



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

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**DECISION AND RATE ORDER**

**EB-2020-0057**

**TORONTO HYDRO-ELECTRIC SYSTEM  
LIMITED**

**Application for rates and other charges to be effective January 1,  
2021**

**By Delegation, Before: Theodore Antonopoulos**

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**December 10, 2020**

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# 1 INTRODUCTION AND SUMMARY

This is the Decision and Rate Order for Toronto Hydro-Electric System Limited's (Toronto Hydro) Custom Incentive Rate-setting (IR) – Year 2 update application for 2021 rates.

Toronto Hydro serves approximately 777,904 customers in the City of Toronto.<sup>1</sup> The company is seeking the Ontario Energy Board's (OEB's) approval for the rates it charges to distribute electricity to its customers, as is required of all rate-regulated distributors in Ontario.

Distributors may choose one of three rate-setting methods: Price Cap IR, Custom IR or Annual IR. In respect of Toronto Hydro, the OEB approved a five year Custom IR framework on December 19, 2019 (the 2019 Decision) that covers the years 2020 to 2024.<sup>2</sup> For Toronto Hydro's Custom IR framework, rates were approved through a cost of service (COS or rebasing) 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 to file an application to implement the OEB's approval of the framework as set out in the initial decision along with certain other adjustments that include pass-through costs) such as those that are incurred by Toronto Hydro for settling with the Independent Electricity System Operator (IESO) on behalf of its customers. These costs are tracked in deferral or variance accounts.

The key components of Toronto Hydro's Custom IR framework are listed below:

- A Custom Price Cap Index formula based on the OEB's approved methodology and updated annually for the inflation factor
- A stretch factor of 0.6% to remain constant over the term of the plan
- A capital factor pre-approved for each year of the plan to account for incremental capital spending (including an offset for incremental revenues recovered by way of the Price Cap Index formula being applied to base distribution rates and a growth factor)
- A symmetrical earning sharing mechanism (ESM) to split earnings differences (in excess of 100 basis points above or below the deemed return on equity (ROE)) with ratepayers on a 50:50 basis based on the difference between the non-capital related revenue requirement embedded in rates and the actual non-capital related revenue requirement; to be reviewed and disposed, if applicable, at the end of the Custom IR term.

<sup>1</sup> [2019 Yearbook of Electricity Distributors](#)

<sup>2</sup> EB-2018-0165, Decision and Order, December 19, 2019

- A capital-related revenue requirement variance account (CRRRVA) to be assessed on a cumulative basis at the end of the Custom IR term.<sup>3</sup>

Toronto Hydro filed this current application on August 24, 2020, to seek approval to implement the pre-approved formula which will set distribution rates to be effective January 1, 2021.

Toronto Hydro applied for a base rate increase of 4.53% in accordance with the approved Custom IR framework, using the OEB approved 2020 parameter for inflation of 2.0% and incorporating the capital factor (including accounting for growth) for 2021. The 4.53% price cap adjustment applies to distribution rates (fixed and variable charges) uniformly across all customer classes with the exception of the microFIT rate class.

On November 9, 2020, the OEB issued the Input Price Index (IPI) for 2021; this IPI serves as the inflation factor for formulaic rate adjustment plans.<sup>4</sup> The 2021 IPI is calculated as 2.2% in accordance with the OEB's methodology.<sup>5</sup>

In light of the continued uncertainty regarding the severity and duration of the COVID-19 emergency, and its impact on electricity utilities and customers alike, for 2021 rate adjustment applications, the OEB allowed utilities the discretion of applying either the calculated inflation factor in accordance with the OEB-approved methodology or a lower value. Utilities were also given the discretion to forego the inflationary increase entirely.<sup>6</sup>

The OEB required all utilities that filed (or were planning to file) 2021 rate adjustment applications to file a letter on the record of their rates proceedings, indicating the inflation factor that the utility has elected.

On November 13, 2020, Toronto Hydro filed a letter advising the OEB that it is electing an inflation factor of 2.2% for 2021 rates.<sup>7</sup> As a result of this election, the base increase for distribution rates becomes 4.59% under Toronto Hydro's approved Custom IR framework.

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<sup>3</sup> This CRRRVA is continued from the first Custom IR plan for the period 2015-2019 (EB-2014-0116), but the current version of the CRRRVA will track the variance between the capital-related revenue requirement included in rates and the actual capital-related revenue requirement (excluding balances captured in the separate Externally Driven Capital and Derecognition variance account) per the capital budget in the 2020-2024 Distribution System Plan, EB-2018-0165, Decisions and Order, December 19, 2019, pp. 193-195.

