



Ontario
Energy
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DECISION AND ORDER

EB-2022-0040

HYDRO ONE NETWORKS INC.

**Application for rates and other charges to be effective
January 1, 2023**

BEFORE: Anthony Zlahtic
Presiding Commissioner

Michael Janigan
Commissioner

December 8, 2022



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1. OVERVIEW

The Ontario Energy Board is approving changes to the rates that Hydro One Networks Inc. (HONI) charges to distribute electricity to its customers, effective January 1, 2023.

As a result of this Decision, there will be changes in rates for service territories formerly served by Orillia Power Distribution Corporation (Orillia Power), and Peterborough Distribution Inc. (Peterborough Distribution).

References to the HONI service areas formerly served by Orillia Power and Peterborough Distribution, are herein referred to as Orillia rate zone and Peterborough rate zone, respectively.

2. CONTEXT AND PROCESS

Background

In 2018, Hydro One Networks Inc. (HONI) filed two (2) applications pursuant to section 86 of the *Ontario Energy Board Act, 1998* (OEB Act), to acquire the distribution businesses of Orillia Power Distribution Corporation (Orillia Power) and Peterborough Distribution Inc. (Peterborough Distribution) and Peterborough Utilities Services Inc. (collectively the MAADs Applications).¹ The MAADs Applications also requested various related approvals under several different sections of the OEB Act.

The OEB approved the MAADs Applications on April 30, 2020 which allowed Hydro One Inc., the parent company of HONI, to purchase all the issued and outstanding shares of Orillia Power, and to purchase, through its subsidiary, the distribution system of the amalgamated corporation of Peterborough Distribution and Peterborough Utilities Services Inc. and subsequently transfer the assets and liabilities of the amalgamated corporation to HONI (collectively the MAADs Decisions).²

The distribution licences for Orillia Power and Peterborough Distribution have been transferred to HONI. The integration of Orillia Power and Peterborough Distribution into HONI's distribution system was completed on June 1, 2021.

In the MAADs Decisions the OEB approved HONI's proposal to defer the rebasing of the consolidated entities for a ten-year period. During years one to five of the deferred rebasing period, all base distribution delivery rates for customers of former Orillia Power and Peterborough Distribution are held to the last approved rates for its respective acquired customers.

IRM Application

HONI filed its application on August 3, 2022 under section 78 of the OEB Act and in accordance with Chapter 3 of the OEB's [Filing Requirements for Incentive Rate-Setting Applications](#) (Filing Requirements).

¹ In EB-2018-0270 (Orillia MAADs Application), the proposed transaction was for Hydro One Inc., the parent company of HONI, to purchase all of the shares of OPDC and then transfer the assets and liabilities of the electricity distribution business from OPDC to HONI. In EB-2018-0242 (Peterborough MAADs Application), the proposed transaction was to amalgamate PDI and PUSI, sell the amalgamated corporation to 1937680 Ontario Inc., a subsidiary of Hydro Inc., and then allow 1937680 Ontario Inc. to dispose of its distribution system and transfer its rate orders to HONI.

² Decision and Order in EB-2018-0270 and Decision and Order in EB-2018-0242, both issued on April 30, 2020

The OEB follows a standardized and streamlined process for hearing incentive rate-setting mechanisms (IRM) applications. In each adjustment year of IRM term, the OEB prepares a Rate Generator Model that includes, as a placeholder, information from the distributor's past proceedings and annual reporting requirements. A distributor will then review, complete, and include the model with its application, and may update the model during the proceeding to make any necessary corrections or to incorporate new rate-setting parameters as they become available.

The Orillia rate zone area consists of approximately 15,000 mostly residential and commercial customers in the City of Orillia. The Peterborough rate zone consists of approximately 37,000 mostly residential and commercial customers in the City of Peterborough, the Town of Norwood and the Village of Lakefield.

Notice of the application was issued on August 19, 2022. Power Worker Union (PWU) and Small Business Utility Alliance (SBUA) requested intervenor status. SBUA also requested cost eligibility. The OEB approved PWU and SBUA as intervenors. The OEB denied SBUA's request for cost eligibility.

The application was supported by pre-filed written evidence and two completed Rate Generator Models and as required during the proceeding, HONI updated and clarified the evidence.

HONI responded to interrogatories from OEB staff. Submissions on the application were filed by OEB staff and HONI. Neither PWU nor SBUA filed submissions.

On November 24, 2022, the OEB issued a letter noting that HONI's reply submission presented, for its Peterborough rate zone, three options on how to proceed with the disposition of Accounts 1588 and 1589 and provided OEB staff and intervenors an opportunity to file submission specific to these three options and for HONI to file a reply submission. OEB staff and HONI filed the submission and reply submission, respectively.

3. DECISION OUTLINE

Each of the following issues is addressed in this Decision, together with the OEB's findings.

- Retail Transmission Service Rates
- Group 1 Deferral and Variance Accounts
- Group 2 Deferral and Variance Accounts
- Lost Revenue Adjustment Mechanism Variance Account

Instructions for implementing HONI's new rates and charges are set out in the final section of this Decision.

This Decision does not address rates and charges approved by the OEB in prior proceedings, such as specific service charges³ and loss factors, which are out of the scope of an IRM proceeding and for which no further approvals are required to continue to include them on the distributor's Tariff of Rates and Charges. There is no annual adjustment as rates are held to the last approved rates for five years in accordance with the MAADs Decisions.

³ Certain service charges are subject to annual inflationary adjustments to be determined by the OEB through a generic order. For example, the Decision and Order EB-2022-0220, issued November 3, 2022 established the adjustment for energy retailer service charges, effective January 1, 2023; and the Decision and Order EB-2022-0221, issued November 3, 2022, established the 2023 Wireline Pole Attachment Charge, effective January 1, 2023.

