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

BY EMAIL

February 18, 2021

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

Dear Ms. Long:

Re: Newmarket-Tay Power Distribution Ltd.
Application for 2021 Electricity Distribution Rates
OEB Staff Submission
Ontario Energy Board File Number: EB-2020-0041

In accordance with Procedural Order No. 1, please find attached OEB staff's submission in the above proceeding.

Yours truly,

Katherine Wang
Advisor
Incentive Rate Setting & Regulatory Accounting

Encl.

VT INCEPIT FIDELIS SIC PERMANET
Ontario

ONTARIO ENERGY BOARD

OEB STAFF SUBMISSION

Newmarket-Tay Power Distribution Ltd.

2021 Rates Application

EB-2020-0041

February 18, 2021

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1. Introduction

Newmarket-Tay Power Distribution Ltd. (Newmarket-Tay Power) filed its Incentive Rate-setting Mechanism (IRM) application with the Ontario Energy Board (OEB) on November 23, 2020 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, to be effective May 1, 2021.

In Procedural Order (PO) No. 1, dated January 7, 2021, the OEB set dates for submissions on Newmarket-Tay Power's application. This submission sets out OEB staff's review of this proceeding's record and is intended to assist the OEB in evaluating the application and setting just and reasonable rates.

OEB staff makes detailed submissions on the following:

- Review and Disposition of Group 1 Deferral and Variance Accounts
- Lost Revenue Adjustment Mechanism Variance Accounts Disposition
- Incremental Capital Modules
- Disposition of Account 1576 and Adjustment to Base Rates

2. Review and Disposition of Group 1 Deferral and Variance Accounts (DVAs)

OEB staff supports the disposition of the Group 1 DVA balances in the Newmarket-Tay Rate Zone (NTRZ) and Midland Rate Zone (MRZ). OEB staff notes one minor correction, and one outstanding item of confirmation, but overall takes no issue with Newmarket-Tay Power's request for disposition of the Group 1 accounts. OEB staff's detailed submissions on the Group 1 DVA balances in each of Newmarket-Tay Power's individual rate zones is discussed below:

<u>Newmarket-Tay Rate Zone</u>

Newmarket-Tay Power completed the continuity schedule on Tab 3 of the 2021 IRM Rate Generator Model for the NTRZ. The 2019 actual year-end total balance for NTRZ's Group 1 accounts including interest projected to April 30, 2021 is a credit of $448,003. This amount represents a total credit claim of $0.0007 per kWh, which does not exceed the disposition threshold of $0.001 per kWh. Newmarket-Tay Power states in the application that it nonetheless requests to dispose of the Group 1 account balances, over a one-year period, "because the balances are practical to dispose of by rate classes".[1]

Included in the Group 1 DVA balances are Account 1588 – Power with a debit balance of $1,027,549 and Account 1589 – Global Adjustment (GA) with a credit balance of $927,170. OEB staff submits that, subject to one outstanding matter, which OEB staff has asked Newmarket-Tay Power to address as part of its reply submission, the 2013 to 2019 balances in Account 1588 and Account 1589 (as well as carrying charges projected to April 30, 2021) in the NTRZ should be disposed of on a final basis.

In the 2020 IRM Decision and Order,[2] the OEB noted its concern with the large debit balance in Account 1588. The OEB denied disposition of the Group 1 DVA balances in the NTRZ, including accounts 1588 and 1589, and made the following finding:

> The OEB agrees that there should be no disposition of the Group 1 DVAs in this proceeding for the NTRZ. The OEB expects Newmarket-Tay Power to ensure that all Group 1 balances for the entire period from 2013 to 2019 for the NTRZ have been thoroughly reviewed, and the results of that review are filed with the 2021 rate application…. This review shall include an assessment of accounting and settlement practices for Accounts 1588 and 1589, all necessary workforms

[1] EB-2020-0041, Manager's Summary, filed November 23, 2020, page 24
[2] EB-2019-0055

for the sub-accounts of Account 1595, and detailed explanations for any adjustments made.

Newmarket-Tay Power filed a report prepared by an independent auditor with respect to NTRZ's compliance of the NTRZ's accounting and settlement practices with the accounting and settlement practices for Accounts 1588 and 1589 set out in the OEB's accounting guidance issued in February 2019, and Regulated Price Plan (RPP) settlement and related accounting processes as at December 31, 2019.[3] The auditor issued a qualified conclusion in the review report because the unresolved differences as a percentage of expected GA payments to the IESO is 1.14% in 2019 which is greater than the 1% threshold used in the OEB's GA Analysis Workform.[4]

In a response to an OEB staff interrogatory, Newmarket-Tay Power clarified that the external auditor only reviewed the adjustments to Accounts 1588 and 1589, the GA Analysis Workforms, and the Account 1595 Workform that have been submitted in this application, but did not review the DVA continuity schedules for the relevant accounts.[5] With regard to the implication of disposing of the account balances associated with the external auditor's qualified conclusion, Newmarket-Tay Power stated that "the disposition for the 2019 balances could be deferred until the next IRM filing to ensure there are no further 2019 variances within the 2020 continuity schedules" and proposed that "the 2013-2018 balances should be allowed for final disposition as the 2013-2018 unresolved differences are within the board's 1% guideline".[6]

Newmarket-Tay Power also provided its calculations for the differences between billed and actual system losses for all years of 2013 to 2019. The 2019 line loss difference is $152,589, and after updating its GA Analysis Workform accordingly, the expected balance in Account 1589 fell within 1% guideline used on the GA Analysis Workform.[7] In OEB staff's view, this adjustment in the GA Analysis Workform appears reasonable.

OEB staff notes that the 2019 principal balance for NTRZ's Account 1588 is $907,098, which represents the accumulation of the balances over the two years (2018 to 2019) since the 2017 interim disposition of the account in the 2019 IRM proceeding. OEB staff submits that the Account 1588 variance appears to be reasonable on a combined rate

[3] Appendix 7, DVA Review External Auditor's Report, page 1
[4] Appendix 7, DVA Review External Auditor's Report, Note 2
[5] Newmarket-Tay Power's Response to interrogatory NTRZ-Staff-10
[6] *Ibid.*

zone basis, when assessing the cumulative balances in proportion to the cost of power purchased, as shown below:[8]

Table 2.1: Reasonability Test for Account 1588

	Net Transactions (NTRZ) per the continuity schedule ($)	**Net Transactions (MRZ) per the continuity schedule ($)**	**Net Transactions (Combined) – Calculated by Staff ($)**	**Cost of Power USoA 4705 (Combined for two rate zones – Reported in RRR 2.1.7) ($)**	**% Net Transactions of Cost of Power**
2018	4,311,159	149,284	4,460,443	64,958,062	6.9%
2019	(2,984,556)	(286,750)	(3,271,306)	76,962,053	-4.3%
Total	**1,326,603**	**(137,466)**	**1,189,138**	**141,920,115**	**0.8%**

OEB staff submits that it supports final disposition of the 2019 balances for Accounts 1588 and 1589 in the NTRZ, subject to one outstanding matter (discussed later) based on the fact that:

- After the inclusion of the line loss variance reconciling item, the unexplained variances for each year in the GA Analysis Workform is now under the OEB's guideline of 1% of total purchases.[9]
- As shown in the Table 2.1 above, the balances accumulated in 2018 and 2019 for Account 1588 appear reasonable on a combined rate-zone basis, totaling less than 1% of the cost of power purchased in those years.

