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

BY EMAIL

November 11, 2022

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

Dear Ms. Marconi:

Re: Ontario Energy Board (OEB) Staff Submission
Toronto Hydro-Electric System Limited
Application for 2023 Rates
OEB File Number: EB-2022-0065

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

Yours truly,

Georgette Vlahos

Digitally signed by Georgette Vlahos
Date: 2022.11.11 15:55:51 -05'00'

Georgette Vlahos
Advisor – Electricity Distribution: Major Rate Applications & Consolidations

Encl.

cc: All parties in EB-2022-0065

ONTARIO ENERGY BOARD

OEB Staff Submission

Toronto Hydro-Electric System Inc.

2023 Rates Application

EB-2022-0065

November 11, 2022

Application Summary

Toronto Hydro-Electric System Limited (Toronto Hydro) filed a 2023 Custom Incentive Rate-setting (IR) Annual Update application with the Ontario Energy Board (OEB)[1] seeking approval for changes to its electricity distribution rates to be effective January 1, 2023.

For Toronto Hydro, the OEB approved a five-year Custom IR framework that covers the years 2020 to 2024.[2] For Toronto Hydro's Custom IR framework, rates were approved through a cost of service application for the first year (2020) and are adjusted mechanistically through a custom price cap adjustment for each of the ensuing four (adjustment) years. In each of the adjustment years, Toronto Hydro is required to file an application to implement the OEB's approved framework as set out in the initial decision along with certain other adjustments.[3]

Toronto Hydro's approved custom price cap index (CPCI) formula is $I – X + C_n – S_{cap} \times (I + X_{cap}) – g$, where:

- I is an adjustment for inflation based on the OEB's methodology and updated annually
- X is the sum of the productivity and stretch factors based on the OEB's methodology with one exception; the stretch factor is set at 0.6% for the term of the plan and not updated annually
- C_n is the capital factor value updated annually
- S_{cap} is the capex scale updated annually
- X_{cap} is an incremental stretch factor on capital
- g is the growth factor value set at 0.2% for the term of the plan

The OEB approved the values for all elements of the CPCI formula for the entire duration of the Custom IR period, except for the inflation factor, which is to be updated annually.[4]

On October 20, 2022, the OEB issued the Input Price Index (IPI) applicable for 2023. The 2023 IPI is calculated as 3.7% in accordance with the OEB's methodology.[5]

[1] Under section 78 of the *Ontario Energy Board Act, 1998*
[2] EB-2018-0165, Decision and Order, December 19, 2019
[3] These include pass-through costs such as those that are incurred by Toronto Hydro for settling with the Independent Electricity System Operator on behalf of its customers. These costs are tracked in deferral or variance accounts.
[4] See Tab 2, Schedule 1, Page 4 of the current application for a table which outlines the approved components of the CPCI.
[5] Letter of the OEB - 2023 Inflation Parameters, October 20, 2022

As part of its interrogatory responses, Toronto Hydro updated its Rate Generator Model[6] to incorporate the OEB-approved 2023 inflation factor. As a result of the update for the 2023 IPI, the base increase for distribution rates becomes 6.42% under Toronto Hydro's approved Custom IR framework.[7]

Toronto Hydro also requested an update to its Retail Transmission Service Rates (RTSRs) to recover the wholesale transmission rates charged by the IESO. Toronto Hydro used the current OEB-approved Uniform Transmission Rates (UTRs) for calculating the RTSRs. OEB staff notes that in the event the UTRs change effective January 1, 2023, OEB staff will update Toronto Hydro's 2023 Rate Generator Model to reflect the impacts of any changes in the UTRs before the issuance of a decision.

This submission reviews the following topics:

- Group 1 Deferral and Variance Accounts (DVAs)
- Group 2 DVA True-ups
- Foregone Revenue DVA
- Proposed New Sub-account under the Capital-Related Revenue Requirement Variance Account (CRRRVA) for the Depreciation Policy Update
- Lost Revenue Adjustment Mechanism
- Other Rates and Charges

[6] Toronto Hydro is using its own version of the Rate Generator Model, associated models and spreadsheets, to accommodate the unique features of its approved Custom Incentive Rate-setting plan for 2020-2024.
[7] EB-2022-0065, THESL_IRR_1-Staff-2_App A_2023 Rate Generator Model_20221028, Tab 16

OEB Staff Submission

Group 1 Deferral and Variance Accounts (DVAs)

DVA Overview – Background

Toronto Hydro requested the disposition of its December 31, 2021 Group 1 DVA balances in the amount of $53,446,260 on a final basis and is requesting the disposition over a 12-month period. The components of this balance are shown in Table 1. The Group 1 account balances exceed the OEB's $0.001/kWh threshold for disposition. The OEB most recently approved the disposition of Toronto Hydro's Group 1 account balances on a final basis, as of December 31, 2019, as part of its 2021 rates proceeding.

