



BY E-MAIL AND WEB POSTING

December 1, 2021

**To: All Licensed and Rate-regulated Electricity Distributors
All Intervenors in 2022 Electricity Distribution Cost of Service Proceedings
All Other Interested Parties**

Re: Applications for 2023 Electricity Distribution Rates

Providing clear and timely guidance to industry is a key part of the Ontario Energy Board's (OEB) commitment to making the regulatory process more efficient and transparent. This letter:

- Sets out a preliminary schedule of cost of service (or rebasing) filers for the 2023 to 2026 rate years (see Appendix A),
- Invites interested distributors to request deferral of their rebasing if they consider it appropriate in their particular circumstances,
- Outlines changes to the OEB's approach to deferrals, and
- Establishes important filing and notification deadlines (see Appendix B).

Background

As set out in the [Handbook for Utility Rate Applications](#) three incentive rate-setting (IR) methods are available to electricity distributors: Price Cap IR; Custom IR; and the Annual IR Index.

Each year, the OEB issues a list of electricity distributors that are expected to file cost of service applications in the following year. At the same time, the OEB makes provision for distributors to identify if they wish to defer rebasing.

At this time, 20¹ electricity distributors are scheduled to file a cost of service application for 2023 rates, six for 2024 rates, seven for 2025 rates and ten for 2026 rates. In light of the uneven distribution in the number of distributors scheduled to file a cost of service application over the coming years, the OEB is inviting interested electricity distributors that are scheduled to file a

¹ Hydro One Networks Incorporated's cost of service application has been filed.

cost of service application for the 2023 rate year to submit expressions of interest to defer rebasing to a later year, up to 2025, in accordance with the timelines set out below. The next section of this letter provides additional detail on the OEB's approach to the consideration of deferrals.

The OEB's Approach to Deferrals

The OEB has been addressing cost of service deferral requests since 2010. The OEB has accommodated the majority of requests (110 of 113, or 97%) since that time. This process has benefitted both electricity distributors that desire greater flexibility based on their unique circumstances and the OEB in terms of forecasting and efficiently managing annual application caseloads. In the response letters to deferral requests granted to 2022 cost of service filers, the OEB noted that it would be reviewing how deferrals are granted in the future.

The OEB has communicated its approach to deferral requests principally through letters sent to individual distributors in response to their deferral requests. In keeping with the OEB's commitment to transparency, regulatory predictability and efficiency, the OEB has reviewed its approach to deferrals with a view to providing updated and consolidated guidance for all electricity distributors and other interested stakeholders. In so doing, the OEB has sought to achieve an appropriate balance between these regulatory objectives while ensuring that rates remain just and reasonable for electricity consumers.

When considering a deferral request, the OEB looks at both financial and non-financial performance. This includes consideration of information about return on equity and recent capital expenditures, as well as the distributor's scorecard performance. If a distributor has earned 300 basis points above the OEB-approved return on equity, a deferral will typically not be granted, unless it is clear that the over-earnings will not continue. For under earning the OEB assesses whether financial viability of the distributor is at risk. None of this will change.

In its review of the deferral process, the OEB has looked in particular at the following issues: the availability of an Incremental Capital Module (ICM); the filing of a Distribution System Plan; and the availability of the Annual IR Index rate-setting plan.

Deferrals are not intended to be treated as a permanent extension of the term of a rate-setting plan. Through granting deferrals, past practice has been to allow extensions of the Price Cap IR term of up to three years before placing the distributor on the Annual IR Index rate-setting plan. The OEB will continue to allow a deferral of up to three years, such that distributors would rebase no later than eight years after their last rebasing.

Commencing with 2023 rate applications, distributors will have one opportunity to request a deferral as their Price Cap IR or Custom IR term is coming to an end. Deferrals can be requested for one, two or three years. For the reasons noted below, during a deferral period, distributors will not have access to an ICM but will also not be required to file a Distribution System Plan. They will also no longer be able to elect to move to the Annual IR Index rate-setting plan following a deferral. Distributors will still have the option of moving to the Annual IR Index plan following the expiration of their five-year Price Cap or Custom IR term.

