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

DECISION AND RATE ORDER

EB-2022-0055

OAKVILLE HYDRO ELECTRICITY DISTRIBUTION INC.

Application for rates and other charges to be effective January 1, 2023

BY DELEGATION, BEFORE: Alex Share
Manager
Generation & Transmission

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[Date of issuance]

1. OVERVIEW

The Ontario Energy Board is approving changes to the rates that Oakville Hydro Electricity Distribution Inc. (Oakville Hydro) charges to distribute electricity to its customers, effective January 1, 2023.

As a result of this Decision, there will be a monthly total bill increase of $4.93 for a residential customer consuming 750 kWh. This change does not factor in applicable taxes or the Ontario Electricity Rebate.

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2. CONTEXT AND PROCESS

Oakville Hydro filed its application on August 3, 2022 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 Annual IR Index (Annual IR) option.

The Annual IR option is one of three incentive rate-setting mechanisms (IRM) approved by the OEB.[1] Under this methodology, existing rates are subject to an annual price cap adjustment. Distributors under the Annual IR are not required to periodically set base rates using a cost of service process, but they are required to apply the highest stretch factor in the price cap adjustment.

The OEB follows a standardized and streamlined process for hearing IRM applications filed under Annual IR. In each adjustment year under the Annual IR mechanism, 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 will then review, complete, and include 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.

Oakville Hydro serves approximately 75,000 mostly residential and commercial electricity customers in the Town of Oakville.

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

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[1] Each of these options is explained in the OEB's *Handbook for Utility Rate Applications*.

3. DECISION OUTLINE

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

- Annual Adjustment Mechanism
- Shared Tax Adjustments
- Retail Transmission Service Rates
- Group 1 Deferral and Variance Accounts
- Lost Revenue Adjustment Mechanism Variance Account

Instructions for implementing Oakville Hydro's new rates and charges are set out in the final section of this Decision.

This Decision does not address rates and charges approved by the OEB in prior proceedings, such as specific service charges[2] and loss factors, which are out of the 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.

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[2] 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-2022-0220, issued November 3, 2022 established the adjustment for energy retailer service charges, effective January 1, 2023; and the Decision and Order EB-2022-0221, issued November 3, 2022, established the 2023 Wireline Pole Attachment Charge, effective January 1, 2023.

4. ANNUAL ADJUSTMENT MECHANISM

Oakville Hydro has applied to change its rates, effective January 1, 2023, 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.[3]

The components of the Annual IR adjustment formula applicable to Oakville Hydro are set out in the table below. Inserting these components into the formula results in a 3.10% increase to Oakville Hydro's rates: **3.10% = 3.70% - (0.00% + 0.60%)**.

Table 4.1: Annual IR Adjustment Formula

Components		Amount
Inflation factor[4]		3.70%
Less: X-factor	Productivity factor[5]	0.00%
	Stretch factor (0.00% to 0.60%)[6]	0.60%

An inflation factor of 3.70% applies to all IRM applications for the 2023 rate year.

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 2023 rate year.

The stretch factor component of the X-factor is distributor specific. The OEB has established five stretch factor groupings, ranging from 0.00% to 0.60%. The stretch factor assigned to any distributor is based on the distributor's total cost performance as benchmarked against other distributors in Ontario. For Annual IR Index applications, the

[3] 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.
[4] OEB Letter, 2023 Inflation Parameters, October 20, 2022
[5] 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
[6] Report to the Ontario Energy Board – "Empirical Research in Support of Incentive Rate-Setting: 2021 Benchmarking Update", prepared by Pacific Economics Group LLC., July 2022

OEB applies a default stretch factor of 0.60%. Accordingly, the stretch factor assigned to Oakville Hydro is 0.60%, resulting in a rate adjustment of 3.10%.

Findings

Oakville Hydro's request for a 3.10% rate adjustment is in accordance with the annually updated parameters set by the OEB. The adjustment is approved, and Oakville Hydro's new rates shall be effective January 1, 2023.

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5. SHARED TAX ADJUSTMENTS

In any adjustment year of an IRM term, a change in legislation may result in a change to the amount of taxes payable by a distributor. The impacts of such legislated tax changes are shared equally between shareholders and customers.[7] The shared tax change amount, whether in the form of a credit or a debit, will be assigned to customer rate classes in the same proportions as the OEB-approved distribution revenue by rate class from the distributor's last cost of service proceeding.