Table 1: Group 1 DVA Balances

Account Name	Account Number	Principal Balance ($) A	Interest Balance ($) B	Total Claim ($) C=A+B
Low Voltage Variance Account	1550	1,197,053	25,384	1,222,437
Smart Metering Entity Charge Variance Account	1551	(454,326)	(47,853)	(502,180)
RSVA - Wholesale Market Service Charge	1580	7,706,396	(20,414)	7,685,982
Variance WMS – Sub-account CBR Class B	1580	(2,598,577)	34,990	(2,563,587)
RSVA - Retail Transmission Network Charge	1584	50,589,055	898,611	51,487,666
RSVA - Retail Transmission Connection Charge	1586	1,285,654	(38,948)	1,246,706
RSVA - Power	1588	13,441,608	125,582	13,567,190
RSVA - Global Adjustment	1589	(17,855,052)	(135,458)	(17,990,510)
Disposition and Recovery/Refund of Regulatory Balances (2016)	1595	1,191,920	(347,907)	844,013
Disposition and Recovery/Refund of Regulatory Balances (2018)	1595	998,874	(1,926,697)	(927,823)
Disposition and Recovery/Refund of Regulatory Balances (2019)	1595	(966,147)	342,513	(623,635)
Totals for Group 1 accounts		54,536,457	(1,090,196)	53,446,260

DVA Overview – Submission

OEB staff supports the disposition of Toronto Hydro's December 31, 2021 Group 1 DVAs on an interim basis, excluding the sub-accounts listed below which OEB staff submits should not be disposed at this time.

- Account 1595 (2016)
- Account 1595 (2018)
- Account 1595 (2019)

OEB staff submits that the OEB should also consider not disposing the balances in the accounts listed below at this time, pending the filing of Toronto Hydro's reply submission, which may remedy some of the concerns noted below.

- Account 1588
- Account 1589

OEB staff notes that other Group 1 account balances (i.e., other than those subject to the internal reviews) may also potentially be impacted by the outcomes of the internal reviews recommended by OEB staff in the sections below. Therefore, OEB staff submits that disposing of these other Group 1 balances on an interim basis is appropriate at this time.

Account 1595 - Background

As per Table 1, Toronto Hydro is requesting the disposition of Account 1595 (2016), Account 1595 (2018), and Account 1595 (2019) in the current proceeding.

OEB staff notes that throughout this proceeding, Toronto Hydro has changed some components of the Account 1595 balances, although the total claimed amounts have not changed for each of these accounts. OEB staff has summarized some of these changes in Table 2, Table 3, and Table 4 below, including the applicable cell references from Tab 3 of the 2023 Rate Generator Model. OEB staff notes that the amounts in Table 2, Table 3, and Table 4 reflect some of the components of the Account 1595 (2016), Account 1595 (2018), and Account 1595 (2019) balances, as opposed to the total claim amounts reflected in column BT of Tab 3 of the 2023 Rate Generator Model.

Table 2: Changes in the "OEB-Approved Disposition During 2016" Components of the Account 1595 (2016) Balances

Account Name	"OEB-Approved Disposition During 2016" Cells		
	August 23, 2022 Balance ($)	September 6, 2022 Balance ($)	October 28, 2022 Balance ($)
Account 1595 Disposition and Recovery/Refund of Regulatory Balances (2016) Principal Balance, Cell G31	0	(45,304,160)	(63,715,659)
Account 1595 Disposition and Recovery/Refund of Regulatory Balances (2016) Interest Balance, Cell L31	0	(131,074)	18,730
Total	0	(45,435,234)	(63,696,929)

Table 3: Changes in the "OEB-Approved Disposition During 2018" Components of the Account 1595 (2018) Balances

Account Name	"OEB-Approved Disposition During 2018" Cells		
	August 23, 2022 Balance ($)	September 6, 2022 Balance ($)	October 28, 2022 Balance ($)
Account 1595 Disposition and Recovery/Refund of Regulatory Balances (2018) Principal Balance, Cell AA33	0	83,532,293	82,293,661
Account 1595 Disposition and Recovery/Refund of Regulatory Balances (2018) Interest Balance, Cell AF33	0	(121,812)	1,116,820
Total	0	83,410,481	83,410,481

Table 4: Changes in the "OEB-Approved Disposition During 2019" Components of the Account 1595 (2019) Balances

Account Name	"OEB-Approved Disposition During 2019" Cells		
	August 23, 2022 Balance ($)	September 6, 2022 Balance ($)	October 28, 2022 Balance ($)
Account 1595 Disposition and Recovery/Refund of Regulatory Balances (2019) Principal Balance, Cell AK34	0	(7,836,356)	(7,413,269)
Account 1595 Disposition and Recovery/Refund of Regulatory Balances (2019) Interest Balance, Cell AP34	0	0	(423,087)
Total	0	(7,836,356)	(7,836,356)

Toronto Hydro confirmed that the "Disposition and Recovery/ Refund of Regulatory Balances (2016 and pre-2016)" account referenced in the 2023 Rate Generator Model relates only to the 2016 sub-account of Account 1595.[8] Toronto Hydro further stated that while these 2016 sub-account amounts relate to the 2015 Custom IR proceeding, the balances were transferred to Account 1595 in March of 2016.[9]

Despite the changes in the Account 1595 (2016), Account 1595 (2018), and Account 1595 (2019) balances, as shown in Table 2, Table 3, and Table 4, the total claims for each of these sub-accounts (as shown in Table 1) have not changed throughout the course of the proceeding. This is because Toronto Hydro has revised some of the amounts in the "Transactions" columns for both principal and interest to offset any changes in the "OEB-Approved Disposition" columns in Tab 3 of the 2023 Rate Generator Model. Toronto Hydro has also revised some principal and interest amounts relating to these sub-accounts that were previously comingled.

