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**Espanola Regional Hydro Distribution Corporation**

**2022**

**Incentive Rate-Making Application**

**EB-2021-0022**

**For Rates Effective May 1, 2022**

**Filed: November 24, 2021**

Ms. Christine E. Long

Registrar

Ontario Energy Board

2300 Yonge Street, 27th Floor

Toronto, ON M4P 1E4

November 24, 2021

Dear Ms. Long,

**Re: Electricity Distribution License ED-2002-0502**

**2022 IRM Application for Electricity Distribution Rates (EB-2021-0022)**

Espanola Regional Distribution Corporation (“ERHDC”) is pleased to submit its Electricity Distribution Rates application under the Fourth Generation Incentive Rate-Setting Mechanism (“Price Cap IR”) to the Ontario Energy Board (“OEB”) for electricity distribution rates and other charges effective May 1, 2022.

The Filing includes the Application; the Manager’s Summary; and excel versions of the following

models or files:

1. 2022 IRM Rate Generator Model

2. 2022 GA Analysis Workform

3. 2022 IRM Checklist

The Filing and supporting materials are being filed through the OEB’s web portal (RESS).

Yours truly,

Kelly McLellan

VP Finance & Corporate Support

ERHDC Managed Services

Phone: (705) 759-6566

Email: [regulatory@ssmpuc.com](mailto:regulatory@ssmpuc.com)

Attachments

**IN THE MATTER OF** the *Ontario Energy Board Act, 1998*, being Schedule B to the Energy Competition Act, S.O. 1998, c.15;

**AND IN THE MATTER OF** an application by Espanola Regional Distribution Corporation to the Ontario Energy Board for an Order or Orders approving or fixing just and reasonable rates and other charges for electricity distribution to be effective May 1, 2022.

**Title of Proceeding:** An application by Espanola Regional Hydro Distribution Corporation. for an Order or Orders approving or fixing just and reasonable distribution rates and other charges, effective May 1, 2022.

**CONTACT INFORMATION**

APPLICANT’S NAME: Espanola Regional Hydro Distribution Corporation

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## MANAGER’S SUMMARY

# Application

Espanola Regional Hydro Distribution Corporation (“ERHDC”) hereby applies to the Ontario Energy Board (the “OEB”) for approval of its proposed distribution rates and other charges, effective May 1, 2022. ERHDC has prepared the 2022 4th Generation Incentive Rate-Setting Mechanism application consistent with Chapter 3 of the filing requirements for electricity distribution rate applications as revised by the OEB on June 24, 2021.

This Application will affect all ratepayers in ERHDC’s service territory. ERHDC requests that, pursuant to Section 34.01 of the Board’s Rules of Practice and Procedure, this proceeding be conducted by way of written hearing. In the event that the Board is unable to provide a Decision and Order in this Application for implementation by the Applicant as of May 1, 2022, ERHDC requests that the Board issue an Interim Rate Order declaring the current Distribution Rates and Specific Service Charges as interim until such time as the 2022 rates is approved. In the event that the effective date does not coincide with the Board’s decided implementation date for 2022 Distribution Rates and Charges, ERHDC requests to be permitted to recover the incremental revenue from the effective date to the implementation date.

The OEB requires a certification by the Chief Executive Officer (CEO), or Chief Financial Officer (CFO), or equivalent. The Application must include a certification that the distributor has robust processes and internal controls in place for the preparation, review, verification, and oversight of the account balances being disposed, consistent with the certification requirements in Chapter 1 of the filing requirements. This Certification has been included as Appendix “A”.

ERHDC has used the most current version of the OEB’s 2022 IRM Rate Generator Model, 2022 IRM Revenue Cost Ratio Adjustment Model and Global Adjustment Analysis Workform in the preparation of this filing and confirms the accuracy of the billing determinants and Trial Balance data for the prepopulated Models. A copy of ERHDC’s current 2021 Tariff of Rates and Charges, for rates effective May 1, 2021 and implemented July 1, 2021, is included as Appendix “B”. The proposed 2022 Tariff of Rates and Charges is included as Appendix “C”.

The completed 2022 IRM Rate Generator Model, in PDF format, is included as Appendix “D”. ERHDC understands that OEB Staff will update the Model for parameters determining the Annual Adjustment Mechanism when established by the Board. ERHDC is applying for Group 1 – Deferral and Variance Account disposition, including final disposition of USofA accounts 1588 and 1589. ERHDC has completed the 2022 GA Analysis Workform as required in the Filing Requirements and included it as Appendix “E”. The 2022 IRM Checklist is provided as Appendix “F”.

