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

DECISION AND ORDER

EB-2021-0033

HYDRO ONE NETWORKS INC.

Application for rates and other charges for the Norfolk Power, Haldimand County Hydro, and Woodstock Hydro service territories to be effective January 1, 2022

BEFORE: **Pankaj Sardana**
Presiding Commissioner

Anthony Zlahtic
Commissioner

December 16. 2021

1 CONTEXT AND PROCESS

Hydro One filed its application on August 27, 2021 under section 78 of the *Ontario Energy Board Act, 1998* and in accordance with Chapter 3 of the OEB's *Filing Requirements for Incentive Rate-Setting Applications* (Filing Requirements). The application was based on the Price Cap Incentive Rate-setting (Price Cap IR) option.

The Price Cap IR option is one of three incentive rate-setting mechanisms (IRM) approved by the OEB.[1] It involves the setting of rates through a cost of service application in the first year and mechanistic price cap adjustments which may be approved through IRM applications in each of the ensuing four adjustment years.

The OEB follows a standardized and streamlined process for hearing IRM applications filed under Price Cap IR. In each adjustment year of a Price Cap IR term, the OEB prepares a Rate Generator Model that includes, as a placeholder, information from the distributor's past proceedings and annual reporting requirements. A distributor then reviews, completes, and includes the model with its application, and may update the model during the proceeding to make any necessary corrections or to incorporate new rate-setting parameters as they become available.

The application relates to the rates requested by Hydro One for the legacy service areas of the former Norfolk Power Distribution Inc. (Norfolk Power), the former Haldimand County Hydro Inc. (Haldimand County Hydro) and the former Woodstock Hydro Services Inc. (Woodstock Hydro).

The legacy Norfolk Power service area consists of approximately 19,000 residential and commercial customers in the Towns of Simcoe, Port Dover, Delhi, and Waterford, the Village of Port Rowan, and Townsend and Woodhouse Townships. On July 3, 2014, the OEB approved the acquisition of Norfolk Power by, and the transfer of Norfolk Power's distribution system to, Hydro One.[2]

The legacy Haldimand County Hydro service area consists of approximately 21,000 residential and commercial customers in the municipal boundary of Haldimand County. On March 12, 2015, the OEB approved the acquisition of Haldimand County Hydro by, and the transfer of Haldimand County Hydro's distribution system to, Hydro One.[3]

The legacy Woodstock Hydro service area consists of approximately 16,000 residential and commercial customers in the City of Woodstock. On September 11, 2014, the OEB

[1] Each of these options is explained in the OEB's *Handbook for Utility Rate Applications*.
[2] EB-2013-0187 Decision and Order, July 3, 2014
[3] EB-2014-0244 Decision and Order, March 12, 2015

approved the acquisition of Woodstock Hydro by, and the transfer of Woodstock Hydro's distribution system to, Hydro One.[4]

Notice of the application was issued on September 13, 2021. Power Workers Union requested intervenor status. The OEB approved Power Workers Union as an intervenor. The OEB made no provision for cost awards in this proceeding.

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

Hydro One responded to interrogatories from OEB staff. Final submissions on the application were filed by OEB staff and Hydro One filed a reply submission.

[4] EB-2014-0213 Decision and Order, September 11, 2015

2 DECISION OUTLINE

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

- Annual Adjustment Mechanism
- Retail Transmission Service Rates
- Group 1 and 2 Deferral and Variance Accounts
- Lost Revenue Adjustment Mechanism Variance Account Balance

This Decision does not address rates and charges approved by the OEB in prior proceedings, such as specific service charges[5] and loss factors, which are out of scope of an IRM proceeding and for which no further approvals are required to continue to include them on the distributor's Tariff of Rates and Charges.

[5] Certain service charges are subject to annual inflationary adjustments to be determined by the OEB through a generic order. For example, the Decision and Order EB-2021-0301, issued November 25, 2021 established the adjustment for energy retailer service charges, effective January 1, 2022.

3 ANNUAL ADJUSTMENT MECHANISM

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. An inflation factor of 3.30% applies to all IRM applications for the 2022 rate year.

