EXHIBIT 9 – DEFERRAL AND VARIANCE ACCOUNTS

2024 Cost of Service

Tillsonburg Hydro Inc.
EB-2023-0053

TABLE OF CONTENTS

9.1. OVERVIEW

The purpose of this exhibit is to identify the variance/deferral accounts that have been used, provide the principal balance recorded in each variance/deferral account, and derive the carrying charges on each account's balance up to and including December 31, 2022. Included as part of the request for disposition is the forecast interest through to April 30, 2024.

The exhibit also describes the methodology proposed to allocate account balances to customer classes, explains the rationale supporting the proposed disposition period, shows the proposed charge parameters, and quantifies the proposed rate riders that will dispose of the recorded balances.

All accounts are used per the Accounting Procedures Handbook. The account balance at the end of 2022 reconciles with the trial balance reported through the Electricity Reporting and Record-keeping Requirements and THI's Audited Financial Statements. THI has completed the OEB-provided DVA model with Group 1 and Group 2 balances. The model is filed in support of the information presented in this exhibit.

In 2023, the OEB started inspection of THI's Group 1 Deferral and Variance Accounts. At this time THI began reviewing all the settlements from 2016-2022 related to calculations for Regulated Price Plan ("RPP") percentage. The review included Feed-In-Tariff Claims and RPP Variance for Smart & Conventional Meters including final settlements. During the course of the OEB investigation it was determined that the generation data was not included in the calculations which was added to the RPP allocation recalculations.

The result of refiling IESO settlements as part of the OEB's investigation was a reduction in the Group 1 accounts by $97,342 plus a claim of $5,375 from the settlement of CT2148. The recalculation of the RRP allocation and corrections resulted in a shift from 1588 to 1589 of $2,947,387.

After completion of Audited Financial Statements applicable to 2022, THI received an interim report from the OEB regarding investigation of its historical balances in Accounts 1588 and 1589. Adjustments consistent with the preliminary findings of this investigation have been made in the DVA Continuity Schedule included with this application, and reflected within the balances sought for disposition. An excel version of the OEB's Deferral and Variance Account model has been provided as Appendix A to this Exhibit (THI_2024_DVA_Continuity_Schedule_20240430).

THI proposes to dispose of;

- A debit of $742,449 related to Group 1 (not including 1589)
- A debit of $590,305 related to Account 1589 Global Adjustemnt, which applies to Non-RPP Class B customers.
- A credit of $322,585 related to Group 2 Variance/Deferral Accounts.

All of the described disposals include carrying charges up to and including April 30, 2024 are are sought to be disposed on a final basis.

Group 1 and Group 2 DVA balances are proposed to be disposed of over two years to mitigate bill impacts associated with disposition. THI has followed the OEB's guidance as provided by the OEB's Electricity Distributor's Disposition of Variance Accounts Reporting Requirements Report.

THI notes that the inputs for Group 1 balances have been audited, and the OEB DVA model shows variances between the RRR and the balances proposed for disposition in all accounts.

9.1.1 Certification of Evidence

I Graig Petit certify that, to the best of my knowledge or otherwise specified, the evidence filed in this exhibit is complete and consistent with the requirements of the Chapter 2 Filing Requirements for Electricity Distribution Rate Applications issued on December 20, 2022, and other OEB policies. I also confirm that THI has put in place a robust process for the preparation, review, verification, and oversight of any account balances that are being requested for disposal

