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

BY EMAIL

April 4, 2025

Nancy Marconi
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4
Registrar@oeb.ca

Dear Nancy Marconi:

Re: Ontario Energy Board (OEB) Staff Submission
Newmarket-Tay Power Distribution Ltd.
Application for Disposition and Consolidation of Deferral and Variance Accounts
OEB File Number: EB-2024-0309

Please find attached OEB staff's submission in the above referenced proceeding, pursuant to the Combined Notice and Procedural Order No. 1.

Yours truly,

Michael Bell
Digitally signed by Michael Bell
Date: 2025.04.04 12:59:35 -04'00'

Michael Bell
Senior Advisor, Application Policy & Conservation

Encl.

cc: All parties in EB-2024-0309

VT INCEPIT FIDELIS SIC PERMANET
Ontario

ONTARIO ENERGY BOARD

OEB Staff Submission

Newmarket-Tay Power Distribution Ltd.

Application for Disposition and Consolidation of Deferral and Variance Accounts
EB-2024-0309

April 4, 2025

1. Background

Newmarket-Tay Power Distribution Ltd. (NT Power) submitted a revised application on February 11, 2025, to dispose of certain legacy Group 2 deferral and variance account (DVA) balances[1] and to subsequently consolidate all DVAs for its two rate zones: the Midland rate zone (MRZ) and the Newmarket-Tay rate zone (NTRZ). NT Power requested that the rate riders from the proposed disposition be effective from May 1, 2025, to December 31, 2025, to align with the expiry of certain existing rate riders and the 2026 rate year.

Group 2 accounts that were established after NT Power's approved mergers, acquisitions, amalgamations and divestitures (MAADs) transaction[2] are treated as consolidated accounts. NT Power views these as generic accounts established by the OEB that apply to the consolidated entity as a whole.[3]

NT Power intends to track all Group 1 and Group 2 DVAs on a consolidated basis, effective January 1, 2025, upon Ontario Energy Board (OEB) approval of the disposition of certain legacy Group 2 accounts. NT Power plans to file for disposition of Group 1 balances on a consolidated basis in its application for rates effective January 1, 2026.

2. Summary of Disposition Request

NT Power's application comprises two distinct requests: the consolidation of its Group 1 and Group 2 DVAs and the disposition of certain Group 2 legacy accounts. Each is described in detail below.

Consolidate Group 1 and Group 2 DVAs

On October 15, 2024, NT Power filed its application to consolidate Group 1 and certain Group 2 DVAs. Subsequently, NT Power updated its application by including the request for the disposition of certain Group 2 DVA balances to each respective rate zone before the consolidation of these accounts.

NT Power stated that its decision to seek consolidation of its DVAs was driven by several factors, including the opportunity to streamline accounting processes and gain efficiencies during its new Enterprise Resource Planning (ERP) implementation.

Group 2 Legacy Accounts Disposition

NT Power stated that its disposition request is guided by the OEB's Chapter 2 Filing Requirements for Electricity Distribution Rate Applications. The Group 2 accounts consist of legacy accounts specific to the former utilities and accounts established after consolidation. NT Power requests the disposition of unaudited December 31, 2024, for

[1] See Table 1 on p 2. for legacy Group 2 Accounts requested for disposition.
[2] EB-2017-0269, effective September 17, 2018
[3] Application, p. 3

these legacy account balances, except for the Account 1557 Meter Cost Deferral account, which includes the forecast amounts for 2025 to 2027.

NT Power confirms that the 2024 balances requested for disposition are not expected to be different from the audited financial statement values.[4]

A summary of DVAs and any balances requested for disposition are in Table 1 below:

Table 1 – Legacy Group 2 Accounts for Disposition

Account	Total Claim $ NTRZ	Total Claim $ MRZ
1508 – subaccount IFRS Transition Costs	30,711	71,859
1508 – subaccount OEB Cost Assessments	107,921	26,135
1518 – RCVA Retail	161,852	(43,720)
1548 – RCVA STR	65,007	8,037
1557 – Meter Cost Deferral Account	624,733	50,288
1592 – subaccount HST/OVAT ITCs	-	(17,251)
Total per Rate Zone	**990,224**	**95,349**

Proposed Rate Riders and Bill Impacts

NT Power proposed rate riders for the disposition of Group 2 accounts, using the most recent billing determinants and an 8-month disposition period from May 1, 2025, to December 31, 2025. The bill impacts to NTRZ and MRZ residential customers (including the cessation of rate riders expiring on April 30, 2025) are a 1.9% and 0.9% decrease, respectively.

