On April 4, 2025, the School Energy Coalition ("SEC"), the Vulnerable Energy Consumers Coalition ("VECC") and Ontario Energy Board Staff ("OEB Staff") filed submissions on Newmarket-Tay Power Distribution Ltd.'s ("NT Power") application to dispose of certain legacy Group 2 deferral and variance account ("DVA") balances and to subsequently consolidate all DVAs for its two rate zones.

It appears that SEC, VECC and OEB Staff generally support NT Power's application but raise issues with discrete aspects of the application. NT Power responds to each of these issues in turn below. NT Power would like to note at the outset that the goal of its application was to eliminate the need to track DVA accounts by rate zone. Requiring NT Power to continue to track even just one account (e.g. Account 1557 – MIST Meters or Account 1592 – CCA Changes) on a rate zone basis undermines the ability for NT Power to achieve the anticipated efficiencies.

1. Materiality Threshold for Disposition

SEC, VECC and OEB Staff argue that materiality thresholds apply against DVAs for each of the rate zones. Where a DVA does not meet the materiality threshold for the applicable rate zone, it is asserted that the balance in the account should be written off by NT Power. Each of SEC, VECC and OEB Staff identify DVA accounts that, in their view, should be written off by NT Power based on the Ontario Energy Board's ("OEB") Chapter 2 Filing Requirements for Electricity Distribution Rate Applications ("Filing Requirements").[1] SEC did not explain why the Midland rate zone's ("MRZ") Account 1518 – RCVA Retail with a credit balance of $44k to be returned to ratepayers was excluded from the list as an account that should be denied disposition.

NT Power disagrees that materiality applies to the disposition of DVAs. The cited Filing Requirements relied upon by SEC, VECC and OEB Staff only speaks to materiality for the establishment of a new DVA. A materiality threshold is not applied to the disposition of a DVA account. This position aligns with what the OEB states in the Decision and Order for Hydro One's 2018 custom IR application:[2]

> The OEB notes that the materiality thresholds for deferral and variance accounts in the OEB's Filing Requirements for Distribution Rate Applications – Chapter 2 Cost of Service are for the purposes of determining whether a new account will be established. The OEB will therefore not use

[1] Chapter 2 Filing Requirements for Electricity Distribution Rate Applications - 2025 Edition for 2026 Rate Applications, December 9, 2024
[2] EB-2017-0049 Decision and Order, Hydro One Networks Inc., p.168, March 7, 2019

> the materiality thresholds for determining whether balances recorded in an existing account will be disposed.

Indeed, in the Decision and Order for EPCOR's 2023 cost of service rate application, the OEB did not apply a materiality threshold to the disposition of Account 1508 - OEB Cost Assessment.[3] The OEB rejected SEC and VECC's arguments to write off the balance as annual principal entries were below EPCOR's materiality threshold. Furthermore, the OEB did not approve SEC's proposal to treat materiality on DVA dispositions akin to a Z-factor, an argument SEC made in this proceeding as well. Contrary to SEC's assertion, there is nothing to indicate in that Decision and Order that recovery of DVA balances related to the disallowance of other amounts elsewhere. NT Power does not agree with SEC that the OEB approved disposition of Account 1508 – OEB Cost Assessment by making trade-offs on disallowances elsewhere. NT Power submits that the OEB would not commit an error of law by engaging in horse trading, but instead assessed each DVA on its own merits in that proceeding.

NT Power also notes that in the Decision and Order for Hydro One Networks Inc. – Peterborough and Orillia rate zones' 2023 IRM application, the OEB also approved Group 2 accounts that were below the materiality threshold.[4]

NT Power also notes that the total of the "non-material" Group 2 accounts parties argued to be denied disposition is above materiality and significant to NT Power, and would result in a single-year cost to be incurred in the form of an immediate asset impairment. For example, SEC's suggestion to write off Accounts 1508 – IFRS Transition Costs, 1508 - OEB Cost Assessment, and 1548 - RCVA STR in the NTRZ would total $205,704 alone. Furthermore, writing off these accounts solely based on materiality wastes the administrative efforts of NT Power for tracking those DVAs, and the efforts NT Power and parties have spent on the issue in this proceeding.

Accordingly, NT Power requests the OEB dispose of the DVAs as proposed.

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[3] EB-2022-0028 EPCOR Decision and Order, p32, June 15, 2023

[4] EB-2022-0040 HONI Decision and Order, p.18, December 8, 2022. Account 1518 and 1548 for ($347) and Account 1555 Smart Meter Capital Recovery Offset Variance Account for $43,104, were under materiality of $50k and approved for disposition.

