay Power did not provide them and referenced staff turnover as a reason for not providing the work forms at this time.

OEB staff submits that the Group 1 accounts should not be disposed of in this application. Similar to NTRZ, these balances reflect one year of transactions, and the threshold test as not been met. With respect to account 1595, OEB staff agrees with Newmarket-Tay Power's proposal to not dispose of the balances.

[41] Accounting Guidance Q&A #29 July 11, 2019.
[42] MRZ Rate Generator Model, Tab 3. Continuity Schedule, November 20, 2019.
[43] Interrogatory Response, G-Staff-2, February 7, 2020.
[44] MRZ Rate Generator Model, Tab 3. Continuity Schedule, February 7, 2020.

<u>Commodity Accounts 1588 and 1589 - MRZ</u>

As of December 31, 2018, MRZ had a debit balance of $153,349 in Account 1588, net of interim disposition in the 2019 proceeding (i.e. the balances reflect accumulation of transactions for 2018 only). As indicated in the submission above for the NTRZ, the annual 2.1.7 filing showed a balance of $64,958,062 in Account 4705, power expense, on a combined basis for the two rate zones. The variance represents 7% of Account 4705 for the year. OEB staff submits that the variance in Account 1588 should be relatively small, as the account balance should only relate to unaccounted for energy differences.

OEB staff submits that an analysis of the variance recorded in Account 1588 based on RRR 2.1.7 filed on a combined basis for Newmarket-Tay Power, shows that the variance represents 7% of Account 4705, commodity expense for the two rate zones for 2018. OEB staff submits that that given a relatively high balance in its Account 1588, MRZ's accounting and settlement practices should be reviewed in light of the OEB accounting guidance and the Account 1588 and 1589 activity for 2017 and 2018 should be corrected to ensure that the balances for disposition are accurate.

All of which is respectfully submitted