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**BY EMAIL**

October 27, 2022

Ms. Nancy Marconi  
Registrar  
Ontario Energy Board  
2300 Yonge Street, 27<sup>th</sup> Floor  
Toronto, ON M4P 1E4  
[Registrar@oeb.ca](mailto:Registrar@oeb.ca)

Dear Ms. Marconi:

**Re: Ontario Energy Board (OEB) Staff Submission  
Enova Power Corp. (Enova Power)  
Application for 2023 Rates for Areas formerly served by Waterloo North  
Hydro Inc.  
OEB File Number: EB-2022-0067**

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Please find attached OEB staff's submission in the above referenced proceeding, pursuant to Procedural Order No. 1. Enova Power Corp. and all intervenors have been copied on this filing.

Enova Power Corp. is reminded that its reply submission is due on November 8, 2022.

Yours truly,

Arturo Lau  
Advisor

Encl.

cc: All parties in EB-2022-0067



# **ONTARIO ENERGY BOARD**

## **OEB Staff Submission**

**Waterloo North Hydro Inc. (now Enova Power Corp.)**

**2023 Rates Application**

**EB-2022-0067**

**October 27, 2022**

## Application Summary

On August 3, 2022, Waterloo North Hydro Inc. (Waterloo North Hydro) filed an incentive rate-setting mechanism (IRM) application with the Ontario Energy Board (OEB), under section 78 of the *Ontario Energy Board Act, 1998* (OEB Act) seeking approval for changes to its electricity distribution rates to be effective January 1, 2023.

Effective September 1, 2022, Waterloo North Hydro amalgamated with Kitchener-Wilmot Hydro Inc. to form Enova Power Corp. (Enova Power).<sup>1</sup> For ease of reference, this submission will refer to the applicant as Enova Power. The requests in this application relate to service territory of the former Waterloo North Hydro (Waterloo North rate zone).

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<sup>1</sup> EB-2022-0006, OEB Letter, September 14, 2022

## OEB Staff Submission

OEB staff makes submissions on the following issues:

- Price Cap Adjustment
- Group 1 Deferral and Variance Accounts (DVAs)
- Retail Transmission Service Rates
- Lost Revenue Adjustment Mechanism Variance Account

### Price Cap Adjustment

Consistent with Chapter 3 of the Filing Requirements,<sup>2</sup> Enova Power applied the Price Cap Incentive Rate-setting adjustment factor to adjust the monthly service charge during the incentive rate-setting years. Enova Power's application included a placeholder value of 3.30% for the 2023 inflation factor as the OEB's 2023 inflation factor had not been released at the time of filing. The annual adjustment follows an OEB-approved formula that includes components for inflation and the OEB's expectations of efficiency and productivity gains. The components in the formula are approved by the OEB annually. The formula prescribes a rate adjustment equal to the inflation factor minus the distributor's X-factor.<sup>3</sup>

On October 20, 2022, the OEB issued [a letter](#) calculating the 2023 inflation factor for electricity distributors to be 3.7%.<sup>4</sup> The letter also noted that for Price Cap Incentive Rate-setting applications, the price escalator will be adjusted on behalf of each distributor.

#### *Submission*

OEB staff has updated Enova Power's rate generator model to replace the placeholder value of 3.30% with the OEB 2023 inflation factor of 3.7%. The updated rate generator model is attached as Schedule A to this submission.

### Group 1 Deferral and Variance Accounts

#### Group 1 DVAs Excluding Accounts 1588 and 1589

For the Waterloo North rate zone, the Group 1 balances were last approved for

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<sup>2</sup> Filing Requirements for Electricity Distribution Rate Applications – 2022 Edition for 2023 Rate Applications – Chapter 3 Incentive Rate-Setting Applications, May 24, 2022

<sup>3</sup> Ibid, pages 5 - 6

<sup>4</sup> 2023 Inflation Parameters, October 20, 2022

disposition, on a final basis, in its 2022 rate application, excluding Accounts 1588 and 1589.<sup>5</sup>

In the current proceeding, Enova Power has requested the disposition of a \$625,802 credit balance for Group 1 DVAs for the Waterloo North rate zone, as of December 31, 2021 (adjusted for dispositions in 2022), over one year.

The Group 1 DVAs equate to a credit of \$0.0004 per kWh which did not exceed the OEB's IRM disposition threshold of \$0.001 per kWh. However, Enova Power elected to dispose of Group 1 balances to clear balances in preparation for the merger of Waterloo North Hydro and Kitchener-Wilmot Hydro Inc.

### *Submission*

OEB staff has reviewed the 2021 DVA balances and the supporting evidence substantiating these balances. OEB staff supports the request to dispose of the December 31, 2021 Group 1 DVA balances on a final basis. OEB staff's submission on Accounts 1588 and 1589 is in the section below.