<sup>4</sup> Price Cap IR, Annual IR and Custom IR plans.

<sup>5</sup> *Report of the Board on Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors* (EB-2010-0379) (Issued November 21, 2013 and updated December 4, 2013)

<sup>6</sup> [OEB Letter, 2021 Inflation Parameters, issued November 9, 2020](#)

<sup>7</sup> Toronto Hydro Letter Advising 2021 Inflation Factor Election, November 13, 2020

As a result of the application as updated during the course of the proceeding and on determinations made in this Decision, this Decision and Rate Order on Toronto Hydro's Custom IR update application will result in an estimated monthly increase of \$0.58 for a residential customer consuming 750 kWh which represents an approximate 0.5% increase on the total bill, effective January 1, 2021.

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## 2 THE PROCESS

The OEB follows a streamlined process for Custom IR update applications. An application of this nature may be decided by either a panel of Commissioners or it may be delegated to OEB staff, depending on its level of complexity.

After an initial review of the application, the OEB determined that the application is largely mechanistic in nature with respect to the adjustments contemplated. Therefore, pursuant to section 6 of the *Ontario Energy Board Act, 1998* (the Act) the OEB delegated to a member of OEB staff, its power under section 78 of the Act to determine this application. Pursuant to section 6(4) of the Act, the delegated authority has determined that the review will proceed without holding a hearing.

Under this type of process, the application is reviewed by OEB staff to verify whether the requested adjustments are consistent with the approved Custom IR application. This includes but is not limited to updates or adjustments defined in the 2019 Decision.

On August 24, 2020, Toronto Hydro submitted its Custom IR update application supported by written evidence and a completed Rate Generator Model. Questions were asked of, and answers were provided by, Toronto Hydro through emails and phone calls with OEB staff. OEB staff posed written questions to Toronto Hydro on September 30, 2020, and Toronto Hydro filed its responses on October 14, 2020. In response to the OEB's letter announcing the calculated inflation factor of 2.2% for 2021 rate applications,<sup>8</sup> Toronto Hydro filed a letter on November 13, 2020, affirming that it was electing an inflation factor of 2.2% for adjustment of its 2021 distribution rates.

Based on this information, a draft decision was provided to Toronto Hydro on mmmm dd, 2020. Toronto Hydro was given the opportunity to provide its comments on the draft for consideration prior to the OEB issuing this Decision and Rate Order.

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<sup>8</sup> See footnote 6

### 3 ORGANIZATION OF THE DECISION

In this Decision and Rate Order, the OEB addresses the following issues, and provides reasons for approving or denying Toronto Hydro's proposals relating to each of them:

- Custom Price Cap Adjustment
- Retail Transmission Service Rates (RTSR)
- Group 1 Deferral and Variance Accounts (DVA)
- Lost Revenue Adjustment Mechanism Variance Account (LRAMVA)

In the final section, the OEB addresses the steps to implement the final rates that flow from this Decision and Rate Order.

## 4 CUSTOM PRICE CAP ADJUSTMENT

Toronto Hydro's custom price cap adjustment follows an OEB-approved formula that includes annually updated components for inflation and a capital factor. The formula also includes a growth factor and the OEB's expectations of efficiency and productivity gains.<sup>9</sup> This was subsequently accepted by the OEB in the Decision and Rate Order.<sup>10</sup> The 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 0.3% for the term of the plan

The capital factor reconciles Toronto Hydro's approved capital investments within a price cap index, and is determined for a given year by calculating the incremental difference in forecasted capital-related revenue requirement between the given year and the prior year.

The  $S_{cap} \times (I + X_{cap})$  is the mechanism that offsets the incremental funding for capital that would have been provided under the standard price cap index adjustment to base rates. It is determined by the proportion of forecasted capital related revenue requirement to forecasted total revenue requirement less an incremental stretch on capital as directed by the OEB.