In its pre-filed evidence, Oakville Hydro identified a total tax increase of $29,206, resulting in a shared amount of $14,603 proposed to be collected from ratepayers. Subsequently, Oakville Hydro withdrew this request, noting that the incremental tax impact for 2023 should be nil, and updated its application accordingly.

Findings

The OEB accepts Oakville Hydro's request to withdraw its claim. The OEB notes that, with the exception of impacts relating to changes in capital cost allowance rules (and which are dealt with outside of an IRM proceeding), there are no identified legislated tax changes for the 2023 rate year from those assumed in Oakville Hydro's base distribution rates.

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[7] On July 25, 2019, the OEB issued a letter providing accounting guidance with respect to changes in capital cost allowance (CCA) rules. The guidance provides that impacts from changes in CCA rules will not be assessed in IRM proceedings, and that any request for disposition of amounts related to CCA changes is to be deferred to the distributor's next cost of service rate proceeding. A distributor's request for disposition of shared tax adjustment amounts in an IRM application should, therefore, be comprised only of impacts for tax changes unrelated to CCA.

6. RETAIL TRANSMISSION SERVICE RATES

Oakville Hydro is partially embedded within Hydro One Network Inc.'s distribution system.

To recover its cost of transmission services, Oakville Hydro requests approval to adjust the retail transmission service rates (RTSRs) that it charges its customers in accordance with the Uniform Transmission Rates (UTRs) and host distributor RTSRs currently in effect.

Findings

Oakville Hydro's proposed adjustment to its RTSRs is approved. The RTSRs were adjusted based on the current OEB-approved UTRs and host-RTSRs.[8]

UTRs and host-RTSRs are typically approved annually by the OEB. In the event that new UTRs and host-RTSRs take effect during Oakville Hydro's 2023 rate year, any resulting differences (from the prior-approved UTRs and host-RTSRs) are to be captured in Retail Settlement Variance Accounts 1584 (Retail Transmission Network Charge) and 1586 (Retail Transmission Connection Charge).

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[8] EB-2022-0084, Decision and Order, April 7, 2022; EB-2021-0032, Decision and Order, December 14, 2021

7. GROUP 1 DEFERRAL AND VARIANCE ACCOUNTS

In each year of an IRM term, the OEB will review 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 justifies why balances should not be disposed.[9] If the net balance does not exceed the threshold, a distributor may still request disposition.[10]

The 2021 year-end net balance for Oakville Hydro's Group 1 accounts eligible for disposition, including interest projected to December 31, 2022, is a debit of $4,760,061 and pertains to variances accumulated during the 2021 calendar year. This amount represents a total claim of $0.0031 per kWh, which exceeds the disposition threshold. Oakville Hydro has requested disposition of this amount over a one-year period.

Included in the Group 1 accounts are certain variances related to costs that are paid for by a distributor's customers on different bases, depending on their classification. Namely, "Class A" customers, who participate in the Industrial Conservation Initiative, pay for Global Adjustment (GA) charges based on their contribution to the five highest Ontario demand peaks over a 12-month period. "Class B" customers pay for GA charges based on their monthly consumption totals, either as a standalone charge or embedded in the Regulated Price Plan (RPP).[11] A similar mechanism applies to Class A and Class B customers for Capacity Based Recovery (CBR) charges.[12] The balance in the GA variance account is attributable to non-RPP Class B customers and is disposed through a separate rate rider. The balance in the CBR Class B variance account is attributable to all Class B customers.

Oakville Hydro had Class A customers during the period in which variances accumulated so it has applied to have the balance of the CBR Class B variance account disposed through a separate rate rider for Class B customers to ensure proper allocation between Class A and Class B customers.