2. Disposition of Account 1508 - OEB Cost Assessment

SEC and VECC request that the OEB deny approval for the recovery of any amounts in Account 1508 – OEB Cost Assessment on the following bases: (i) the account is below the materiality threshold; and (ii) NT Power did not make correct entries into the DVA as the account balance should be adjusted for annual rate increases regarding the amount of cost assessments embedded in rates. NT Power addressed arguments about materiality of this account above.

NT Power submits that the balance in the account is calculated appropriately and aligns with the OEB's Decision and Order for EPCOR's 2023 cost of service rate application. The OEB rejected VECC's argument in that proceeding that EPCOR improperly calculated the balance in Account 1508 – OEB Cost Assessment as it did not escalate the amount embedded in rates by the annual rate adjustments.[5] The OEB approved disposition of the account without any annual rate adjustments.

Furthermore, there is no language in the OEB's letter establishing Account 1508 - OEB Cost Assessment that directs the amount embedded in rates to be escalated by the IRM adjustment.[6] In addition, in the OEB's guidance for the predecessor account that recorded variances pertaining to 2004 and subsequent years, the example provided in the guidance did not incorporate any rate adjustments to the amount embedded in rates.[7]

SEC referenced the COVID-19 related cost account to support its argument. NT Power notes the OEB expected recovery for Account 1509 – Impacts Arising from COVID-19 to be only on an exceptional basis[8], and therefore, is not an appropriate comparison to the Account 1508 - OEB Cost Assessment, which applies generically to all distributors and has been approved for disposition for many distributors. NT Power is of the view that for variance accounts such as this, the OEB has not set any requirement or expectation that the default approach to determining amounts embedded in rates are to be escalated by the annual rate adjustments, as evidenced by guidance the OEB has provided on various generic Group 2 variance accounts.[9] Furthermore, the OEB's guidance for Account 1522

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[5]EPCOR Electricity Distribution Ontario Inc, EB-2022-0028 Decision and Order, p.32, June 15, 2023. Balance calculation shown in Application, Exhibit 9, Tab 1, Schedule 1, p.14

[6] OEB letter: Revisions to the Ontario Energy Board Cost Assessment Model, February 9, 2016

[7] OEB letter: Deferral Account to record OEB Cost Assessments under the Accounting Procedures Handbook, December 20, 2004. Amount embedded in rates is referenced as the 1999 amounts in revenue requirement.

[8] Report of the OEB, Regulatory Treatment of Impacts Arising from the COVID-19 Emergency, EB-2020-0133, June 17, 2021, p.3

[9] Examples include:

- Pension & OPEB Forecast Accrual versus Actual Cash Payment Differential states "The approved accrual amount embedded in rates **is not to change or escalate** during an IRM or Custom IR term except in cases where in a Custom IR term, updated forecasts for subsequent years of the term were approved" [Emphasis added].[10] NT Power notes that the OEB has accepted this approach in approving disposition of these Group 2 accounts.[11]

3. Disposition and Tracking of Account 1557 – MIST Meters

SEC, VECC and OEB Staff do not dispute the balances for the 2020 to 2024 period or the forecasted balances for the 2025 to 2027 period for Account 1557 – MIST Meters. In fact, SEC noted that the balance simply reflects the revenue requirement associated with MIST Meter costs previously incurred. SEC, VECC and OEB Staff: (i) do not object to the disposal of this account for 2020 to 2024; (ii) object to disposal of this account for costs from 2025 to 2027; and (iii) submit that the 2025 to 2027 amounts in this account should continue to be tracked on a rate zone basis until rebasing since it does not "significantly impair" regulatory efficiency. While the parties do not dispute the amounts for recovery, NT Power's application is disputed on the basis that current recovery of costs that will be incurred beyond the effective date of the application is inappropriate.

NT Power disagrees that disposal and consolidation of the Account 1557 now is improper and will not result in meaningful regulatory efficiency. NT Power submits that disposal for 2020 to 2027 amounts is appropriate in these circumstances. First, the forecasted amounts for 2025 to 2027 are known, fixed and will not change. Second, NT Power already incurred the full capital cost in 2020 and 2021 and no further capital costs will be recorded in this account. Third, only current customers that move in or move out of NT Power's service territory in 2026 or 2027 will be affected, which NT Power anticipates

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1) Account 1508, Pole Attachment Revenue Variance Account (Accounting Guidance for Wireline Pole Attachment Charges, December 16, 2021),
2) Account 1508 LEAP EFA Funding Deferral Account (Final Rate Order, EB-2023-0135, February 12, 2024),
3) Account 1511 Incremental Cloud Computing Implementation Costs (Accounting Order (003-2023) for the Establishment of a Deferral Account to Record Incremental Cloud Computing Arrangement Implementation Costs, November 2, 2023, and Cloud Computing Implementation Costs Generic Deferral Variance Account Q&As, February 15, 2024