Hydro One has applied to change its rates, effective January 1, 2022, based on a mechanistic rate adjustment using the OEB-approved **inflation minus X-factor** formula applicable to IRM applications. The adjustment applies to distribution rates (fixed and variable) uniformly across all customer classes.[6]

The components of the Price Cap IR adjustment formula applicable to Hydro One are set out in the table below. Inserting these components into the formula results in a 2.85% increase to Hydro One's rates: **2.85% = 3.30% - (0.00% + 0.45%)**.

Table 3.1: Price Cap IR Adjustment Formula

Components		Amount
Inflation Factor[7]		3.30%
X-Factor	Productivity[8]	0.00%
	Stretch (0.00% to 0.60%)[9]	0.45%

The X-factor is the sum of the productivity factor and the stretch factor. It is a productivity offset that varies among different groupings of distributors. Subtracting the X-factor from inflation ensures that rates decline in real, constant-dollar terms, providing distributors with a tangible incentive to improve efficiency or else experience declining net income. The productivity component of the X-factor is based on industry conditions over a historical study period and applies to all IRM applications for the 2022 rate year.

[6] The adjustment does not apply to the following components of delivery rates: rate riders, rate adders, low voltage service charges, retail transmission service rates, wholesale market service rate, smart metering entity charge, 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.

[7] EB-2021-0212, Decision and Order, November 18, 2021

[8] Report of the Ontario Energy Board – "Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors", EB-2010-0379, December 4, 2013

[9] Report to the Ontario Energy Board – "Empirical Research in Support of Incentive Rate-Setting: 2020 Benchmarking Update", prepared by Pacific Economics Group LLC., August 2021

The stretch factor component of the X-factor is distributor specific. The OEB has established five stretch factor groupings, each within a range from 0.00% to 0.60%. The stretch factor assigned to any particular distributor is based on the distributor's total cost performance as benchmarked against other distributors in Ontario. The stretch factor assigned to Hydro One is 0.45%, resulting in a rate adjustment of 2.85%.

Findings

Hydro One's request for a 2.85% rate adjustment is in accordance with the annually updated parameters set by the OEB. The adjustment is approved, and Hydro One's new rates for the former Norfolk Power, Haldimand County Hydro and Woodstock Hydro service areas shall be effective January 1, 2022.

4 RETAIL TRANSMISSION SERVICE RATES

The Norfolk Power and Haldimand County Hydro service areas are partially embedded within Hydro One Networks' distribution system. The Woodstock Hydro service area is transmission connected.

Hydro One is not requesting approval to adjust the RTSRs that it charges its customers in these service areas to reflect the rates that it pays for transmission services.

Distributors typically update their RTSRs on an annual basis, to recover the wholesale transmission rates charged by the Independent Electricity System Operator (IESO), or if applicable, host distributors. In order to mitigate bill impacts associated with this application, Hydro One proposes to maintain its RTSRs for 2022 at currently approved (2021) levels, to help mitigate rates.

OEB staff inquired as to how this may impact future deferral and variance account dispositions, as Hydro One plans to dispose of the 2022 variances on a consolidated basis – given that some rate zones may be contributing to variances based on lower RTSRs than others. Hydro One cited the proportion of the Acquired Utilities' consumption (3%) relative to the rest of Hydro One's operations, explaining that legacy customers are anticipated to be immaterially impacted by having incremental RTSR variances disposed to them (despite being attributable to the Acquired Utilities only).[10]

OEB staff submitted that, as a bill mitigation measure, it did not oppose Hydro One's request to maintain its RTSRs at current levels. OEB staff further submitted that, in principle, this may result in cross-subsidization of Hydro One legacy customers by the Acquired Utilities' customers. However, OEB staff concurred with Hydro One that the impacts are not likely to be significant.

Findings

The OEB approves Hydro One's proposal to maintain its RTSRs for Norfolk Power, Haldimand County Hydro and Woodstock Hydro service areas as a bill mitigation measure for customers in these service areas. In approving this measure, the OEB accepts that any cross-subsidization between Hydro One's legacy customers and customers in the Acquired Utilities is likely to be immaterial.

[10] Response to OEB Staff-5 c)

5 GROUP 1 DEFERRAL AND VARIANCE ACCOUNTS

Group 1 Deferral and Variance Accounts

In each year of an IRM term, the OEB reviews 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.[11] If the balance does not exceed the threshold, a distributor may still request disposition.

