APPLICATION TO FINALIZE 2023 ELECTRICITY DISTRIBUTION RATES AND CHARGES: MANAGER'S SUMMARY

On August 15, 2018, Toronto Hydro filed the 2020-2024 Custom Incentive Rate-setting ("Custom IR") application (EB-2018-0165) pursuant to the OEB's Renewed Regulatory Framework. On December 19, 2019, the OEB issued the Decision and Order approving the Custom IR framework for setting distribution rates for 2020-2024 (the "2020-2024 Custom IR Decision"). On February 20, 2020, the OEB issued the rate order approving final distribution rates and charges for 2020 (the "2020 Rate Order").[1] On August 20, 2021, Toronto Hydro filed an application for approval of the 2022 distribution rates and charges (EB-2021-0060) and on December 9, 2021 a final Rate Order (the "2022 IR Update") was received from the OEB.

This application seeks final approval of the 2023 distribution rates, effective January 1, 2023, pursuant to the Custom IR framework approved by the OEB in the 2020-2024 Custom IR Decision. In addition, the application seeks approval of the following:

- 2023 Retail Transmission Service Rates ("RTSR"), effective January 1, 2023;
- Leave to clear the amounts accumulated in the Group 1 Deferral and Variance Accounts ("DVAs");
- Approval to transfer balances, resulting from the required true-up of specific Group 2 Accounts to Account 1595 as residual amounts for 2023;
- Approval to update the accounting order for the Capital-Related Revenue Requirement Variance Account ("CRRRVA") to separately track depreciation impacts related to expected changes to useful lives;

[1] EB-2018-0165, Toronto Hydro-Electric System Limited Application (Filed: August 15, 2018), Decision and Order (December 19, 2020) at page 23; EB-2018-0165, Decision and Rate Order (February 20, 2020) at page 1.

- Approval to update Retail Service Charges and the Specific charge for access to the power poles (wireline attachments) pending the OEB's generic decision(s) for 2023 rates;
- Final approval of the rates and charges set out in the 2023 Tariff Sheet at Tab 6, Schedule 2;
- Other items or amounts that Toronto Hydro may request during the course of the proceeding, and such other relief or entitlements as the OEB may grant.

All rate adjustments, including the clearance of Group 1 DVAs, sought as a part of this application are the output of the 2023 Incentive Rate-setting Mechanism ("IRM") Rate Generator Model (the "Rate Model") filed at Tab 3, Schedule 1. The Rate Model is a replica of the OEB's 2023 IRM Rate Generator Model with customizations to address Toronto Hydro's specific requirements, including: (i) integration of the Custom Incentive Price Cap Index ("CPCI") mechanism, (ii) use of a 30-day basis for fixed and demand based rates, and (iii) use of kVA for distribution related demand based rates. To facilitate these customizations, the utility has developed the 2023 Tariff Sheet and the associated Bill Impacts outside of the Rate Model.

Toronto Hydro reviewed the pre-populated billing determinants in the OEB's model and made corrections for the number of customers in the residential and Competitive Sector Multi-Unit Residential ("CSMUR") classes and the kWh related to CSMUR and Large User Wholesale Market Participants. The utility confirms that all other pre-populated billing determinants are accurate.

All the changes that Toronto Hydro made to the model are summarized in the tab entitled "Summary of Changes".

A. 2022 TARIFF SHEET

Toronto Hydro included at Tab 6, Schedule 1 a copy of the current 2022 Tariff Sheet approved by the OEB in the 2022 Annual Update application. The rates and charges set out in the 2022 Tariff Sheet are the starting point from which the 2023 rates and charges were calculated using the Rate Model.