The OEB has approved the inflation factor for 2021 rates at 2.2% based on the established formula and on the inflation factor for 2021 as elected by Toronto Hydro.<sup>11</sup>

The factors X,  $C_n$ ,  $S_{cap}$ ,  $X_{cap}$  and g were calculated for the period 2020-2024 in Toronto Hydro's 2020 Custom IR application and approved by the OEB in the decision in that application.<sup>12</sup> This was updated in Toronto Hydro's Draft Rate Order filing<sup>13</sup> to reflect other determinations of the panel in that decision, with the updates approved in the

<sup>9</sup> EB-2018-0165, Decision and Order, December 19, 2019, page 11

<sup>10</sup> *Ibid.*, pp. 23-24

<sup>11</sup> See footnote 6 and [Toronto Hydro letter, November 13, 2020](#)

<sup>12</sup> EB-2018-0165, Decision and Order, December 19, 2019, page 17, Table 2

<sup>13</sup> Toronto Hydro, Updated Draft Rate Order, February 12, 2020



OEB's Decision and Rate Order.<sup>14</sup>

All factors are shown in the table below for all four years of the custom incentive rate-setting term following the 2020 rebasing year.

**Table 4-1 - CPCI Factors and Values<sup>15</sup>**

%	2021	2022	2023	2024
<b>I-Inflation</b>	2.2 <sup>16</sup>	2.0	2.0	2.0
<b>X-Productivity</b>	0.0	0.0	0.0	0.0
<b>X-Stretch</b>	0.6	0.6	0.6	0.6
<b>X<sub>cap</sub></b>	0.3	0.3	0.3	0.3
<b>C<sub>n</sub>-Capital Factor</b>	4.97	1.56	6.43	4.36
<b>S<sub>cap</sub>-Share of Capital</b>	71.22	71.38	72.83	73.70
<b>g-Growth</b>	0.20	0.20	0.20	0.20
<b>CPCI</b>	4.59 <sup>16</sup>	1.12	5.95	3.86

As part of the Custom IR plan, the OEB also approved a CRRRVA to track the variance between the cumulative 2020 to 2024 capital related revenue requirement included in rates and the actual capital in-service additions related revenue requirement.<sup>17</sup> This is to allow Toronto Hydro the flexibility to optimize the implementation of its capital investment strategy, which may involve shifting the timing of project spending within the Custom IR period while ensuring that customers are kept whole related to Toronto Hydro's actual capital spending versus forecasted.

Also as part of the Custom IR plan, the OEB approved an ESM that will track the variance between the non-capital related revenue requirement (the sum of operating, maintenance and administration (OM&A) and revenue offsets) embedded in rates and the actual non-capital related revenue requirement.<sup>18</sup> The ESM is symmetrical and incorporates a 100 basis point dead band. Earnings in excess of 100 basis points are to be split on a 50:50 basis with ratepayers.

## Findings

The resulting net price cap adjustment for Toronto Hydro is 4.59% (i.e. 2.2% - (0% + 0.60%) + 4.97% - 71.22% x (2.2% + 0.3%) + 0.2%). This adjustment represents the

<sup>14</sup> EB-2018-0165, Decision and Rate Order, February 20, 2020, page 3

<sup>15</sup> Toronto Hydro, Updated Draft Rate Order, *op. cit.*, page 11/Table 8

<sup>16</sup> Updated for Toronto Hydro's elected inflation factor of 2.2% per the November 9, 2020 letter. See footnote 6.

<sup>17</sup> EB-2018-0165, Decision and Order, December 19, 2019, page

<sup>18</sup> *Ibid.*, page 42

increase for inflation in accordance with the OEB's formula described above as well as capital spending for the 2021 calendar year that was previously approved by the OEB.<sup>19</sup>

The 4.59% adjustment applies to distribution rates (fixed and variable charges) uniformly across all customer classes.<sup>20</sup>

The CRRVA was not addressed in this application and the OEB will review the variance account in Toronto Hydro's next application to rebase its distribution rates.

Toronto Hydro provided no information as to the status of the ESM variance account for the 2020-2024 period. The first (rebasing) year of the current Custom IR plan is not yet complete and there are no audited year-end results for determining if there is any balance to be entered for 2020 into the ESM variance account. The ESM variance account balance is to be reviewed for disposition at the end of the current Custom IR term. Therefore, no finding is required as part of this Custom IR update application for 2021 rates. However, it is expected that Toronto Hydro will report any available balance in the ESM variance account in the rate update applications in subsequent years of the 2020-2024 Custom IR plan.