4. RETAIL TRANSMISSION SERVICE RATES

The Orillia rate zone is fully embedded within HONI's distribution system and the Peterborough rate zone is partially embedded within HONI's distribution system.

To recover its cost of transmission services, HONI requests approval to adjust the retail transmission service rates (RTSRs) that it charges its customers in accordance with the Uniform Transmission Rates (UTRs) and host distributor RTSRs currently in effect.

Findings

As part of its draft rate order (DRO) process, HONI shall update RTSRs based on the current OEB-approved UTRs and host-RTSRs.⁴

UTRs and host-RTSRs are typically approved annually by the OEB. New UTRs and host-RTSRs take effect during HONI's 2023 rate year, any resulting differences (from the prior-approved UTRs and host-RTSRs) are to be captured in Retail Settlement Variance Accounts 1584 (Retail Transmission Network Charge) and 1586 (Retail Transmission Connection Charge).

⁴ EB-2022-0250, Decision and Order, December 8, 2022

5. GROUP 1 DEFERRAL AND VARIANCE ACCOUNTS

In each year of an IRM term, the OEB will review a distributor's Group 1 deferral and variance accounts to determine whether those balances should be disposed. OEB policy states that Group 1 account balances should be disposed if they exceed, on a net basis (as a debit or credit), a pre-set disposition threshold of \$0.001 per kWh, unless a distributor justifies why balances should not be disposed.⁵ If the net balance does not exceed the threshold, a distributor may still request disposition.⁶

HONI proposed to defer the disposition of 2021 Group 1 balances until its 2024 rate application. HONI noted that the 2021 balances include seven months of post-integration data that is recorded on a consolidated basis for the Orillia and Peterborough rate zones, HONI Distribution, and the other acquired utilities.⁷ HONI indicated that the 2021 balances for these entities will not be considered until their 2024 rate application due to their ongoing 2023 cost of service rate application.⁸

Orillia Rate Zone

The 2020 year-end net balance for the Orillia rate zone's Group 1 accounts that are eligible for disposition, including interest projected to December 31, 2022, is a debit of \$1,855,584 and pertains to variances accumulated during the 2017 to 2020 calendar years. This amount represents a total claim of \$0.0061 per kWh, which exceeds the disposition threshold. HONI has requested the final disposition of this amount over a one-year period.

The Orillia rate zone's 2016 Group 1 balances were last approved for final disposition in the former Orillia Power's 2018 rate application.⁹ Subsequently in Orillia Power Distribution's 2019 and 2020 rate applications, Group 1 balances were not disposed as the disposition threshold was not exceeded.¹⁰ No rate application was filed for 2021 rates due to Orillia Power's MAADs application. In HONI's 2022 rate application for the Orillia rate zone, HONI requested, and was approved a deferral to dispose Group 1 accounts because the transfer of Orillia rate zone's customer data was still pending

⁵ Report of the OEB – "Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR)." EB-2008-0046, July 31, 2009.

⁶ OEB letter, "Update to the Electricity Distributors' Deferral and Variance Account Review ("EDDVAR Report"), released July 2009 (EB-2008-0246)", issued July 25, 2014

⁷ Application Summary, p.13

⁸ EB-2021-0110

⁹ EB-2017-0264

¹⁰ EB-2018-0061, EB-2019-0061

integration with HONI's system. In the current proceeding, HONI has requested the final disposition of 2020 Group 1 balances.

Included in the Group 1 accounts are certain variances related to costs that are paid for by a distributor's customers on different bases, depending on their classification. Namely, "Class A" customers, who participate in the Industrial Conservation Initiative, pay for Global Adjustment (GA) charges based on their contribution to the five highest Ontario demand peaks over a 12-month period. "Class B" customers pay for GA charges based on their monthly consumption totals, either as a standalone charge or embedded in the Regulated Price Plan (RPP).¹¹ A similar mechanism applies to Class A and Class B customers for Capacity Based Recovery (CBR) charges.¹² The balance in the GA variance account is attributable to non-RPP Class B customers and is disposed through a separate rate rider. The balance in the CBR Class B variance account is attributable to all Class B customers.

The Orillia rate zone had Class A customers during the period in which variances accumulated so it has applied to have the balance of the CBR Class B variance account disposed through a separate rate rider for Class B customers to ensure proper allocation between Class A and Class B customers.

During the period in which variances accumulated, the Orillia rate zone had customers transition between Class A and Class B. Under the general principle of cost causality, customer groups that cause variances that are recorded in Group 1 accounts should be responsible for paying (or receiving credits) for their disposal. HONI proposed to allocate a portion of the GA and CBR Class B balances to its transition customers, based on their customer-specific consumption levels.¹³ The amounts allocated to each transition customer are proposed to be recovered (or refunded, as applicable), by way of 12 equal monthly installments.

In its submission, OEB staff did not object to HONI's proposal to defer the disposition of its 2021 Group 1 balances for the Orillia rate zone. Furthermore, OEB staff supported HONI's proposal to dispose its 2020 Group 1 balances on a final basis in the current proceeding because OEB staff did not have any concerns over the Orillia rate zone's 2020 Group 1 balances.

HONI did not take issue with OEB staff's submission.

¹¹ For additional details on the Global Adjustment charge, refer to the Independent Electricity System Operator (IESO)'s [website](#).

¹² All Class B customers (RPP and non-RPP) pay the CBR as a separate charge based on their monthly consumption. For additional details on the CBR for Class A customers, refer to the IESO's [website](#).