B. CUSTOM PRICE CAP INDEX ("CPCI") ADJUSTMENT

In the 2020-2024 Custom IR Decision, the OEB approved the CPCI for setting rates in the years 2021 through 2024. The OEB approved the CPCI formula as follows:

$$\mathbf{CPCI = I - X + C - g, \text{ or}}$$

$$\mathbf{CPCI = I - X + C_n - S_{cap} * (I + X_{cap}) - g}$$

The OEB approved the values for all elements of the CPCI formula for the entire duration of the Custom IR period, with the exception of the Inflation Factor ("I"), which is to be updated annually.[2] Therefore, the only adjustment for the calculation of final 2023 distribution rates is the 2023 Inflation Factor, which will be issued by the OEB sometime during the course of this proceeding.

The Rate Model filed at Tab 3, Schedule 1 adopts the OEB's 2022 Inflation Factor as a proxy. Toronto Hydro proposes to update the Rate Model with the 2023 Inflation Factor during the Draft Rate Order process.

For ease of reference, the table below outlines the approved components of the CPCI.

[2] EB-2018-0165, Decision and Order (December 19, 2020) at page 31.

Table 1 - CPCI Factors and Values

CPCI Components	2021	2022	2023
I*	2.20%	3.30%	3.30%
X – productivity	0.00%	0.00%	0.00%
X – stretch factor	0.60%	0.60%	0.60%
X_{cap}	0.30%	0.30%	0.30%
C_n	4.97%	1.56%	6.43%
S_{cap}	71.22%	71.38%	72.83%
g	0.20%	0.20%	0.20%
CPCI	**4.59%**	**1.49%**	**6.31%**

*Final 2023 Inflation value to be determined by OEB. CPCI to be updated accordingly.

C. GROUP 2 ACCOUNT TRUE-UPS

In the 2020-2024 Custom IR Decision, the OEB approved the disposition of Group 2 DVA balances and Other Amounts on a forecast basis.[3] In the 2020 Rate Order, the OEB directed Toronto Hydro to true-up any variance between the forecast principal and interest amounts and the actual principal and interest amounts, and to dispose of these amounts in the year that the underlying account is disposed.[4]

In accordance with the OEB's direction, two accounts, CRRRVA and PILs and Tax Variances – CCA Changes, were approved for disposition starting on January 1, 2023 and are therefore subject to true-up as part of this Application. The results of the true-up exercise for the applicable accounts are summarized in Table 2 below.

[3] EB-2018-0165, Decision and Order (December 19, 2020) at pages 177-178.
[4] EB-2018-0165, Decision and Rate Order (February 20, 2020) at page 4.

Table 2: Forecast and Actual Group 2 Deferral and Variance Account Balances – Clearance Starting January 1, 2023 ($ Millions)

	Forecast			Actual			Total True-up Variance
	Principal Balances	Carrying Charges to Dec 31, 2022	Total Balance, including carrying charges	Principal Balances	Carrying Charges to Dec 31, 2022	Total Balance, including carrying charges	
CRRRVA	(74.7)	(7.2)	(81.8)	(74.4)	(5.0)	(79.4)	(2.4)
PILs and Tax Variances – CCA Changes	(10.9)	(0.7)	(11.6)	(10.5)	(0.4)	(10.9)	(0.7)

Note: Variances due to rounding may exist.

The true up balance of $3.1 million is a credit in Toronto Hydro's favour. Clearance of this amount would result in rate riders above the $0.0001/kWh materiality threshold as per the Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative (the "EDDVAR Report").[5] Toronto Hydro proposes to transfer the true-up amount to Account 1595 as a residual balance for the 2023 year, consistent with the recent treatment of other Group 2 true-up amounts resulting from 2020-2024 Custom IR Decision.

In the 2021 Annual Update application Toronto Hydro proposed to defer the true-ups for two accounts that were disposed over 2020-2021, the Operating Centres Consolidation Program ("OCCP") and the Gain on Sale of 50/60 Eglinton Avenue accounts, due to the need to reflect tax savings that would not be realized until underlying dispositions were complete.[6] Table 3 below shows the true-up calculations for these accounts. As the disposition of these accounts is now complete, the variance has been captured in the respective Account 1595 subaccount.