### Accounts 1588 and 1589

In Waterloo North Hydro's 2021 cost of service application, the OEB approved a settlement proposal that had been agreed to by the parties in that proceeding. One of the terms of that settlement proposal was that Waterloo North Hydro not dispose of 2019 balances for Accounts 1588 and 1589, pending a special purpose inspection (Inspection) by the OEB of those accounts.<sup>6</sup>

The Inspection related to a prior period adjustment of approximately \$2.6 million in overstated Global Adjustment (GA) costs attributable to Regulated Price Plan (RPP) customers, impacting Accounts 1588 and 1589 balances between the years 2015 to 2018.

In the 2022 IRM decision, the OEB agreed that in addition to the Inspection regarding the prior period adjustment of approximately \$2.6 million, Waterloo North Hydro would further benefit from having the overall reasonability of the 2019 and 2020 Account 1588 and 1589 balances (including compliance with the OEB's Accounting Guidance) assessed by the OEB's Inspection and Enforcement group.<sup>7</sup>

In response to OEB staff interrogatories in the current proceeding, Enova Power filed

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<sup>5</sup> EB-2021-0062

<sup>6</sup> EB-2020-0059, 2021 Cost of Service, Settlement Proposal, page 39 (attached to December 10, 2020 decision and rate order)

<sup>7</sup> Accounting Procedures Handbook Update – Accounting Guidance Related to Commodity Pass-Through Accounts 1588 & 1589, February 21, 2019

the Inspection Report.<sup>8</sup> Appendix 1 of the Inspection Report calculated that the December 31, 2020 closing principal balances were as follows: (i) Account 1588: a credit balance of \$682,786, and (ii) Account 1589: a credit balance of \$897,220 for Account 1589. These amounts reconcile to the DVA continuity schedule of the 2023 IRM Rate Generator Model.

In response to OEB staff interrogatories in the current proceeding, Enova Power agreed with the following table of principal adjustments prepared by OEB staff, as well as noting that Table 1 reconciles with Appendix 1 of the Inspection Report.<sup>9</sup>

**Table 1: Inspection Results –  
Principal Adjustments to Accounts 1588 and 1589 Balances**

	<b>Account 1588</b>	<b>Account 1589</b>
Adjustments relating to 2015 to 2018 balances	(\$150,641)	(\$1,417,250)
Adjustments relating to 2019 balances	\$21,751	\$393,945
Adjustments relating to 2020 balances	<u>\$55,642</u>	<u>\$74,243</u>
<b>Total Adjustments</b>	<b><u>(73,249)</u></b>	<b><u>(949,062)</u></b>

Enova Power stated that the Accounts 1588 and 1589 balances for the years 2015 to 2018 were previously approved for disposition on a final basis. Enova Power further stated that the adjustments to the 2015 to 2018 balances arose due to errors in its settlement process during those years.<sup>10</sup>

Enova Power identified two precedents where the OEB approved corrections to balances previously disposed on a final basis and the corrections in those proceedings were credit amounts refunded to customers.<sup>11</sup>

In response to interrogatories in the current proceeding, Enova Power addressed the [OEB Letter](#), *Adjustments to Correct for Errors in Electricity Distributor “Pass-Through” Variance Accounts After Disposition*, October 31, 2019.<sup>12</sup> Enova Power commented on the four factors outlined in the OEB Letter which the OEB may consider when determining whether to make a retroactive adjustment. OEB staff has summarized Enova Power’s comments in Table 2 below.

<sup>8</sup> OEB Staff – 7

<sup>9</sup> OEB Staff – 9

<sup>10</sup> Manager’s Summary, August 3, 2022, page 10 & 22

<sup>11</sup> EB-2014-0043, Enbridge Gas Distribution Inc., Decision and Order, April 10, 2014, p. 2; EB-2016-0090, Lakeland Power Distribution Ltd., Decision and Rate Order, December 8, 2016, p. 10

<sup>12</sup> OEB Staff – 10

**Table 2: Summary of the Factors the OEB May Consider  
Regarding Retroactive Adjustments and Enova Power’s Response**

	<b>Factor</b>	<b>Enova Power’s Response</b>
1	Whether the error was within the control of the distributor	While the errors were unintentional, the errors identified in the OEB Inspection Report were within its control.
2	The frequency with which the distributor has made the same error	This is the first time an OEB Inspection Report identified the errors occurring at Enova Power. Its updated processes have sufficient controls to ensure that the same errors shall not occur again.
3	Failure to follow guidance provided by the OEB	Since July 2018, the OEB has continued to attempt to improve the accuracy of commodity account balances. <sup>13</sup> [OEB staff notes that Enova Power did not directly address whether it failed to follow guidance provided by the OEB.]
4	The degree to which other distributors are making similar errors	It is likely that other distributors may be making similar errors or may have made similar errors in the past, based on its review of IRM and cost of service rate applications for 2021 and 2022. <sup>14</sup>

Enova Power concluded that since the retroactive corrections are in favour of customers and that the final dispositions were made prior to the full implementation of the OEB’s Accounting Guidance,<sup>15</sup> making the corrections would be a fair and prudent action.