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<sup>19</sup> *Ibid.*, pp. 2, 70-122

<sup>20</sup> This does not apply to the following rates and charges: rate riders, rate adders, low voltage service charges, retail transmission service rates, wholesale market service rate, rural or remote electricity rate protection charge, standard supply service – administrative charge, transformation and primary metering allowances, loss factors, specific service charges, microFIT charge, and retail service charges.

## 5 RETAIL TRANSMISSION SERVICE RATES

Distributors charge retail transmission service rates (RTSRs) to their customers to recover the amounts they pay to a transmitter, a host distributor or both for transmission services. All transmitters charge Uniform Transmission Rates (UTRs) approved by the OEB to distributors connected to the transmission system. Host distributors charge host-RTSRs to distributors embedded within the host's distribution system.

Toronto Hydro is transmission-connected (i.e. not an embedded distributor), and is requesting approval to adjust the RTSRs that it charges its customers to reflect the rates that it pays for transmission services included in Table 5-1.

**Table 5-1: UTRs<sup>21</sup>**

Current Applicable UTRs (2018)	per kWh
Network Service Rate	\$3.92
<u>Connection Service Rates</u>	
Line Connection Service Rate	\$0.97
Transformation Connection Service Rate	\$2.33

### Findings

Toronto Hydro's proposed adjustment to its RTSRs is approved. The RTSRs were adjusted based on the OEB-approved interim 2020 UTRs.

The OEB finds that the interim 2020 UTRs were incorporated appropriately into the rate model to adjust the RTSRs that Toronto Hydro will charge its customers.

Any differences resulting from the approval of final 2020 UTRs, as well as from the approval of new 2021 UTRs, will be captured in Accounts RSVA – Retail Transmission Network Charge 1584 and Retail Transmission Connection Charge 1586.

<sup>21</sup> Decision and Order, July 30, 2020 (revised July 31, 2020)

## 6 OTHER RATES AND CHARGES

Toronto Hydro proposed that certain rate riders be updated or eliminated from its Tariff of Rates and Charges, based on approved implementation and termination dates for each individual rate rider.

Toronto Hydro proposed “to decrease the monthly service charge for the microFIT Generator Service Classification from \$5.33 to \$4.49 per 30 days, based on the updated province-wide charge.”<sup>22</sup> Toronto Hydro did not seek a deferral account to track the impact of the reduction on the basis that it is not expected to be material.

Toronto Hydro proposed to update its Retail Service Charges and Specific Charge, for the charge for access to the Power Poles (Wireline Attachments) in the Rate Model using the 2021 inflation factor as part of the Draft Rate Order.<sup>23</sup>

### Findings

Toronto Hydro's proposed changes to rate riders are approved, subject to adjustments as documented under sections 7 (Group 1 Deferral and Variance Account Balances) and 8 (The Lost Revenue Adjustment Mechanism Variance Account Balance) in this Decision.

Toronto Hydro's proposed reduction to the microFIT Generator Service Classification charge to \$4.49 per 30 days is approved.

The OEB anticipates issuing a decision on any adjustment to the generic Retail Service Charges (RSCs) and the generic wireline pole attachment charge for 2021 rates. While the OEB is approving the proposed rates and charges as proposed by Toronto Hydro in this application, Toronto Hydro is expected to implement the generic orders for RSCs and the pole attachment charge in due course once available.

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<sup>22</sup> Tab 2/Schedule 1, pp. 12-13, referencing *Review of Fixed Monthly Charge for microFIT Generator Service Classification*, OEB File Numbers EB-2009-0326 and EB-2010-0219 (Feb. 24, 2020).

<sup>23</sup> Tab 2/Schedule 1, p. 13

## 7 GROUP 1 DEFERRAL AND VARIANCE ACCOUNT BALANCES

In a Custom IR update, the OEB will review a distributor's Group 1 deferral and variance accounts in order to determine whether their total balance should be disposed.<sup>24</sup> OEB policy requires that Group 1 accounts be disposed if they exceed (as a debit or credit) a pre-set disposition threshold of \$0.0010 per kWh, unless a distributor justifies why balances should not be disposed.<sup>25</sup> If the balance does not exceed the threshold, a distributor may elect to request disposition.