[5] EB-2008-0046, The Report of the Board on Electricity Distributors' Deferral and Variance Account Review Report (July 31, 2009) at page 13.
[6] EB-2020-0057, Toronto Hydro-Electric System Limited Application to Finalize 2021 Electricity Distribution Rates and Charges (Filed: August 24, 2020), Tab 2, Schedule 1 at pages 4-5.

Table 3: Forecast and Actual Group 2 Deferral and Variance Account Balances – Clearance Starting March 1, 2020 ($ Millions)

	Forecast			Actual			Total True-up Variance
	Principal Balances	Carrying Charges to Feb 28, 2020	Total Balance, including carrying charges	Principal Balances	Carrying Charges to Feb 28, 2020	Total Balance, including carrying charges	
OCCP	(71.8)	(1.9)	(73.7)	(70.1)	(1.9)	(72.0)	(1.7)
Gain on Sale 50/60 Eglinton Avenue	(11.4)	(0.4)	(11.8)	(11.4)	(0.4)	(11.8)	0.0

Note: Variances due to rounding may exist.

For the OCCP account the forecast overestimated the amount owed to customers by $1.7 million. The forecast balance was calculated as the variance between the estimated net gains on sale of the two OCCP properties, grossed up for associated tax savings, and the estimated amounts paid to customers through the rate rider approved for the 2015-2019 Custom IR period. The actual total gain amount is consistent with the forecast. However, the actual amount paid to customers through the 2015-2019 rate rider was higher than estimated due to lagging payment amounts that were not accounted for in the forecast. The forecast relied on the total amount paid and recorded in the system as of December 31, 2018 when the rate rider expired. The lagging payment amounts were captured in the system after the rate rider expired and as a result the final payment amounts were not built into the forecast.

D. REVIEW AND DISPOSITION OF GROUP 1 DVA BALANCES

Toronto Hydro requests OEB approval to clear through rate riders the balances in the Group 1 RSVAs. In accordance with the EDDVAR Report, the Group 1 RSVA balances must

be cleared if the amounts exceed the pre-set disposition threshold of $0.001 per kWh.[7] As shown in the Rate Model at Tab 3, Schedule 1, 2021 year-end balances exceed this threshold.

The Group 1 continuity schedules are set out in the Rate Model. Table 4 below summarizes the balances proposed for clearance. A certification by the Chief Financial Officer relating to the processes and controls in place for the preparation, review, verification, and oversight of account balances is filed at Tab 1, Schedule 3.

Table 4: Group 1 Balances for Clearance ($ Millions)

Account	Dec 31, 2021 Balance ($)	Carrying Charges (to Dec 31, 2022) ($)	Total for Clearance ($)
1550 – LV Variance Account	1.2	-	1.2
1551 – Smart Meter Entity Variance Account	(0.5)	-	(0.5)
1580 – RSVA WMS	7.7	-	7.7
1580 – RSVA WMS – Sub-account CBR Class B	(2.6)	-	(2.6)
1584 – RSVA Retail Transmission Network Charge	50.6	0.9	51.5
1586 – RSVA Retail Transmission Connection Charge	1.3	(0.1)	1.2
1588 – RSVA Power	13.5	0.1	13.6
1589 – RSVA Global Adjustment	(17.9)	(0.1)	(18.0)
1595 – RARA 2016	1.8	(1.0)	0.8
1595 – RARA 2018	(0.2)	(0.7)	(0.9)
1595 – RARA 2019	(0.5)	(0.1)	(0.6)

The Rate Model details the balances allocated to each rate class and shows the development of the proposed rate riders. Toronto Hydro proposes to clear the balance in

[7] EB-2008-0046, The Report of the Board on Electricity Distributors' Deferral and Variance Account Review Report (July 31, 2009) at page 10.

all accounts over a 12-month period from January 1, 2023 through December 31, 2023. All rate riders were calculated using the 2021 Reporting and Recording Keeping ("RRR") billing unit data.