[10] Report of the OEB: Regulatory Treatment of Pension and Other Post-employment Benefits (OPEBs) Costs EB-2015-0040, p.21, September 14, 2017

[11] For example, the OEB approved the disposition of the following utilities Account 1508, Sub-account Pole Attachment Revenue, where the balances were calculated based on amounts embedded in rates that were not adjusted for rate adjustments: Festival Hydro Inc. (EB-2024-0023, Application Exhibit 9, p.15, Table 9-7), Orangeville Hydro Limited (EB-2023-0045, Application Exhibit 9, p.33, Table 9-20)

would be a small number of customers.[12] A customer that remains in NT Power's service territory will be indifferent.

In the alternative, and to alleviate the concerns raised, NT Power submits that that the OEB could approve the solution that was proposed during interrogatories, which included the proposed annual rate riders for this alternative proposal.[13] This alternative would allow NT Power to recover the future MIST meter revenue requirement through an annual rate rider effective January 1, 2026 until rebasing. For clarity, this would mean:

- Recovery of amounts pertaining to 2020 to 2025 in Account 1557 through rate riders for each of NTRZ and MRZ effective May 1, 2025 to December 31, 2025;

- Recovery of amounts pertaining to 2026 in Account 1557 through rate riders for each of NTRZ and MRZ effective January 1, 2026 to December 31, 2026; and,

- Recovery of amounts pertaining to 2027 in Account 1557 through rate riders for each of NTRZ and MRZ effective January 1, 2027 to December 31, 2027.

NT Power submits that this rate framework will fully address all parties' concerns regarding aligning rate-zone specific cost recovery to the customers that should bear the costs and will allow NT Power to avoid further rate-zone tracking of the account. NT Power submits this would be a better alternative than the parties' suggestion to dispose the 2026 and 2027 amounts in the 2028 rebasing application, which would still result in intergenerational inequities. NT Power's alternative proposal would perfectly align timing of cost recovery with the customers that should bear those costs, fully eliminating any intergenerational inequity.

Continuing to track and dispose Account 1557 on a rate-zone basis as part of NT Power's 2028 rebasing application will lead to many inefficiencies. Firstly, this account will be brought forth for a prudence review again in the rebasing application when the balance and calculations supporting the balance have already has been reviewed and are undisputed by parties in this proceeding. It will also prevent NT Power from fully harmonizing its rates in the rebasing application - all rates will be harmonized except for that sole Group 2 rate rider. This may cause confusion for customers as NT Power is one

[12] If 2026 and 2027 amounts are recovered by NT Power in 2025, current customers that move out in 2026 or 2027 would pay for costs pertaining to 2026 and 2027 that they should not be responsible for as they are not NT Power's customers in 2026 and 2027. Contrarily, customers that move in during 2026 or 2027 will not pay for costs pertaining to 2026 and 2027 that they are responsible as it would already have been recovered by NT Power in 2025.

[13] IRR3 – Staff3, part 6, Table 3

entity that would have rebased with harmonized distribution rates at that point, but will still refer to rate zones from 10 years earlier under two separate tariff sheets.

Furthermore, disposing Account 1557 to two rate zones in the future will require NT Power to maintain its billing system for two rate zones, which unnecessarily complicates billing implementation and maintenance of the billing system, raising costs for all customers.

NT Power's proposal of the annual rate rider effective January 1, 2026 will allow NT Power to achieve the full operational and regulatory efficiencies it originally planned for in terms of resources, ERP implementation, accounting, billing systems, regulatory processes etc. Given that there are no other reasons for NT Power to maintain rate zone DVAs (Account 1592 is addressed below), NT Power is strongly opposed to continue tracking Account 1557 by rate zone due to the many inefficiencies that will arise, especially when NT Power has identified a solution via an annual rate rider that satisfies all parties' concerns.

4. Consolidation of Account 1592, Sub-account CCA Changes

OEB Staff argues that NT Power has not provided sufficient rationale to operate Account 1592 – CCA Changes on a consolidated basis. Based on two prior decisions, OEB Staff submits that cost causality requires that balances accumulated in Account 1592 to be disposed to customers of legacy territories. OEB Staff requested NT Power to provide (i) further justification on how customers are not negatively impacted by consolidation of the account; (ii) the bill impacts of disposition on a rate zone basis; and (iii) identify the cross-subsidization impacts to its customers.