OEB staff is of the view that the balances up to 2019 (rather than only up to 2018, as suggested by Newmarket-Tay Power), should be disposed of in this proceeding. The

[8] In OEB staff's view, 1% of total energy purchases represents a reasonable proxy for the effect of line loss differentials, which is what the balance of Account 1588 should be comprised of.
[9] Page 5 of the OEB's Instruction for Completing GA Analysis Workform -2021 Rates states that "Under Note 6, any remaining unreconciled balance that is greater than +/- 1% of the annual GA payments to the IESO must be analyzed and investigated to identify any additional reconciling items, or to identify corrections to the balance requested for disposition".

large net transactions in 2018 (debit of $4,311,159) in Account 1588 have been largely offset by the net transactions in 2019 (credit of $2,984,556). Disposing of the 2018 balances without the 2019 balances would likely result in unnecessary rate volatility. In addition, the main concern that led to Newmarket-Tay Power's suggestion of deferring disposition of the 2019 balances to a future period has been resolved by including the line loss reconciliation items.

OEB staff has one outstanding concern with respect to the commodity accounts in the NTRZ, related to the 2019 adjustment of $650,548. Newmarket-Tay Power explained that the 2019 adjustment of $650,548 pertains to the 2019 period, to allocate the GA split between RPP and Non-RPP customers for the actual consumption in the months where these splits in 2019 were previously based on billing dates.[10] Newmarket-Tay Power stated that the adjustment pertains to the 2019 period only. However, it is not clear to OEB staff whether similar corrections may be required for any years prior to 2019 that have yet to be disposed of on a final basis. OEB staff invites Newmarket-Tay Power to explain in its reply submission whether in fact the correction for the use of billed data, rather than monthly consumption data, is limited to 2019, and that this issue has been corrected for the years of 2013 to 2018. If that is the case, OEB staff would support disposition of Accounts 1588 and 1589 on a final basis. Otherwise, OEB staff's view is that the 2019 balances for commodity accounts should be disposed of on an interim basis, to allow for Newmarket-Tay Power to adjust these historical years accordingly in a future proceeding.

In the application, Newmarket-Tay Power requests approval to dispose of the Account 1595 (2017) balance in a debit of $1,428 for the NTRZ. Appendix A of the Chapter 3 Filing Requirements[11] states, in part:

> Applicants are expected to request disposition of residual balances in Account 1595 Sub-accounts for each vintage year only once, on a final basis. Distributors only become eligible to seek disposition of these residual balances two years after the expiry of the rate rider, (i.e. in the fourth rate year after the year the rate rider expires).
>
> May 1 rate year – If 2018 rate riders end on April 30, 2019, the balance of subaccount 1595 (2018) could be disposed of once the December 31, 2021 account balance has been audited. Therefore, sub-account 1595 (2018) would be eligible for disposition in the 2023 rate year.

[10] *Ibid.*
[11] Filing Requirements For Electricity Distribution Rate Applications - 2020 Edition for 2021 Rate ApplicationsMay 14, 2020, page 35

OEB staff notes that the NTRZ's 2017 rate riders (the relevant rate rider(s) approved in the 2017 decision) ended on April 30, 2018. According to the above-noted filing requirement (and illustrative example), the balance in NTRZ's Account 1595 (2017) will be eligible for disposition in the 2022 rate year. Therefore, OEB staff submits that the balance in NTRZ's Account 1595 (2017) is not eligible for disposition in the current proceeding, and accordingly, has removed the balance in the updated Rate Generation Model that is filed with this submission.

For Account 1589 – GA, Newmarket-Tay Power has established separate rate riders for the NTRZ to dispose the account balance. The GA rate riders are only applicable to non-RPP Class B customers. Newmarket-Tay Power's Class A customers in the NTRZ are invoiced the actual GA, and as such, no GA balances are attributable to these customers.

Newmarket-Tay Power noted that during the January 1, 2013 to December 31, 2019 period that the NTRZ's GA account balances accrued, there were 12 NTRZ customers that had transitioned between Class B and Class A. These customers paid GA costs as Class B and Class A customers in the months when they were classified as Class B and Class A customers, respectively. As such, these customers should be allocated only the portion of the GA balances that accrued prior to their classification as Class A customers (i.e. as Class B customers), or which accrued after their classification as Class B customers (i.e. after transitioning from Class A).

Newmarket-Tay Power notes that it will settle the GA amounts attributable to Class A/B transition customers in the NTRZ through twelve equal customer-specific adjustments to bills. OEB staff agrees with Newmarket-Tay Power's approach to allocate the recovery of the GA balances for the NTRZ to the appropriate customers. OEB staff supports this treatment since it ensures that, under the general principle of cost causality, customer groups that cause variances are responsible for paying (or receiving credits) for their disposal. The movement from one class to another should not prevent identifiable customers from paying down/receiving a debit/credit balance.

In its response to an OEB staff interrogatory,[12] Newmarket-Tay Power noted that Table 3a on Tab 6 of NTRZ's Rate Generator Model did not provide years 2013 and 2014 for transition customers 4 to 12. Newmarket-Tay Power provided the related data in its response and asked OEB staff to update the model accordingly. OEB staff has updated the model to include the customers' volume information for years 2013 and 2014. OEB staff notes that Tab 6.1a and Tab 6.1 (GA amounts allocated to transition customers

[12] IRR NTRZ-Staff-4

and GA rate rider calculation) have also been updated to reflect the volume information added in Tab 6.