During the period in which variances accumulated, Oakville Hydro had customers transition between Class A and Class B. Under the general principle of cost causality, customer groups that cause variances that are recorded in Group 1 accounts should be

[9] Report of the OEB – "Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR)." EB-2008-0046, July 31, 2009.
[10] OEB letter, Update to the July 2009 EDDVAR Report, issued July 25, 2014.
[11] For additional details on the Global Adjustment charge, refer to the Independent Electricity System Operator (IESO)'s website.
[12] All Class B customers (RPP and non-RPP) pay the CBR as a separate charge based on their monthly consumption. For additional details on the CBR for Class A customers, refer to the IESO's website.

responsible for paying (or receiving credits) for their disposal. Oakville Hydro has proposed to allocate a portion of the GA and CBR Class B balances to its transition customers, based on their customer-specific consumption levels.[13] The amounts allocated to each transition customer are proposed to be recovered (or refunded, as applicable), by way of 12 equal monthly installments.

Findings

The balances proposed for disposition reconcile with the amounts reported as part of the OEB's *Electricity Reporting and Record-Keeping Requirements.*

The OEB approves the disposition of a debit balance of $4,760,061, as of December 31, 2021, including interest projected to December 31, 2022, for Group 1 accounts on a final basis.

Table 7.1 identifies the principal and interest amounts, which the OEB approves for disposition.

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[13] 2023 IRM Rate Generator Model, Tab 6.1a “GA Allocation” and Tab 6.2a “CBR B_Allocation”

Table 7.1: Group 1 Deferral and Variance Account Balances

Account Name	Account Number	Principal Balance ($) A	Interest Balance ($) B	Total Claim ($) C=A+B
LV Variance Account	1550	1,359,541	50,565	1,410,106
Smart Meter Entity Variance Charge	1551	(48,683)	(1,534)	(50,217)
RSVA - Wholesale Market Service Charge	1580	1,340,554	6,235	1,346,789
Variance WMS - Sub-account CBR Class B	1580	(166,442)	(6,012)	(172,454)
RSVA - Retail Transmission Network Charge	1584	3,168,183	50,798	3,218,981
RSVA - Retail Transmission Connection Charge	1586	479,044	8,556	487,600
RSVA - Power	1588	(943,095)	(14,545)	(957,640)
RSVA - Global Adjustment	1589	(489,547)	(27,342)	(516,889)
Disposition and Recovery of Regulatory Balances (2019)	1595	(13,804)	7,589	(6,215)
Total for Group 1 accounts		**4,685,751**	**74,310**	**4,760,061**

The balance of each of the Group 1 accounts approved for disposition shall be transferred to the applicable principal and carrying charge sub-accounts of Account 1595. Such transfer shall be pursuant to the requirements specified in the *Accounting Procedures Handbook for Electricity Distributors.*[14] The date of the transfer must be the same as the effective date for the associated rates, which is generally the start of the rate year.

The OEB approves these balances to be disposed through final rate riders, charges, or payments, as calculated in the Rate Generator Model. The final rate riders, charges, and payments, as applicable, will be in effect over a one-year period from January 1, 2023 to December 31, 2023.[15]

[14] Article 220, Account Descriptions, Accounting Procedures Handbook for Electricity Distributors, effective January 1, 2012
[15] 2023 IRM Rate Generator Model Tab 6.1 GA, Tab 6.1a GA Allocation, Tab 6.2 CBR B, Tab 6.2a CBR B_Allocation and Tab 7 Calculation of Def-Var RR

8. LOST REVENUE ADJUSTMENT MECHANISM VARIANCE ACCOUNT

The OEB has historically utilized a Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) to capture a distributor's revenue implications resulting from differences between actual and forecast conservation and demand management (CDM) savings included in its last OEB-approved load forecast. The use of the LRAMVA is no longer the default approach for CDM activities.[16]

Distributors delivered 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.[17]

Distributors filing an application for 2023 rates are required to seek disposition of all outstanding LRAMVA balances related to program savings for CFF programs or other conservation programs they delivered, unless they do not have complete information on eligible program savings.[18]

Distributors are also eligible under the LRAM for persisting impacts of conservation programs until their next rebasing. The OEB provided direction for distributors to seek approval of LRAM-eligible amounts for 2023 onwards on a prospective basis, and a rate rider in the corresponding rate year, to address amounts that would otherwise be recorded in the LRAMVA for all years until their next rebasing application.[19]

Oakville Hydro has applied to dispose of its LRAMVA debit balance of $914,714. The balance consists of lost revenues from 2021 to 2022 from CDM programs delivered during the period from 2013 to 2020 and carrying charges. The actual conservation savings claimed by Oakville Hydro under the CFF were validated with reports from the IESO, project level savings files, or both.