Account 1595 - Submission

Although Toronto Hydro has explained some changes in the components of the Account 1595 (2016), Account 1595 (2018), and Account 1595 (2019) balances requested for

[8] EB-2022-0065, Update of Evidence Letter to the OEB, September 6, 2022
[9] Toronto Hydro noted that this transfer was in alignment with the March 1, 2016 rates implementation approved in that application. Toronto Hydro confirmed that this sub-account contains no balances from the 2015 or any prior-year sub-accounts.

disposition, OEB staff questions whether the total claims for these accounts are correct. OEB staff also notes that each of the total claims for these sub-accounts is not material, as listed above in Table 1, as they are all less than the $1 million materiality threshold.[10] However, OEB staff is not certain that these amounts will remain immaterial once the concerns laid out below have been addressed.

OEB staff's concerns relating to Account 1595 (2016), Account 1595 (2018), and Account 1595 (2019) are as follows:

1. Toronto Hydro has put three different iterations of the components of the balances relating to Account 1595 (2016), Account 1595 (2018), and Account 1595 (2019) on the record of this proceeding, despite that the total claim amounts for each of these sub-accounts remain unchanged.
2. It is not clear whether some of the amounts in the "Transactions" columns for both principal and interest are correct, given that they have also changed to offset any changes in the "OEB-Approved Disposition" columns. For example, it appears that regarding Account 1595 (2016), some of the $18,261,695 change shown in the above Table 2 may have been reclassified between the "OEB-Approved Disposition" columns and the "Transactions" columns, based on a response to an interrogatory.[11]
3. These accounts have large interest balances, relative to the principal balances, as well as showing as opposite signs (e.g., credit interest balances and debit principal balances), but were explained in the interrogatory responses for Account 1595 (2016) and Account 1595 (2018) balances. No explanation was provided for the revised Account 1595 (2019) interest balance of a debit of $342,513, which is high and has the opposite sign compared to a principal balance of a credit of $966,147.
4. Regarding the composition of Account 1595 (2016), Toronto Hydro did not refer to the relevant evidence filed in the 2015 Custom IR proceeding, as requested by OEB staff in an interrogatory.[12] OEB staff is unclear whether Toronto Hydro's updated Account 1595 (2016) evidence reflects the amounts approved for disposition by the OEB in its 2015 Custom IR proceeding. OEB staff was unable to reconcile some of the amounts provided in the interrogatory response to the information on the record for the 2015 Custom IR proceeding and what should have been transferred to Account 1595.
5. Although the impacts are immaterial, Toronto Hydro has not included the impact

[10] Filing Requirements For Electricity Distribution Rate Applications - 2022 Edition for 2023 Rate Applications, Chapter 2, Cost of Service, April 18, 2022, p. 6
[11] EB-2022-0065, THESL_IRR_2023Update_20221028, OEB Staff-6, October 28, 2022, Table 1: Reconciliation of 2015 CIR Approved Disposition to Rate Generator Model Continuity Schedule for 1595 (2016) Amounts. $18,261,695 is the sum of the amounts in the "Total Variance" column.
[12] EB-2022-0065, THESL_IRR_2023Update_20221028, OEB Staff-6, October 28, 2022

of Account 1551, Smart Metering Entity Charge Variance Account, in Account 1595 (2016), Account 1595 (2018), and Account 1595 (2019).

For these reasons, OEB staff submits that the OEB should direct Toronto Hydro to perform an internal review of its Account 1595 (2016), Account 1595 (2018), and Account 1595 (2019) balances to ensure that its account balances being requested for disposition are correct.

The results of this review should be filed with Toronto Hydro's next rate application, after completion of the internal review. In this next rate application, Toronto Hydro should confirm that the balances in Account 1595 (2016), Account 1595 (2018), and Account 1595 (2019) that are being requested for disposition are accurate and have been adjusted accordingly based on the result of the internal review. OEB staff submits that Toronto Hydro should quantify the adjustments made to Account 1595 (2016), Account 1595 (2018), and Account 1595 (2019) and provide supporting calculations and explanations for each adjustment. Sufficient detail should be filed with the OEB to support balances proposed for disposition in Toronto Hydro's next application, after completion of the internal review.

Accounts 1588 and 1589 - Background

As per Table 1, Toronto Hydro is requesting the disposition of Accounts 1588 and 1589 in the current proceeding.

Regarding Account 1589, Toronto Hydro has recorded principal adjustments of a credit of $12,259,095 for 2020 and a debit of $368,714 for 2021, in the Principal Adjustments tab of the Global Adjustment (GA) Analysis Workform.[13] These amounts reconcile to the values reported in the 2023 Rate Generator Model. However, these principal adjustments do not reconcile to the values shown in Tab GA 2020 and Tab GA 2021 of the GA Analysis Workform.

Toronto Hydro is of the view that these principal adjustments are not reconciling items and do not need to be recorded in Tab GA 2020 and Tab GA 2021.[14] Toronto Hydro's viewpoint is based on its interpretation of the OEB's Instructions for Completing GA Analysis Workform – 2023 Rates (the Instructions).[15] Toronto Hydro stated that according to the Reconciling Item and Principal Adjustments table on page 11 of the Instructions, Toronto Hydro meets the criteria for when a principal adjustment is required, but a reconciling item is not required (i.e. Toronto Hydro calculates the expected GA balance in Note 4 based on estimated consumption and its General

[13] EB-2022-0065, THESL_IRR_1-Staff-10_App A_2023 GA Analysis Workform_20221028
[14] EB-2022-0065, THESL_IRR_2023Update_20221028, OEB Staff-10, October 28, 2022
[15] Instructions for Completing GA Analysis Workform – 2023 Rates, May 27, 2022

Ledger balance excludes unbilled to actual revenue true-up).