With respect to the ICM, the Price Cap IR rate-setting option is based on a forward test year cost of service review, followed by four years of formulaic rate adjustments. The cost of service review of the forward test year provides a holistic view of a distributor's capital and operational requirements over a five-year planning horizon. It is this five-year planning horizon that serves as the basis for the review of an ICM request. In particular, it is used in determining whether an ICM request is incremental to a distributor's existing capital and operational requirements (i.e., base rates), as identified in its previous cost of service application. Deferral periods are outside of the five-year planning horizon for the Price Cap IR and are therefore not conducive to the use of the ICM mechanism. For these reasons, distributors will not be permitted to access the ICM during cost of service deferral periods except in those instances where a distributor is in a deferral period arising from a utility consolidation. In these instances, distributors would be expected to file an updated Distribution System Plan if their ICM application falls in a rate year that is beyond the planning horizon of their previous Distribution System Plan.

Currently, distributors are required to file a Distribution System Plan every five years, irrespective of whether they have deferred rebasing. The OEB has considered feedback received from distributors concerning the cost of developing such a Distribution System Plan and whether there is an opportunity to reduce regulatory burden. Many utilities retain third party expertise to complete their Distribution System Plans. Plan development costs can be relatively substantial, particularly for small distributors and especially when done outside of a cost of service application. As ICMs will not be available during a deferral period (except for deferrals associated with consolidation) and deferrals will be limited to a maximum of three years, the value of reviewing a Distribution System Plan every five years is diminished. The OEB will therefore defer the requirement to file a standalone Distribution System Plan with any approval to defer a cost of service application, until such time as a distributor files its subsequent cost-based application.

Distributors who request and are granted a deferral will not have the option to elect Annual IR Index at the end of the deferral period. Distributors with a deferral of their Price Cap IR term will be expected to file a cost-based application for rates to take effect at the end of the approved deferral term (1, 2 or 3 years). Those who do not file on this basis will have their rates declared interim until such time as their next cost-based rate order is approved by the OEB.

To provide a further incentive for distributors considering consolidation, the OEB will allow distributors that are on the Annual IR Index rate-setting plan and in a current deferral period arising out of a consolidation to move to the Price Cap IR plan effective with 2023 rates. Distributors currently on the Annual IR Index rate-setting plan and not in a current deferral period arising out of a consolidation must still rebase before moving to the Price Cap IR plan.

There are several distributors who deferred rebasing from 2022 to either 2023, 2024 or 2025. As a transitional measure only, those same distributors may request an additional deferral provided that the total deferral period is no more than three years. They may also elect to move to Annual IR Index, if they want a longer term rate-setting plan. This does not apply if the OEB has already indicated it expects a distributor to file a rebasing application.

Adjustments to the Rebasing List

Inclusion on the Rebasing List for 2023 Rates and Cost of Service Application Deadline

Distributors that are on the Rebasing List for 2023 rates and that intend to file for rates effective January 1 or May 1 are expected to file their rate applications on a cost of service basis no later than **April 30, 2022** or **August 31, 2022**, respectively. Distributors whose current rate years commence on May 1 that plan on requesting a change to a January 1 rate year should notify the OEB in writing to registrar@oeb.ca of this intent no later than **January 28, 2022**.

Distributors that Wish to Submit an Expression of Interest to Defer

Any distributor that has been included on the Rebasing List for 2023 rates but wishes to submit an expression of interest to defer its application beyond its scheduled rebasing year must notify the OEB in writing, along with supporting rationale, to registrar@oeb.ca no later than **January 28, 2022**. Distributors on the Rebasing List for 2023 rates may request a deferral of their rebasing year for up to a total deferral of three years.

Selection of Custom IR or Annual IR Index

Any distributor that has been included on the Rebasing List for 2023 rates and that intends to select either Custom IR or Annual IR Index must notify the OEB in writing to registrar@oeb.ca no later than **January 28, 2022**. Distributors filing Custom IR applications should review the OEB's performance standards for rate applications as a guide to an appropriate filing date. Distributors filing Annual IR applications will be notified of their filing deadline when the OEB establishes the process for annual incentive rate-setting applications. Distributors moving from Annual IR Index to Price Cap IR or Custom IR

Distributors that have filed Annual IR Index applications for 2022 rates have not been included on the Rebasing List for 2023, unless the distributor has notified the OEB of their intention to file¹. These distributors can choose to move to Price Cap IR or Custom IR for 2023 (if their last cost of service application was for January 1, 2018 rates or earlier) by filing a cost-based application. Those that wish to do so must notify the OEB in writing to registrar@oeb.ca no later than **January 28, 2022**.