¹³ Reply Submission Attachment 1 – Updated Appendix E-1 – Orillia 2023 IRM Rate Generator Model, Tab 6.1a "GA Allocation" and Tab 6.2a "CBR B_Allocation"

Findings - Orillia Rate Zone

The OEB approves the disposition of a debit balance of \$1,855,584 as of December 31, 2020, including interest projected to December 31, 2022, for Group 1 accounts on a final basis.

Table 5.1 identifies the principal and interest amounts, which the OEB approves for disposition.

Table 5.1: Orillia Rate Zone Group 1 Deferral and Variance Account Balances

| Account Name | Account Number | Principal Balance (\$) A | Interest Balance (\$) B | Total Claim (\$) C=A+B |
|--|-----------------------|-------------------------------------|------------------------------------|-----------------------------------|
| LV Variance Account | 1550 | 3,394,406 | 198,562 | 3,592,969 |
| Smart Meter Entity Variance Charge | 1551 | (23,349) | (1,559) | (24,908) |
| RSVA - Wholesale Market Service Charge | 1580 | (1,461,985) | (101,699) | (1,563,684) |
| Variance WMS - Sub-account CBR Class B | 1580 | (43,943) | (2,663) | (46,606) |
| RSVA - Retail Transmission Network Charge | 1584 | 176,471 | 2,633 | 179,105 |
| RSVA - Retail Transmission Connection Charge | 1586 | 184,775 | 2,217 | 186,992 |
| RSVA - Power | 1588 | (536,595) | (36,576) | (573,171) |
| RSVA - Global Adjustment | 1589 | 125,072 | 14,054 | 139,126 |
| Disposition and Recovery of Regulatory Balances (2016) | 1595 | 0 | (6,176) | (6,176) |
| Disposition and Recovery of Regulatory Balances (2017) | 1595 | (10,400) | 29,955 | 19,555 |
| Disposition and Recovery of Regulatory Balances (2018) | 1595 | (53,766) | 6,148 | (47,618) |
| Total for Group 1 accounts | | 1,750,688 | 104,897 | 1,855,584 |

The balance of each of the Group 1 accounts approved for disposition shall be transferred to the applicable principal and carrying charge sub-accounts of Account 1595. Such transfer shall be pursuant to the requirements specified in the *Accounting*

Procedures Handbook for Electricity Distributors.¹⁴ The date of the transfer must be the same as the effective date for the associated rates, which is generally the start of the rate year.

The OEB approves these balances to be disposed through final rate riders, charges, or payments, as calculated in the Rate Generator Model. The final rate riders, charges, and payments, as applicable, will be in effect over a one-year period from January 1, 2023 to December 31, 2023.¹⁵

Peterborough Rate Zone

The 2020 year-end net balance for the Peterborough rate zone's Group 1 accounts that are eligible for disposition, including interest projected to December 31, 2022, is a debit of \$2,113,769, and pertains to variances accumulated during the 2017 to 2020 calendar years. This amount represents a total claim of \$0.0028 per kWh, which exceeds the disposition threshold. HONI has requested the disposition of this amount over a one-year period.

Included in the Group 1 accounts are certain variances related to costs that are paid for by a distributor's customers on different bases, depending on their classification. Namely, "Class A" customers, who participate in the Industrial Conservation Initiative, pay for GA charges based on their contribution to the five highest Ontario demand peaks over a 12-month period. "Class B" customers pay for GA charges based on their monthly consumption totals, either as a standalone charge or embedded in the RPP.¹⁶ A similar mechanism applies to Class A and Class B customers for CBR charges.¹⁷ The balance in the GA variance account is attributable to non-RPP Class B customers and is disposed through a separate rate rider. The balance in the CBR Class B variance account is attributable to all Class B customers.

The Peterborough rate zone had Class A customers during the period in which variances accumulated so it has applied to have the balance of the CBR Class B variance account disposed through a separate rate rider for Class B customers to ensure proper allocation between Class A and Class B customers.

¹⁴ Article 220, Account Descriptions, Accounting Procedures Handbook for Electricity Distributors, effective January 1, 2012

¹⁵ 2023 IRM Rate Generator Model HONI Orillia RZ, Tab 6.1 GA, Tab 6.1a GA Allocation, Tab 6.2 CBR B, Tab 6.2a CBR B_Allocation and Tab 7 Calculation of Def-Var RR

¹⁶ For additional details on the Global Adjustment charge, refer to the Independent Electricity System Operator (IESO)'s [website](#).

¹⁷ All Class B customers (RPP and non-RPP) pay the CBR as a separate charge based on their monthly consumption. For additional details on the CBR for Class A customers, refer to the IESO's [website](#).

During the period in which variances accumulated, the Peterborough rate zone had customers transition between Class A and Class B. Under the general principle of cost causality, customer groups that cause variances that are recorded in Group 1 accounts should be responsible for paying (or receiving credits) for their disposal. HONI has proposed to allocate a portion of the GA and CBR Class B balances to its transition customers, based on their customer-specific consumption levels.¹⁸ The amounts allocated to each transition customer are proposed to be recovered (or refunded, as applicable), by way of 12 equal monthly installments.