Hydro One was most recently approved disposition of its 2015-2019 Group 1 balances in its 2021 Custom IR update rate proceeding. The balances approved for disposition were calculated using an allocation methodology to apportion the balances between Hydro One Distribution and each of its Acquired Utilities.[12]

In this application, Hydro One presented its 2020 Group 1 credit balance of $69,159,920 on a consolidated basis, inclusive of the Acquired Utilities. Although the consolidated Group 1 balance exceeds the disposition threshold, Hydro One proposes to not dispose of the 2020 Group 1 balance in this proceeding, and to defer disposition to its 2023 rebasing rate application that is also currently before the OEB.[13]

In its submission, OEB staff did not object to Hydro One's proposal, but noted that the reasons Hydro One provided for the proposed deferral were not particularly compelling.[14] OEB's staff position considered two factors: the first being that there may be some relatively minor administrative regulatory efficiencies in combining the disposition request for 2020 balances with the 2021 balances, and the second being that Hydro One had not provided the OEB with adequate evidence in the proceeding to enable a decision that directs Hydro One to dispose Group 1 balances. Accordingly, OEB staff submitted that, absent additional procedural steps whereby the OEB directs Hydro One to provide this information and allows for a discovery process, a decision ordering disposition of Group 1 balances cannot practically be made at this time and OEB staff did not believe that these procedural steps were absolutely necessary at this time.

In response, Hydro One elaborated on its reasons for the deferred disposition.[15] Hydro One noted that customers will not be harmed by deferring the disposition of the

[11] Report of the OEB – "Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR)", EB-2008-0046, July 31, 2009
[12] Norfolk Power Distribution Inc., Haldimand County Hydro Inc., Woodstock Hydro Services Inc.
[13] EB-2021-0110
[14] OEB Staff Submission, pages 3-5
[15] Hydro One Reply Submission, pages 3-6

Acquired Utilities' Group 1 balances by one year. Deferring disposition would enable longer term bill mitigation resulting from bill smoothing over the 2023 to 2027 Custom IR period. Also, the adjacent timing of filing Hydro One's 2023 rebasing application and the 2022 update applications for Hydro One Distribution and the Acquired Utilities had created the opportunity to leverage the 2023 rebasing application to dispose all consolidated balances at once, and avoid the need for a very time-intensive, manual process of allocating Group 1 balances between rate zones.

Findings

The OEB approves Hydro One's request to defer disposition of its Group 1 deferral and variance account balances, which includes amounts relating to the Acquired Utilities, to its 2023 rebasing rate application that is also currently before the OEB.

The OEB notes that Hydro One did not provide the allocated balances for each of the legacy service areas. This means that any disposition of the balances in this proceeding would require an additional round of evidence and possibly discovery. The OEB will not require further steps in this proceeding but requires Hydro One to file the complete information in future applications so that the OEB may be in a position to dispose of the balances if it prefers to do so. Price Cap IR applications are largely mechanistic, with limited discovery and are processed over a short time period. It is therefore important for applicants to provide the required information when filing their initial applications.

Group 2 Deferral and Variance Accounts

Hydro One proposed to dispose the Acquired Utilities' Group 2 balances, including forecasted principal and interest to December 31, 2022 over a one-year period, summarized below, on a final basis in this proceeding.[16,17]

- Norfolk Power - a debit balance of $114,654
- Haldimand County Hydro - a credit balance of $168,699
- Woodstock Hydro - a credit balance of $1,950,233[18]

Hydro One noted that disposition in this proceeding is the most timely and efficient way to ensure that the accumulated balances are disposed to those customers that generated the balances. Hydro One further noted that 2022 is the last year in which the Acquired Utilities have their own rates in place before those customers are integrated

[16] Balances exclude Account 1568 - LRAMVA
[17] IRR Attachment #7
[18] Calculated by OEB staff to include the update to Woodstock rate zone's Account 1576 balance to reflect a WACC of 6.74% per page 14 of Hydro One's reply submission

from a rate perspective with Hydro One Distribution customers.[19] In its interrogatory responses, Hydro One clarified that it will be able to dispose the Group 2 accounts specifically to the Acquired Utilities' customers even after the Acquired Utilities' customers harmonize into Hydro One's proposed rate structure in the 2023 rebasing proceeding.[20]

Hydro One requested not to dispose of Haldimand County Hydro's Account 1533 – Distribution Generation – Other –Provincial – Deferral Account with a credit balance of $1,084,440.[21] Hydro One did not request disposition of this account because the funding adder amounts recorded in the account had been greater than the revenue requirement associated with the in-servicing of distributed generation assets. Hydro One stated that once the credit balance in this account has been fully depleted, Hydro One will include a plan to file a prudence review required for future funding. In its submission, OEB staff accepted Hydro One's proposal.