Accounts 1588 and 1589 – Submission

Regarding the Account 1589 balance, in OEB staff's view, Toronto Hydro has misinterpreted the Instructions.

Tab GA 2020 and Tab GA 2021 should also include the principal adjustments shown on the Principal Adjustments tab of the GA Analysis Workform. Regarding Note 5 of the GA Tab, page 6 of the Instructions states that "for each reconciling item, indicate which of the amounts are included as principal adjustments on the DVA Continuity Schedule. Reconciling items may or may not be principal adjustments depending on the nature of the item."

OEB staff submits that it is clear that all principal adjustments should also be reflected in Note 5 of the respective GA Tabs (in addition to reconciling items that are not principal adjustments). OEB staff requests that in the reply submission, Toronto Hydro is to include its Account 1589 principal adjustments in Note 5 of Tab GA 2020 and Tab GA 2021.

OEB staff submits that if the revised cell C93 (i.e., Unresolved Difference as % of Expected GA Payments to IESO) on each of Tab GA 2020 and Tab GA 2021 is greater than the threshold of +/- 1%, Toronto Hydro should provide an explanation.

OEB staff recommends that if the above-noted revised cell C93 on each of Tab GA 2020 and Tab GA 2021 is within the threshold of +/- 1%, and if Toronto Hydro provides an adequate explanation, nothing further is required.

However, if this revised cell C93 on each of Tab GA 2020 and Tab GA 2021 is not within the threshold of +/- 1%, and if Toronto Hydro's explanation is not satisfactory to the OEB, OEB staff submits that the OEB should direct Toronto Hydro to perform an internal review of its Accounts 1588 and 1589 balances to ensure that its account balances being requested for disposition are correct. The Accounts 1588 and 1589 balance should be reviewed in conjunction, given the interconnectivity of the accounts.

The results of this review should be filed with Toronto Hydro's next rate application, after completion of the internal review. In this next rate application, Toronto Hydro should confirm that the balances in Account 1588 and Account 1589 that are being requested for disposition are accurate and have been adjusted accordingly based on the result of the internal review. OEB staff submits that Toronto Hydro should quantify the adjustments made to Account 1588 and Account 1589 and provide supporting calculations and explanations for each adjustment. Sufficient detail should be filed with

the OEB to support balances proposed for disposition in Toronto Hydro's next application, after completion of the internal review.

Group 2 DVA True-ups

Background

In Toronto Hydro's 2020 Custom IR decision, the OEB approved the disposition of Group 2 DVA balances and Other Amounts[16] on a forecast basis.[17] In the subsequent rate order, the OEB approved Toronto Hydro's proposal to true up any variance between the forecast principal and interest amounts and the actual principal and interest amounts in Account 1595, and to dispose of the true-up in the year that the underlying account is disposed.[18]

In accordance with the OEB's direction in that application, two accounts, the Capital-Related Revenue Requirement Variance Account (CRRRVA) and PILs and Tax Variances – CCA Changes, were approved for disposition starting on January 1, 2023, and are therefore subject to a true-up as part of this application.

The true-up balance amount is a $3.1 million debit in Toronto Hydro's favour.[19] Toronto Hydro stated that clearance of the $3.1 million would result in rate riders above the $0.0001/kWh materiality threshold.[20]

As opposed to using a separate rater rider in the current proceeding to clear the $3.1 million balance, Toronto Hydro stated that it prefers to follow the same treatment as approved for other Group 2 true-up balances in the 2021 and 2022 annual update applications and defer these balances for clearance with residual balances (i.e., transfer to Account 1595 (2023)).[21] In addition, Toronto Hydro stated that while a rate rider is not its preferred approach, Toronto Hydro is prepared to implement one to clear the Group 2 true-up balance, should the OEB find it to be more appropriate.[22]

Two other accounts are subject to true-up as part of the current proceeding. These accounts are the Operating Centres Consolidation Program (OCCP) and the Gain on Sale of 50/60 Eglinton Avenue accounts.

Toronto Hydro stated that "for the OCCP account the forecast overestimated the

[16] Other Amounts represent balances that have accumulated but for which Toronto Hydro did not previously request OEB approval to establish a DVA to capture these balances.
[17] EB-2018-0165 Decision and Order, December 19, 2019, page 177 & 178
[18] EB-2018-0165 Decision and Rate Order, February 20, 2020, page 4
[19] EB-2022-0065, THESL_IRR_2023Update_20221028, OEB Staff-13, October 28, 2022
[20] EB-2022-0065, Tab 2, Schedule 1, Page 5; EB-2008-0046, *Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR)*, July 31, 2009, page 13
[21] EB-2022-0065, THESL_IRR_2023Update_20221028, OEB Staff-13, October 28, 2022
[22] Ibid

amount owed to customers by $1.7 million" (i.e., a $1.7 million debit amount).[23] There is no true-up amount generated from the Gain on Sale of 50/60 Eglinton Avenue account because the disposition of this account is now complete and there is no resulting variance to be transferred to Account 1595.[24]

However, in an interrogatory response, Toronto Hydro clarified that it is not proposing to transfer the $1.7 million true-up amount to any account.[25] Toronto Hydro explained that due to the unique context around this account, the $1.7 million true-up amount does not represent an actual balance recorded in the OCCP account that Toronto Hydro needs to recover from customers through a rate rider or transfer to an appropriate 1595 sub-account for future clearance.

Toronto Hydro further stated that at the time of clearance of Account 1595 (2020), it intends to reconcile and clear the variance related to the OCCP account.