Midland Rate Zone

Newmarket-Tay Power completed the continuity schedule on Tab 3 of the 2021 IRM Rate Generator Model for the MRZ. The 2017 to 2019 balances for MRZ's Group 1 accounts, including interest projected to April 30, 2021, is a debit of $535,358. This amount represents a total debit claim of $0.0029 per kWh, which exceeds the disposition threshold of $0.001 per kWh. Newmarket-Tay Power requests the OEB's approval to dispose of the Group 1 account balances over a one-year period.

Included in the Group 1 DVA balances are Account 1588 – Power with a debit balance of $81,617 and Account 1589 – GA with a credit balance of $142,962.

In the 2020 IRM Decision and Order,[13] the OEB did not approve disposition of the Group 1 DVA balances in the MRZ, including accounts 1588 and 1589, mostly due to the concern of the high debit balance in Account 1588, and made the following finding:

> The OEB agrees that there should be no disposition of the Group 1 DVA balances in this proceeding for the MRZ. The 2017 balances were disposed on an interim basis. Given the concerns raised by OEB staff, the OEB requires Newmarket-Tay Power to complete a detailed review of the 2017, 2018 and 2019 balances in Accounts 1588 and 1589, and all sub-accounts of Account 1595 that are due for disposition but have not yet been disposed for the MRZ. The results of this review shall be filed with Newmarket-Tay Power's 2021 rate application.

Newmarket-Tay Power filed a report prepared by an independent auditor with respect to compliance of the MRZ's accounting and settlement practices with the OEB's accounting guidance issued in February 2019 as at December 31, 2019.[14] OEB staff notes that the auditor has noted no issues in its review of MRZ's Accounts 1588 and 1589 balances.

OEB staff has reviewed the adjustments recorded in Accounts 1588 and 1589 and the GA Analysis Workforms of 2017 to 2019 and has not noted any issues regarding the MRZ's Account 1588 and Account 1589 balances. As noted in Table 2.1 of this Submission, the Account 1588 balance as at December 31, 2019 on a combined basis appears to be reasonable. OEB staff supports final disposition of the Account 1588 and 1589 balances, as of December 31, 2019, in the MRZ.

[13] EB-2019-0055, page 13
[14] MRZ's Application, Appendix 7, DVA Review External Auditor's Report, page 1

In the application, Newmarket-Tay Power requests OEB approval to dispose of the Account 1595 (2017) balance in a debit of $8,597 for the MRZ. Appendix A of the Chapter 3 Filing Requirements[15] states:

> Applicants are expected to request disposition of residual balances in Account 1595 Sub-accounts for each vintage year only once, on a final basis. Distributors only become eligible to seek disposition of these residual balances two years after the expiry of the rate rider, (i.e. in the fourth rate year after the year the rate rider expires).
>
> May 1 rate year – If 2018 rate riders end on April 30, 2019, the balance of subaccount 1595 (2018) could be disposed of once the December 31, 2021 account balance has been audited. Therefore, sub-account 1595 (2018) would be eligible for disposition in the 2023 rate year.

MRZ's 2017 rate riders (the relevant rate rider(s) approved in the 2017 decision) ended on April 30, 2018. According to the above noted filing requirement (and illustrative example), MRZ's Account 1595 (2017) will be eligible for disposition in the 2022 rate year. Therefore, OEB staff submits that the balance in MRZ's Account 1595 (2017) is not eligible for disposition in the current proceeding and has removed the balance in the updated Rate Generation Model that is filed with this submission.

For Account 1589 – GA and Account 1580 – Sub-Account CBR Class B, Newmarket-Tay Power has established separate rate riders for the MRZ to dispose these account balances. The GA rate riders are only applicable to non-RPP Class B customers and the CBR rate riders are only applicable to Class B customers. Newmarket-Tay Power's Class A customers in the MRZ are invoiced the actual GA and CBR costs and, as such, none of the GA or CBR account balances are attributable to these customers.

During the January 1, 2018 to December 31, 2019 period that the MRZ's GA and CBR account balances accrued, Newmarket-Tay Power noted there were six MRZ customers that had transitioned between Class B and Class A. These customers paid GA and CBR costs as Class B and Class A customers in the months when they were classified as Class B and Class A customers, respectively. As such, these customers should be allocated only the portion of the GA and CBR account balances that accrued prior to their classification as Class A customers (i.e. as Class B customers), or which accrued after their classification as Class B customers (i.e. after transitioning from Class A).

[15] Filing Requirements For Electricity Distribution Rate Applications - 2020 Edition for 2021 Rate Applications May 14, 2020, page 35

As with the NTRZ, Newmarket-Tay Power notes that it will settle the GA and CBR amounts attributable to Class A/B transition customers in the MRZ through twelve equal customer-specific adjustments to bills. OEB staff agrees with Newmarket-Tay Power's approach to allocate the recovery of the GA and CBR balances for the MRZ to the appropriate customers. OEB staff supports this treatment since it ensures that, under the general principle of cost causality, customer groups that cause variances are responsible for paying (or receiving credits) for their disposal. The movement from one class to another should not prevent identifiable customers from paying down/receiving a debit/credit balance.

3. Lost Revenue Adjustment Mechanism Variance Accounts (LRAMVA) Disposition

Background

Newmarket-Tay Power applied for OEB approval to dispose of a total LRAMVA debit balance of $463,882, as revised throughout this proceeding, based on Conservation and Demand Management (CDM) activities for its two rate zones in 2019.

Newmarket-Tay Power's LRAMVA balance is proposed to be disposed by rate zone over a 12-month period:

Rate Zone LRAMVA	2019 LRAMVA Balance
NTRZ	$410,844
MRZ	$53,038
Total	$463,882

- **NTRZ** – The LRAMVA balance of $410,844 includes lost revenue from incremental CDM activity in 2019 based on CDM programs delivered during the period from 2011 to 2019, and associated carrying charges. The full impact of conservation savings is claimed, as there were no forecasted conservation savings in the 2010 load forecast at the time Newmarket-Tay Power last rebased.[16]

- **MRZ** – The LRAMVA balance of $53,038 includes lost revenue from incremental CDM activity in 2019 based on CDM programs delivered during the period from 2014 to 2019, and associated carrying charges. Actual conservation savings are compared against forecasted conservation savings included in the 2013 load forecast, which was set out in Midland Power's 2013 cost of service application.[17]

Newmarket-Tay Power filed Participation & Cost (P&C) Reports and prior year persistence reports by rate zone in support of its LRAMVA balance. In response to OEB staff interrogatories, Newmarket-Tay Power filed extracts of CDM Information System[18] (CDM-IS) reports for each of the rate zones in support of additional 2019 savings included in the LRAMVA balance, which were not included in the P&C Reports.