Specifically, ERHDC’s Application hereby applies for an Order or Orders approving distribution

rates updated and adjusted in accordance with the Chapter 3 Requirements as follows:

* An Annual Adjustment Mechanism of 3.15% applied to existing distribution rates determined by the OEB’s calculated inflation factor for incentive rate setting under the Price Cap IR Price Escalator of 3.3%, reduced by the Productivity Factor of 0%, and further reduced by ERHDC’s Stretch Factor Value of 0.15% for Group II utilities;
* Continuation of the Rate Riders for the Disposition of Deferral/Variance Accounts and Account 1568 LRAM Account as approved in the 2021 COS Application [EB-2020-0020];
* Disposition of Group 1 Deferral/Variance Accounts for the year end balance as of December 31, 2020.
* Adjustment to the Retail Transmission Service Rates as provided in Guideline (G-2008-0001) on Retail Transmission Service Rates – October 22, 2008 (revision 4.0 June 28, 2012);
* Continuation of the Wholesale Market Service Rate, Capacity Based Recovery (CBR) Class B, Rural Rate Protection Charge, the Standard Supply Service Charge, Specific Service Charges, MicroFIT Service Charge, Retail Service Charges, the Smart Metering Entity Charge and Loss Factors as approved in ERHDC’s 2021 COS Application (EB-2020-0020);

Table 1 below summarizes ERHDC’s 2022 proposed distribution rates, as compared to current approved rates.

**Table 1 – 2022 Proposed Distribution Rates**



# Annual Adjustment Mechanism

The annual adjustment mechanism is defined as the annual percentage change in the inflation factor less an X-Factor (i.e., productivity factor and stretch factor). As part of the supplemental report on the RRFE (Renewed Regulatory Framework for Electricity Distributors) the Board will establish the final inflation factor, productivity factor and stretch factor to apply to distributors for 2022 rate setting. The OEB issued a final Decision and Order on November 18, 2021. The Rate Generator Model has been updated to include the final approved rate at 3.3%.

ERHDC has populated the IRM Rate Generator Model using the inflation factor of 3.3%, productivity factor of 0.00% and a stretch factor of 0.15% (representing the second cohort) for a total price index adjustment of 3.15%. ERHDC understands the Board will update ERHDC’s Rate Generator Model with the final parameters as established.

# Revenue-to-Cost Ratio Adjustment

ERHDC is not proposing to adjust the revenue-to-cost ratios and therefore has not completed the 2022 IRM Revenue to Cost Ratio Adjustment Model.

# Rate Design for Residential Electricity Customers

On April 2, 2015 the OEB released its *Board Policy: a New Distribution Rate Design for Residential Electricity Customers (EB-2014-0210)*, which stated that electricity distributors will transition to a fully fixed monthly distribution service charge for residential customers which will be implemented, in most cases, over a period of four years, beginning in 2016.

ERHDC began the transition to fully fixed rates for residential customers as of May 1, 2021. ERHDC is transitioning over a period of 5 years as approved in its most recent Cost of Service Rate Application (EB-2020-0020). The transition was approved for an increase of 1/6 in year 1 with an equal 1/4 transition in years 2-5. Tab 16 in the 2022 IRM Rate Generator Model calculates an increase of the existing monthly fixed charges by the Price Cap Index of 3.15%. ERH requests the Board approve the adjustments as identified in the model. ERH does not request any further revenue to cost ratio adjustments as part of this application.

When determining ERHDC’s residential customers 10th consumption percentile, 12 months of actual source data was used on all residential customers to get an average consumption amount per customers. Based on the number of customers and sorting the consumption from smallest to largest, it was determined that the 10th consumption percentile for ERHDC’s residential customer is 318 kWh.

Comparing ERHDC’s total bill impacts of a customer at the 10th consumption percentile, the total bill increases by 8.43% for residential RPP customers as shown in Figure 1 below.

Figure 1 – Total Bill Impact – 10th Consumption Percentile



# Retail Transmission Service Rates

ERHDC is applying for an increase in the network service rates in accordance with the OEB guidelines Electricity Distribution Retail Transmission Service Rates (“RTSR”), Revision 4.0 (G-2008-0001) issued October 22, 2008 and with revisions up to June 28, 2012. The increase is calculated using the 2022 IRM Rate Generator Model issued by the OEB that applies historical wholesale and retail consumption to current and future wholesale and retail rates.

