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

Ontario

DECISION AND RATE ORDER

EB-2021-0060

TORONTO HYDRO-ELECTRIC SYSTEM LIMITED

Application for rates and other charges to be effective January 1, 2022

By Delegation, Before: Theodore Antonopoulos

[date]

1 OVERVIEW

The Ontario Energy Board is approving changes to the rates that Toronto Hydro charges to distribute electricity to its customers, effective January 1, 2022.

Toronto Hydro serves approximately 779,176 mostly residential and commercial electricity customers in the City of Toronto.

As a result of this Decision, there will be a monthly total bill increase of $2.36 or 1.8% for a residential customer consuming 750 kWh. This change does not factor in applicable taxes or the Ontario Electricity Rebate.

2 CONTEXT AND PROCESS

Toronto Hydro filed its application on August 20, 2021 under section 78 of the *Ontario Energy Board Act, 1998* (OEB Act).

Distributors may choose one of three rate-setting methods: Price Cap Incentive Rate-setting (IR), Custom IR or Annual IR.[1] 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.[2] 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 cumulative, asymmetrical earnings sharing mechanism (ESM) using an ROE-based calculation with all earnings in excess of 100 basis points over the approved ROE shared 50:50 with ratepayers. Disposition of any balance will occur at the end of the plan term.[3]
- A capital-related revenue requirement variance account (CRRRVA) to be assessed on a cumulative basis at the end of the Custom IR term.[4]

[1] Each of these options is explained in the OEB's *Handbook for Utility Rate Applications*.
[2] EB-2018-0165, Decision and Order, December 19, 2019
[3] Ibid, pp. 192-103
[4] 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 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.

Toronto Hydro applied for a base rate increase of 1.18% in accordance with the approved Custom IR framework, using the OEB approved 2021 parameter for inflation of 2.2% as a proxy and incorporating the capital factor (including accounting for growth) for 2022. The 1.18% price cap adjustment applies to distribution rates (fixed and variable charges) uniformly across all customer classes with the exception of the microFIT rate class. Toronto Hydro proposed to update the Rate Generator Model with the 2022 inflation factor during the Draft Rate Order process.

On November 18, 2021, the OEB issued the Input Price Index (IPI) applicable for 2022; this IPI serves as the inflation factor for formulaic adjustment plans. The 2022 IPI is calculated as 3.3% in accordance with the OEB's methodology.

As a result of the update for the 2022 IPI, the base increase for distribution rates becomes 1.49% under Toronto Hydro's approved Custom IR framework.

The application was supported by pre-filed written evidence and a completed Rate Generator Model and as required during the proceeding, Toronto Hydro updated and clarified the evidence.

3 DECISION OUTLINE

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

- Custom Price Cap Adjustment
- Retail Transmission Service Rates
- Other Rates and Charges
- Group 1 Deferral and Variance Accounts

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

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.[5] This was subsequently accepted by the OEB in the Decision and Rate Order.[6] The custom price cap index (CPCI) formula is $I – X + Cn – S_{cap} \times (I + X_{cap}) – g$, where:

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

The 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.

On August 6, 2021, the OEB issued a Notice on its own motion to initiate a proceeding to consider the inflation factor to be used to set rates for electricity transmitters and electricity and natural gas distributors for the year 2022. The OEB issued its Decision and Order on November 18, 2021, establishing the 2022 inflation factor.

The factors X, Cn, 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.[7] This was updated in Toronto Hydro's Draft Rate Order filing[8] to reflect other determinations of the panel in that decision, with the updates approved in the

[5] EB-2018-0165, Decision and Order, December 19, 2019, page 11
[6] Ibid., pp. 23-24
[7] EB-2018-0165, Decision and Order, December 19, 2019, page 17, Table 2
[8] EB-2018-0165, Updated Draft Rate Order, February 12, 2020

OEB's Decision and Rate Order.[9]

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[10]