Proposed Disposition in Consideration of Peterborough Distribution's Audit

The Peterborough rate zone's 2016 Group 1 balances were last approved for final disposition in the former Peterborough Distribution's 2018 rate application.¹⁹ In Peterborough Distribution's 2019 rate application, the OEB did not approve the disposition of Group 1 balances. In Peterborough Distribution's 2019 Decision and Order, the OEB noted concerns with Accounts 1588 and 1589 and found that an audit of Peterborough's December 31, 2017 balances in Accounts 1588 and 1589 was necessary. The OEB stated that it expected Peterborough Distribution to file a report in its next rate application outlining the changes it made to its RPP settlement processes and any adjustments it made to its Account 1588 and Account 1589 balances, explaining each.²⁰

Peterborough Distribution did not file rate applications for 2020 and 2021 rates due to its MAADs application. In HONI's 2022 rate application for the Peterborough rate zone, the OEB approved a deferral to dispose of Group 1 accounts because the transfer of Peterborough rate zone's customer data was still pending integration with HONI's system, and the audit that was directed in Peterborough Distribution's 2019 Decision and Order was still pending.

In the pre-filed evidence in the current proceeding, HONI requested final disposition of the 2020 Peterborough rate zone Group 1 balances and stated that it does not believe an audit is necessary prior to the disposition for various reasons. One reason was that Peterborough Distribution identified corrections relating to a reporting error, which it has corrected and included in its Audited Financial Statements (AFSs) as at July 30, 2020. HONI also stated that there may be certain limitations as to the type of data available for an audit since HONI did not acquire Peterborough Distribution's accounting systems.²¹

¹⁸ Reply Submission Attachment 3 – Updated Appendix F-1 – Peterborough 2023 IRM Rate Generator Model, Tab 6.1a “GA Allocation” and Tab 6.2a “CBR B_Allocation”

¹⁹ EB-2017-0266

²⁰ EB-2018-0067, Decision and Rate Order, March 28, 2019

²¹ Application, Appendix D, pages 1-2

In its submission, OEB staff agreed with HONI's proposal to defer the disposition of the Peterborough rate zone 2021 Group 1 balances. However, OEB staff submitted that the 2020 Group 1 balance should not be disposed in this proceeding because the audit that was directed in the 2019 Decision and Order is still pending. OEB staff submitted that the audit is still necessary for a number of reasons, including:

- OEB staff's view that there was insufficient evidence on the record to assess the reasonability of the Account 1588 and 1589 balances,
- OEB staff's concerns with the accuracy of Account 1588 and 1589 balances, noting that the 2017 and 2018 balances in Account 1588 are considered high as the OEB's standard reasonability test for Account 1588 shows that 2017 and 2018 balances in Account 1588 as a percentage of Account 4705 are 6% and 5% respectively, exceeding the 1% standard threshold.

In HONI's reply submission, HONI stated that it believes the OEB's direction for an audit in Peterborough Distribution's 2019 Decision and Order has been satisfied as Peterborough Distribution subsequently reviewed and corrected historical RPP settlements and recorded the adjusting journal entries, which were part of the Group 1 balances that were audited by its auditor. HONI further stated that the sale of Peterborough Distribution did not include its billing system and even if an audit was still necessary, HONI does not have the necessary information required to carry it out. Regarding the Account 1588 reasonability test showing that the 2017 and 2018 balances in Account 1588 as a percentage of Account 4705 are high, HONI submitted that there was a certain degree of bias to this test.

In its reply submission, HONI provided three options for the OEB's consideration:

1. The OEB may approve the Account 1588 and 1589 balances for disposition on a final basis as requested by HONI
2. The OEB may order an audit as requested by OEB staff
3. The OEB could consider applying an adjustment to the Account 1588 and 1589 balances based on OEB staff's calculation of Account 1588 as a percentage of Account 4705. The OEB could apply the percentage as a downward adjustment to any debit transactions in 2017, 2018 and 2019 to the benefit of ratepayers. HONI provided an example using a 6% reduction that would result in a refund to customers totaling \$238,434 relating to Accounts 1588 and 1589.

With respect to Option 2, HONI submitted that if the OEB deems an audit is still required, the OEB should provide clear direction on the party responsible for completing an audit.

Three Options

OEB staff further submitted on the three options presented. OEB staff disagreed with Option 1 as the concerns raised in its original submission remain unchanged. OEB staff also acknowledges that Option 2 may not be productive because HONI indicated that there is insufficient data to carry out an audit. As a compromise, OEB staff supported a modified Option 3, applying a 30% reduction to the 2020 Account 1589 balance. OEB staff noted that HONI's proposed Option 3 of applying a 6% reduction based on the balance in Account 1588 as a percentage of Account 4705 – Purchase Power (Account 1588 test), as provided in HONI's reply submission is an arbitrary reduction as the Account 1588 test is a reasonableness test that only acts as a general guide to flag the potential need for further investigation when the test exceeds 1%. The Account 1588 test also has no direct correlation to Account 1589.

In its reply to OEB staff's submission, HONI noted that the 6% reduction as proposed in Option 3 was not arbitrary as it was based on the OEB staff calculation provided in OEB staff's submission.²²

OEB staff also submitted that a 30% reduction to the 2020 Account 1589 debit balance (i.e. reduction of \$790,885 balance for Account 1589) is more appropriate, based on similar findings made by OEB in HONI's 2022 rate proceeding for the Norfolk Power, Haldimand County Hydro and Woodstock Hydro service territories (HONI-Acquired Utilities proceeding) for its Group 2 balances.²³ OEB staff stated its views that the basis for the mechanistic review of Group 1 accounts assumes that the accounting of Group 1 accounts is accurate, which is questionable for the Peterborough rate zone's Group 1 accounts in this proceeding. OEB staff noted Group 1 accounts are commodity pass-through accounts, where a utility has the responsibility to keep complete and accurate records to ensure that it makes no profit or loss on the accounts. OEB staff also indicated that like the HONI-Acquired Utilities proceeding, HONI has not been able to provide adequate supporting documentation for Accounts 1588 and 1589 as the balances relate to the pre-integration period with HONI.