ERHDC receives wholesale transmission service from metered points that are directly connected to the Hydro One grid. ERHDC is billed Uniform Transmission Rates by Hydro One on all capacity delivered through these points. ERHDC passes these charges on to their customer with Board approved Retail Transmission Service Rates. To determine the RTSR’s, ERHDC has completed the 2022 IRM Rate Generator Model as part of this application. Table 2 and Table 3 summarizes the Forecasted RTSR – Network Rates and Table 3 summarizes the forecasted RTSR – Connection Rates.

ERHDC understands that the Board will adjust the RTSRs in each distributor’s rate application model once the approved Uniform Transmission Rates are determined. The most recent billing determinants, reported in the 2020 year-end RRR filings under 2.1.5 Performance Based Regulation, were used for the calculation of the forecasted RTRS rates.

**Table 2 – Forecasted 2022 RTSR – Network Rates**



**Table 3 – Forecasted 2022 RTSR – Connection Rates**



# Proposed Group 1 Deferral and Variance Account Disposition

ERHDC seeks Board approval to dispose the balances of Group 1 deferral and variance accounts on an interim basis as of December 31, 2020, including interest to April 30, 2021. The Board issued its Report on Electricity Distributor’s Deferral and Variance Account Review Initiative (“EDDVAR Report”) on July 31, 2009 (EB-2008-0046). The EDDVAR Report directs electricity distributors to review and dispose Group 1 deferral and variance audited account balances, which do not require a prudence review, in an IRM Rate Application if the pre-set disposition threshold is exceeded. The Board established a disposition threshold at $0.001/kWh.

ERHDC has completed the Deferral and Variance Accounts schedule, Tab “3. Continuity Schedule,” in the 2022 IRM Rate Generator Model and has reconciled December 31, 2020 audited balances with the June 1, 2021 RRR Filing. Actual interest has been calculated based on the Board’s prescribed rates. Forecasted interest for the period January 1, 2022 to April 30, 2022 is based upon the last Board prescribed rate of 0.57%. The continuity schedule is showing variances in accounts 1550 LV Variance Account, 1584 RSVA Retail Transmission Network Charge, 1586 Retail Transmission Connection Charge and 1588 RSVA – Power. A total variance of $138,934 is calculating in Tab “3. Continuity Schedule” of the IRM Model.

The following table has been provided with explanations of those variances.

**Table 4 – Reconciliation of Deferral and Variance Account Balances**



Variances in the Low Voltage Account ($725,116), RSVA- Retail Transmission Connection Charge ($723,377) is an approved adjustment made in the 2021 Cost of Service application. The RSVA – Retail Transmission Network Charge ($1,740) is a correction to balance the Low Voltage variance and Power.

Variances of $44,777 and ($94,158) in accounts RSVA – Power (USoA 1588) and RSVA – Global Adjustment (USoA 1589), respectively, include approved adjustments made in 2021 Cost of Service for 1588 and for corrections to 1588 and 1589 related to 2020 GA activity, which ERHDC identified after filing its 2020 RRR’s. This is identified in the GA Workform as a principle adjustment and in the Continuity Schedule as a 2020 principle adjustment.

ERHDC confirms that all year end balances agree, except as explained in table 3 above, in total with both its annual filings required under the RRR’s and with ERHDC annual audited financial statements for 2020. No adjustments to previously approved balances on a final basis have been made. ERH also confirms that the last OEB-Approved balance of $672,241 has been transferred to Account 1595 – 2020 Disposal (as identified in ERH’s COS 2021 application EB-2020-0020).

ERHDC last claimed Group 1 Account Balances in its 2021 Cost of Service Application. This reflected year end balances as of December 31, 2019. ERHDC is requesting disposition of Group 1 Deferral and Variance Account balances, including 1589. ERHDC meets the threshold test of .001$/kWh. ERHDC is not eligible to claim any residual balances in 1595. Currently there are residual balances in 1595 for the 2018 and 2019 vintage years. As a result, ERHDC’s continuity schedule include accounts 1550, 1551, 1580, 1584, 1586, 1588 and 1589.