NT Power submits that customers will not be harmed by the consolidation of the Account 1592. The two decisions referenced by OEB Staff, along with North Bay-Espanola MAADs decision,[14] actually supports the consolidation of NT Power's Account 1592. In these decisions the OEB generally found that legacy Group 2 accounts should be held separately by rate zone during the deferred rebasing period, but made exceptions for certain Group 2 accounts, including any new balances that arises in Account 1592 post-consolidation. NT Power's Account 1592 balance, since the first recorded transaction, arose post-consolidation, and therefore, should be tracked and disposed as such, aligned with the noted decisions.[15]

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[14] EB-2021-0312 Decision and Order, p.23, March 17, 2022,

[15] The OEB's guidance on Account 1592 required balances to be recorded starting from November 21, 2018, (Accounting Direction Regarding Bill C-97 and Other Changes in Regulatory or Legislated Tax Rules for Capital Cost Allowance, July 25, 2019) which is after the OEB's approval of NT Power's MAADs application in its April 23, 2018 decision (EB-2017-0269 Decision and Order, April 23, 2018,).

In the North Bay-Espanola MAADs decision, the OEB found that new amounts in Account 1592 will be combined since taxes will be paid by the new utility as a single entity.[16] NT Power agrees with the OEB's rationale for tracking Account 1592 balances on a consolidated basis post-consolidation. The Account 1592 balance is calculated based on tax return capital additions and NT Power has been operating as a consolidated entity, filing one consolidated tax return since consolidation. Furthermore, the credit balance recorded in the account is to return to ratepayers the tax benefit that NT Power has already claimed on capital assets that will be incorporated into the consolidated PILs in NT Power's next rebasing application. Allocating the Account 1592 balance to rate zones (whether by rate base or any other measure) when it pertains to consolidated PILs would be arbitrary and counter intuitive.

Though NT Power strongly believes that it would be inappropriate to track and dispose Account 1592 on a rate zone basis, NT Power provides the information OEB staff requested in Tables 1 to 4 below:

- Tables 1 and 2 - For each rate zone, NT Power calculated the rate riders from disposing the 2024 Account 1592 balance on a rate zone basis[17] and rate riders from disposing the balance on a consolidated basis.

- Tables 3 and 4 – For each rate zone, based on current approved January 1, 2025 bill impacts, NT Power calculated expected bills from disposing the Account 1592 balance on a rate zone basis, and disposing the balance on a consolidated basis.

The differences to customer bills between disposing Account 1592 on a rate zone basis versus a consolidated basis are lower than 0.03% of the bill for the Newmarket-Tay rate zone (NTRZ) and lower than 0.11% of the bill for MRZ for all rate classes. Given the very small differences in bills, NT Power submits that disposing on a consolidated basis will not harm customers and will instead, achieve many benefits. As previously noted, consolidating accounts will allow for significant operational and regulatory efficiencies including tracking, accounting and disposing accounts, and billing the related riders, which can reasonably be translated to a more efficient and effective organization to serve customers. In addition, it will also allow NT Power to have one tariff when it harmonizes distribution rates in the next rebasing application, instead of having two different tariffs for

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[16] EB-2021-0312 Decision and Order, p.23, March 17, 2022,

[17] Where the total Account 1592 is allocated to each rate zone based on approved rate base of the former utilities as suggested by OEB staff in its submission (p.5), and rate riders are calculated based on billing determinants applicable for each rate zone.

one consolidated entity, where the only difference between the tariffs is the Group 2 rate rider.

Table 1 – NTRZ Rate Riders Disposing on Rate Zone vs. Consolidated Basis

Rate Class	Units	Rate Rider from Disposing Rate Zone Specific Balance ($)	Rate Rider from Disposing Consolidated Balance ($)	Difference ($)
Residential	# of Customers	(1.18)	(1.15)	0.03
GS<50	kWh	(0.0017)	(0.0017)	0.0000
GS>50	kW	(0.6708)	(0.6694)	0.0013
USL	kWh	(0.0017)	(0.0017)	0.0000
Sentinel	kW	(0.6427)	(0.6337)	0.0090
Streetlight	kW	(0.6184)	(0.6098)	0.0086

Table 2 – MRZ Rate Riders Disposing on Rate Zone vs. Consolidated Basis

Rate Class	Units	Rate Rider from Disposing Rate Zone Specific Balance ($)	Rate Rider from Disposing Consolidated Balance ($)	Difference ($)
Residential	# of Customers	(1.01)	(1.15)	(0.14)
GS<50	kWh	(0.0016)	(0.0017)	(0.0001)
GS>50	kW	(0.6563)	(0.6694)	(0.0132)
USL	kWh	(0.0016)	(0.0017)	(0.0001)
Streetlight	kW	(0.5787)	(0.6098)	(0.0311)