Hydro One requested to discontinue all of the Acquired Utilities' Group 2 accounts after 2022, with exception to Haldimand County Hydro's Account 1533.[22]

OEB staff supported the disposition of Group 2 accounts in this proceeding, including the forecast of 2021 and 2022 balances, as well as the discontinuation of the accounts thereafter (except Haldimand County Hydro's Account 1533).[23] OEB staff noted the balances have already been reviewed in this proceeding and there would be regulatory efficiency in this proposed approach. In addition, disposing Group 2 balances now rather than a future proceeding would reduce intergenerational inequity.

Select Group 2 Accounts

OEB staff identified certain Group 2 accounts in Table 5.1 below, about which it requested information, but that Hydro One was unable to provide as it pertained mainly to pre-integration balances.

[19] Application Summary, page 20
[20] IRR OEB Staff #3
[21] OEB staff submission, pages 14 to 15
[22] Hydro One Reply Submission, page 7
[23] OEB Staff Submission, pages 6-7

Table 5.1 - Select Group 2 Accounts Proposed for Disposition

Account #	Account Name	Norfolk 2022 Balance ($)	Haldimand 2022 Balance ($)	Woodstock 2022 Balance ($)	Total 2022 Balance ($)
1508	Sub-account Deferred IFRS Transition Costs	130,393		74,129	
1518,1548	RCVA - Retail and STR	16,037	333,265		
1533	Distribution Generation - Other Costs	381,293			
1536	Smart Grid Funding Adder Deferral Account			426,564	
1508	ICM			-	
		527,723	**333,265**	**500,693**	**1,361,681**

OEB staff submitted that 50% of the balances, or $680,840, of the Group 2 accounts noted in Table 5.1 should be disallowed.[24] OEB staff submitted that a 50% reduction recognizes the fact that Hydro One maintains responsibility to support its claims, despite the fact that it acquired these balances in a MAADs[25] proceeding. OEB staff noted that Hydro One had not been able to provide sufficient evidence to allow for an opportunity to adequately review these accounts, and that there is at least a partial onus on Hydro One to substantiate the balances it is requesting for disposition, particularly when some of the balances appear questionable at face value. OEB staff provided three examples of the account balances it questioned. OEB staff also noted that although the OEB has previously approved the Acquired Utilities' pre-integration Group 1 balances on a final basis, where Hydro One did not have readily available data from the pre-integration period, it did not view the disposition of Group 1 accounts as comparable to Group 2 accounts.

In its reply submission, Hydro One agreed that there is an onus on the applicant to demonstrate the prudence of amounts requested for disposition.[26] Hydro One stated it has continued, on a best-efforts basis, to source supporting documentation for all Group 2 accounts requested for disposition throughout this proceeding, but given the passage of time it does not have access to the data to provide any further details than what has currently been provided. Hydro One submitted that it is reasonable to assume that the amounts reflect the costs that were prudently incurred by the former utilities, on the same basis as they were approved the establishment of these accounts. Hydro One submitted that OEB staff's recommendation to disallow 50% of certain Group 2 balances as being eligible for disposition should be rejected as only three of the six

[24] OEB staff submission, pages 7 to 10
[25] Mergers, Acquisitions, Amalgamations, and Divestitures
[26] Hydro One reply submission, pages 7 to 12

Group 2 account balances were identified by OEB staff as being questionable. Also, the 50% reduction was not specifically derived by account and seemed to be a subjective evaluation. Hydro One believed that it is appropriate to dispose of all account balances to the appropriate customers, but not cherry-pick specific accounts for reduction which contain debit balances, to avoid cross-subsidization and intergenerational inequity. Hydro One stated that with the proposed 50% reduction of certain Group 2 accounts, it was being penalized unfairly for any pre-integration balances that were recorded by the Acquired Utilities. Hydro One noted that it recognized a different standard of review applied to Group 2 accounts, but it is important to recognize that there has been precedence from the OEB accepting the disposition of certain regulatory accounts that are considered mechanistic, without the detailed analysis requested by OEB staff.