Threshold Test

For the 2020 period, the total claim in the Group 1 accounts total $**317,369** (including Account 1589 – Global Adjustment) which leads to a threshold value test of $0.0057. This exceeds the materiality threshold of +/-$0.001/kWh as defined in the Filing Requirements. The balance is driven primarily by the Low Voltage Variance and RSVA – Retail Transmission Connection Charges from 2020.

Table 5 provides the amounts proposed for the disposition of Group 1 accounts and Table 6 provides the proposed Rate Riders.

**Table 5 – Proposed Disposition of Deferral and Variance Accounts**



**Table 6 – Proposed Group 1 Deferral and Variance Account Rate Riders**



ERHDC has used the same allocation methodology as used in previous proceedings to assign Group 1 balances to its rate classes. In consideration of the recommendation outlined in the Filing Requirements along with assessing bill impacts, ERHDC has proposed a one-year disposition period. Rate rider calculations can be found in the electronic copy of the 2022 IRM Rate Generator Model that has been submitted with this Application. In addition to the excel file, the pdf version of the Model has been provided in Appendix “D” to this Application.

# Wholesale Market Participants

ERHDC does not have any Wholesale Market Participant customers.

# Global Adjustment

Distributors must provide a description of their settlement process with the Hydro One, in accordance with Chapter 3 of the Board’s Filing Requirements for Electricity Distribution Rate Applications. Distributors must specify the GA rate used when billing customers for each rate class, itemize the process for providing consumption estimates to the Hydro One, and describe the true-up process to reconcile estimates of RPP and non-RPP consumption once actuals are known.

GA Analysis Workform

Distributors must complete the GA Analysis Workform to determine whether the annual balance in Account 1589 is reasonable. The Workform compares the General Ledger principal balance to an expected principal balance based on monthly GA volumes, revenues, and costs. Distributors may provide reconciling items to explain and reduce the discrepancy between the actual and expected balance. Any unexplained discrepancies should be calculated separately for each calendar year and any unexplained discrepancy for each year greater than +/- 1% of total annual Hydro One GA charges will be considered material.

ERHDC has completed the GA Analysis Workform as provided in Appendix “E.”

A correction of $94,158 and ($94,158) in accounts RSVA – Power (USoA 1588) and RSVA – Global Adjustment (USoA 1589), respectively, was identified with the reconciliation related to 2020 activity in respect to adjusted GA rates versus unadjusted rates used for the Non-RPP GA cost. This will be recorded in 2021 and reflected in 2021 RRR balances.

The 1588 Account reasonability percentage of Account 4705 is 1.8%, greater than the expected +/- 1%. This is due to actual higher loss factors versus approved loss factors.

Table 7 provides the amounts proposed for the disposition of Global Adjustment Rate Riders.

**Table 7 – Proposed Global Adjustment Rate Riders**



# Settlement Process Overview

On February 21, 2019, the OEB released a letter entitled Accounting guidance related to Accounts 1588 and 1589. The following provides a description of ERHDC’s settlement process and GA processes for RPP and Non-RPP amounts. ERHDC has reviewed and confirmed the processes are being followed as described below.

Settlement Process

1. For GA, ERHDC uses the 1st Estimate for billing customers in all rate classes. ERHDC does not have any Class A customers.
2. Monthly Settlement files are sent to Hydro One by the 2nd business day after the calendar month end.
3. Consumption actuals – ERHDC uses actual meter readings from meter data repository system. Conventional Meters are used for billing Tiered pricing customers and Smart Meters used for billing customers Time of Use (“TOU”) pricing. Data is extracted monthly and customer consumption is segregated between RPP and non-RPP consumption using billing codes.
4. From the extracted data, actual RPP kWh and revenues are split between RPP categories (TOU on/off/mid or Tier 1, Tier 2). ERHDC’s billing system also tracks what revenue would have been for each RPP customer bill based on weighted average pricing. In addition, kWh’s are tracked by calendar month so the effective GA rates can be determined. For RPP settlement purposes, revenue associated with RPP pricing is compared to tracked revenue that would have been billed using weighted average pricing and effective final GA rate and the difference is submitted to the Hydro One for settlement.
5. Embedded Generation – the settlement relating to embedded generation (FIT, microFIT) is done based on contract price versus market price monthly.

# Commodity Accounts 1588 and 1589

Account 1588 – RSVA Power is used to record net differences between power sales billed and accrued (i.e., unbilled revenue) to RPP and non-RPP customers, and power costs accrued and paid to the HYDRO ONE, host distributor and/or embedded generators.