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9.2. DISPOSITION OF DEFERRAL AND VARIANCE ACCOUNTS

9.2.1 DVA Balances Sought for Disposition

Table 9-1 – Balances Sought for Disposition

Account		Principal Balance Dec-22	Interest	Total Claim incl interest
Group 1 Accounts				
Smart Metering Entity Charge Variance Account	1551	-$53,768	-$5,461	-$59,229
RSVA - Wholesale Market Service Charge	1580	$14,291	-$34,647	-$20,356
Variance WMS – Sub-account CBR Class B*	1580	-$30,149	$945	-$29,204
RSVA - Retail Transmission Network Charge	1584	$201,669	$6,178	$207,847
RSVA - Retail Transmission Connection Charge	1586	$85,749	$8,348	$94,097
RSVA - Power (excluding Global Adjustment)	1588	$410,700	$109,390	$520,089
Total Group 1 (excl. 1589)		**$658,641**	**$83,808**	**$742,449**
RSVA - Global Adjustment	**1589**	**$573,368**	**$16,937**	**$590,305**
Total Group 1 Accounts		**$1,232,009**	**$100,745**	**$1,332,754**
Group 2 Accounts				
Pole Attachment Revenue Variance	1508	-$88,932	-$8,125	-$97,057
Sub-account Accelerated CCA	1592	-$205,973	-$19,554	-$225,527
Total Group 2		**-$294,906**	**-$27,679**	**-$322,585**
Total Group 1 and 2 Disposition		**$937,103**	**$73,066**	**$1,010,169**

*Subset of RSVA - Wholesale Market Service Charge, and is excluded from calculation of Group 1 Totals

All accounts in Groups 1 and 2 listed above comply with the Accounting Procedure Handbook. For definitions of each account listed below, please refer to the Accounting Procedure Handbook using the following link:

http://www.ontarioenergyboard.ca/oeb/_Documents/Regulatory/Accounting_Procedures_Handbook_Elec_Distributors.pdf

THI confirms that the 2022 balances are as of December 31, 2022, and have been audited, with the exception of Account 1592, Sub-Account Accelerated CCA. THI has provided a DVA Continuity Schedule from 2013 to the end of 2022, provided as attachments “THI_2024_DVA Continuity 2013-2016 20240514”, pertaining to the period of 2013 to 2016, and a live excel version of the OEB's DVA Continuity Schedule model pertaining to the period from 2017 to 2022, entitled "THI_2024_DVA_Continuity_Schedule_20240430."

As noted elsewhere in this Application, THI has experienced a high degree of turnover in its staff since last rebasing in 2013, and has been challenged to provide consistent records for the period of 2013 to 2016. THI has identified discrepancies between the 2016 Closing balances of certain DVA's, and 2017 Opening balances. THI addresses these discrepancies below. THI has undergone refinement of its processes with respect to DVAs in recent years, including the completion of an OEB investigation into Accounts 1588 and 1589, and submits the balances included in the THI_2024_DVA_Continuity_Schedule_20240430 are appropriate for disposition.

- **Account 1580 - Wholesale Market Service Charge:** By individual sub-account, there are notable discrepancies between 2016 Closing and 2017 Opening balances. Taken in the aggregate of Account 1580 however, the discrepancy between 2016 Closing and 2017 Opening is immaterial. THI submits the provided year end 2022 balances, with interest, are appropriate for disposition.
- **Account 1588 - Power (excluding Global Adjustment):** The discrepancies between 2016 Closing and 2017 Opening are significant, however this account was the subject of an OEB investigation which yielded significant adjustments to the 2022 Closing balance. As a result, the 2016 and 2017 values are irrelevant to the disposition sought in this proceeding.
- **Account 1589 - RSVA - Global Adjustment:** The discrepancies between 2016 Closing and 2017 Opening are significant, however this account was the subject of an OEB investigation which yielded significant adjustments to the 2022 Closing balance. As a result, the 2016 and 2017 values are irrelevant to the disposition sought in this proceeding.
- **Account 1595 - Disposition of Residual Balances:** THI is not proposing disposition of this account as part of this proceeding.
- **Account 1568 – LRAMVA:** THI is not proposing disposition of this account as part of this proceeding.
- **Account 1580 – IFRS Transition Costs:** THI is not proposing disposition of this account as part of this proceeding.
- **Account 1555 – Smart Meter Capital and Recovery Offset Variance – Sub-Account Stranded Meter Costs:** THI is not proposing disposition of this account as part of this proceeding.

GROUP 1 ACCOUNTS

THI is seeking the following account balances for disposition.

1551 - Smart Metering Entity Charge Variance Account ($59,229)

1580 - RSVA - Wholesale Market Service Charge ($20,356)

1580 - RSVA - Wholesale Market Service Charge – Class B ($29,204)

1584 - RSVA - Retail Transmission Network Charge $207,847

1586 - RSVA - Retail Transmission Connection Charge $94,097

1588 - RSVA - Power (excluding Global Adjustment) $520,089

1589 - RSVA - Global Adjustment $590,305

THI confirms that for all of the Group 1 accounts listed above, it has followed the Accounting Procedure Handbook.