Group 2 Continue/Discontinue

NT Power proposed to discontinue certain Group 2 accounts after disposition and continue others on a consolidated basis, as in Table 2 below:

[4] Application Summary, p. 3

Table 2: Request to Continue/Discontinue Group 2 Accounts Requested for Disposition

Account	NTRZ – Continue? (Yes or No)	MRZ - Continue? (Yes or No)
1508 – subaccount IFRS Transition Costs	No	No
1508 – subaccount OEB Cost Assessments	Yes, on a consolidated basis	
1518 – RCVA Retail	Yes, on a consolidated basis	
1548 – RCVA STR	Yes, on a consolidated basis	
1557 – Meter Cost Deferral Account	No	No
1592 – subaccount HST/OVAT ITCs	N/A	No

<u>Group 2 Consolidated Accounts to be Tracked on a Consolidated Basis</u>

NT Power requested approval to track its Group 1 and Group 2 accounts on a consolidated basis, effective January 1, 2025. This consolidation aligns with the implementation of a new ERP system and is expected to result in significant operational efficiencies and cost savings.

Table 3: Group 2 Accounts to be Tracked on a Consolidated Basis

Account	Name
Account 1508	Sub-account OEB Cost Assessments
Account 1508	Sub-account Pole Attachment Revenue Variance*
Account 1508	Sub-account LEAP EFA Funding Deferral*
Account 1522	P&OPEB Forecast Accrual vs. Actual Cash Payment Differential, Carrying Charges*
Account 1592	Sub-account CCA Changes*
Account 1518	RCVA – Retail
Account 1548	RCVA – STR

*Denotes accounts that NT Power treated on a consolidated basis from inception

NT Power submitted that consolidating DVAs will allow for significant operational efficiencies and cost savings, ultimately benefiting customers.

Account 1592 – subaccount CCA Changes

NT Power did not request to dispose the credit balance of $1.27M[5] pertaining to Account 1592 – subaccount CCA Changes. NT Power stated that it did not request the disposition of Group 2 accounts established after the approved MAADs transaction because it viewed these as generic accounts established by the OEB that apply to the consolidated entity. These consolidated accounts, including Account 1592- sub-account CCA changes will be reviewed and disposed of at the next rebasing application.

3. Staff Submission

Consolidate Group 1 and Group 2 DVAs

Group 1 Accounts

On July 11, 2024, the OEB issued the MAADs Handbook to provide guidance to applicants and stakeholders on applications to the OEB for approval of distributor and transmitter consolidations and subsequent rate applications. Section 5.9 of the MAADs Handbook states that utilities may gain efficiencies by tracking Group 1 accounts on a consolidated basis and encourages utilities to consolidate the accounts as soon as it is practical.

OEB staff submits that NT Power's proposal to consolidate its Group 1 accounts, effective January 1, 2025, is appropriate. The MAADs Handbook explicitly encourages utilities to consolidate Group 1 accounts post-merger to reduce administrative burdens and reflect operational integration. NT Power's merger in 2018 was approved based on eventual harmonization. NT Power stated that consolidating Group 1 accounts will result in NTRZ bills increasing by $0.25/month for residential customers and MRZ bills decreasing by $0.87/month for residential customers.[6] These impacts are modest and transitional, as rate harmonization in 2028 rebasing application will resolve residual inequities.