Account 1595

Toronto Hydro proposes to clear the residual balances in Account 1595 - Disposition/Refund of Regulatory Balances for 2016, 2018, and 2019. Toronto Hydro confirms that residual balances in Account 1595 Sub-accounts for each vintage year have only been disposed once.

Wholesale Market Participants

Toronto Hydro allocated the DVA amounts proposed for clearance in accordance with the EDDVAR Report. The utility confirms that Wholesale Market Participants ("WMPs") are not subject to clearance of RSVA amounts for Power, Wholesale Market Services ("WMS") (including sub-account CBR Class B) or Global Adjustment ("GA"), and have not been included in the load/customer counts used to determine rate riders for these accounts.

Global Adjustment

The balances in the RSVA GA are allocated to non-RPP Class B customers only. Toronto Hydro used the Rate Model to address the GA for customers that transitioned between Class A and Class B during 2020 and 2021. The GA Analysis Workform is filed at Tab 3, Schedule 2.

As part of its analysis for 2021, Toronto Hydro identified an additional reconciling item (Weighted Average difference on GA Price), which has been added to the GA 2021 tab of the GA Analysis Workform. This variance of $6.7 million is attributable to the monthly

variance between billed and unbilled consumption load and IESO billing load as a result of seasonal month-over-month changes in temperature and significant fluctuations in consumption patterns. The latter factor was likely impacted by public health measures of varying scope and strictness being implemented and revised in the City of Toronto throughout 2021.

Since the GA actual rate varies month-to-month, the difference between the monthly consumption load, used to calculate revenue, and the IESO load, used for IESO settlements and invoicing, impacts the Actual GA RSVA calculation differently than what is calculated in the GA Analysis Workform using just the consumption load. This interaction is a normal outcome of the GA analysis, however in 2021 the impact was greater than usual due to larger variances in the consumption versus IESO load in certain months, attributed to the factors noted above.

Capacity Based Recovery (CBR)

Toronto Hydro seeks clearance of the Class B Capacity Based Recovery ("CBR") balances to December 2021 through a separate rider as calculated by the Rate Model and in accordance with the OEB's CBR Accounting Guidance. Toronto Hydro used the Rate Model to address the CBR for customers that transitioned between Class A and Class B during 2020 and 2021.

Adjustments to Deferral and Variance Accounts

The adjustments and balances in the DVA Continuity Schedule in the Rate Model match the account balances filed in the RRR, with the following exception:

- Toronto Hydro adjusted the RSVA Global Adjustment and RSVA Power principal balances for actual volumes and accrued versus actual revenue differences as per

the 1588 and 1589 Accounting guidance from the OEB. The details of the RSVA Global Adjustment are outlined in the GA Analysis Workform at Tab 3, Schedule 2.

Toronto Hydro confirms that it has not made any adjustments to balances and amounts previously approved by the OEB on a final basis. /C

E. LOST REVENUE ADJUSTMENT MECHANISM VARIANCE ACCOUNT (LRAMVA)

Toronto Hydro is not seeking approval to dispose of any LRAMVA balances at this time. The utility recognizes that distributors filing an application for 2023 rates are required to seek disposition of all outstanding LRAMVA balances related to previously established LRAMVA thresholds, which includes Toronto Hydro's 2020 and 2021 LRAMVA balances.[8] However, due to the relative timing of the discontinuation of the Conservation First Framework ("CFF") and the 2020-2024 Custom IR application, Toronto Hydro cannot appropriately clear any LRAMVA balances for the current rate period using the previously approved LRAMVA thresholds. Therefore, Toronto Hydro proposes to defer the clearance of the 2020 and 2021 balances, and any future balances within this rate period available at the time, to its next rebasing application. A more detailed explanation for this request is provided below.