%	2021	2022	2023	2024
I-Inflation	2.2[11]	3.3[12]	2.0[13]	2.0[13]
X-Productivity	0.0	0.0	0.0	0.0
X-Stretch	0.6	0.6	0.6	0.6
X_{cap}	0.3	0.3	0.3	0.3
C_n-Capital Factor	4.97	1.56	6.43	4.36
S_{cap}-Share of Capital	71.22	71.38	72.83	73.70
g-Growth	0.20	0.20	0.20	0.20
CPCI	4.59[11]	1.49[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.[14] 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.[15] The ESM is cumulative and asymmetrical using an ROE-based calculation with all earnings in excess of 100 basis points over the approved ROE shared 50:50 with ratepayers. Disposition of any balance will occur at the end of the plan term.[16]

[9] EB-2018-0165, Decision and Rate Order, February 20, 2020, page 3
[10] EB-2018-0165, Toronto Hydro, Updated Draft Rate Order, *op. cit.*, page 11/Table 8
[11] Updated for Toronto Hydro's elected 2021 inflation factor of 2.2% per the November 13, 2020 letter in its 2021 Custom IR Update Application – EB-2020-0057.
[12] Updated for OEB's decision in the 2022 Inflation Factor Generic Proceeding – EB-2021-0212
[13] Placeholders until applicable inflation factor issued for each respective year.
[14] EB-2018-0165, Decision and Order, December 19, 2019, page 43
[15] Ibid, page 42
[16] See footnote 3

In its 2021 Custom IR update application[17], Toronto Hydro did not provide information as to the status of the ESM variance account for the 2020-2024 period. In its decision, the OEB noted its expectation 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.[18]

Pursuant to this expectation, Toronto Hydro provided an update in its current 2022 application on the status of the ESM variance account. Toronto Hydro reported that it underearned by 2.62% in 2020 versus its approved ROE of 8.52%.[19] Toronto Hydro confirmed that there is a nil balance in the ESM variance account as Toronto Hydro underearned and therefore did not record any balance in the ESM variance account since the account is cumulative and asymmetrical.[20]

Findings

The resulting net price cap adjustment for Toronto Hydro is 1.49% (i.e., 3.3% - (0% + 0.60%) + 1.56% - 71.38% x (3.3% + 0.3%) - 0.2%). This adjustment represents the increase for inflation in accordance with the OEB's formula described above as well as capital spending for the 2022 calendar year that was previously approved by the OEB.[21]

The 1.49% adjustment applies to distribution rates (fixed and variable charges) uniformly across all customer classes.[22]

The CRRRVA 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.

Pursuant to the OEB's direction in Toronto Hydro's 2021 Custom IR update application, Toronto Hydro provided information as to the status of 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 2022 rates.

[17] EB-2020-0057
[18] EB-2020-0057, Decision and Rate Order, December 10, 2020, page 8
[19] EB-2021-0060, Application, Tab 2, Schedule 1, pages 6-7
[20] EB-2021-0060, THESL_IRR_2022CIRUpdate_20211027, October 27, 2021, Page 1
[21] EB-2018-0165, Decision and Order, December 19, 2019, pp. 2, 70-122
[22] 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

Toronto Hydro is transmission connected.

To recover its transmission costs, Toronto Hydro requests approval to adjust the retail transmission service rates (RTSRs) that it charges its customers in accordance with the Uniform Transmission Rates (UTRs) currently in effect.

Findings

Toronto Hydro's proposed adjustment to its RTSRs is approved. The RTSRs were adjusted based on the current OEB-approved UTRs.[23]

UTRs and host-RTSRs are typically approved annually by the OEB. In the event that new UTRs and host-RTSRs take effect during Toronto Hydro's 2022 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).

[23] EB-2021-0176, Decision and Rate Order, June 24, 2021

6 OTHER RATES AND CHARGES

Toronto Hydro requests continuation of the various rate riders approved in EB-2018-0165, in accordance with their respective effective and termination dates, and of the other rates and charges approved in that application, including the Specific Service Charges and Loss Factors.