Group 2 Accounts

Regarding Group 2 accounts, the MAADs Handbook requires utilities to provide a proposal in their MAADs applications on which legacy or new Group 2 accounts are to be tracked on a rate zone basis or consolidated basis going forward, with supporting rationale.[7]

For the legacy group 2 accounts that NT Power requests for disposition, OEB staff supports the consolidation of these accounts after the disposition in this proceeding except Account 1557 – Metering Inside Settlement Time (MIST) Meters. OEB staff agrees that the consolidation after the disposition of these legacy Group 2 accounts

[5] IRR 12, SEC-1
[6] IRR Staff-5
[7] MAADs Handbook, Section 2.2.8

would improve regulatory efficiency. Cross-subsidization impacts may be minimized given the balances in these accounts, except for Account 1557, and are not expected to be material for the remaining rate years until the next rebasing year of 2028.

Account 1557 should be tracked on a rate zone basis until NT Power's next rebasing because the advanced disposition of 2025 to 2027 balances is not warranted. Further details can be found in OEB staff's submission in the section titled "Group 2 Legacy Account Disposition."

For the four Group 2 accounts (in Table 3) that NT Power treated on a consolidated basis from inception, OEB staff does not take issue with the continued tracking of these accounts on a consolidated basis, except for Account 1592 sub-account CCA changes.

In response to interrogatories, NT Power stated that it has operated its capital expenditures and CCA claims on a consolidated basis since before the 1592 sub-account was introduced and it was therefore treated as a consolidated account.[8]

With respect to Account 1592 sub-account CCA changes, OEB staff submits that NT Power has not provided sufficient rationale to operate Account 1592 – sub account CCA Changes on a consolidated basis. In addition, OEB submits that NT Power should provide further justification on how customers are not negatively impacted by the proposed consolidation of Account 1592 – sub-account CCA Changes.

In previous decisions relating to the disposition of Account 1592 – sub account CCA Changes involving the merger of two utilities, the OEB found that Group 2 balances should be disposed to the respective customers of the legacy territories to maintain the cost causality of the accounts.[9] Furthermore, OEB staff notes that the consolidated balance in the account can be allocated to rate zones using certain methodologies (for example, the approved rate bases of each rate zone). OEB staff invites NT Power, in its reply submission, to provide the bill impacts of disposing of the account on a rate zone basis and identify the cross-subsidization impacts to its customers.

<u>Bill Impacts</u>

OEB staff has no concerns with NT Power's request for an 8-month disposition period. There are minimal bill impacts to customers, under 4% for all rate classes in NTRZ and under 3% for all rate classes in MRZ.

Further, OEB staff has no concerns with the disposition of NT Power's unaudited December 31, 2024, balances, given NT Power's assurances that the audited balances will not differ, and because of the regulatory efficiencies achieved.

---

[8] IRR Staff-9

[9] EB-2022-0006, Kitchener-Waterloo, Decision, EB-2021-0280, Brantford Power Inc. and Energy+ Inc, Decision and Order, March 17, 2022, p.16

Group 2 Legacy Account Disposition

Materiality

OEB staff notes that Chapter 2 of 2026 Filing Requirements[10] states that the materiality threshold applies against each of Group 2 DVAs. OEB staff submits that the following accounts do not meet the materiality thresholds[11] of each rate zone and hence should be written off by NT Power:

Table 4 – Group 2 Legacy Accounts Not Meeting Materiality

Account	Total Claim $ NTRZ	Total Claim $ MRZ
1508 – subaccount IFRS Transition Costs	30,711	
1508 – subaccount OEB Cost Assessments		26,135
1518 – RCVA Retail		(43,720)
1548 – RCVA STR	65,007	8,037
1557 – Meter Cost Deferral Account		
1592 – subaccount HST/OVAT ITCs		(17,251)
Total per Rate Zone	**95,718**	**(26,799)**

For the remaining balances meeting the materiality threshold, except for Account 1557 – Meter Cost Deferral Account discussed below, OEB staff submits that NT Power has sufficiently demonstrated that the costs recorded were incremental to those in rates and therefore does not take issue with the requested disposition for these accounts.