Actual conservation savings were compared against Oakville Hydro's forecasted conservation savings of 32,080,000 kWh included in its last OEB-approved load forecast.[20]

[16] Conservation and Demand Management Guidelines for Electricity Distributors, December 20, 2021, chapter 8.
[17] On March 20, 2019 the Minister of Energy, Northern Development and Mines issued separate Directives to the OEB and the IESO.
[18] Chapter 3 Filing Requirements, section 3.2.6.1
[19] Guidance on Prospective Lost Revenue Adjustment Mechanism (LRAM) Amounts – 2023 Rates, June 16, 2022
[20] EB-2013-0159, Decision and Order, May 1, 2014

Oakville Hydro also applied for approval of LRAM-eligible amounts for the years 2023 to 2027 on a prospective basis, arising from persisting savings from completed CDM programs.

Findings

The OEB finds that Oakville Hydro'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 Oakville Hydro's LRAMVA debit balance of $914,714, as set out in Table 8.1 below.

Table 8.1: 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	1568	1,531,998	624,645	7,362	914,714

The balance in the LRAMVA is now zero, and no further entries to the LRAMVA are permitted at this time. The LRAMVA will not be discontinued, in the event that Oakville Hydro requests the use of the LRAMVA for a CDM activity in a future application, which the OEB will consider on a case-by-case basis.[21]

The OEB also approves the LRAM-eligible amounts for the years 2023 to 2027, arising from persisting savings from completed CDM programs, as set out in Table 8.2 below. These amounts will be adjusted mechanistically by the approved inflation minus X-factor applicable to IRM applications in effect for a given year, and recovered through a rate rider in the corresponding rate year, beginning with the 2023 rate year. For the 2023 rate year, the OEB approves the requested LRAM-eligible amount of $450,322[22], to be collected from customers, and the associated rate riders. Should Oakville Hydro rebase in, or prior to, the last year in table 8.2, amounts shown in table 8.2 in the year of rebasing or later will not be recoverable, as any persisting impacts of CDM can be taken into consideration in setting new base rates.

[21] Conservation and Demand Management Guidelines for Electricity Distributors, December 20, 2021, p. 28.
[22] Oakville Hydro_2023_Generic_LRAMVA_Workform_1.2_(Version 7)_20221123, Tab 5. 2015-2027 LRAM, filed November 23, 2022.

Table 8.2: LRAM-Eligible Amounts for Prospective Disposition

Year	LRAM-Eligible Amount (in 2022 $)
2023	437,390
2024	401,823
2025	322,390
2026	302,942
2027	261,736

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9. IMPLEMENTATION

This Decision is accompanied by a Rate Generator Model, applicable supporting models, and a Tariff of Rates and Charges (Schedule A). The Rate Generator Model also incorporates the rates set out in Table 9.1.

Table 9.1: 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 16, 2021 and July 12, 2022.[23]

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 at $0.42 on September 8, 2022.[24]

In the *Report of the Board: Review of Electricity Distribution Cost Allocation Policy*,[25] 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 2023 rate year.

[23] EB-2021-0300, Decision and Order, December 16, 2021 and EB-2021-0300, Supplemental Decision and Order, July 12, 2022.
[24] EB-2022-0137, Decision and Order, September 8, 2022
[25] EB-2010-0219, Report of the Board "Review of Electricity Distribution Cost Allocation Policy", March 31, 2011

10. ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT

1. The Tariff of Rates and Charges set out in Schedule A of this Decision and Rate Order is approved effective January 1, 2023 for electricity consumed or estimated to have been consumed on and after such date. Oakville Hydro Electricity Distribution Inc. shall notify its customers of the rate changes no later than the delivery of the first bill reflecting the new rates.

DATED at Toronto, [date of issuance]

ONTARIO ENERGY BOARD

Nancy Marconi
Registrar

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SCHEDULE A

DECISION AND ORDER

OAKVILLE HYDRO ELECTRICITY DISTRIBUTION INC.

TARIFF OF RATES AND CHARGES

EB-2022-0055

[DATE OF ISSUANCE]

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