1580 - Disposition of CBR Class B Variances. ($29,204) Included in account 1580 above

THI calculate its CBR balances and tracks in its subaccount. Of the balance of ($20,356) in account 1580, ($29,204) is allocated to CBR Class B. The breakdown is shown in the DVA Model Tab 2a. Continuity Schedule.

1595 - Disposition of Residual Balances. (N/A)

THI is not proposing to dispose of any 1595 balances as part of this application. THI last disposed of its DVA balances in its 2017 IRM application.

GROUP 2 ACCOUNTS

THI is seeking the following account balances for disposition.

1508 – Wirepole Attachments Charges. ($97,057)

On July 20, 2018, The OEB issued Accounting Guidance on Wireline Pole Attachment Charges. The guidance stated that LDCs without a distributor-specific pole attachment charge LDCs must record the excess incremental revenues received from carriers for the new pole attachment charge in a new variance account, Account 1508 – Sub Account – Pole Attachment Revenue Variance.

In compliance with the guidance, THI started recording, starting on September 1, 2018, and ending in December 2022; the excess revenue collected from the difference between revenue charged to carriers and new rates was recorded in 1508.

Carrying charges have been applied to the balance in this account at the OEB prescribed interest rates and recorded in the new variance account.

The guidance states that once an LDC has had the new pole attachment charge incorporated in a cost-based rate application, the variance account would no longer be required and must be closed after the disposition of the last of the amounts that have been tracked.

Given that the amount changes on a yearly basis, the assumption is that utilities will continue to record the difference between the amount charged and collected. THI proposes to dispose of the balances in account 1508 up to the end of 2022. It does not anticipate using the account going forward unless the OEB changes the provincial rate.

1592 – Sub-Account, Accelerated CCA ($225,527)

As explained in Exhibit 6, THI, with the assistance of its accounting firm, has complied with and implemented the Accelerated Investment Incentive Program ("AIIP"), which provides for a first-year increase in CCA deductions on eligible capital assets acquired after November 20, 2018.

THI confirms that it has recorded the impact of the CCA rules changes in Account 1592, Sub-Account Acclerated CCA for November 21, 2018, up to 2023 Test Year. The worksheet showing the calculations of the entire revenue requirement impact is filed along with this application as THI_2024_1592_Acclerated_CCA_20240430. The DVA model shows the full revenue requirement impact recorded in Account 1592.

As shown in the calculations provided, THI did not leverage the AIIP for any assets placed into service in 2018. Use of the AIIP by THI began in 2019 and continued for all years up to and including the 2023 Bridge Year. Effective 2024, THI proposes to cease claiming the AIIP, and as such cease to make debit or credit entries to Account 1592, Sub-Account Accelerated CCA. This approach will allow for reduced tracking and regulatory burden as the AIIP winds-down over the 2024 to 2027 period, and concludes effective 2028.

THI acknowledges the OEB's practice with respect to the impact of changes in taxes due to regulatory or legislated tax changes during an incentive rate-setting period has been to share the impacts between distributor shareholders and ratepayers on a 50/50 basis. THI also understands that this practice may not apply concerning CCA rules; therefore, the utility proposes to dispose 100% of its balances in the same manner as it disposes of its other deferral and variance accounts through the DVA rate rider mechanism.

THI is not proposing to smooth the impact of the CCA rules changes and disposition over the IRM period. The utility is proposing not to continue using Account 1592 unless there are new changes to the CCA rules.

9.2.2 Group 2 Account Proposed to be Discontinued and Request for New Variance Account Going Forward.

THI confirms that it is not requesting any new deferral or variance accounts, nor is it proposing to discontinue any Group 2 Account at this time.

9.2.3 Accounting Orders for Previous Applications and Departure from Board Approved Balances

THI confirms it was not instructed to apply for any specific accounting orders in its previous application. THI has not made any adjustments to deferral and variance account balances that the Board previously approved on a final basis in either cost of service or IRM proceedings.