Toronto Hydro is proposing to maintain the monthly service charge for the microFIT Generator Service Classification at its 2021 value of $4.49 per 30 days, as the province-wide charge underlying its calculation has not changed.

Toronto Hydro has not updated its Retail Service Charges and Specific Charge for access to the Power Poles (Wireline Attachments) in the Rate Model and proposes to update these charges with the 2022 inflation factor as part of the Draft Rate Order.[24]

In response to an OEB staff question, Toronto Hydro confirmed that that it will follow the treatment the OEB directs with respect to the access to the Power Poles (Wireline Attachments) charge and maintain the current charge of $44.50 until the OEB directs otherwise.

Findings

Toronto Hydro's request for the continuation of various rate riders approved in EB-2018-0165, in accordance with their respective effective and termination dates, and of the other rates and charges approved in that application, including the Specific Service Charges and Loss Factors is approved.

Toronto Hydro's proposal to maintain the monthly service charge for the microFIT class is appropriate as the province-wide charge has not changed.

The OEB anticipates issuing a decision on any adjustment to the generic Retail Service Charges (RSCs) and the generic wireline pole attachment charge for 2022 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.

[24] EB-2021-0060, Application, Tab 2, Schedule 1, Page 8

7 GROUP 1 DEFERRAL AND VARIANCE ACCOUNTS

In a Custom IR update, 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 can justify why balances should not be disposed.[25] If the balance does not exceed the threshold, a distributor may still request disposition.

The 2020 year-end net balance for Toronto Hydro's Group 1 accounts that are eligible for disposition, including interest projected to December 31, 2021, is a credit of $13,356,060 and pertains to variances accumulated during the 2020 calendar year. This amount represents a total claim of $0.0006 per kWh, which does not exceed the disposition threshold, and Toronto Hydro has not requested disposition.

Group 2 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[26] on a forecast basis.[27] In the subsequent Decision and Rate Order dated February 20, 2020, the OEB approved Toronto Hydro's proposal to true-up any variance between the forecast principal and interest amounts and the actual principal and interest amounts in Account 1595, and to dispose of these amounts in the year that the underlying account is disposed.[28]

In accordance with the OEB's direction in that application, only one account was approved for disposition beginning January 1, 2022, and is therefore subject to a true-up as part of this application. This account is the Derecognition Costs account.

Clearance of the true-up credit amount of $761,438 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 2022 year.[29]

[25] Report of the OEB – "Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR)." EB-2008-0046, July 31, 2009
[26] 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.
[27] EB-2018-0165 Decision and Order, December 19, 2020, page 177
[28] EB-2018-0165 Decision and Rate Order, February 20, 2020, page 4
[29] EB-2021-0060, Application, Tab 2, Schedule 1, pages 4-5

Findings

The OEB finds that the account balances appear reasonable and the threshold calculation is correct. No disposition is required at this time, as the disposition threshold has not been exceeded and the distributor did not request disposition.

The OEB approves the transfer of the true-up amount of the applicable Group 2 account 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.

8 IMPLEMENTATION

This Decision is accompanied by a Rate Generator Model, applicable supporting models, and a Tariff of Rates and Charges (Schedule A). The Rate Generator Model also incorporates the rates set out in the Table 8.1.

Table 8.1: 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 10, 2020.[30]

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.[31]

[30] EB-2020-0276, Decision and Order, December 10, 2020
[31] EB-2017-0290, Decision and Order, March 1, 2018

9 ORDER

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, 2022 for electricity consumed or estimated to have been consumed on and after such date. Toronto Hydro-Electric System Limited Inc. shall notify its customers of the rate changes no later than the delivery of the first bill reflecting the new final rates.

DATED at Toronto, [date]

ONTARIO ENERGY BOARD

Christine E. Long
Registrar

SCHEDULE A

DECISION AND RATE ORDER

TORONTO HYDRO-ELECTRIC SYSTEM LIMITED

TARIFF OF RATES AND CHARGES

EB-2021-0060

[DATE]