HONI submitted that OEB staff's proposed reduction of 30% is arbitrary and excessive, noting differences in circumstances between this proceeding and the HONI-Acquired Utilities proceeding:

- There is a lower risk of error with Group 1 accounts compared to Group 2 accounts and Group 1 accounts should not be subjected to the same magnitude of reductions as Group 2 accounts

²² OEB staff submission, October 26, 2022, pg. 7

²³ EB-2021-0033, Decision and Order, December 16, 2021

- In the HONI-Acquired Utilities proceeding, HONI was unable to provide meaningful evidence to support the account balances, whereas in the current proceeding, Peterborough Distribution identified and rectified the issue, and adjusted Group 1 balances, which were included in July 30, 2020 AFS.

HONI also noted that the 30% reduction in the HONI-Acquired Utilities proceeding was based on the OEB's judgement on the specific detail of that case. Also, HONI noted that its downward adjustment applied to both Accounts 1588 and 1589, while OEB staff's modified Option 3 did not consider any adjustments to the credit balance in Account 1588.

In its submission, OEB staff also acknowledged that HONI did not acquire Peterborough Distribution's billing system, but it also did not make a significant effort to retain documentation that supports the account balances.

In its reply submission, HONI noted that it did make its best efforts to support the balances of Accounts 1588 and 1589, however, the majority of the requests were addressed after the sale and it was challenging for Peterborough Distribution to locate and provide all the requested data. HONI further submitted that if OEB staff conducted an audit in 2019 as planned it would have access to all data needed to complete the audit.

Findings - Peterborough Rate Zone

The OEB agrees with HONI's suggestion as supported by OEB staff to defer the disposition of the Peterborough rate zone 2021 Group 1 balances together with all of the Acquired Utilities in 2024. The OEB however has determined that the 2020 Peterborough rate zone Group 1 balances will be disposed of over a one-year period on a final basis in this proceeding subject to the findings below.

There is a lack of reliable accounting evidence to assess the reasonableness of the disposition of Accounts 1588 and 1589 for 2017, 2018, and 2019 on a final basis as suggested by HONI. In Peterborough Distribution's 2019 Decision and Order, the OEB found that an audit of Peterborough's December 31, 2017 balances in Accounts 1588 and 1589 was necessary. It is now apparent by HONI's own admission that an audit would not likely result in reconciling the Account 1588 and 1589 balances. An audit at this juncture would only further delay disposition and prolong the intergenerational equity that already exists for balances dating back to 2017. The OEB will not require fulfillment of the audit obligation and rescinds its previous audit request.

The OEB recognizes that the transfer of customer data for the Peterborough rate zone to enable an accurate audit of the 1588 and 1589 balances was a considerable task as

HONI had not acquired Peterborough Distribution's billing system. However, HONI should have been aware that an audit was pending from the OEB's decision in the 2019 rate proceeding and it should have taken steps beyond contacting former Peterborough Distribution employees and acquired the necessary information to reconcile the Account 1588 and 1589 balances. It seems difficult to believe that HONI was not aware of the accounting deficiency when it deferred disposition of the accounts in the 2022 rates proceeding. Notwithstanding the complications arising from the administrative task of reconciling the balances of Accounts 1588 and 1589, the regulated utility remains responsible for ensuring accuracy.

As a result, both HONI and OEB staff have suggested methodologies to attempt to insulate ratepayers from the possibility of an excessive inaccurate calculation of debit balance clearance amounts. HONI suggested a reduction based on the use of a percentage comparison between the balance in Account 1588 and Account 4705, to use a 6% percentage being the highest percentage of that comparison based on RRR-based figures for the years 2017-2020. The OEB staff has suggested a 30% reduction in accordance with the result reached by the OEB in HONI's 2022 rate proceeding for the Norfolk Power, Haldimand County Hydro and Woodstock Hydro service territories for its Group 2 balances.²⁴

Both submissions have difficulties of application. Hydro One's 6% conflates the percentage comparison of Account 1588 to 4705 as a meaningful comparison to the debit balance in Account 1589 without a direct correlation. OEB staff's resolution uses a result associated with the clearance of Group 2 Accounts where accounting amounts are based on prudence rather than pass-throughs.

On balance, the OEB prefers the option that requires an insulating factor of 30% reductions to protect the interests of ratepayers. This is based, in part, on the review of the results associated with the recorded balances in Account 1589 from 2014 to 2020, as seen in Table 5.2. In the OEB's view, the variability gives rise to greater concern about potential inaccuracy of the balances given the use of non-audited accounting data.²⁵ A reduction of 30% to the Account 1589 debit principal and interest balance is a reasonable buffer against the risk of an overcharge to ratepayers.

²⁴ EB-2021-0033, Decision and Order, December 21, 2021, p. 11

²⁵ Non-audited is in reference to the OEB ordered audit in Peterborough Distribution's 2019 Decision and Order

Table 5.2: Peterborough Rate Zone: Transactions in Account 1589 per year

| Year | Transaction Debit/ (Credit) Accumulated During Year²⁶ |
|-------------|---|
| 2014 | \$1,825,611 |
| 2015 | \$952,686 |
| 2016 | \$366,919 |
| 2017 | (\$1,133,160) |
| 2018 | (\$200,073) |
| 2019 | \$1,200,475 |
| 2020 | \$1,247,420 |

²⁴ Annual Transaction Debit/ Credit Accumulated During Year figures are from the DVA Continuity Schedule from EB-2015-0097, EB-2017-0266, EB-2022-0040

6. GROUP 2 DEFERRAL AND VARIANCE ACCOUNTS

In its decision and order for the 2022 IRM application for the Orillia and Peterborough rate zones, the OEB directed HONI to bring forward the Group 2 DVA balances for disposition in the next rate proceeding.²⁷

For the Orillia rate zone, HONI requested the disposition of Group 2 balances as of December 31, 2021, including interest projected to December 31, 2022, for a credit amount of \$455,340.²⁸ For the Peterborough rate zone, HONI requested the disposition of Group 2 balances as of December 31, 2021, including interest projected to December 31, 2022, for a credit amount of \$538,654.²⁹ HONI proposed to dispose of these balances over a one-year period.