In addition, OEB staff supports the disposition of 2024 unaudited balances for these accounts. OEB staff notes that, typically, only audited balances are disposed of.[12] However, in the disposition of certain accounts, the OEB may consider disposing

[10] Chapter 2 Filing Requirements for Distributors - 2025 Edition for 2026 Rate Applications, p. 7
[11] IRR Staff-3, NT Power calculated the materiality threshold for NTRZ as $85k and MRZ as $50k, as derived from the former utilities' last approved revenue requirements.
[12] Section 2.9, Chapter 2 Filing Requirements for Electricity Distribution Rate Applications – 2025 Edition for 2026 Rate Applications, December 9, 2024, indicates that explanations are required if the account balances in the continuity schedule differ from the account balances in the trial balance reported through the Electricity RRR and documented in the distributor's audited financial statements.

forecast amounts up to the effective date of rebased rates.[13] There are certain instances where OEB staff has supported the inclusion of forecast amounts in deferral account dispositions – such as Account 1592 – sub-account CCA Changes or Account 1508 – sub-account Pole Attachment Revenues - when there are regulatory efficiencies to be gained and provided the distributor can forecast with reasonable accuracy.[14]

OEB staff submits that all legacy Group 2 accounts should be closed upon final disposition except for Account 1557 – Meter Cost Deferral Account. NT Power may continue to use Account 1557 to track the revenue requirement relating to 2025-2027 on a rate zone basis, as discussed in detail below.

Account 1557 - Meter Cost Deferral Account (MIST)

Account 1557 - Meter Cost Deferral Account was established to track incremental capital and OM&A costs relating to the regulation of Metering Inside the Settlement Timeframe (MIST) meters. NT Power incurred the capital costs of this project in 2020 and 2021 and subsequently recorded the annual revenue requirement impact of MIST meters from 2020 to 2027 in Account 1557. NT Power is requesting amounts pertaining to 2025 to 2027 for disposition as these amounts are known and will not change.

In response to interrogatories, when asked why NT Power was requesting to collect costs that would not be incurred by the time of the implementation of the DVA rate riders, NT Power responded that:1) it would be able to subsequently discontinue the account, thereby reducing the administrative efforts to NT Power to maintain all the sub-accounts pertaining to Account 1557 and 2) intergenerational inequity associated with customers paying for these meter costs several years after they were incurred will be minimized, which better aligns beneficiary with payee.[15]

Staff Submission

OEB staff submits that NT Power's disposition of Account 1557 should be limited to the annual revenue requirement for 2020 to 2024.

OEB staff submits that recovery of costs yet to be incurred beyond the effective date of rebased rates is not appropriate because there are no precedent cases that OEB staff is aware in which OEB approves the cost recovery or revenue requirements in advance of the occurrence of the costs or the associated rate year. In one response to OEB Staff's interrogatory, NT Power referred to the smart meter funding adders provided to the utilities in the sector during the smart meter implementation. However, OEB staff notes that the smart meter funding adder mechanism completely differs from the advance cost

[13] Section 2.9, Chapter 2 Filing Requirements for Electricity Distribution Rate Applications - 2025 Edition for 2026 Rate Applications, December 9, 2024
[14] Festival Hydro (EB-2024-0023), Westario Power (EB-2023-0058), OEB Staff Submission, Kingston Hydro Cost of Service, EB-2022-0044. OEB Staff Submission, PUC Distribution Cost of Service, EB-2022-0059
[15] IRR Staff-3

recovery request made by NT Power in this proceeding. The smart meter funding adder provides the seed money to the utilities in the sector to implement a policy in Ontario with subsequent true-up mechanisms through the disposition rate riders. However, NT Power's request for meter deferral costs in advance is specific and unique to one utility.

Given OEB staff's position on the disposition of 2024 balances in Account 1557, OEB staff is of the view that NT power should continue tracking the 2025 to 2027 balances and propose the 2027 balance in its 2028 rebasing application. OEB staff does not view the continued tracking of the balances on a rate zone basis for this account as significantly impairing regulatory efficiency.

~All of which is respectfully submitted~