9.2.4 Interest Rates

The table below provides the interest rates by quarter applied to calculate actual and forecast carrying charges for each regulatory and variance account.

Table 2 – Prescribed Interest Rates

Period	Interest Rate
Q1 2016 (Actual)	1.10%
Q2 2016 (Actual)	1.10%
Q3 2016 (Actual)	1.10%
Q4 2016 (Actual)	1.50%
Q1 2017 (Actual)	1.10%
Q2 2017 (Actual)	1.10%
Q3 2017 (Actual)	1.10%
Q4 2017 (Actual)	1.50%
Q1 2018 (Actual)	1.50%
Q2 2018 (Actual)	1.89%
Q3 2018 (Actual)	1.89%
Q4 2018 (Actual)	2.17%
Q1 2019 (Actual)	2.45%
Q2 2019 (Actual)	2.18%
Q3 2019 (Actual)	2.18%
Q4 2019 (Actual)	2.18%
Q1 2020 (Actual)	2.18%
Q2 2020 (Actual)	2.18%
Q3 2020 (Actual)	0.57%
Q4 2020 (Actual)	0.57%
Q1 2021 (Actual)	0.57%
Q2 2021 (Actual)	0.57%
Q3 2021 (Actual)	0.57%
Q4 2021 (Actual)	0.57%
Q1 2022 (Actual)	0.57%
Q2 2022 (Actual)	1.02%
Q3 2022 (Actual)	2.2%
Q4 2022 (Actual)	3.87%
Q1 2023 (Actual)	4.73%
Q2 2023 (Actual)	4.98%
Q3 2023 (Actual)	4.98%

Period	Interest Rate
Q4 2023 (Actual)	5.49%
Q1 2024 (Actual)	5.49%
April 2024 (Actual)	5.49%

THI has used the latest OEB prescribed interest rates as published on the website at: https://www.oeb.ca/regulatory-rules-and-documents/rules-codes-and-requirements/prescribed-interest-rates

9.2.5 Disposition and Rate Riders

Board policy states that at the time of rebasing, all account balances should be disposed of unless otherwise justified by the distributor or as required by a specific Board decision or guideline. Per the above statement, THI proposes to dispose of all its balances listed in Table 9-1 above.

The 2023_DVA_Continuity_Schedule detailing each account is being filed in conjunction with this application.

THI confirms the following statements:

- The utility has not made any adjustments to DVA balances previously approved by the Board on a final basis in the previous Cost of Service or IRM proceedings.
- The utility has no balances for disposition for renewable generation and smart grid development.
- THI does not have any Market Participants. As such, it does not need to establish separate rate riders to recover balances in the RSVA's from Market Participants who must not be allocated the RSVA balances related to charges for which the MP's settle directly with the IESO.
- THI is proposing to dispose of balances where the values are entered in 2016 to 2022 with interest until April 30, 2024. THI confirms that its balances proposed for disposition up to the end of 2022 are consistent with the last Audited Financial Statements, with the exception of Account 1592, Sub-Account Accelerated CCA.

The determination of the rate riders is shown in the tables below. THI is seeking a two-year disposition period in light of the amounts sought for disposition relative to THI's Base Revenue Requirement. THI knows no account for which the OEB has not set an allocator.

Table 9-3 – Rate Riders for the Group 1 (excl. Global Adj.)

Rate class	Units	Kw / kwh / # of customers	Allocated group 1 balance	Rate rider for deferral/variance accounts
Residential	kWh	61,627,888	$228,484	0.0019
GS<50	kWh	23,022,735	$100,829	0.0022
GS 50-499kW	kW	162,219	$238,431	0.7349
GS 500-1499kW	kW	57,274	$88,641	0.7738
GS >= 1500kW	kW	42,760	$81,367	0.9514
USL	kWh	331,791	$1,523	0.0023
Sentinel Lighting	kW	195	$329	0.8414
Street Lighting	kW	1,676	$2,844	0.8485