HONI has not requested the disposition of the following Group 2 accounts:

- Orillia and Peterborough rate zones Account 1576 – Accounting Changes Under CGAAP Balance + Return Component. HONI confirmed that these accounts will be reviewed and brought forth for disposition in its next rebasing application as per the applicable accounting orders.³⁰
- Orillia and Peterborough rate zones Account 1508, Sub-account Incremental Capital Module (ICM). These balances were removed from the disposition requested in response to interrogatories.³¹
- Peterborough rate zone’s Account 1533 – Distribution Generation – Provincial – Express Feeders – Deferral Account³² as HONI intends to continue receiving revenues from the Renewable Generation Connection Funding Adder for the in-servicing of Distributed Generation assets.³³

HONI also requested the discontinuation of the Orillia and Peterborough rate zones Account 1508, Sub-account ICM and Peterborough rate zone Account 1555, Sub-account Stranded Meter Costs.

OEB staff had no issue with HONI’s proposals for Group 2 accounts as revised in HONI’s interrogatory responses including the discontinuation of certain accounts. In addition, OEB staff noted that the next disposition of the Orillia and Peterborough rate zones Group 2 accounts is expected to be in its 2030 rebasing application. OEB staff

²⁷ EB-2021-0050, Decision and Rate Order, December 16, 2022

²⁸ IRR OEB-Staff 13, Attachment 1

²⁹ IRR OEB-Staff 13, Attachment 2

³⁰ IRR OEB Staff - 10

³¹ IRR OEB Staff - 13

³² OEB staff notes that this account is named Account 1533 - Renewable Generation Connection Funding Adder Deferral Account in the Accounting Procedures Handbook

³³ IRR OEB Staff - 16

submitted that the OEB may consider requiring HONI to bring forward its Group 2 accounts for disposition in HONI's Orillia and Peterborough 2027 rate application.

In its reply submission, HONI did not take issue with OEB staff's submission supporting its Group 2 account proposals. HONI also did not take any issue with OEB staff's suggestion to bringing forth Group 2 accounts for disposition in its 2027 rate application but noted that this request may be impacted by certain factors (i.e. materiality of balance, regulatory efficiency).

Findings

The OEB approves HONI's request to dispose of the balances of its Group 2 accounts over a one-year period. Tables 6.1 and 6.2 identify the principal and interest amounts, which the OEB approves for disposition for the Orillia and Peterborough rate zones respectively.

Table 6.1: Orillia Rate Zone Group 2 Deferral and Variance Account Balances

| Account Name | Account Number | Principal Balance (\$) A | Interest Balance (\$) B | Total Claim (\$) C=A+B |
|--|-----------------------|-------------------------------------|------------------------------------|-----------------------------------|
| Other Regulatory Assets, Sub-account OEB Cost Differential Variance Account | 1508 | 82,748 | 4,191 | 86,939 |
| Retail Cost Variance Accounts – Retail and STR | 1518, 1548 | (80,672) | (10,215) | (90,887) |
| PILS and Tax Variance Account, Sub-account CCA Changes | 1592 | (274,976) | (4,694) | (279,670) |
| Other Regulatory Liabilities or Credits, Sub-account Pole Attachment Charge Variance Account | 2405 | (158,226) | (3,496) | (161,722) |
| Totals for Group 2 accounts | | (431,126) | (14,214) | (445,340) |

Table 6.2: Peterborough Rate Zone Group 2 DVA Balances

| Account Name | Account Number | Principal Balance (\$) A | Interest Balance (\$) B | Total Claim (\$) C=A+B |
|--|-----------------------|-------------------------------------|------------------------------------|-----------------------------------|
| Other Regulatory Assets, Sub-account OEB Cost Differential Variance Account | 1508 | 332,753 | 5,455 | 338,208 |
| Retail Cost Variance Accounts – Retail and STR | 1518, 1548 | (405) | 58 | (347) |
| PILS and Tax Variance Account, Sub-account CCA Changes | 1592 | (282,938) | (5,505) | (288,442) |
| Other Regulatory Liabilities or Credits, Sub-account Pole Attachment Charge Variance Account | 2405 | (613,775) | (17,402) | (631,177) |
| Smart Meter Capital and Recovery Offset Variance – Sub-Account – Stranded Meter Costs | 1555 | 10,036 | \$33,068 | \$43,104 |
| Totals for Group 2 accounts | | (554,328) | 15,674 | (538,654) |

HONI's request does not include disposition of the Orillia and Peterborough rate zones Account 1576 – Accounting Changes Under CGAAP Balance + Return Component, Orillia and Peterborough rate zones Account 1508, Sub-account Incremental Capital Module (ICM), Peterborough rate zone Account 1533 – Distribution Generation – Provincial – Express Feeders – Deferral Account

The OEB approves the discontinuation of the Orillia and Peterborough rate zones Account 1508, Sub-account ICM and Peterborough rate zone's Account 1555, Sub-account Stranded Meter Costs.

The OEB expects that HONI will bring forth Group 2 accounts for disposition in its 2027 rate application including Accounts 1533 and 1576 referenced above.