Submission

OEB staff does not take issue with Toronto Hydro transferring the true-up amount of a debit of $3.1 million to Account 1595 (2023), instead of utilizing a separate rate rider in the current proceeding to clear this balance. OEB staff submits that this treatment is appropriate, as it is consistent with the recent treatment of other Group 2 true-up amounts as set out in Toronto Hydro's 2020 Custom IR decision.

However, although Toronto Hydro has provided a table in an interrogatory response titled "Table 1: Group 2 True-up Rate Riders", not enough detail was provided showing the dollar balance of the $3.1 million being allocated to each rate class, the billing determinants used to generate the rate rider, the proposed allocator, and the proposed rate rider start and end periods.[26] OEB staff requests that Toronto Hydro provide this detail in its reply submission, if the OEB decides to clear the $3.1 million amount via the alternative rate-rider approach.

OEB staff is not clear why Toronto Hydro has originally presented the $1.7 million as a true-up amount in the current application and then in an interrogatory response stating that it should be addressed when Toronto Hydro clears Account 1595 (2020), despite the explanation provided by Toronto Hydro.[27] OEB staff submits that this issue can be analyzed further at the time when Toronto Hydro requests clearance of Account 1595 (2020), rather than in the current proceeding.

[23] EB-2022-0065, Tab 2, Schedule 1, Page 6, September 6, 2022; EB-2022-0065, THESL_IRR_2023Update_20221028, OEB Staff-14, October 28, 2022
[24] EB-2022-0065, Tab 2, Schedule 1, Page 5, September 6, 2022
[25] EB-2022-0065, THESL_IRR_2023Update_20221028, OEB Staff-14, October 28, 2022
[26] EB-2022-0065, THESL_IRR_2023Update_20221028, OEB Staff-13, October 28, 2022
[27] EB-2022-0065, THESL_IRR_2023Update_20221028, OEB Staff-14, October 28, 2022

Forgone Revenue DVA

Background

Toronto Hydro requested that the OEB make its rate order effective January 1, 2023, notwithstanding that the OEB's decision and order approving its rates and other charges may not be delivered until after that date.[28]

In the alternative, Toronto Hydro requested the establishment of an interim order making Toronto Hydro's current distribution rates and charges effective on an interim basis as of January 1, 2023. Toronto Hydro also requested the establishment of an account to recover any differences between the interim rates and the actual rates effective January 1, 2023, based on the OEB's decision and order.

OEB staff noted that in certain previous proceedings,[29] the OEB has approved a rate rider to capture forgone revenue resulting from an implementation date for approved new rates that were subsequent to the effective date of such rates, rather than establishing a DVA to capture such impacts.

In a response to an interrogatory, Toronto Hydro stated that the use of forgone revenue rate riders is an acceptable alternative to the establishment of a new account to capture foregone revenue, should it be required.[30]

Submission

OEB staff agrees with Toronto Hydro that the use of forgone revenue rate riders is an acceptable alternative to the establishment of a new account to capture forgone revenue, should it be required, but only upon OEB approval. OEB staff's view is that there would be regulatory efficiencies to be gained and less intergenerational inequity by utilizing forgone revenue rate riders in the current proceeding, rather than clearing a DVA in a future proceeding related to forgone revenue from the current proceeding.

As part of its reply submission, OEB staff invites Toronto Hydro to notify the OEB of the date by which it would require a final Tariff of Rates and Charges to be able to implement rates effective January 1, 2023, subject to OEB approval.

[28] EB-2022-0065, Tab 1, Schedule 1, Page 2
[29] For example, EB-2021-0016, E.L.K. Energy Inc., Decision and Rate Order, June 30, 2022, p. 5
[30] EB-2022-0065, THESL_IRR_2023Update_20221028, OEB Staff-11, October 28, 2022

Proposed New Sub-account under the Capital-Related Revenue Requirement Variance Account (CRRRVA) for the Depreciation Policy Update

Background

In the 2020 Custom IR decision and order, the OEB directed Toronto Hydro to file, in its next rebasing application, its annual useful lives reviews or a new depreciation study.[31] The depreciation study that Toronto Hydro has been using was completed in August 2009.[32]

Toronto Hydro stated that in preparation for its 2025 rebasing application, a third-party depreciation study is currently underway.[33] The final results of the study are expected at the end of 2022 and Toronto Hydro intends to implement the revised useful lives as of January 1, 2023.

Toronto Hydro further stated that preliminary results indicate changes in financial useful lives that will likely lead to an overall net decrease to the depreciation expense for 2023 and 2024. Toronto Hydro expects there will be a material variance, to the benefit of customers, in the approved versus actual depreciation expense that underlies the 2023 and 2024 CPCI [Custom Price Cap Index].

In its pre-filed evidence, Toronto Hydro proposed to separately track the difference in revenue requirement impacts between the existing and updated depreciation rates over 2023 and 2024 in a new sub-account of its existing CRRRVA.[34] Toronto Hydro stated that the new sub-account would be asymmetrical in favour of customers, consistent with the CRRRVA. However, in an interrogatory response, Toronto Hydro agreed that a new account of Account 1508, Other Regulatory Assets, rather than a new sub-account under the existing CRRRVA should be established.[35] Toronto Hydro proposed that the new account be cumulative in nature, consistent with the mechanism in the existing CRRRVA.