Findings

The OEB finds that Hydro One has not demonstrated the prudence of the amounts sought for disposition. The OEB notes that Hydro One as the acquiring entity of the three distributors and the applicant in this proceeding bears responsibility for establishing the prudence of balances for accounts being sought for disposition. Clearing Group 2 DVA balances, whether mechanistic or not, does not absolve Hydro One from the responsibility to establish prudence.

The OEB does not dispute that a high level percentage-based disallowance requires an exercise of judgment and will be to some extent subjective. In the current case, however, Hydro One was able to provide very little detail to support the balances in the accounts identified by OEB staff. The OEB does not believe that it would be reasonable to disallow the entire balances in these accounts, as it seems very likely that some level of costs was actually incurred. However, absent any details supporting the amount of the balances, the OEB is also not prepared to approve 100% of the balances for disposition. The onus rests with Hydro One to demonstrate that the balances are prudent.

Hydro One has been unable to provide adequate supporting documentation for the select Group 2 DVAs in Table 5.1 being sought for disposition, and so a clear case of prudence has not been established. Accordingly, the OEB will disallow 30% or $408,504 of the Group 2 accounts noted in Table 5.1.

Account 1592, Sub-account CCA Changes

There are no balances in each of the Acquired Utility's Account 1592, Sub-account CCA Changes. Hydro One indicated that, as there were no additions embedded in the Acquired Utilities' rate filings from 2018 onwards, there would be no accelerated Capital Cost Allowance (CCA) impacts recorded in the 1592 sub-account.[27]

OEB staff submitted that all Acquired Utilities should have balances in the 1592 sub-account that should be returned to ratepayers.[28] OEB staff stated that the additions underpinning rates that prevailed during the Acquired Utilities' incentive-rate setting period, and subsequent deferred rebasing period, were included in each of the Acquired Utility's last rebasing application. OEB staff further stated that for each Acquired Utility, for each year from 2018 until the year in which base rates are reset to reflect the new CCA rules, Hydro One realized a windfall gain associated with CCA changes, as it would be claiming CCA at an accelerated rate compared to the CCA embedded in its rates. OEB staff further submitted that Hydro One should be directed to calculate the balances (including a forecast to the end of 2022) in the 1592 sub-account for each of the Acquired Utilities for the period of November 21, 2018 to December 31, 2022.

Hydro One noted that the rates for the Acquired Utilities were frozen over a five-year period since the MAADs application. This resulted in a disconnect between approved rates and the underlying components of revenue requirement during the deferred rebasing period. As the Acquired Utilities have not rebased, there was no linkage between any components of revenue requirement, including the fixed asset additions based on which the benefit of accelerated CCA originates. Hydro One also expressed concerns with OEB staff's calculation approach of using the additions embedded in the Acquired Utilities' last rate application, as rates were frozen during this time.

Findings

The OEB agrees with OEB staff's submission that there should be 1592 sub-account balances for each of the Acquired Utilities. The OEB does not agree with Hydro One's Reply submission that because rates were frozen over a five-year period that fixed assets are also frozen and that there are no additions for which accelerated CCA would apply. Nor does the OEB accept Hydro One's rationale that there were no additions embedded in the Acquired Utilities from 2018 onwards. Notwithstanding that rates were frozen for five-years, the Accelerated Investment Incentive Program (AIIP) changed the

[27] IRR OEB Staff #9
[28] OEB staff submission, pages 10 to 11

CCA rule such that for each year from 2018 until base rates are reset, Hydro One will realize a windfall gain as it should be claiming CCA under accelerated rules.

The OEB directs Hydro One to calculate 1592 sub-account balances including a forecast to the end of 2022. The balances in the sub-accounts should equal 100% of the revenue requirement impact of the CCA difference on actual (and forecast, as applicable) annual capital additions between i) the CCA calculated using the prior CCA rules underpinning rates and ii) the CCA calculated using the accelerated CCA rules applicable to each year of the period.