Table 9-4 – Rate Riders for Account 1580, Sub-Account CBR Class B

Rate class	Units	Kw / kwh / # of customers	Allocated group 1 balance	Rate rider for deferral/variance accounts
Residential	kWh	61,627,888	-$10,253	-0.0001
GS<50	kWh	23,022,735	-$3,830	-0.0001
GS 50-499kW	kW	162,219	-$8,642	-0.0266
GS 500-1499kW	kW	57,274	-$3,213	-0.0280
GS >= 1500kW	kW	42,760	-$2,949	-0.0345
USL	kWh	331,791	-$55	-0.0001
Sentinel Lighting	kW	195	-$12	-0.0305
Street Lighting	kW	1,676	-$103	-0.0308

Table 9-5 – Rate Riders RSVA – Power Global Adjustment (1589): Non-RPP

"Rate class	Units	Kw / kwh / # of customers	Allocated group 1 balance (excluding 1589)	Rate rider for deferral/variance accounts
Residential	kWh	1,058,688	$15,308	0.0072
GS<50	kWh	4,120,788	$59,585	0.0072
GS 50-499kW	kWh	30,796,327	$445,303	0.0072
GS 500-1499kW	kWh	2,692,112	$38,927	0.0072
GS >= 1500kW	kWh	936,065	$13,535	0.0072
USL	kWh	-	$-	-
Sentinel Lighting	kWh	-	$-	-
Street Lighting	kWh	619,623	$8,960	0.0072

Table 9-3 – Rate Riders for Group 2

"Rate class	Units	Kw / kwh / # of customers	Allocated group 1 balance (excluding 1589)	Rate rider for deferral/variance accounts
Residential	# of Customers	7,835	-$143,895	$(0.77)
GS<50	kWh	23,022,735	-$43,111	-$0.0009
GS 50-499kW	kW	162,219	-$80,702	-$0.2487
GS 500-1499kW	kW	57,274	-$27,300	-$0.2383
GS >= 1500kW	kW	42,760	-$25,023	-$0.2926
USL	kWh	331,791	-$672	-$0.0010
Sentinel Lighting	kW	195	-$552	-$1.4137
Street Lighting	kW	1,676	-$1,329	-$0.3965

9.2. GLOBAL ADJUSTMENT

THI confirms that the OEB's February 21, 2019, guidance was implemented to the degree approved by the OEB.

THI confirms that it pro-rated the IESO Global Adjustment Charge into the RPP and non-RPP portions and that Global Adjustment is only being applied to customers that are non-RPP. The calculated values are then entered into Account 1588 – RSVA – Power (excluding Global Adjustment) and Account 1589 – Power – Sub-account – Global Adjustment.

The proration of the monthly Global Adjustment amount is based on the RPP versus Non-RPP kWh quantities submitted on the monthly IESO settlement reports. This allows for effective splitting of Account 1589 Global Adjustment variance account from the Account 1588 Cost of Power variance account.

Concerning Global Adjustment, THI confirms the following statements;

- THI confirms that the billing determinants and all the rate riders for the GA are calculated on an energy basis (kWh) regardless of the billing determinant used for distribution rates for the particular class.
- THI has Class A customers, and has incorporated the required data and calculations in the DVA Continuity Schedule.
- THI is seeking final disposition of its GA balances in this proceeding.
- The utility pro-rates the IESO Global Adjustment Charge into the RPP and Non-RPP portions.

9.2. LRAMVA

As a result of the Minister of Energy, Northern Development and Mines' directive on March 20, 2019, the IESO's Conservation First Framework (CFF) was revoked. All electricity CDM activity for 2019 and 2020 was centralized and administered by the IESO.

THI confirms that it disposed of its LRAM balances up to 2018 in its 2020 IRM application using the IESO's final release of its verified results. THI confirms that it is not seeking disposal of loss revenues related to conservation savings in this proceeding therefore none of the LRAMVA filing requirements apply in this case.

APPENDIX A: DEFERRAL AND VARIANCE ACCOUNT CONTINUITY SCHEDULE (THI_2024_DVA_CONTINUITY_SCHEDULE_20240430)

APPENDIX B: CALCULATION OF ACCELERATED CCA IMPACT (THI_2024_1592_ACCLERATED_CCA_20240430)