[16] EB-2009-0269, Decision and Rate Order, February 24, 2011
[17] EB-2012-0147, Decision and Order, January 17, 2013
[18] Response to Interrogatories, Attachments 3 and 16, February 8, 2021

Submission

OEB staff supports the disposition of the LRAMVA debit balance of $463,882 as revised throughout the course of this proceeding.

In the absence of IESO verification reports made available to distributors after April 15, 2019,[19] OEB staff has confirmed the eligibility and assessed the reasonableness of the additional savings claimed based on the CDM-IS reports filed in this proceeding. As all projects (primarily commercial projects) were approved to be completed as part of the Conservation First Framework, OEB staff notes that this meets the eligibility requirement for lost revenues to be recorded in the LRAMVA. In terms of the quantum of these additional savings, OEB staff observes that the savings included in the LRAMVA Workform are lower than the savings shown in the CDM-IS reports for most programs. OEB staff submits that Newmarket-Tay Power has provided the appropriate supporting documentation to justify the additional savings amounts.

Newmarket-Tay Power completed its transition to fully fixed residential rates as of May 1, 2019, and followed the LRAMVA Workform calculations to claim one third of the dollar value[20] of residential savings in 2019 based on one third of the 2018 volumetric residential rate applied to the calendar year savings in 2019. OEB staff has no further concerns and agrees that the value of prorated lost revenues in 2019 has been appropriately determined in the Workform. For the remaining lost revenue balance recoverable from Newmarket-Tay Power's commercial customer classes, the rate class amounts have been derived based on rate class allocations determined by the distributor, which are consistent with past years' claims.

OEB staff has confirmed that the variances captured in the LRAMVA balance reflect the difference between the actual savings discussed above, and the forecast savings embedded in the load forecast applicable only to the MRZ.

OEB staff supports the disposition of the rate zone LRAMVA balances, as revised throughout this proceeding, and submits that they are calculated in accordance with the OEB's LRAMVA guidelines.[21]

[19] This reflects the date upon which the IESO's CDM reporting obligations to the utilities were terminated following the revocation of the Conservation First Framework in March 2019.
[20] In 2019, the value of residential lost revenues is calculated by applying one third of the 2018 residential distribution rate (2018 rate * 4/12 months + 2019 rate * 8/12 months) by a calendar year of residential savings in 2019. The 2019 residential rate is nil, as it is not a volumetric charge.
[21] *Chapter 2 Filing Requirements for Electricity Distribution Rate Applications – 2020 Edition for 2021 Rate Applications*, May 14, 2020, section 2.4.6.1

Table 3.1 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
NTRZ LRAMVA	1568	400,550	-	10,293	410,844
MRZ LRAMVA	1568	97,995	46,285	1,329	53,038
Total LRAMVA Balance	**1568**	**498,545**	**46,285**	**11,622**	**463,882**

4. Incremental Capital Module (ICM)

Background

Newmarket-Tay Power applied for relief under the OEB's ICM funding mechanism for two items:

1) $6,396,855 – NTRZ – Connection and Cost Recovery Agreement (CCRA) 5-year True-up Payment to Hydro One Networks Inc. (Hydro One) for Holland TS that occurred in 2015, with recovery from customers starting in 2021. The amount is the net book value of the payment of $8,180,000 made in 2021.

2) $6,100,000 – NTRZ – CCRA 10-year True-up Payment to Hydro One for Holland TS in 2021 with recovery from customers starting in 2021

For both CCRA payments to Hydro One, Newmarket-Tay Power noted that the payment is dictated by the terms established in the CCRA between itself and Hydro One.

In 2005, the former Newmarket-Tay Power participated with the former Ontario Power Authority, Hydro One and other utilities in a joint planning study to meet the growing need for power in the York Region, where the electricity supply infrastructure had been approaching, and in some cases exceeding, its planning capacity.[22] One of the transformer stations that supplies Newmarket-Tay Power, Armitage TS, had transformers loaded past their planning limit since 2002. The study identified the need for a new transformer station to relieve loading at the Armitage TS and provide new transformation capacity for additional load in Northern York Region within the study horizon. The study identified the ideal location for the construction a new transformer station in vicinity of Holland Junction.

The former Newmarket-Tay Power entered into a CCRA with Hydro One in 2008 for the construction of Holland TS. Holland TS is a Hydro One owned and operated transformer station in the vicinity of Holland Junction. The cost of the project was shared among Hydro One's distribution business, the former PowerStream Inc. and Newmarket-Tay Power according to the assigned capacity made available by the project. Per the CCRA and Transmission System Code, financial true-up points following the fifth, tenth and fifteenth anniversary of the in-service date were to be (or will be) calculated based on differences between the realized load and load forecast by Newmarket-Tay Power. Newmarket-Tay Power was not required to provide Hydro One with an initial capital

[22] Northern York Region Electricity Supply Study, Submission to the Ontario Energy Board, Ontario Power Authority, September 30, 2005

contribution for the cost of constructing the station and due to sufficient projected revenues from Newmarket-Tay Power's forecasted loading onto Holland TS.

Newmarket-Tay Power became party to an amalgamation with Midland Power in 2018 and is eligible for ICM funding during the deferred rebasing period, in accordance with the OEB's policy for distributor consolidations.[23]

Table 4.1: Summary of Key Activities

Year	Activity
2008	Newmarket-Tay Power and Hydro One entered a CCRA for Holland TS.
2009	Hydro One's Holland TS went into service in May 2009.
2010	Newmarket-Tay Power filed a Cost of Service application in 2010, effective 2011 (EB-2009-0269).
2012	Midland Power filed a Cost of Service application, effective 2013 (EB-2012-0147).
2015	The five-year $8,180,100 true-up CCRA shortfall payment for the Holland TS was invoiced by Hydro One and paid by Newmarket-Tay Power. The five-year anniversary of the project occurred in 2014, payment was made in 2015.
2015	Newmarket-Tay Power filed Annual IR application in August 2015 for rates to be effective September 2015. (EB-2014-0095, was due August 2014 for May 2015 rates). Rates were approved for January 1,2016.
2016	Newmarket-Tay Power filed Annual IR application in November 2016 for rates effective May 2017. Rates were approved for May 2017 (EB-2016-0275).
2018	Newmarket-Tay Power completed the purchase off all shares of Midland Power and amalgamated with Midland Power. In the MAADS Application Decision and Order, the OEB approved a ten-year deferral period for rebasing the rates of the consolidated entity (EB-2017-0269).