Woodstock Hydro's Account 1508, Sub-account ICM

In its pre-filed evidence, Hydro One requested to dispose a debit balance of $187,825 in Account 1508 - Other Regulatory Assets, Sub-account ICM. In its interrogatory responses, Hydro One withdrew the disposition request as it was expected that the year-end 2020 account balance would be drawn down by the incremental capital module (ICM) rate rider collected by the end of 2021. As such, Hydro One requested that the OEB discontinue the ICM rate rider as that funding is no longer required.

In its submission, OEB staff agreed with Hydro One that no amounts in the 1508 sub-account needed to be disposed as the net balance in the account should be close to nil.

Findings

The OEB approves Hydro One's request to withdraw its disposition request for the debit balance in Account 1508 – Other Regulatory Assets Sub-account ICM for Woodstock Hydro as the balances in this account will be immaterial by the end of 2021.

Woodstock Hydro's and Haldimand County Hydro's Account 1576 balances

i) Woodstock Hydro's Account 1576

Hydro One proposed to dispose a credit balance of $2,267,861[29] in Woodstock Hydro's Account 1576 - Accounting Changes Under CGAAP. Transactions in the account ceased in 2015, coinciding with the year prior to Woodstock Hydro's transition to US GAAP.

[29] Calculated by OEB staff to include the update to Woodstock rate zone's Account 1576 balance to reflect a WACC of 6.74% per page 14 of Hydro One's reply submission

OEB staff submitted that Account 1576 transactions should not cease in 2015, but should cease when Woodstock Hydro rebases its rates, as was intended by the establishment of Account 1576.[30] OEB staff noted that the account specifies that journal entries are required starting with the year of accounting policy changes until the year prior to when a distributor rebases its rates. OEB staff acknowledged that Hydro One was approved to adopt USGAAP for Woodstock Hydro upon integration with Hydro One in 2015. However, that did not displace the need to continue recording transactions in Account 1576 leading up to rebasing, as the purpose of Account 1576 is to capture the full impact on property, plant, and equipment from accounting policy changes. OEB staff submitted that the 2016 to 2022 transactions may be conservatively estimated to be a credit of $500,000 annually, resulting in an updated total principal credit balance of $5,624,659, instead of the $2,124,659 proposed by Hydro One.

Hydro One submitted that disposition of a credit balance of $2,124,659 is appropriate.[31] Account 1576 records the financial differences arising as a result of accounting policy changes to depreciation expense and capitalization policies permitted by the OEB from Canadian GAAP to Modified IFRS (MIFRS). Since Woodstock Hydro was permitted by the OEB to adopt USGAAP for accounting and regulatory purposes in 2015, there was no need to continuing recording entries into the account as Woodstock Hydro was no longer applying MIFRS.

In its interrogatory responses, Hydro One's proposed, updated Account 1576 balance included a return component based on the OEB's 2022 weighted average cost of capital (WACC) of 5.47%. Hydro One indicated that it applied the OEB's 2022 WACC, consistent with the OEB's decision to apply the OEB's 2021 WACC on Newmarket-Tay Power Distribution Inc.'s (Newmarket-Tay Power) Account 1576 related base rate adjustment.

OEB staff submitted that the appropriate WACC to apply to the Account 1576 balance is the WACC approved by the OEB in the distributor's last approved cost of service proceeding, which would be 6.74% instead of 5.47%.[32] OEB staff referenced previously approved dispositions of Account 1576, in which the last approved WACC was applied to Account 1576. OEB staff further noted at issue in this proceeding is the WACC applied to the Account 1576 balance; and that in the Newmarket-Tay Power proceeding Hydro One referenced, the OEB only approved the OEB's 2021 WACC to be applied to the base rate adjustment. In that proceeding, the OEB applied the last approved WACC on the Account 1576 balance. In its reply submission, Hydro One accepted OEB staff's rationale for applying the WACC approved in the distributor's last approved cost of