Regarding the causation, materiality, and prudence criteria[36] to establish the new sub-account, Toronto Hydro stated the following:[37]

- Causation: Toronto Hydro's rates for 2023-2024 were derived using existing depreciation rates. Therefore, any changes to those depreciation rates will be

[31] EB-2018-0165, Decision and Order, December 19, 2019, page 146
[32] EB-2022-0065, Tab 4, Schedule 1, Page 1, August 23, 2022
[33] EB-2022-0065, Tab 2, Schedule 1, Page 11, September 6, 2022
[34] EB-2022-0065, Tab 2, Schedule 1, Page 12, September 6, 2022
[35] EB-2022-0065, THESL_IRR_2023Update_20221028, OEB Staff-16, October 28, 2022
[36] Filing Requirements For Electricity Distribution Rate Applications - 2022 Edition for 2023 Rate Applications, Chapter 2, Cost of Service, April 18, 2022, page 64 & 65
[37] EB-2022-0065, THESL_IRR_2023Update_20221028, OEB Staff-16, October 28, 2022

outside that base.

- Materiality: Given the comprehensive nature of the study (which covers all asset classes), and the evolution in construction processes and materials since 2009, it is reasonable to assume that the net impacts of the changes in useful lives coming out of this study will exceed the materiality threshold.
- Prudence: Toronto Hydro proposes an asymmetrical account that could only result in a payable balance in favour of rate payers. The final determination of prudence will be made at the time of disposition of the account when the OEB approves the new depreciation useful lives.

Toronto Hydro proposed to record the revenue requirement impact between the existing and updated depreciation rates in the new sub-account.[38] Toronto Hydro proposed the revenue requirement impact approach to calculate the balance in the new account for the updated depreciation rates. This approach involves the recording of the revenue requirement impact of the existing and updated depreciation rates to capture differences of return on equity, deemed interest, depreciation, and PILs, as well as attracting carrying charges on the account balance. In its response to an interrogatory, Toronto Hydro stated that it has proposed not to apply the same methodology and mechanics as Account 1576, Accounting Changes Under CGAAP.

Toronto Hydro further stated that while both methodologies (the revenue requirement impact method and the Account 1576 method) consider the return on rate base, its proposed revenue requirement impact method captures the additional impacts to the PILs component of revenue requirement and includes carrying charges applied to the balance, both of which drive a balance in favour of customers, as compared to the Account 1576 method. Toronto Hydro is of the view that its proposed approach results in a fair return to the ratepayer, since it encompasses all components of capital-related revenue requirement that is impacted by the change in depreciation.[39]

Toronto Hydro updated its draft accounting order to include an effective date of the new sub-account of January 1, 2023. However, it did not confirm that the account would remain in place until the effective date of its next cost-based rates proceeding.[40]

Toronto Hydro confirmed that it would record the cumulative difference between its net property plant and equipment (PP&E) under its former depreciation policies and its net PP&E under the revised depreciation policies, in the new sub-account, noting that the derived revenue requirement impact would be recorded.

OEB staff noted that the offset to the new sub-account should be recorded to Account

[38] EB-2022-0065, THESL_IRR_2023Update_20221028, OEB Staff-17, October 28, 2022
[39] EB-2022-0065, THESL_IRR_2023Update_20221028, OEB Staff-18, October 28, 2022
[40] EB-2022-0065, THESL_IRR_2023Update_20221028, OEB Staff-18, October 28, 2022

4305, Regulatory Debits, instead of Account 4080, Distribution Services Revenue.[41] Toronto Hydro disagreed and stated that the offset for the new sub-account should be Account 4080, Distribution Services Revenue because:

- The purpose of the new sub-account is to return the excess revenues being earned by Toronto Hydro to its ratepayers.
- This treatment is similar to other current Toronto Hydro DVAs (e.g. CRRRVA, Externally Driven Capital).
- This treatment also aligns with IFRS policy and the offsets will be booked against distribution revenues in its audited financial statements.

Toronto Hydro was asked to quantify the impact of the expected change in depreciation expense for 2023 and 2024, well as any other revenue requirement impacts.[42] Toronto Hydro noted that the depreciation study has not been finalized yet and the expected depreciation expense and revenue requirement impacts are unavailable, pending the results of the study. The utility also noted that the estimated impacts are not necessary for the approval of the requested account. Toronto Hydro further submitted that leaving a fulsome review of the study results and impacts to its next rebasing application would be the preferable path from a regulatory efficiency perspective, rather than submitting incomplete information that will require a reconciliation at rebasing.

In its response to an interrogatory, Toronto Hydro provided an illustrative example for the account balance calculation using its proposed revenue requirement method.[43]

Submission

OEB staff submits that it is appropriate for Toronto Hydro to establish Account 1508, Other Regulatory Assets, sub-account Useful Life Changes, effective January 1, 2023, to track and record the impact from the updated depreciation rates, and to do so in this specific account, rather than to establish a new sub-account of its existing CRRRVA. Toronto Hydro confirmed that the original scope of the CRRRVA established in its 2015 Custom IR proceeding did not include impacts from updating its depreciation useful lives.[44] The account should be established to track the rate base impact over Toronto Hydro's remaining rate term, due to the differences arising from changes in its depreciation rates, as Toronto Hydro's rate base is underpinned by its existing deprecation policy.