Distributors that Intend to File an Early Rebasing Application

A distributor that is not included on the Rebasing List for 2023, whose last cost of service application was for rates after January 1, 2018 and that wishes to have its 2023 rates set on a cost of service basis under Price Cap IR or Custom IR must notify the OEB in writing, along with supporting rationale, to registrar@oeb.ca as soon as possible and in any event no later than **January 28, 2022**. In keeping with the OEB's approach to early rebasing as set out in its [April 20, 2010 letter](#), a distributor that seeks to have its rates rebased earlier than scheduled must

¹ Distributors on Annual IR for 2022 rates: Bluewater Power Distribution Corp. (refer to in Appendix A), Elexicon Energy Inc.– Whitby service area, Fort Frances Power Corp., Newmarket- Tay Power Distribution Ltd. - Newmarket - Tay rate zone, Oakville Hydro Electricity Distribution Inc., Orangeville Hydro Ltd., Tillsonburg Hydro Inc.

clearly demonstrate, in its cost of service application, why early rebasing is required and why and how the distributor cannot adequately manage its resources and financial needs during the remaining years of its Price Cap IR plan term.

Any questions regarding this letter should be directed to [Kevin Mancherjee](#), Manager, Major Rate Applications and Consolidations.

Yours truly,

Original Signed By

Christine E. Long
Registrar

APPENDIX A

Cost of Service Filers for 2023 to 2026 Rates

	2023	2024	2025	2026
	January 1	January 1	January 1	January 1
1	Centre Wellington Hydro Ltd.	Chapleau Public Utilities Corp.	Algoma Power Inc.	Hydro Ottawa Ltd.
2	Cooperative Hydro Embrun Inc.	Energy +	Enwin Utilities Ltd.	Niagara Peninsula Energy Inc.
3	EPCOR	Niagara-on-the-Lake Hydro Inc.	Kitchener-Wilmot Hydro Inc.	Oshawa PUC Networks Inc.
4	Festival Hydro Inc.	May 1	Toronto Hydro	Waterloo North
5	Hydro Hawkesbury Inc.	Atikokan Hydro Inc.	May 1	May 1
6	Hydro One Networks Inc. Custom IR	Lakeland Power Distribution Ltd.	Greater Sudbury Hydro Inc.	Burlington Hydro Inc.
7	Innpower Distribution Systems Ltd	Synergy North	Hydro2000	Entegrus Powerlines Inc.
8	Kingston Hydro Corp.		Northern Ontario Wires Inc. ¹	Halton Hills Hydro Inc.
9	Milton Hydro Distribution Inc.			Hearst Power Distribution Company Ltd
10	Renfrew Hydro Inc.			North Bay Hydro Distribution Ltd.
11	Westario Power Inc.			Wellington North
	May 1			
12	Attawapiskat Power Corp.			
13	Bluewater Power Distribution Corp. ²			
14	Essex Powerlines Corp.			
15	Fort Albany Power Corp.			
16	Hydro One Remote Communities Inc.			
17	Kashechewan Power Corp.			
18	P.U.C. Distribution Inc.			
19	Sioux Lookout Hydro Inc.			
20	Wasaga Distribution			
21	Welland Hydro-Electric System Corp.			

¹ Deferral to 2025 is pending review of 2021 actual performance, [OEB letter to Northern Ontario Wires, Mar 31, 2021](#)

² The OEB has indicated to Bluewater Power Distribution Corporation that it is expected to rebase, [OEB letter to Bluewater Power, Feb 3, 2021](#)

APPENDIX B

Summary of Deadlines

Action	OEB Deadline
Notification from any distributor on the 2023 Rebasing List that will be selecting either the Custom IR, or Annual IR Index method (therefore will not be filing a cost of service rate application) for 2023 rates	January 28, 2022
Notification from any distributor that is currently on Annual IR Index but that plans to file a cost of service rate application under Price Cap IR or a Custom IR application for 2023 rates	January 28, 2022
Notification from any distributor on the 2023 Rebasing List that plans to submit a request to defer rebasing	January 28, 2022
Notification from any distributor that is not included on the 2023 Rebasing List but that plans to file an early rebasing application for 2023 rates	January 28, 2022
Notification from any distributor that plans to file a cost a service application for 2023 rates and that wishes to convert its rate year from May 1 to January 1	January 28, 2022
Deadline for cost of service applications for January 1, 2023 rates including those distributors that wish to convert from May 1 rates to January 1 rates	April 29, 2022
Deadline for cost of service applications for May 1, 2023 rates and for Custom IR annual update applications	August 31, 2022