The 2019 actual year-end total balance for Toronto Hydro's Group 1 accounts including interest projected to December 31, 2020 is a debit of \$25,196,527. This amount represents a total debit claim of \$0.0011 per kWh, which exceeds the disposition threshold. Toronto Hydro proposes to clear the balance over a 12-month period from January 1 through December 31, 2021. Included in the balance of the Group 1 accounts is the Global Adjustment (GA) account debit balance of \$19,556,260. Costs for the commodity portion of its electricity service reflects the sum of two charges: the price of electricity established by the operation of the Independent Electricity System Operator (IESO) administered wholesale market, and the GA.<sup>26</sup>

The GA is paid by consumers in several different ways:

- For Regulated Price Plan (RPP) customers, the GA is incorporated into the standard commodity rates, therefore there is no variance account for the GA.
- Customers who participate in the Ontario Industrial Conservation Initiative program are referred to as "Class A" customers. These customers are assessed GA costs through a peak demand factor that is based on the percentage their demand contributes to the top five Ontario system peaks. This factor determines a Class A customer's allocation for a year-long billing period that starts in July

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<sup>24</sup> Group 1 accounts track the differences between the costs that a distributor is billed for certain IESO and host distributor services (including the cost of power) and the associated revenues that the distributor receives from its customers for these services. The total net difference between these costs and revenues is disposed to customers through a temporary charge or credit known as a rate rider.

<sup>25</sup> *Report of the OEB on Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR)*, EB-2008-0046, July 31, 2009

<sup>26</sup> The GA is established monthly, by the IESO, and varies in accordance with market conditions. It is the difference between the market price and the sum of the rates paid to regulated and contracted generators and conservation and demand management (demand response) program costs.

every year. As distributors settle with Class A customers based on the actual GA costs there is no resulting variance.

- “Class B” non-RPP customers pay the GA charge based on the amount of electricity they consume in a month (kWh). Class B non-RPP customers are billed GA based on an IESO published GA price. For Class B non-RPP customers, distributors track any difference between the billed amounts and actual costs in the GA Variance Account for disposal, once audited.

Under the general principle of cost causality, groups (classes) of customers that cause variances should be responsible for paying (or receiving credits) for their disposal. The movement from one group or class to another should not prevent identifiable customers from paying (receiving) a debit (credit) balance.

Toronto Hydro proposes the disposition of its GA variance account debit balance of \$19,556,260 as at December 31, 2019, including interest to December 31, 2020, in accordance with Table 6-1.

**Table 6-1 - Refund of GA Variance**

Proposed Amounts	Proposed Method for Recovery
\$18,763,513 recovered from customers who were Class B for the entire period from January 2019 to December 2019	per kWh rate rider
\$488,338 recovered from customers formerly in Class B during the period January 2019 to June 2019 who were reclassified to Class A	12 equal installments <sup>27</sup>
\$304,409 recovered from customers formerly in Class A during the period January 2019 to June 2019 who were reclassified to Class B	12 equal installments <sup>28</sup>

The balance of the Group 1 accounts includes a credit balance of \$1,619,055 for the recovery of Capacity Based Recovery (CBR) charges for Class B customers related to the IESO's wholesale energy market Demand Response 3 program. Distributors paid CBR charges to the IESO in 2019 and recorded these in a dedicated sub-account. The disposition of this sub-account is impacted by whether or not a distributor had any

<sup>27</sup> EB-2020-0057, THESL\_IRR\_1-Staff-5\_App A - 2021 IRM Generator Model - Updated\_20201014, Tab 6. “Class A consumption data” and Tab 6.1a “GA Allocation”

<sup>28</sup> *Ibid.*

customers who were part of Class A during the period from January 2019 to December 2019. The disposition is also impacted by whether or not the Class B CBR rate riders in the 2021 IRM Rate Generator Model<sup>29</sup> round to zero at the fourth decimal place in one or more rate classes.

Toronto Hydro had Class A customers during the period from January 2019 to December 2019 so it applied to have the balance of this account disposed through a separate kWh rate rider for Class B customers in order to ensure proper allocation between Class A and Class B customers.

As some customers were reclassified between Class A and Class B during the period from January 2019 to December 2019, Toronto Hydro requested recovery of a portion of CBR Class B costs by way of 12 equal installments in accordance with the table below.