[23] Handbook to Electricity Distributor and Transmitter Consolidations, OEB, January 19, 2016, Page 17

2020	Newmarket-Tay Power filed an Annual IR application. In the application, Newmarket-Tay Power projects a ten-year true up CCRA shortfall payment of $6,100,000 for the Holland TS and requests ICM approval for both the previously incurred five-year, and upcoming ten-year, CCRA true-up payments to be paid in 2021.

OEB staff submits that the Holland TS CCRA five-year true-up payment made in 2015 does not satisfy the criteria for ICM applications and should be denied.

OEB staff submits that the Holland TS CCRA ten-year true-up payment to be paid in 2021 meets the ICM criteria of materiality, need and prudence and should be approved for the maximum eligible incremental capital amount.

Five-Year True-up Payment

At the time of the five-year true-up payment in 2015, Newmarket-Tay Power was under the Annual IR Rate-setting method. According to the Chapter 3 Filing Requirements in 2015, ICM was "only available to distributors opting for Price Cap IR".[24] Newmarket-Tay Power proposed in this application, that pursuant to the OEB's policy changes in the 2015 Consolidation Report, distributors who are party to a MAADs transaction, and are operating under an Annual IR plan have the option to use the ICM during the deferred rebasing period. Newmarket-Tay Power and Midland Power became party to a MAADs transaction in 2018 and the consolidated Newmarket-Tay Power is eligible for ICM funding during the deferred rebasing period.[25] Newmarket-Tay Power presented that because ICM funding is available during the consolidation deferred rebasing period, it could apply an ICM funding model to a CCRA payment made prior to the consolidation approval.

Newmarket-Tay Power advised that it has voluntarily forgone revenues associated with the first true-up payment in 2015, for each year from 2015 to 2020 and states its forgone revenue has been $659,973 per year for a total of $3,959,839. Newmarket-Tay Power stated that because of this forgone revenue, it has earned less than the OEB-approved rate of return for 2015, 2016, 2017 and 2019. In 2018, Newmarket-Tay Power earned more than the OEB-approved rate of return. In all the years, except 2017, the achieved rate of return was within the 300 basis point deadband.[26]

[24] Filing Requirements for Electricity Distribution Rate Applications – 2014 Edition for 2015 Rate Applications – Chapter 3 Incentive Regulation, July 25,2014, Page 13
[25] Handbook to Electricity Distributor and Transmitter Consolidations, OEB, January 19, 2016, Page 17
[26]Filing Requirements for Electricity Distribution Rate Applications – 2020 Edition for 2021 Rate Applications, Chapter 3, Incentive Rate-Setting Applications, May 14,2020 (2020 Chapter 3), Page 33

Newmarket-Tay Power submitted that a "[l]ack of funding for the 2015 Holland TS true- would also materially impact forecasted 2021 ROE, falling to 4.81%".[27] OEB staff submits that other factors may also contribute to lower 2021 ROE, such as the impact of COVID-19 on the economy and the increased spending outlined in the *Newmarket-Tay Power Distribution Limited 2020-2024 Distribution System Plan* (Newmarket-Tay Power DSP). While it is difficult to separate the impacts of COVID-19, 2021 spending and the payment made in 2015, OEB staff notes that Newmarket-Tay Power has operated for five of the past six years within the 300 basis point deadband for utility performance. The OEB established rate-setting options in the *Report of the Board on a Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach* (RRFE Report).[28] The rate-setting options are Price Cap Incentive Rate-setting (IR), Custom IR and Annual Index; Newmarket-Tay Power chose to file under the OEB's Annual Incentive Rate-setting Index for the years leading up to the consolidation with Midland Power.

The OEB's 2021 filing requirements outline the intended use of an ICM:

> The ICM is intended to address the treatment of capital investment needs that arise during the rate-setting plan which are incremental to the materiality threshold.
>
> Distributors with multiple capital projects should consider the Custom IR option to address capital needs in the context of their Distribution System Plan, rather than submit multiple ICM applications or ICM applications that consistently use up a substantial amount of the eligible available capital amount.[29]

For presentation purposes, the five-year true-up was shown as added to rate base in 2015.[30] The calculations for the eligible incremental capital were presented by Newmarket-Tay Power for the year 2015.[31]

The five-year true-up ICM Newmarket-Tay Power has applied for is not for capital investment needs that arose during the current rate-setting plan;[32] rather, it is for costs that arose prior to the current rate setting plan. OEB staff submits that approval of the

[27] Newmarket-Tay Power, Interrogatory Responses 2021 IRM, EB-2020-0041, Board Staff NTRZ IR – 18
[28] *Report of the Board on a Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach*, October 18, 2012
[29] Filing Requirements for Electricity Distribution Rate Applications – 2020 Edition for 2021 Rate Applications, Chapter 3, Incentive Rate-Setting Applications, May 14,2020 (2020 Chapter 3) page 26
[30] EB-2020-0041, Appendix 2-BA Fixed Asset Continuity Schedule, NTPower_NTRZ_1576_2EC_2BA_20201123.xls
[31] EB-2020-0041, Capital Module Applicable to ACM and ICM, NTPower_NTRZ_2021 ACM ICM Model 2015 contribution_20201123.xls
[32] Filing Requirements for Electricity Distribution Rate Applications – 2020 Edition for 2021 Rate Applications, Chapter 3, Incentive Rate-Setting Applications, May 14,2020 (2020 Chapter 3) page 26

Holland TS 2015 five-year true-up through a 2021 ICM application is not supported by the OEB's ICM policy as the payment was made in 2015 which effectively equates to an in service date for a capital project.

OEB staff notes that the OEB has in the past approved the remaining net book value of a project in a year subsequent to an in service date.[33] However, in that case, there were circumstances related to the timing of rates resulting from a late 2016 cost of service application and the OEB panel's expectation that, with rebased rates based on a 2016 test year revenue requirement made effective in mid-2017, the utility was not expected to file for any further rate adjustments in 2017. This precluded the utility from applying for an ICM in the year in which the capital expenditure was made and the asset entered service.

OEB staff considers that there was no such analogous situation facing Newmarket-Tay since 2015. The utility elected to move to the Annual IR Index method which includes certain tradeoffs, one of which is that there is no ICM available except for the period following a consolidation. Newmarket-Tay continued to have rates adjusted under the Annual Index IR option, and its financial viability was not stressed.

Further, the fact is that any ICM funding for 2021 must be established based on the available funding in 2021. And as will be discussed further below, Newmarket – Tay Power does not have any available amounts once the funding for the ten-year true up payment is taken into account. In OEB staff's view, the OEB should not allow for more funding than the maximum eligible incremental capital funding based on the 2021 calculation given that funding is requested for 2021 rates and the ICM materiality test is effectively a cash flow test.