OEB staff is also of the view that the establishment of the new account is appropriate

[41] EB-2022-0065, THESL_IRR_2023Update_20221028, OEB Staff-18, October 28, 2022
[42] EB-2022-0065, THESL_IRR_2023Update_20221028, OEB Staff-19, October 28, 2022
[43] EB-2022-0065, THESL_IRR_2023Update_20221028, OEB Staff-17, October 28, 2022
[44] EB-2022-0065, THESL_IRR_2023Update_20221028, OEB Staff-16, October 28, 2022

given that it will benefit ratepayers, as it will be asymmetrical (i.e., in favour of Toronto Hydro's ratepayers). Also the OEB has approved adjustments in the past for periods in between rebasing years for other utilities, but generally using the Account 1576 approach.

OEB staff submits that Toronto Hydro has satisfied the causation, materiality, and prudence criteria required to establish a new DVA.

OEB staff submits that whether Toronto Hydro should use its proposed revenue requirement impact approach, or the Account 1576 approach, should be determined at the time when the balance in the new account is requested for disposition at Toronto Hydro's next cost-based application.

As noted above, although Toronto Hydro was asked to quantify the impact of the expected change in depreciation expense for 2023 and 2024, as well as any other revenue requirement impacts, Toronto Hydro stated that these impacts are unavailable, pending the results of the study.[45] As a result, OEB staff is of the view that there is insufficient evidence on the record for the OEB to decide which approach Toronto Hydro should be using to determine the balances recorded in the new account.

OEB staff submits that Toronto Hydro should bring forward the calculations under both approaches (the revenue requirement impact approach and the Account 1576 approach) to the OEB at the time of disposition of the new DVA. At that time, Toronto Hydro should explicitly show the proposed balance in the new DVA under each approach, explaining the numbers and assumptions used.

When Toronto Hydro presents its revenue requirement approach in the next cost-based rate proceeding, OEB staff submits that Toronto Hydro should also explain its proposed PILs calculation, as OEB staff is not clear whether the calculation presented in the current proceeding is correct. In addition, Toronto Hydro should explain its proposed weighted average cost of capital (WACC) calculation, including why it results in an offset (or debit) to the proposed credit balance to be returned to customers, rather than as an additional credit to the balance (which is consistent with the Account 1576 approach). In conjunction with its explanation regarding the WACC calculation, Toronto Hydro should explain why it has used an average net book value in its calculations, versus a closing amount.

OEB staff is of the view that recording balances in the new DVA (as with any DVA) does not imply the guaranteed refund or recovery of the balances in the account. These amounts will be subject to a prudence review by the OEB when Toronto Hydro seeks

[45] EB-2022-0065, THESL_IRR_2023Update_20221028, OEB Staff-19, October 28, 2022

disposition of the balance in this account in the next cost-based rate proceeding.

OEB staff concludes that many unknowns remain in the current proceeding which, in OEB staff's view, would not permit the OEB to determine at this time which approach Toronto Hydro should be using to calculate the balances in the new sub-account. OEB staff also submits that there has not been sufficient opportunity for testing the proposed calculations in this proceeding, also given that actual numbers are not available. That said, OEB staff has described in the attached Appendix A, the OEB's Account 1576 approach and the merits to using such an approach, for reference purposes. There are also several OEB precedents that utilize the Account 1576 approach.

OEB staff submits that in its reply submission, Toronto Hydro should update its draft accounting order to reflect the following:

- The approach used to calculate the balance in the new sub-account (including the illustrative example that will be attached to the accounting order) will be determined at the time of disposition of the new sub-account, including whether or not carrying charges should be applied.
- The new account will remain in place until the effective date of its next cost-based rates proceeding.
- The cumulative difference between the utility's net PP&E under its former depreciation policies and its net PP&E under the revised depreciation policies will be recorded in the new account.
- Subject to the OEB's approval of which approach should be used to calculate the balances in the account, a return component will be applied to the balance based on the disposition period to determine the amount to be used to calculate rate riders. The WACC to be used and return component will be determined at the time the account is disposed.
- Whether to record the offset to the new account to Account 4305, Regulatory Debits or Account 4080, Distribution Services Revenue will be determined at the time the OEB approves the approach for Toronto Hydro to use to calculate the balances in the account.[46]

Lost Revenue Adjustment Mechanism

Background

Distributors filing an application for 2023 rates are required to seek disposition of all outstanding Lost Revenue Adjustment Variance Account (LRAMVA) balances related to program savings related to Conservation First Framework programs or other

[46] Using Account 4305 is consistent with OEB guidance regarding Account 1576. Please refer to Ontario Energy Board, Accounting Procedures Handbook Guidance, March 2015, Q#6.

conservation programs they delivered unless they do not have complete information on eligible program savings.[47]

Toronto Hydro is not requesting the final disposition of all outstanding LRAMVA balances related to previously established LRAMVA thresholds resulting from its conservation and demand management (CDM) activities.

Toronto Hydro stated:

> …due to the relative timing of the discontinuation of the Conservation First Framework ("CFF") and the 2020-2024 Custom IR application, Toronto Hydro cannot appropriately clear any LRAMVA balances for the current rate period using the previously approved LRAMVA thresholds. Therefore, Toronto Hydro proposes to defer the clearance of the 2020 and 2021 balances, and any future balances within this rate period available at the time, to its next rebasing application.[48]

Toronto Hydro stated that the OEB approved its most recent load forecast and the related CDM forecast for rate-making purposes during the period when the CFF was revoked by the Ministry of Energy, Northern Development and Mines and the future direction on LRAMVA was still unknown. The result is that the approved LRAMVA thresholds include Toronto Hydro CDM programs under the CFF, while the actuals to be used for the LRAMVA calculations include only those programs that the utility continued to manage post-CFF as contractually obligated under the CFF wind-down.