Account 1589 – RSVA GA is used to record net differences between GA billed and accrued (i.e., unbilled revenue) to Class B non-RPP customers, and GA costs accrued and paid to the HYDRO ONE, and/or host distributor relating to Class B non-RPP customers.

Revenue and cost amounts are recorded in distributors’ power and GA commodity pass-through revenue and cost of power accounts. Billed amounts are tracked in accounts 4006-4055 depending on customer classifications. Hydro One charges are tracked in account 4505, with non-RPP Class B customers tracked in 4707.

ERHDC uses the Hydro One invoice and consumption data as the basis for its accounting accrual journal entries and subsequently reverses these accruals and records the actual invoice when received. ERHDC settles with the Hydro One on a billed basis; therefore, accruals are required for unbilled consumption. Entries are recorded monthly using consumption data and estimates based on historical data. The initial RPP settlement and unbilled energy estimates are updated once the final consumption and GA rates becomes available. The general ledger is updated with the final amounts and the results of the true-up process. At year end all final consumption, billing and costs are reviewed and any final true-up entries are recorded. Unbilled and actual cost of power are trued-up to actual.

The balance in the RSVA-Power account 1588 reflects settlement variances between the energy rates billed to customers and the energy rates invoiced by Hydro One.

The balance in the RSVA-GA account 1589 is due to differences between the GA revenue amounts billed to Non-RPP consumers and the calculated GA expense for Non-RPP consumers.

# Disposition of Account 1595

ERH confirms that the disposition of residual balances for vintage Account 1595 have only been requested once the disposition balance is a year after the rate rider’s sunset date has expired and the balances have been externally audited.

ERHDC has no balances in account 1595 to dispose as all residual balances were disposed in its 2021 Cost of Service application (EB-2020-0051). No 1595 Workform has been filed.

# LRAM Variance Account (LRAMVA)

In accordance with the Board’s Guidelines for Electricity Distributors CDM, at a minimum, distributors must apply for disposition of the balance in the LRAMVA at the time of their Cost of Service Rate Applications. Distributors may apply for the disposition of the LRAMVA balance in IRM Rate Applications if the balance is deemed significant by the applicant. All requests for disposition of the LRAMVA must be made together with carrying charges.

ERHDC proposes no disposition of Account 1568 LRAMVA balance with this Rate Application as all residual balances were disposed in its 2021 Cost of Service application (EB-2020-0051).

# Tax Changes

In its *Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario’s Electricity Distributors [EB-207-0673]*, the OEB determined a 50/50 sharing of the impact of currently known legislation tax changes as applied to the tax level reflected in the Board-approved base rates for distributors is appropriate. The tax allocation will be allocated to customer rate classes based on the last Board approved COS distribution revenue. The Board has determined that currently known tax changes from the level reflected in the Board-approved base rates will be reflected in the IRM adjustments.

ERHDC has completed the OEB’s 2022 IRM Rate Generator Model (Tab “8. STS-Tax Change” and Tab “9. Shared Tax-Rate Rider”) and calculated annual tax changes allocated to customer rate classes based on the 2021 Board Approved billing determinants and distribution rates (2021 COS file number EB-2020-0020). As there is no tax change from the 2021 year of the cost of service, the Incremental Tax Savings is $nil.

# Z-Factor Claims/ Incremental Capital Module (ICM)

ERHDC is not proposing to seek recovery for a Z-Factor claim or utilize the ICM option.

# Proposed Distribution Rates and Bill Impacts

Bill impacts were derived for each rate class using the 2022 IRM Rate Generator Bill Impact calculation in Sheet 20. A detailed listing of customer bill impacts is set out under Sheet 20 of the 2022 IRM Rate Generator Model.

Table 8 provides the Bill Impact Summary for Average Monthly Volumes per rate class.

**Table 8 – Bill Impact Summary**



# Conclusion

In summary, total bill impacts are well below the rate mitigation threshold and ERHDC considers the proposed distribution rates and applicable disposition to be both reasonable and prudent.

Appendix A

Certificate of Evidence

Appendix B

2021 Current Tariff of Rates and Charges

(2021 Rate Order EB-2020-0020)

Appendix C

2022 Proposed Tariff of Rates and Charges

Appendix D

2022 IRM Rate Generator Model

Appendix E

2022 GA Analysis Workform

Appendix F

2022 IRM Checklist