OEB staff submits that the five-year true-up is not eligible for ICM funding.

<u>Ten-Year True-up Payment</u>

Materiality

The *Report of the OEB: New Policy Options for Funding of Capital Investments: The Advanced Capital Module* (ACM Report) states that distributors must meet an OEB-defined materiality threshold and a project-specific materiality threshold.

The ACM Report explains materiality as follows:

[33] EB-2017-0265, Decision and Order, March 22, 2018, regarding Rideau St. Lawrence Distribution Inc.'s 2018 distribution rates.

> The incremental capital amounts must fit within the total eligible incremental capital amount (as defined in this ACM Report) and must clearly have a significant influence on the operation of the distributor.
>
> For merged utilities, the principles of materiality are applicable to the merged distributor, not the individual rate zones.[34]

In response to an OEB staff interrogatory, Newmarket-Tay Power calculated the maximum eligible incremental capital amount of $5,587,756 for 2021.[35] The ten-year true-up amount of $6,100,000 does exceed the maximum eligible incremental capital amount. OEB staff submits that the maximum eligible incremental capital amount in the revised model is correct and should be approved at $5,587,756.

Newmarket-Tay Power submits the ten-year true-up payment of $6,100,000 is a significant cost of the consolidated 2021 capital budget, which totals $13,374,655. From the Newmarket-Tay Power DSP, historical capital expenditures, excluding the $8.2M CCRA payment to Hydro One in 2015, from 2015 through 2019 range from $2,853,000 in 2018 to $6,152,000 in 2017.[36] OEB staff agrees that the ten-year true up payment is not a minor expenditure in comparison to the overall budget of Newmarket-Tay Power, and would have a significant impact on the operation of the distributor. OEB staff submits that the ten-year true-up payment does meet the project materiality threshold.

Need

The ACM Report describes the need criterion:

- The distributor must pass the Means Test (as defined in the ACM Report)
- Amounts must be based on discrete projects and should be directly related to the claimed driver
- The amounts must be clearly outside of the base upon which the rates were derived[37]

Under the Means Test, funding for an ICM project would not be approved if a distributor's regulated ROE exceeds 300 basis points above the OEB-approved ROE embedded in the distributor's rates. Newmarket-Tay Power submitted that its ROE for 2015 through 2019 only exceeded the OEB-approved ROE of 9.66% in 2018 when the achieved ROE was 11.19%, which was still within the 300 basis points. It should be

[34] ACM Report, Page 17
[35] Newmarket-Tay Power, Interrogatory Responses 2021 IRM, EB-2020-0041, Board Staff NTRZ IR - 19
[36] Newmarket-Tay Power DSP, Page 115
[37] ACM Report, Page 17

noted that Newmarket-Tay Power presented the OEB-approved ROE of the combined utility to be 9.66% but did not provide calculations supporting this amount. In their last rebasing proceedings, the previous Newmarket-Tay Power and Midland Power OEB-approved ROEs were 9.85% and 8.93%, respectively. The new Newmarket-Tay Power entity would continue to pass the means test if either of the prior rates, or the new combined rate were used. OEB staff takes no issue with Newmarket-Tay Power's calculated regulatory ROE and submits that Newmarket-Tay Power has passed the Means Test.

Newmarket-Tay Power submits that the Holland TS is a discrete project. OEB staff agrees.

Newmarket-Tay Power submits that the Holland TS was not included in the capital expenditures approved in Newmarket-Tay Power's last cost of service application[38] and is therefore not funded through existing rates. It should be noted that in the last cost of service application, Newmarket-Tay Power stated "No capital contribution from the Applicant to HONI is expected to be required based on HONI's CCRA, as per the Transmission System Code (TSC), due to sufficient revenues from the Applicant's initial loading onto HJTS." The load forecast did state that Newmarket-Tay Power was "significantly exposed to the manufacturing downturn." It would have been reasonable in 2009 to forecast that there would be a future CCRA true-up payment to Hydro One due to decreased load; however, the materiality of the true-up would have been uncertain and beyond the test year. OEB staff agrees that the Holland TS true-up payments were not included in the base on which the rates were derived.

Prudence

The ACM Report describes prudence as "The amounts must represent the most cost-effective option (not necessarily least initial cost) for ratepayers."[39]

Newmarket-Tay Power submits that the Holland TS identified in the OPA report was the most cost-effective option for ratepayers and meets the prudence test.

The decision to build the Holland TS resulted from a need identified in the regional planning study. OEB staff agrees that Newmarket-Tay Power is contractually required make a true-up payment to Hydro One if there is a shortfall of load at Holland TS. OEB staff submits that Newmarket-Tay Power's evidence is reasonable that there was an economic downturn in 2008. OEB staff notes that this is consistent with prior decisions regarding CCRA true up payments by another distributor to Hydro One, which was

[38] EB-2009-0269, Newmarket Tay Power 2010 EDR Application, July 21, 2010, pages 337 and 413
[39] ACM Report, Page 17

based on the same reasons for shortfalls in load, and for which the OEB had ultimately approved ICM funding.[40]