[30] OEB staff submission, pages 12 to 14
[31] Hydro One reply submission, pages 14 to 15
[32] OEB staff submission, pages 12 to 14

service proceeding and indicated it would update the Account 1576 balance to reflect a WACC of 6.74% in the draft rate order process.[33]

ii) Haldimand County Hydro's Account 1576

In its pre-filed evidence, Hydro One proposed to dispose a debit balance of $5,439 in Haldimand County Hydro's Account 1576, representing a residual balance remaining from a previous approved disposition. In response to interrogatories, Hydro One removed its disposition request for the residual Account 1576 balance.[34] OEB staff submitted that Hydro One's removal of the Account 1576 balance for disposition is appropriate.[35]

Findings

The OEB approves the disposition of Woodstock Hydro's Account 1576 balance of $2,124,659, which covers the balances in the account up to 2015. This amount will be disposed of over a one-year period and a WACC of 6.74% is to be applied. The OEB's rationale for applying a WACC of 6.74% is because of the consistency of this with the last approved WACC in effect when the variance occurred. The OEB agrees with OEB staff that Hydro One should continue to record transactions in Account 1576 to the end of 2022, which will coincide with rebasing for Woodstock Hydro. The OEB therefore directs Hydro One to quantify the Account 1576 balance for 2016 to the end of 2022 in the draft rate order process, and orders Hydro One to dispose of this remaining balance in Account 1576 specifically to the legacy Woodstock Hydro customers as part of its 2023 rebasing application that is currently before the OEB.

The OEB accepts Hydro One's removal of its disposition request of the balance in Account 1576 for Haldimand County Hydro.

[33] Hydro One reply submission, pages 14 to 15
[34] IRR OEB Staff #15
[35] OEB staff submission, pages 12 to 14

6 LOST REVENUE ADJUSTMENT MECHANISM VARIANCE ACCOUNT

The OEB utilizes a Lost Revenue Adjustment Mechanism Variance Account (LRAMVA), which captures a distributor's revenue implications resulting from differences between actual and forecast conservation savings included in its last OEB-approved load forecast.[36]

Distributors delivered conservation and demand management (CDM) programs to their customers through the Conservation First Framework (CFF) that began on January 1, 2015 until March 20, 2019, when the CFF was revoked.[37] The OEB provided direction to distributors seeking to claim program savings up to December 31, 2021 related to CFF programs or other conservation programs they delivered.[38]

Hydro One has applied to dispose of its LRAMVA debit balance of $2,105,387, representing the aggregated LRAMVA balances for each of the Norfolk Power, Haldimand County Hydro, and Woodstock Hydro service territories. Hydro One has requested disposition of its LRAMVA balance over a two-year period to mitigate the impacts of increasing bill amounts on consumers. For the Haldimand County Hydro service territory, the balance consists of lost revenues in 2020 from CDM programs delivered during the period from 2013 to 2015 and carrying charges. For the Norfolk Power and Woodstock Hydro service territories, the balance consists of lost revenues in 2020 from CDM programs delivered during the period from 2011 to 2015 and carrying charges. During the proceeding, Hydro One updated its LRAMVA balance to incorporate forecast carrying charges to 2022 and to remove carrying charges that overlapped with periods from prior years. This update results in a decrease of $71,086 and a revised LRAMVA balance of $2,105,387. The actual conservation savings claimed by Hydro One under the CFF were validated with reports from the IESO, project level savings files, or both.

Actual conservation savings were compared against Hydro One’s forecasted conservation savings of 8,700,915 kWh.[39]

OEB staff supported Hydro One’s request to dispose of the LRAMVA balances (i.e., the 2020 balances) on a final basis. Furthermore, OEB staff submitted that the LRAMVA

[36] 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
[37] On March 20, 2019 the Minister of Energy, Northern Development and Mines issued separate Directives to the OEB and the IESO.
[38] Chapter 3 Filing Requirements, section 3.2.6.1
[39] EB-2011-0272, Decision and Order, February 13, 2012

balances should be forecasted to the end of 2022, and disposed of in this proceeding on a final basis, similar to the proposed treatment of its Group 2 accounts.

Hydro One stated that in the event the OEB agrees with the proposal to dispose of forecasted 2021 and 2022 balances on a final basis, it will be able to calculate balances as they relate to historical savings from 2011 to 2015 CDM programs that persist into the 2021 and 2022 rate years, during the draft rate order process.