7. LOST REVENUE ADJUSTMENT MECHANISM VARIANCE ACCOUNT

The OEB has historically utilized a Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) to capture a distributor's revenue implications resulting from differences between actual and forecast conservation and demand management (CDM) savings included in its last OEB-approved load forecast. The use of the LRAMVA is no longer the default approach for CDM activities.³⁴

Distributors delivered CDM programs to their customers through the Conservation First Framework (CFF) that began on January 1, 2015 until March 20, 2019, when the CFF was revoked.³⁵

Distributors filing an application for 2023 rates are required to seek disposition of all outstanding LRAMVA balances related to program savings for CFF programs or other conservation programs they delivered, unless they do not have complete information on eligible program savings.³⁶

Distributors are also eligible under the LRAM for persisting impacts of conservation programs until their next rebasing. The OEB provided direction for distributors to seek approval of LRAM-eligible amounts for 2023 onwards on a prospective basis, and a rate rider in the corresponding rate year, to address amounts that would otherwise be recorded in the LRAMVA for all years until their next rebasing application.³⁷

Orillia Rate Zone

HONI applied to dispose of its LRAMVA debit balance of \$598,236. The balance consists of lost revenues from incremental savings from 2016 to 2017, persisting savings from 2011 to 2017 in the 2016 to 2022 rate years, and carrying charges. The actual conservation savings claimed by HONI for its Orillia rate zone under the CFF were validated with reports from the IESO, project level savings files, or both.

Actual conservation savings were compared against the Orillia rate zone's forecasted conservation savings included in its last OEB-approved load forecast. The Orillia rate

³⁴ Conservation and Demand Management Guidelines for Electricity Distributors, December 20, 2021, chapter 8.

³⁵ On March 20, 2019 the Minister of Energy, Northern Development and Mines issued separate Directives to the OEB and the IESO.

³⁶ Chapter 3 Filing Requirements, section 3.2.6.1

³⁷ [Guidance on Prospective Lost Revenue Adjustment Mechanism \(LRAM\) Amounts – 2023 Rates](#), June 16, 2022

zone's last approved load forecast in 2010 did not include any impacts of CDM programs from 2011 and onwards.³⁸

HONI also applied for approval of LRAM-eligible amounts for the years 2023 to 2029 on a prospective basis, arising from persisting savings from completed CDM programs. The Orillia rate zone is on a 10-year deferred rebasing period, and therefore HONI is seeking approval for lost revenues from 2023 to 2029.

Findings- Orillia Rate Zone

The OEB finds that Orillia rate zone's LRAMVA balance has been calculated in accordance with the OEB's CDM-related guidelines and updated LRAMVA policy. The OEB approves the disposition of the LRAMVA debit balance of \$598,236, as set out in Table 7.1 below.

Table 7.1 LRAMVA Balance for Disposition

| Account Name | Account Number | Actual CDM Savings (\$) A | Forecasted CDM Savings (\$) B | Carrying Charges (\$) C | Total Claim (\$) D=(A-B)+C |
|--------------|----------------|------------------------------|----------------------------------|----------------------------|-------------------------------|
| LRAMVA | 1568 | 566,885 | 0 | 31,351 | 598,236 |

The balance in the LRAMVA is now zero, and no further entries to the LRAMVA are permitted at this time. The LRAMVA will not be discontinued, in the event that HONI requests the use of the LRAMVA for a CDM activity in a future application, which the OEB will consider on a case-by-case basis.³⁹

The OEB also approves the LRAM-eligible amounts for the years 2023 to 2029, arising from persisting savings from completed CDM programs, as set out in Table 7.2 below. These amounts will be adjusted mechanistically by the approved inflation minus X factor applicable to IRM applications in effect for a given year, and recovered through a rate rider in the corresponding rate year, beginning with the 2023 rate year. For the 2023 rate year, the OEB approves the requested LRAM-eligible amount of \$55,575,⁴⁰ to be recovered from customers, and the associated rate riders. Should HONI rebase in, or

³⁸ EB-2009-0273, Decision, March 5, 2010

³⁹ Conservation and Demand Management Guidelines for Electricity Distributors, December 20, 2021, p. 28.

⁴⁰ This amount is arrived at by applying the applicant's approved rate adjustment (3.4%) for the 2023 rate year to the applicant's approved 2023 LRAM-eligible amount calculated based on the rates in effect for 2022 (\$53,826).

prior to, the last year in Table 7.2, amounts shown in Table 7.2 in the year of rebasing or later will not be recoverable, as any persisting impacts of CDM can be taken into consideration in setting new base rates.

Table 7.2 LRAM-Eligible Amounts for Prospective Disposition

| Year | LRAM-Eligible Amount (in 2022 \$) |
|-------------|--|
| 2023 | 53,826 |
| 2024 | 41,903 |
| 2025 | 31,257 |
| 2026 | 27,038 |
| 2027 | 21,429 |
| 2028 | 17,128 |
| 2029 | 11,559 |

Peterborough Rate Zone

HONI has applied to dispose of its LRAMVA debit balance of \$954,506. The balance consists of lost revenues from incremental savings from 2012-2017, persisting savings from 2011 to 2017 in the 2018 to 2022 rate years, and carrying charges. The actual conservation savings claimed by HONI under the CFF were validated with reports from the IESO, project level savings files, or both.

Actual conservation savings were compared against the Peterborough rate zone's forecasted conservation savings of 11,967,097 kWh included in its last OEB-approved load forecast.⁴¹

HONI also applied for approval of LRAM-eligible amounts for the years 2023 to 2029 on a prospective basis, arising from persisting savings from completed CDM programs. The Peterborough rate zone is on a 10-year deferred rebasing period, and therefore HONI is seeking approval for lost revenues from 2023 to 2029.