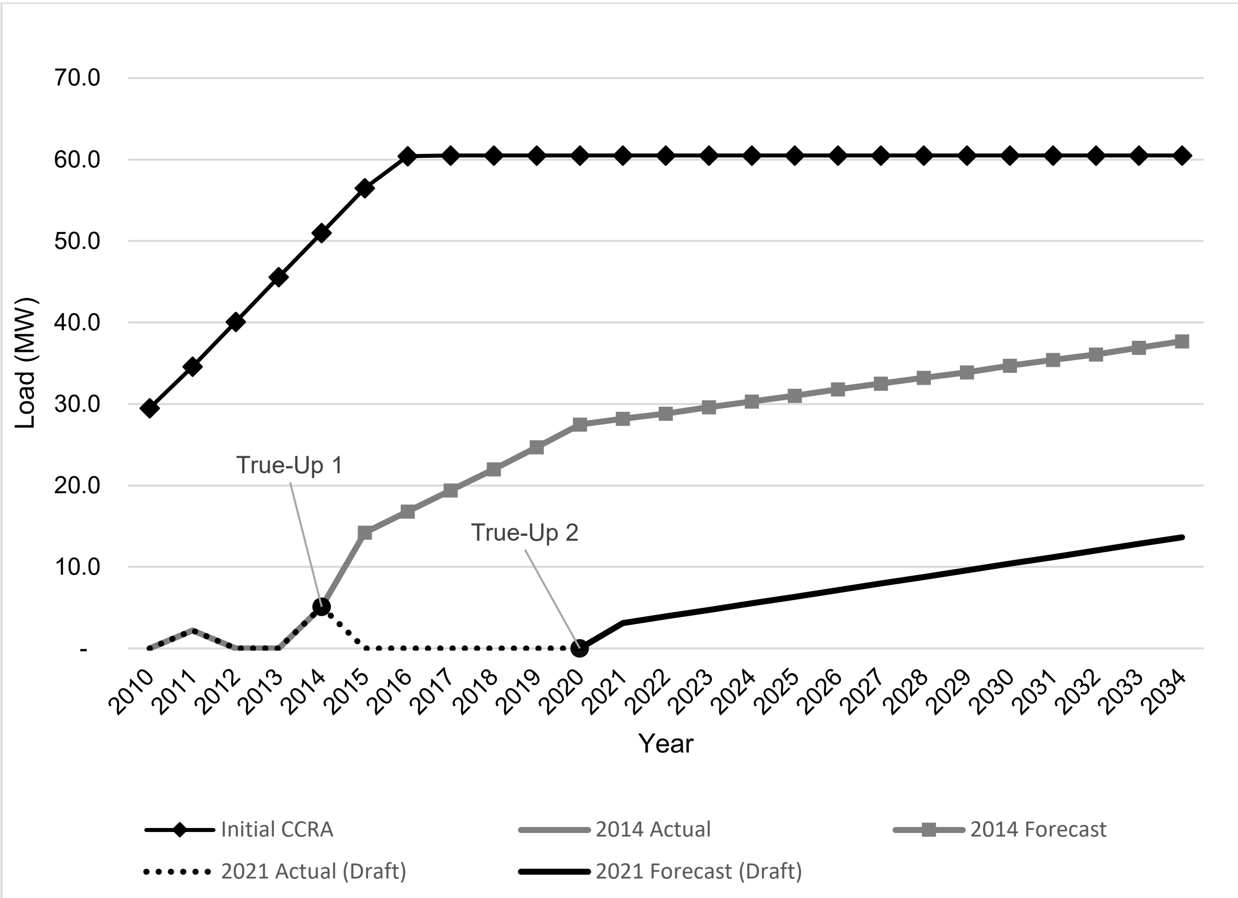
The prudence of the ten-year true-up is based in part on the prudence of the 2021 draft load forecast for Holland TS. OEB staff has reviewed the initial CCRA, 2015 and 2021 load forecasts provided by Newmarket-Tay Power for Holland TS and found that the load forecast was reduced materially at each true-up point.

OEB staff does note that the draft 2021 load forecast included load growth, that if not realized could result in a fifteen-year true-up payment. OEB staff submits that although a reduction to the 2021 load forecast has been made, the load forecast may still be overstated. Skepticism of the realization of load growth is based on:

- Newmarket-Tay Power has added negligible load on Holland TS over the past 10 years
- Newmarket-Tay Power DSP has submitted no evidence of significant System Access projects that would result in additional load to Holland TS
- The current economic forecast is uncertain due to the impacts of the COVID-19 pandemic.

[40] EB-2017-0024, Decision and Order, April 5, 2018, page 32

Figure 4.1: Holland TS Load Forecasts[41]



OEB staff submits that the CCRA ten-year true up payment for Holland TS is prudent. However, OEB staff notes that the true-up payment amounts are still subject to change because Newmarket-Tay Power has yet to finalize the payment amounts with Hydro One. If the ICM funding is approved, Newmarket-Tay Power could use the associated ICM variance accounts to track any differences between the actual ICM amount and the actual payment to HONI, and true-up any difference at its next rebasing application in accordance with the OEB's ICM policy.[42]

[41] EB-2020-0041, ICM Appendix A: CCRA Newmarket-Tay Power and Hydro One dated February 2008, EB-2020-0041, ICM Appendix C: Summary of Contribution Calculations - Transformation Pool 1st True-Up from Hydro One, Page 242, EB-2020-0041, Newmarket-Tay Power, Interrogatory Responses 2021 IRM, Appendix 12 TS 10-Yr True-Up-Cust Impact Package 20200210.xls
[42] ACM Report, Page 13

Application of the Half-Year Rule

Newmarket-Tay Power submitted that the half-year rule is not applicable to this application as the ICM request does not coincide with the final year of Newmarket-Tay Power's IRM plan term. OEB staff agrees that the half-year rule does not apply to the ICM, as per Chapter 3 of the 2021 Filing Requirements.[43]

Distribution System Plan

In the approval for Newmarket-Tay Power to amalgamate with Midland Power the Board ordered the consolidated utility to file a consolidated distribution system plan prior to December 31, 2020.[44] Newmarket-Tay Power did file the DSP in 2020.

The Newmarket-Tay Power DSP was re-filed and reviewed by OEB staff as part of this ICM application as required.[45] The DSP includes historical capital expenditures from 2015 through 2019 and outlines the forecast capital expenditures for the years 2020 through 2024.

Table 4.2: Forecast Capital Expenditures

Category	Forecast (Planned)				
	2020 ($000)	2021 ($000)	2022 ($000)	2023 ($000)	2024 ($000)
System Access	1,327	1,795	2,595	2,477	1,084
System Renewal	3,695	2,861	3,211	3,025	2,829
System Service	0	920	830	560	700
General Plant	2,089	7,895	1,375	1,465	1,725
Total	7,111	13,472	8,011	7,528	6,338

43 2020 Chapter 3, page 30
44 Decision and Order, EB-2017-0269, Newmarket-Tay Power Distribution Ltd. Midland Power Utility Corporation, August 23, 2018, Page 23
45 Filing Requirements for Electricity Distribution Rate Applications – 2020 Edition for 2021 Rate Applications, Chapter 3, Incentive Rate-Setting Applications, May 14,2020 (2020 Chapter 5) page 7

General Plant expenditures are high in 2021 due to the capital contribution to Hydro One for the Holland TS.

Increased emphasis on System Renewal spending was forecast based on an Asset Condition Assessment report (ACA). Newmarket-Tay Power submits that past asset spending was unsustainable to maintain asset condition and has paced replacement levels under the recommendation of the ACA to balance maintaining system infrastructure and system investments.[46]

According to the CCRA, the fifteen-year true-up should occur in 2024. Newmarket-Tay Power is not anticipating making a true-up payment in that year. Thus, no amount is reflected for this in the DSP in 2024.[47]

OEB staff encourages Newmarket-Tay Power to track loading on the Holland TS annually and include the potential fifteen-year true-up payment in the annual planning process as part of prudent planning and corporate risk management.