The OEB approved Toronto Hydro's most recent load forecast and the related Conservation and Demand Management ("CDM") forecast for rate-making purposes during the period when the CFF was revoked by the Ministry of Energy, Northern Development and Mines and the future direction on LRAMVA was still unknown.[9] The result is that the approved LRAMVA thresholds include all of the Toronto Hydro CDM programs under the CFF, while the actuals to be used for the LRAMVA calculations include

[8] Filing Requirements for Electricity Distribution Rate Applications - 2022 Edition for 2023 Rate Applications - Chapter 3 (May 24, 2022) at page 15; EB-2021-0106, Conservation and Demand Management Guidelines for Electricity Distributors (December 20, 2021) at page 27.
[9] EB-2018-0165, Decision and Order (December 19, 2020) at page 127.

only those programs that the utility continued to manage post-CFF as contractually obligated under the CFF wind-down. Calculating LRAMVA amounts using these mismatched versions of the CDM values would be inappropriate; therefore, Toronto Hydro intends to propose a modified LRAMVA threshold. However, the utility understands that a request to review and modify a previously approved forecast is not suitable for an IR application which is typically adjudicated by OEB Staff under delegated authority. Toronto Hydro submits that it would be more suitable and efficient to review the LRAMVA thresholds in the next rebasing application. Accordingly, Toronto Hydro requests to defer the clearance of the 2020 and 2021 LRAMVA balances, and any future balances within this rate period available at the time, to its next rebasing application.

F. DEPRECIATION CHANGE AND PROPOSED UPDATE TO CRRRVA

In the 2020-2024 Custom IR Decision, the OEB directed Toronto Hydro to file in the next rebasing application its annual useful lives reviews or a new depreciation study.[10] Toronto Hydro determined that the latter option is more appropriate since the last depreciation study was undertaken more than a decade ago.

In preparation for the 2025 rebasing application, a third-party depreciation study is currently underway. The final results of the study are expected at the end of 2022 and Toronto Hydro intends to implement the revised useful lives as of January 1, 2023. Although the study is still in progress, preliminary results indicate changes in financial useful lives that will likely lead to an overall net decrease to the depreciation expense for 2023 and 2024, the remaining two years of the current rate period. As a result Toronto Hydro expects there will be a material variance, to the benefit of customers, in the approved versus actual depreciation expense that underlies the 2023 and 2024 CPCI.

[10] EB-2018-0165, Decision and Order (December 19, 2020) at page 146.

The Capital-Related Revenue Requirement Variance Account ("CRRRVA") approved in the 2020-2024 Custom IR Decision captures the revenue requirement variances between forecast and actual in-service additions. Rolling the depreciation impact changes into the CRRRVA would distort the calculation of the variances that normally flow through the CRRRVA, and would therefore complicate the review and disposition of this account in the next rebasing application. To avoid this undesirable outcome, and to ensure that Toronto Hydro is able to give back to ratepayers the revenue requirement variances resulting from the depreciation change impact, Toronto Hydro proposes to separately track the difference in revenue requirement impacts of the existing and updated depreciation rates over 2023 and 2024 in a subaccount of the CRRRVA. As the CRRRVA is asymmetrical in favour of customers, the new subaccount would also be asymmetrical. A draft accounting order update for the CRRRVA is included at Tab 4, Schedule 1. In the event that the OEB finds that this request cannot be approved by Staff under delegated authority, Toronto Hydro requests that the OEB bifurcate this request from the 2023 Rate application and to hear the matters separately and in parallel. This bifurcation will remain regulatorily efficient since the consideration of the issues under the 2023 Rate Application and the above variance account request are independent of each other.