Toronto Hydro states that it intends to propose a modified LRAMVA threshold as part of its next rebasing application.

Submission

The approach proposed by Toronto Hydro to modify the LRAMVA threshold used to calculate the LRAMVA balance is not explicitly addressed in the OEB's CDM Guidelines. OEB staff also notes that a modification to the LRAMVA threshold, if approved, could impact Toronto Hydro's LRAMVA claims for future years in the current rate period prior to rebasing, and (depending on the nature of Toronto Hydro's proposal) may require information on CDM results during these years that is not yet available. For these reasons, OEB staff supports Toronto Hydro's request to address the final disposition of outstanding balances in the LRAMVA in its next rebasing application, which could include consideration of Toronto Hydro's proposal to modify the LRAMVA threshold. At this time, OEB staff takes no position on the substance of Toronto Hydro's

[47] Chapter 3 Filing Requirements, section 3.2.6.1
[48] EB-2022-0065, Tab 2, Schedule 1, Page 10, September 6, 2022

proposal.

Other Rates and Charges

Submission

OEB staff submits that Toronto Hydro's request for the continuation of various rate riders approved in EB-2018-0165, in accordance with their respective effective and termination dates, and of the other rates and charges approved in that application is appropriate.

OEB staff submits that Toronto Hydro's proposal to maintain the monthly service charge for the microFIT class is appropriate at this time as the province-wide charge has not changed.

On September 8, 2022, the OEB issued the letter with regards to the Smart Metering Entity Charge (SMC) to be charged by distributors from January 1, 2023 to December 31, 2027. Effective January 1, 2023, the retail SMC to be charged and collected by electricity distributors from applicable Residential and General Service <50kW customers will be $0.42 per smart meter per month.[49]

Given that Toronto Hydro's uses a 30-day basis for fixed based rates, Toronto Hydro provided the calculation of the SMC to be $0.41 per 30 days.[50]

The OEB's Decision and Order, issued November 3, 2022, established the adjustment for energy retailer service charges, effective January 1, 2023. The OEB's Decision and Order, also issued November 3, 2022, established the generic distribution pole attachment charge for 2023 rates.[51]

OEB staff submits that Toronto Hydro should update its proposed Tariff of Rates and Charges to reflect the impacts of the Decision and Orders noted above and file its updated proposed Tariff as part of its reply submission. The Tariff should also reflect any other changes that may be made by Toronto Hydro as part of its reply submission. Toronto Hydro should also file an updated Bill Impacts Model and Rate Generator Model if any changes are made.

~All of which is respectfully submitted~

[49] OEB Letter, Smart Metering Charge to be Charged by Electricity Distributors from January 1, 2023 – December 31, 2027
[50] EB-2022-0065, THESL_IRR_2023Update_20221028, OEB Staff-1, October 28, 2022
[51] EB-2022-0220, Decision and Order (2023 retailer service charges), November 3, 2022; EB-2022-0221, Decision and Order (distribution pole attachment charge for 2023), November 3, 2022

Appendix A – Account 1576 Approach

In summary, the Account 1576 approach captures the cumulative impact on rate base between the year an accounting policy change takes place and the next rebasing year, as well as any incremental returns earned or forfeited by a utility during the account disposition period.[52]

OEB staff submits that there are some merits for Toronto Hydro to use the Account 1576 approach, as listed below:

- The approach would be consistent with that approved by the OEB in other proceedings, including the one used across the industry in the transition to IFRS.[53]
- The approach was first adopted in 2012,[54] and amended in 2013,[55] to record financial differences arising from accounting changes on the transition to IFRS. This transition required most distributors to, among other things, change their depreciation policy, which is a similar scenario to what Toronto Hydro is proposing in the current proceeding.
- Toronto Hydro disposed of an Account 1575 balance in its 2015 Custom IR proceeding, using a methodology consistent with the Account 1576 methodology.[56] Toronto Hydro then trued-up Account 1575 and disposed of the true-up in its 2020 Custom IR proceeding.[57]
- When the new account is proposed for disposition, using an Account 1576 rate rider is an appropriate disposition method, as it provides flexibility for distributors with varying rate-setting terms. The impact on rates to customers and cash flow to the utility can be considered, based on the most up-to-date information.
- Since a return component is applied upon disposition, no additional carrying charges are required.

[52] More information on the Account 1576 approach, including examples of entries to be made in Account 1576, can be found in the Ontario Energy Board, Accounting Procedures Handbook Guidance, issued July 2012 and March 2015.
[53] The Account 1576 approach was also recently approved by the OEB in certain proceedings. EB-2022-0006, Kitchener-Wilmot Hydro Inc. and Waterloo North Hydro Inc., Decision and Order, June 28, 2022; EB-2021-0280, Brantford Power Inc. and Energy+ Inc., Decision and Order, March 17, 2022; EB-2019-0018, Alectra Utilities Corporation, Partial Decision and Order, January 30, 2020
[54] OEB letter to licensed electricity distributors; Regulatory accounting policy direction regarding changes to depreciation expense and capitalization policies in 2012 and 2013, July 17, 2012
[55] OEB letter to licensed electricity distributors; Accounting Policy Changes for Accounts 1575 and 1576, June 25, 2013
[56] EB-2014-0116, Exhibit 9, Tab 2, Schedule 4, OEB Appendix 2-EC, July 31, 2014, Corrected September 23, 2014
[57] EB-2018-0165, Exhibit 9, Tab 1, Schedule 1, p. 6 & 7, Updated January 21, 2019