**Table 6-2 - Recovery of CBR Variance**

Proposed Amounts	Proposed Method for Recovery
A credit balance of \$1,589,531 recovered from customers who were Class B for the entire period from January 2019 to December 2019	per kWh rate rider
A credit balance of \$18,187 recovered from customers formerly in Class B during the period January 2019 to June 2019 who were reclassified to Class A	12 equal installments <sup>30</sup>
A credit balance of \$11,337 recovered from customers formerly in Class A during the period January 2019 to June 2019 who were reclassified to Class B	12 equal installments <sup>31</sup>

The remaining Group 1 accounts being sought for disposition, through the general Deferral and Variance Account rate rider, include the following flow through variance accounts: Low Voltage Charges, Smart Meter Entity Charges, Wholesale Market Service Charges, Retail Transmission Service Charges, Commodity Power Charges

<sup>29</sup> EB-2020-0057, THESL\_IRR\_1-Staff-5\_App A - 2021 IRM Generator Model - Updated\_20201014Tab 6.2 "CBR B"

<sup>30</sup> EB-2020-0057, THESL\_IRR\_1-Staff-5\_App A - 2021 IRM Generator Model - Updated\_20201014, Tab 6. "Class A consumption data" and Tab 6.1a "CBR B\_Allocation"

<sup>31</sup> *Ibid.*

and Account 1595 residual balance. These Group 1 accounts have a total debit balance of \$7,259,321, which results in a charge to customers.

The balances proposed for disposition reconcile with the amounts reported as part of the OEB's *Electricity Reporting and Record-Keeping Requirements*.<sup>32</sup> Toronto Hydro's proposal for a one-year disposition period is in accordance with the OEB's policy.<sup>33</sup>

In 2018, the OEB suspended its approvals of Group 1 rate riders on a final basis pending the development of further accounting guidance on commodity pass-through variance accounts.<sup>34</sup> The OEB then issued accounting guidance<sup>35</sup> on the commodity accounts on February 21, 2019. In this letter, the OEB indicated that it expects distributors to consider the accounting guidance in the context of historical balances that have not yet been disposed on a final basis. Distributors are expected to make any adjustments needed prior to filing for final disposition.

In its 2019 Custom IR annual update<sup>36</sup> and 2020-2024 Custom IR<sup>37</sup> Decision and Orders, Toronto Hydro received approval to dispose 2017 and 2018 Group 1 DVA balances on an interim basis. Toronto Hydro confirmed that it has reviewed the 2017 and 2018 balances and found that no material adjustments were necessary in the context of the new guidance. Therefore, Toronto Hydro requests disposition of the previously approved account balances on a final basis.

#### Group 2 Account True-ups

In Toronto Hydro's Custom IR Decision and Order dated December 19, 2019, the OEB approved the disposition of Group 2 DVA balances and Other Amounts<sup>38</sup> on a forecast basis.<sup>39</sup> In the subsequent Decision and Rate Order dated February 20, 2020, 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

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<sup>32</sup> *Electricity Reporting and Record Keeping Requirements*, Version dated May 3, 2016

<sup>33</sup> *Report of the OEB on Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR)*, EB-2008-0046, July 31, 2009

<sup>34</sup> OEB letter to all rate-regulated licensed electricity distributors – "Re: OEB's Plan to Standardize Processes to Improve Accuracy of Commodity Pass-Through Variance Accounts." July 20, 2018.

<sup>35</sup> *Accounting Procedures Handbook Update – Accounting Guidance Related to Commodity Pass-Through Accounts 1588 & 1589*, February 21, 2019.

<sup>36</sup> EB-2018-0071 Decision and Rate Order, December 13, 2018

<sup>37</sup> EB-2018-0165 Decision and Rate Order, February 20, 2020

<sup>38</sup> 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.

<sup>39</sup> EB-2018-0165 Decision and Order, December 19, 2020, page 177



1595, and to dispose of these amounts in the year that the underlying account is disposed.<sup>40</sup>

In the current application, Toronto Hydro stated that the true up of the Group 2 accounts in Account 1595 was a credit balance of \$171,101 with the exception of two accounts (Operating Centres Consolidation Program (OCCP) and the Gain on Sale of 50/60 Eglinton Avenue). Toronto Hydro stated that it cannot true-up these two accounts for actuals until the underlying account dispositions are complete on December 31, 2021 and the actual final tax savings are realized. Therefore, the utility proposes to defer the true-ups for these two accounts to its 2023 Custom IR Update application.

Clearance of the true-up credit amount of \$171,101 would result in rate riders that fall below the \$0.0001/kWh materiality threshold. As a result, Toronto Hydro proposes to transfer the true-up amount to Account 1595 as a residual balance for the 2021 year.