Findings

The OEB finds that Hydro One's LRAMVA balance has been calculated in accordance with the OEB's CDM-related guidelines and updated LRAMVA policy. The OEB approves the disposition of Hydro One's LRAMVA debit balance of $2,105,387, as set out in Table 6.1 below, and notes that this balance is the year-end 2020 amount. The OEB asks that Hydro One forecast the LRAMVA balance to the end of 2022 as part of the Draft Rate Order submission.

Table 6.1 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 - Haldimand	1568	778,343	530,880	23,374	270,837
LRAMVA - Norfolk	1568	1,081,873	172,634	64,155	973,394
LRAMVA - Woodstock	1568	1,049,584	249,364	60,936	861,156
LRAMVA - Total	1568	2,909,800	952,878	148,465	2,105,387

7 IMPLEMENTATION

Hydro One shall update the Rate Generator Models, as necessary, to incorporate the rates set out in Table 7.1.

Table 7.1: 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.[40]

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.[41]

In the *Report of the Board: Review of Electricity Distribution Cost Allocation Policy*,[42] the OEB indicated that it will review the default province-wide microFIT charge annually to ensure it continues to reflect actual costs in accordance with the established methodology. Distributors shall apply the updated value, if applicable, following the OEB’s announcement of the microFIT charge for the 2022 rate year.

The approved effective date for new rates is January 1, 2022. The OEB notes that based on the procedures outlined in the order that follows, Hydro One’s rate order may not be issued in time for Hydro One to implement rates for January 1, 2022. Accordingly, the OEB declares Hydro One’s current (2021) distribution rates and charges interim as of January 1, 2022 until such time as 2022 rates and charges are approved by the OEB. If Hydro One elects to do so, it shall include in its draft rate order, a calculation of forgone revenue from January 1, 2022 to February 1, 2022 and include in its Tariff of Rates and Charges a forgone revenue rate rider to be collected over an eleven-month period commencing February 1, 2022.

[40] EB-2020-0276, Decision and Order, December 10, 2020
[41] EB-2017-0290, Decision and Order, March 1, 2018
[42] EB-2010-0219, Report of the Board “Review of Electricity Distribution Cost Allocation Policy”, March 31, 2011

8 ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. Hydro One Networks Inc.'s 2021 Rates shall be interim as of **January 1, 2022.**

2. Hydro One Networks Inc. shall file with the OEB and forward to intervenors a draft rate order with a proposed Tariff of Rates and Charges attached that reflects the OEB's findings in this Decision and Order, no later than **January 13, 2022**. Hydro One Networks Inc. shall also include customer rate impacts and detailed information in support of the calculation of final rates in the draft rate order.

3. Intervenors and OEB staff shall file any comments on the draft rate order with the OEB, and forward to Hydro One Networks Inc., no later than **January 18, 2022**.

4. Hydro One Networks Inc. shall file with the OEB and forward to intervenors, responses to any comments on its draft rate order no later than **January 21, 2022**.

Parties are responsible for ensuring that any documents they file with the OEB, such as applicant and intervenor evidence, interrogatories and responses to interrogatories or any other type of document, **do not include personal information** (as that phrase is defined in the *Freedom of Information and Protection of Privacy Act*), unless filed in accordance with rule 9A of the OEB's Rules of Practice and Procedure.

Please quote file number, **EB-2021-0033** for all materials filed and submit them in searchable/unrestricted PDF format with a digital signature through the OEB's online filing portal.

Filings should clearly state the sender's name, postal address, telephone number and e-mail address

Please use the document naming conventions and document submission standards outlined in the Regulatory Electronic Submission System (RESS) Document Guidelines found at the Filing Systems page on the OEB's website

Parties are encouraged to use RESS. Those who have not yet set up an account, or require assistance using the online filing portal can contact registrar@oeb.ca for assistance

All communications should be directed to the attention of the Registrar at the address below and be received by end of business, 4:45 p.m., on the required date.

With respect to distribution lists for all electronic correspondence and materials related to this proceeding, parties must include the Case Manager, Kelli Benincasa, at Kelli.Benincasa@oeb.ca and OEB Counsel, Michael Millar at Michael.Millar@oeb.ca.

E-mail: registrar@oeb.ca

Tel: 1-877-632-2727 (Toll free)

DATED at Toronto, December 16, 2021

ONTARIO ENERGY BOARD

Original Signed By

Christine E. Long
Registrar