### *Submission*

OEB staff supports Enova Power’s request to dispose of Account 1588’s credit balance of \$1,249,562 and Account 1589’s credit balance of \$2,318,489 in this proceeding. This disposition should occur on a final basis. These balances include both principal and

<sup>13</sup> Enova Power referenced the July 20, 2018, OEB letter titled, “OEB’s Plan to Standardize Processes to Improve Accuracy of Commodity Pass-Through Variance Accounts.” Enova Power also referenced the OEB’s GA Workform and the Illustrative Commodity Model that accompanied the OEB’s Accounting Guidance.

<sup>14</sup> Enova Power also stated that based on its review of IRM and cost of service rate applications for 2021 and 2022, it observed that errors were discovered in past inspections and audits of other utilities, as well as a number of distributors are still not following the OEB’s Accounting Guidance.

<sup>15</sup> Accounting Procedures Handbook Update – Accounting Guidance Related to Commodity Pass-Through Accounts 1588 & 1589, February 21, 2019

interest adjustments to Accounts 1588 and 1589 made as a result of the Inspection.

OEB staff does not take issue with the adjustments made as a result of the Inspection. Furthermore, OEB staff submits that the principal adjustments made to the 2015 to 2018 balances that were previously disposed of on a final basis are appropriate.

OEB staff agrees with Enova Power that these adjustments should be made after considering Enova Power's response regarding the OEB Letter (as summarized in Table 2 of this submission), especially since they are in favour of customers. OEB staff appreciates that although Enova Power's errors identified in the Inspection Report were within its control, its updated processes have sufficient controls to ensure that the same errors shall not occur again. OEB staff also acknowledges the above-noted two precedents identified by Enova Power, where the OEB approved corrections to balances previously disposed on a final basis and the corrections in those proceedings were credit amounts refunded to customers. OEB staff submits that Enova Power's proposed refund to its customers in this proceeding is appropriate.

## **Retail Transmission Service Rates**

The Waterloo North rate zone is partially embedded within the service territories of Kitchener-Wilmot Hydro Inc. (now part of Enova Power), GrandBridge Energy Inc. (formally Energy+ Inc.) and Hydro One Networks Inc. Enova Power stated that electricity distributors are charged Uniform Transmission Rates (UTRs) at the wholesale level and subsequently pass these charges to distribution customers through the retail Transmission Service rates (RTSRs). At the time of this submission, the 2023 UTRs and the 2023 host RTSRs have not been approved by the OEB.

### *Submission*

OEB staff submits that when the OEB approves the 2023 UTRs and/or host distributor RTSRs appropriate updates to the 2023 Rate Generator models should be made. If the OEB does not approve the 2023 UTRs and/or host distributor RTSRs prior to the issuance of a decision and order in this proceeding, Accounts 1584 RSVA – Retail Transmission Network Charge and 1586 Retail Transmission Connection Charge will capture these differences.

## **Lost Revenue Adjustment Mechanism Variance Account**

Distributors filing an application for 2023 rates are required to seek disposition of all outstanding Lost Revenue Adjustment Variance Account (LRAMVA) balances related to program savings related to Conservation First Framework programs or other conservation programs they delivered unless they do not have complete information on



eligible program savings.<sup>16</sup> Enova Power confirmed that it has made a final LRAMVA claim for 2019 and 2020 in a previous application and will not be seeking any claims for 2021 and beyond.<sup>17</sup> Should Enova Power request the use of the LRAMVA for a CDM activity at some point in the future, the OEB could consider on a case-by-case basis. OEB staff is recommending this approach for all distributors who have disposed of all outstanding LRAMVA balances as part of their 2023 rate applications.

### *Submission*

OEB staff is of the view that the LRAMVA balance should be set to zero and recommends that no further entries to the LRAMVA be permitted at this time, but that the LRAMVA not be discontinued, in the event that Enova Power requests the use of the LRAMVA for a CDM activity in a future application, which the OEB can consider on a case-by-case basis. OEB staff is recommending this approach for all distributors who have disposed of all outstanding LRAMVA balances as part of their 2023 rate applications.

~All of which is respectfully submitted~

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<sup>16</sup> Filing Requirements for Electricity Distribution Rate Applications – 2022 Edition for 2023 Rate Applications – Chapter 3 Incentive Rate-Setting Applications, May 24, 2022

<sup>17</sup> Manager’s Summary, August 3, 2022, page 22