## Findings

The OEB approves on a final basis the disposition of a debit balance of \$25,196,527 as of December 31, 2019, including interest projected to December 31, 2020, for Group 1 accounts. The following table identifies the principal and interest amounts which the OEB approves for disposition.

**Table 6-3 - 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	396,112	9,467	405,579
Smart Meter Entity Variance Charge	1551	(40,665)	(18,545)	(59,210)
RSVA - Wholesale Market Service Charge	1580	(5,295,316)	(54,688)	(5,350,003)
Variance WMS - Sub-account CBR Class B	1580	(1,587,252)	(31,802)	(1,619,055)
RSVA - Retail Transmission Network Charge	1584	8,275,362	194,150	8,469,512

<sup>40</sup> EB-2018-0165 Decision and Rate Order, February 20, 2020, page 4

RSVA - Retail Transmission Connection Charge	1586	(5,718,031)	(118,370)	(5,836,401)
RSVA – Power	1588	9,256,871	121,873	9,378,744
RSVA - Global Adjustment	1589	18,626,664	929,596	19,556,260
Disposition and Recovery of Regulatory Balances (2017)	1595	186,880	64,220	251,100
<b>Totals for all Group 1 accounts</b>		24,100,624	1,095,903	25,196,527

The balance of each of the Group 1 accounts approved for disposition shall be transferred to the applicable principal and interest carrying charge sub-accounts of Account 1595. Such transfer shall be pursuant to the requirements specified in Article 220, Account Descriptions, of the *Accounting Procedures Handbook for Electricity Distributors*.<sup>41</sup> 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. Toronto Hydro shall ensure these adjustments are included in the reporting period ending March 31, 2021 (Quarter 1).

The OEB approves 2019 account balances to be disposed on a final basis through rate riders and charges as calculated in the Rate Generator Model. The rate riders and charges, will be in effect over a one-year period from January 1 to December 31, 2021.<sup>42</sup>

The OEB approves 2017 and 2018 account balances on a final basis as Toronto Hydro has confirmed that it has fully implemented the OEB's February 21, 2019 accounting guidance effective from January 1, 2019. In addition, the OEB is satisfied that Toronto Hydro has undertaken the necessary analysis to quantify the impact of the OEB's new

<sup>41</sup> *Accounting Procedures Handbook for Electricity Distributors*, effective January 1, 2012

<sup>42</sup> EB-2020-0057, THESL\_IRR\_1-Staff-5\_App A - 2021 IRM Generator Model - Updated\_20201014 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"

accounting guidance on the historical 2017 and 2018 balances for accounts 1588 and 1589.

The OEB also approves the transfer of the true-up amount of the applicable Group 2 accounts to Account 1595 for future disposition. No disposition is required at this time, as the disposition threshold has not been exceeded and Toronto Hydro did not request disposition.

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## 8 THE LOST REVENUE ADJUSTMENT MECHANISM VARIANCE ACCOUNT BALANCE

A distributor's conservation and demand management (CDM) programs may result in reduced overall consumption. To address this, the OEB utilizes a Lost Revenue Adjustment Mechanism Variance Account (LRAMVA), which captures a distributor's revenue implications resulting from differences between actual savings and forecast conservation savings included in the last OEB-approved load forecast.<sup>43</sup> These differences are recorded by distributors at the rate class level.

Beginning on January 1, 2015, distributors delivered CDM programs to their customers through the Conservation First Framework (CFF). On March 20, 2019, the CFF was revoked.<sup>44</sup> Shortly thereafter, the OEB advised that electricity distributors would continue to have access to a lost revenue adjustment mechanism for conservation program activities undertaken under the CFF.<sup>45</sup> The OEB provided direction to distributors seeking to claim program savings up to December 31, 2019 related to CFF programs or other programs they deliver.<sup>46</sup>

A distributor may apply for the disposition of the balance in the LRAMVA on an annual basis, as part of its IRM application, if the balance is deemed significant by the distributor. A request for the inclusion of lost revenues from demand response programs, as part of the LRAMVA, must be addressed through an application to rebase rates through a cost of service approach.<sup>47</sup>

Toronto Hydro has applied to dispose of its LRAMVA debit balance of \$33,104,302. The balance consists of lost revenues in 2018 and 2019 resulting from CDM programs delivered during the period from 2015 to 2019 and associated carrying charges. The actual conservation savings claimed by Toronto Hydro were determined by the IESO<sup>48</sup> and an independent third-party evaluator, ClearResult Canada Inc. Actual conservation savings were compared against Toronto Hydro's forecasted conservation savings of

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<sup>43</sup> *Guidelines for Electricity Distributor Conservation and Demand Management*, EB-2012-0003, April 26, 2012; and *Requirement Guidelines for Electricity Distributors Conservation and Demand Management*, EB-2014-0278, December 19, 2014

<sup>44</sup> On March 20, 2019 the Minister of Energy, Northern Development and Mines issued separate Directives to the OEB and the IESO.