Findings- Peterborough Rate Zone

The OEB finds that Peterborough rate zone's LRAMVA balance has been calculated in accordance with the OEB's CDM-related guidelines and updated LRAMVA policy. The OEB approves the disposition of the LRAMVA debit balance of \$954,506, as set out in Table 7.3 below.

⁴¹ EB-2012-0160, Decision and Order, August 12, 2013

Table 7.3 LRAMVA Balance for Disposition

| Account Name | Account Number | Actual CDM Savings (\$) A | Forecasted CDM Savings (\$) B | Carrying Charges (\$) C | Total Claim (\$) D=(A-B)+C |
|---------------------|-----------------------|--------------------------------------|--|------------------------------------|---------------------------------------|
| LRAMVA | 1568 | 1,664,577 | 767,179 | 57,108 | 954,506 |

The balance in the LRAMVA is now zero, and no further entries to the LRAMVA are permitted at this time. The LRAMVA will not be discontinued, in the event that HONI requests the use of the LRAMVA for a CDM activity in a future application, which the OEB will consider on a case-by-case basis.⁴²

The OEB also approves the LRAM-eligible amounts for the years 2023 to 2029, arising from persisting savings from completed CDM programs, as set out in Table 7.4 below. These amounts will be adjusted mechanistically by the approved inflation minus X factor applicable to IRM applications in effect for a given year, and recovered through a rate rider in the corresponding rate year, beginning with the 2023 rate year. For the 2023 rate year, the OEB approves the requested LRAM-eligible amount of \$70,213,⁴³ to be recovered from customers, and the associated rate riders. Should HONI rebase in, or prior to, the last year in Table 7.4, amounts shown in Table 7.4 in the year of rebasing or later will not be recoverable, as any persisting impacts of CDM can be taken into consideration in setting new base rates.

Table 7.4 LRAM-Eligible Amounts for Prospective Disposition

| Year | LRAM-Eligible Amount (in 2022 \$) |
|-------------|--|
| 2023 | 68,003 |
| 2024 | 53,213 |
| 2025 | 38,812 |
| 2026 | 29,574 |
| 2027 | 6,050 |
| 2028 | (11,339) |
| 2029 | (30,909) |

⁴² Conservation and Demand Management Guidelines for Electricity Distributors, December 20, 2021, p. 28.

⁴³ This amount is arrived at by applying the applicant's approved rate adjustment (3.25%) for the 2023 rate year to the applicant's approved 2023 LRAM-eligible amount calculated based on the rates in effect for 2022 (\$68,003).

8. IMPLEMENTATION

HONI shall file a draft rate order with detailed supporting material showing the impact of any required adjustments related to the approved 2023 inflation rate, Regulated Price Plan (RRR) pricing, current host-RTSR and UTRs, current regulatory charges (Wholesale Market Service Charge and Rural or Remote Electricity Rate Protection charge), Smart Meter Entity Charge and microFit charge.

The OEB will review the draft rate order and issue a final rate order. If a rate order is not approved in time for HONI to implement new rates for January 1, 2023, the OEB declares HONI's current 2022 distribution rates and charges interim as of January 1, 2023 until such time as 2023 rates and charges are approved by the OEB.

9. ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. Hydro One Networks Inc. shall file with the OEB and forward to intervenors a draft rate order with a proposed Tariff of Rates and Charges for its Orillia and Peterborough rate zones that reflects the OEB's findings, no later than **December 13, 2022**. Hydro One Networks Inc. shall also include customer rate impacts and detailed information in support of the calculation of final rates in the draft rate order.
2. Intervenors and OEB staff shall file any comments on the draft rate order with the OEB, and forward to Hydro One Networks Inc. no later than **December 14, 2022**.
3. Hydro One Networks Inc. shall file with the OEB and forward to intervenors, responses to any comments on its draft Rate Order no later than **December 16, 2022**.

Parties are responsible for ensuring that any documents they file with the OEB, such as applicant and intervenor evidence, interrogatories and responses to interrogatories or any other type of document, **do not include personal information** (as that phrase is defined in the *Freedom of Information and Protection of Privacy Act*), unless filed in accordance with rule 9A of the OEB's [Rules of Practice and Procedure](#).

Please quote file number, EB-2022-0040 for all materials filed and submit them in searchable/unrestricted PDF format with a digital signature through the [OEB's online filing portal](#).

- Filings should clearly state the sender's name, postal address, telephone number and e-mail address.
- Please use the document naming conventions and document submission standards outlined in the [Regulatory Electronic Submission System \(RESS\) Document Guidelines](#) found at the [File documents online page](#) on the OEB's website.
- Parties are encouraged to use RESS. Those who have not yet [set up an account](#), or require assistance using the online filing portal can contact registrar@oeb.ca for assistance.
- Cost claims are filed through the OEB's online filing portal. Please visit the [File documents online page](#) of the OEB's website for more information. All participants shall download a copy of their submitted cost claim and serve it on all required parties as per the [Practice Direction on Cost Awards](#).

All communications should be directed to the attention of the Registrar and be received by end of business, 4:45 p.m., on the required date.

With respect to distribution lists for all electronic correspondence and materials related to this proceeding, parties must include the Case Manager, Arturo Lau, at Arturo.Lau@oeb.ca and OEB Counsel, Ljuba Djurdjevic at Ljuba.Djurdjevic@oeb.ca.

E-mail: registrar@oeb.ca
Tel: 1-877-632-2727 (Toll free)

DATED at Toronto, December 8, 2022

ONTARIO ENERGY BOARD

Nancy Marconi
Registrar