G. EARNINGS SHARING MECHANISM

In the 2020-2024 Custom IR Decision, the OEB approved a cumulative, asymmetrical Earnings Sharing Mechanism ("ESM") variance account using a Return on Equity ("ROE") based calculation with all earnings in excess of 100 basis points over the approved ROE shared 50:50 with ratepayers.[11] As the approved ESM for 2020-2024 is cumulative, Toronto Hydro cannot perform the final calculation to determine whether or not there will be a balance to dispose until the end of the term. However, in accordance with the OEB's expectation that Toronto Hydro will provide an update in each of the remaining

[11] EB-2018-0165, Decision and Order (December 19, 2020) at pages 192-193.

rate update applications over the 2020-2024 Custom IR term,[12] Toronto Hydro reports that the utility continues to have nil balance in the ESM variance account as it has cumulatively underearned by 2.02% over 2020-2021 versus its approved ROE of 8.52% as shown in Table 5 below.

Table 5: Earnings Sharing Mechanism 2021 update calculation

		2020[13]	2021
Cumulative Adjusted Net Income	A	107.1	239.5
Cumulative Actual Deemed Equity	B	1,813.6	3,683.6
ROE Cumulative	C=A/B	5.90%	6.50%
ROE Approved	D	8.52%	8.52%
ROE Over (Under)	E=C-D	**-2.62%**	**-2.02%**

H. TAX CHANGES

Toronto Hydro confirms that there have been no applicable legislated tax changes since its last rebasing application (EB-2018-0165).

I. RETAIL TRANSMISSION SERVICE RATES

Toronto Hydro seeks to set 2023 Retail Transmission Service Rates based on the guidance set out in the OEB's Guideline G-2008-0001: Electricity Distribution Retail Transmission Service Rates ("RTSR"), Revision 4.0, dated June 28, 2012. Toronto Hydro used the current OEB-approved Uniform Transmission Rates ("UTR") and the Rate Model for calculating the RTSRs.

The utility anticipates that the OEB will update the requested RTSRs to reflect the approved 2023 Uniform Transmission Rates when those rates become available.

[12] EB-2020-0057, Decision and Order (December 10, 2020) at page 8.
[13] The values in this table are aligned with RRR 2.1.5.6.

J. OTHER RATES AND CHARGES

Toronto Hydro requests continuation of the various rate riders approved in the 2020-2024 Custom IR Decision, in accordance with their respective effective and termination dates, and of the other rates and charges approved in that decision, including the Specific Service Charges and Loss Factors. Toronto Hydro proposes to maintain the monthly service charge for the microFIT Generator Service Classification at its 2022 value of $4.49 per 30 days, as the province-wide charge underlying its calculation has not changed.[14]

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 2023 Inflation Factor as part of the Draft Rate Order or as otherwise directed by the OEB.

K. 2023 TARIFF SHEET

Toronto Hydro seeks an Order for final approval of the rates and charges as set out in the 2023 Tariff Sheet, which is filed at Tab 6, Schedule 2.

L. 2023 BILL IMPACTS

The anticipated 2023 Bill Impacts are filed at Tab 5, Schedule 1. Table 6 below provides a summary of the total bill impacts for a typical customer in each rate class.

[14] Review of Fixed Monthly Charge for microFIT Generator Service Classification OEB File Numbers EB-2009-0326 and EB-2010-0219 (Feb. 25, 2021).

Table 6: Summary of Total Bill Impacts

Rate Classes	$/30 days	%
Residential (750 kWh, TOU RPP)	$4.71	3.6%
Competitive Sector Multi-Unit Residential (300 kWh, TOU RPP)	$2.89	4.2%
General Service <50 kW (2,000 kWh, TOU RPP)	$13.91	4.0%
General Service 50-999 kW (200 kVA, Spot, Class B)	$246.31	2.0%
General Service 1,000-4,999 kW (2,000 kVA, Spot, Class B)	$2,510.02	1.9%
Large User (9,700 kVA, Spot, Class A)	$25,777.01	4.2%
Unmetered Scattered Load (285 kWh, RPP)	$2.55	4.3%
Street Lighting (2,700 kVA, Spot, Class B)	$8,549.62	3.2%