<sup>45</sup> Ontario Energy Board letter dated June 20, 2019

<sup>46</sup> Chapter 3 Filing Requirements, section 3.2.6.1

<sup>47</sup> *Report of the Ontario Energy Board on the Updated Policy for the Lost Revenue Adjustment Mechanism Calculation: Lost Revenues and Peak Demand Savings from Conservation and Demand Management Programs*, EB-2016-0182, May 19, 2016

<sup>48</sup> The Ontario Power Authority was responsible for CDM program evaluation prior to 2015.

55,893,405 kWh included in the load forecast for each year, which was set out in Toronto Hydro's application for 2015 through 2019 rates.<sup>49</sup>

## Findings

The OEB finds that Toronto Hydro's LRAMVA balance has been calculated in accordance with the OEB's CDM-related guidelines and updated LRAMVA policy<sup>50</sup>. The OEB approves the disposition of Toronto Hydro's LRAMVA debit balance of \$33,104,302, as set out in the following table. These balances are to be disposed through rate riders as calculated in the Rate Generator Model. The rate riders will be in effect over a one-year period from January 1, 2021 to December 31, 2021.<sup>51</sup>

**Table 8-1 – 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	38,872,922	6,865,862	1,097,243	33,104,302

<sup>49</sup> EB-2014-0116, Decision and Order, December 29, 2015

<sup>50</sup> *Filing Requirements Electricity Distribution Rate Applications – 2020 Edition for 2021 Rate Applications, Chapter 3 Incentive Rate-Setting Applications, May 14, 2020*

<sup>51</sup> EB-2020-0057, Application, August 24, 2020

## 9 IMPLEMENTATION AND ORDER

This Decision and Rate Order is accompanied by a Rate Generator Model, applicable supporting models, and a Tariff of Rates and Charges (Schedule A).

Model entries were reviewed in order to ensure that they are in accordance with Toronto Hydro's original Custom IR decision, and to ensure that the 2020 OEB-approved Tariff of Rates and Charges, as well as the cost, revenue and consumption results from 2019, are as reported by Toronto Hydro to the OEB.

The Rate Generator Model was adjusted, where applicable, to correct any discrepancies. The Rate Generator Model incorporates the rates set out in the following table.

**Table 9-1 - Regulatory Charges**

Rate	per kWh
Rural or Remote Electricity Rate Protection (RRRP)	\$0.0005
Wholesale Market Service (WMS) billed to Class A and B Customers	\$0.0030
Capacity Based Recovery (CBR) billed to Class B Customers	\$0.0004

Each of these rates is a component of the "Regulatory Charge" on a customer's bill, established annually by the OEB through a separate, generic order.

The RRRP, WMS and CBR rates were set by the OEB on December 17, 2019.<sup>52</sup>

The Smart Metering Entity Charge is a component of the "Distribution Charge" on a customer's bill, established by the OEB through a separate order. The Smart Metering Entity Charge was set by the OEB on March 1, 2018.<sup>53</sup>

<sup>52</sup> EB-2019-0278, Decision and Order, December 17, 2019

<sup>53</sup> EB-2017-0290, Decision and Order, March 1, 2018

**THE ONTARIO ENERGY BOARD ORDERS THAT:**

1. The Tariff of Rates and Charges set out in Schedule A of this Decision and Rate Order is approved effective January 1, 2021 for electricity consumed or estimated to have been consumed on and after such date. Toronto Hydro-Electric System Limited shall notify its customers of the rate changes no later than the delivery of the first bill reflecting the new rates.

**DATED** at Toronto, December 10, 2020

**ONTARIO ENERGY BOARD**

*Original signed by*

Christine E. Long  
Registrar

**SCHEDULE A**  
**TO DECISION AND RATE ORDER**  
**TARIFF OF RATES AND CHARGES**

**EB-2020-0057**

**DECEMBER 10, 2020**