Table 3 – NTRZ Bills from Disposing on Rate Zone vs. Consolidated Basis

Customer Class	kWh/# of customer	kW	RPP vs Non-RPP	Bill - Dispose on Rate Zone Basis ($)	Bill - Dispose on Consolidated Basis ($)	$ Difference	% Difference
Residential	1		RPP	136.28	136.31	0.03	0.02%
GS<50 kW	2,000		RPP	356.07	356.11	0.05	0.01%
GS 50 to 4,999 kW	237,500	500	Non-RPP	41,106.93	41,107.68	0.75	0.00%
USL	200		RPP	41.60	41.61	0.00	0.01%
Sentinel Lighting	475	1	RPP	80.02	80.03	0.01	0.01%
Street Lighting	474,500	1,000	Non-RPP	81,132.58	81,142.30	9.72	0.01%

Table 4 – MRZ Bills from Disposing on Rate Zone vs. Consolidated Basis

Customer Class	kWh/# of customer	kW	RPP vs Non-RPP	Bill - Dispose on Rate Zone Basis ($)	Bill - Dispose on Consolidated Basis ($)	$ Difference	% Difference
Residential	1		RPP	140.55	140.41	(0.14)	(0.10%)
GS<50 kW	2,000		RPP	338.16	337.98	(0.17)	(0.05%)
GS 50 to 4,999 kW	210,000	500	Non-RPP	36,318.66	36,311.22	(7.44)	(0.02%)
USL	275		RPP	53.85	53.83	(0.02)	(0.04%)
Street Lighting	46,300	115	Non-RPP	7,823.54	7,819.49	(4.05)	(0.05%)

5. <u>Discontinuation of Accounts 1518, 1548 – RCVAs</u>

NT Power agrees with OEB staff's submission to discontinue Accounts 1518 and 1548 – RCVAs after disposition in this proceeding.

6. <u>Proceeding Scope</u>

SEC argues that, on the basis of fairness, the OEB should require NT Power to seek disposition of the remainder of its consolidated Group 2 account balances in its 2026 IRM application. VECC, on the other hand, accepted NT Power's reasoning to dispose of legacy Group 2 accounts to each specific rate zone.

NT Power emphasizes that SEC's proposal to dispose of all Group 2 accounts significantly expands the scope of this proceeding. Argument is not the appropriate time for SEC to raise scoping issues and SEC should have raised its concerns much earlier. Procedural Order No. 1 clearly delineated the scope of this proceeding as a request by NT Power "…to dispose of **<u>certain legacy</u>** Group 2 deferral and variance account (DVA) balances and to consolidate all DVAs for its two rate zones, the Midland rate zone and the Newmarket-Tay rate zone." [Emphasis added]

The intention of NT Power's application, guided by the recent MAADs Handbook, was to achieve greater operational and regulatory efficiencies from managing consolidated DVAs. There was initially no desire from NT Power to dispose of accounts prior to rebasing. Instead, legacy accounts are being requested for disposition now because OEB staff expressed a strong preference for disposition prior to consolidation.

Requiring NT Power to request disposition of consolidated Group 2 accounts in its 2026 IRM application, and then to have the remaining balance undergo another prudence review in the 2028 cost of service application would be an unnecessary, inefficient regulatory process and burden. Furthermore, disposing Group 2 accounts in the otherwise mechanistic 2026 IRM application would be a burdensome panel proceeding. Disposition of consolidated Group 2 accounts would also require NT Power to implement another rate rider in 2026 rates, which would require additional efforts in billing implementation.

It is also important to consider the rate volatility that can arise from disposing Account 1592 in 2026 (an account which SEC cited specifically), and again in 2028. The balance in the account naturally reverses over time (i.e. amounts begin as credits, subsequently become smaller and may even reverse into debits). Therefore, rate volatility can be expected if NT Power disposes credits in 2026 and debits later. This is a sub-optimal outcome for all ratepayers. On the other hand, disposing the account at rebasing would offset and return to customers, the higher PILs in distribution rates at rebasing (which arises from lower CCA deductions in the test year as higher CCA deductions were claimed under the accelerated CCA program prior to rebasing). Disposing of Account 1592 at rebasing, instead of prematurely in 2026, naturally balances and offsets that higher PILs cost at rebasing, keeping rates stable and matching costs and benefits.

- All of which is respectfully submitted -