OEB Staff submits that the DSP does support a reasonable capital expenditure level for 2021 which is the starting point of the ICM materiality threshold calculation for 2021 rates.

[46] EB-2020-0041, Newmarket-Tay Power, Interrogatory Responses 2021 IRM, Board Staff NTRZ IR - 21
[47] EB-2020-0041, Newmarket-Tay Power, Interrogatory Responses 2021 IRM, Board Staff NTRZ IR - 20

5. Disposition of Account 1576 and Adjustment to Base Rates

In its decision and rate order in Newmarket-Tay Power's 2019 rate application,[48] the OEB approved disposition of the balance in Account 1576 – Accounting Changes Under CGAAP, a credit of $1,603,325 as of December 31, 2017, for the NTRZ and directed Newmarket-Tay Power to propose final disposition of the balances in Account 1576 in its 2020 IRM application based on what OEB staff had submitted:

> In light of the recent merger and the OEB's approval to defer Newmarket-Tay Power's rebasing for 10 years, OEB staff submitted an alternate approach to address the continued annual variance in Account 1576 for future applications in the interests of increased efficiency. 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.[49]

Newmarket-Tay Power did not propose final disposition of the balance in Account 1576 in its 2020 IRM proceeding, as directed by the OEB, but rather proposed to wait for the completion of its 2019 fiscal audit before making a claim in its upcoming 2021 IRM application. In its decision and rate order for Newmarket-Tay Power's 2020 IRM application, the OEB stated that:[50]

> The OEB directs Newmarket-Tay Power to include a request for disposition of Account 1576 for the NTRZ, on a final basis, in its 2021 rate application. The amount to be requested for disposition is to include a forecast of 2020, along with proposed changes to base rates.

In this application, Newmarket-Tay Power has proposed final disposition of a credit balance of $1,948,249 in Account 1576, representing a refund to the NTRZ's ratepayers. In addition to disposition, Newmarket-Tay Power has proposed to adjust its base rates to align the capitalization and depreciation policies in rates to those policies that were adopted by Newmarket-Tay Power in January 2012. The proposed base rate adjustment, starting in the 2021 rate year, results in an annual revenue requirement increase of $221,070.[51]

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[48] EB-2018-0055
[49] EB-2018-0055, page 19
[50] EB-2019-0055, page 17
[51] Response to NTRZ-Staff-17

Account 1576 Disposition

OEB staff submits that it supports final disposition of the balance in Account 1576, subject to the recalculation of the balance using the 2020 unaudited capital additions and depreciation figures.[52]

In its response to an OEB staff interrogatory, Newmarket-Tay Power provided the 2020 unaudited actual figures for its net capital additions and depreciation and compared these figures to the original submission.[53] OEB staff notes that by using these figures, the credit balance of Account 1576 would increase by $163,717. OEB staff submits that the Account 1576 balance should be updated with the 2020 unaudited actual figures, rather than the amounts originally forecast when filed in November 2020. The 2020 actual figures represent a greater degree of accuracy, as compared to the forecast, and OEB staff sees no compelling reason not to update the Account 1576 balance calculation accordingly.

Adjustment to Base Rates

Staff has considered two issues regarding the adjustment to base rates:

1. Whether the weighted average cost of capital (WACC) should be applied to the rate base differential?
2. If so, what is the appropriate WACC to apply?

Regarding the first issue, OEB staff submits that the application of the WACC to the financial differences arising from the changes of the capitalization and depreciation policies is appropriate. OEB staff is of the view that the purpose of the base rates adjustment is to align NTRZ's capitalization and depreciation policies in rates going forward to the prevailing policies that are in conformance with International Financial Reporting Standards (IFRS). OEB staff notes that this change is similar to a rebasing application, with a narrow scope limited to capitalization and depreciation policies. In a typical rebasing proceeding, the impacts of any accounting policy changes would be reflected in opening rate, and accordingly, would attract a return on capital. It is therefore reasonable to apply the WACC component to these rate base differentials as well.

With respect to the second matter, OEB staff has compiled the 2021 cost of capital parameters, compared to the proposed 2011 cost of capital parameters in Table 5.1 below:

[52] Table 1 provided in the Response to interrogatory NTRZ-Staff-15 c)
[53] Response to NTRZ-Staff-15 c)

Table 5.1: Cost of Capital Parameters

	2011 Cost of Capital Parameters	2021 Cost of Capital Parameters[54]
Short-term Debt Rate	2.43%	1.75%
Long-term Debt Rate	5.48%	2.85%
Return on Equity	9.66%	8.34%
Weighted Average Cost of Capital (WACC)	7.03%	5.00%

OEB staff notes that the relevant cost of capital parameters applied in a rebasing application are those that are approved by the OEB for that particular year, rather than the approved cost of capital parameters applied in utility's last cost of service application.

In its response to an OEB staff interrogatory, Newmarket-Tay Power stated that its proposed approach to use its previously-approved cost of capital parameters is consistent with the one used in an OEB-approved settlement proposal in a prior proceeding, where another distributor was requesting a base rate adjustment for these similar impacts.[55] OEB staff notes that the information referred to and relied upon by Newmarket-Tay Power was used for the calculation of the Account 1576 disposition in that proceeding, and not for the calculation of the base rate adjustment going forward.

OEB staff submits that it does not support the base rates adjustment proposed by Newmarket-Tay Power using its 2011 OEB-approved cost of capital parameters and 2011 working capital allowance of 15%. OEB staff submits that a proxy base rate adjustment should be calculated using the 2021 OEB-issued cost of capital parameters, as well as the 2021 working capital allowance of 7.5%.

Given OEB staff's view that this adjustment is similar to a narrowly-scoped rebasing of Newmarket Tay Power's revenue requirement, OEB staff submits that it would be appropriate to rebase these impacts based on the prevailing 2021 cost of capital

[54] https://www.oeb.ca/industry/rules-codes-and-requirements/cost-capital-parameter-updates
[55] Response to NTRZ-Staff-17 f). Whitby Hydro's 2019 IRM settlement proposal Table 1

parameters and working capital allowance rate. OEB staff notes that the resulting base rates adjustment is a reduction to the 2021 revenue requirement in the amount of $37,374, as opposed to an increase of $221,071, as proposed by Newmarket-Tay Power given its application of its 2011 OEB-approved WACC.[56]

- All of which is respectfully submitted -

[56] Response to NTRZ-Staff-17