



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

DECISION AND RATE ORDER

EB-2022-0039

HYDRO HAWKESBURY INC.

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

BY DELEGATION, BEFORE: Alex Share
Manager
Generation & Transmission

December 8, 2022

1. OVERVIEW

The Ontario Energy Board is approving changes to the rates that Hydro Hawkesbury Inc. (Hydro Hawkesbury) 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 \$3.05 for a residential customer consuming 750 kWh. This change does not factor in applicable taxes or the Ontario Electricity Rebate.

2. CONTEXT AND PROCESS

Hydro Hawkesbury 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 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 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 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.

Hydro Hawkesbury serves approximately 5,600 mostly residential and commercial electricity customers in the Town of Hawkesbury.

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

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 Hydro Hawkesbury'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 charges² 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.

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

Hydro Hawkesbury 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 Price Cap adjustment formula applicable to Hydro Hawkesbury are set out in the table below. Inserting these components into the formula results in a 3.70% increase to Hydro Hawkesbury's rates: **3.70% = 3.70% - (0.00% + 0.00%)**.

Table 4.1: Price Cap 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	0.00%

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

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, issued 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

benchmarked against other distributors in Ontario. The stretch factor assigned to Hydro Hawkesbury is 0.00%, resulting in a rate adjustment of 3.70%.

Findings

Hydro Hawkesbury's request for a 3.70% rate adjustment is in accordance with the annually updated parameters set by the OEB. The adjustment is approved, and Hydro Hawkesbury's new rates shall be effective January 1, 2023.

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.

The application identifies a total tax decrease of \$233, resulting in a shared amount of \$117 to be refunded to ratepayers.

This allocated tax-sharing amount does not produce a rate rider to the fourth decimal place, in one or more rate classes. In such situations where the Rate Generator Model does not compute rate riders, distributors are required to transfer the entire OEB-approved tax sharing amount into the Disposition and Recovery of Regulatory Balances Control Account (Account 1595) for disposition at a later date.

Findings

The OEB approves the tax-sharing refund of \$117.

As the allocated tax-sharing amount does not produce a rate rider in one or more rate classes, the OEB directs Hydro Hawkesbury to record the credit amount of \$117 into Account 1595 - Sub-account Principal Balances Approved for Disposition in 2023.

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

Hydro Hawkesbury is partially embedded within Hydro One Networks Inc.'s distribution system.

To recover its cost of transmission services, 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

Hydro Hawkesbury's proposed adjustment to its RTSRs is approved. The RTSRs were adjusted based on the current OEB-approved UTRs and the 2022 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 Hydro Hawkesbury'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).

⁸ EB-2021-0032, Decision and Rate Order, December 14, 2021 and EB-2022-0084, Decision and Rate Order, April 7, 2022

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 Hydro Hawkesbury's Group 1 accounts eligible for disposition, excluding Accounts 1588 and 1589, and including interest projected to December 31, 2022, is a debit of \$62,612, and pertains to variances accumulated during the 2021 calendar year. This amount represents a total claim of \$0.0005 per kWh, which does not exceed the disposition threshold. Hydro Hawkesbury has requested the disposition of this amount over a one-year period.

As part of its 2022 rate application, Hydro Hawkesbury sought an exemption from the requirement to dispose of the balances in Accounts 1588 and 1589 until it has had a chance to work with its accounting firm to provide accurate explanations for the variances in those accounts. In the decision and order for that proceeding, the OEB accepted Hydro Hawkesbury's request as reasonable, and stated that it expected Hydro Hawkesbury to bring forth the results of a review of these accounts, as part of its 2023 rate application.¹¹ In the current application, and as noted in the pre-filed evidence, Hydro Hawkesbury is again requesting an exemption from the requirement to dispose of the balances in Accounts 1588 and 1589. Hydro Hawkesbury noted that, while the company and its external accounting firm continue to examine the balances in those accounts, it has been unable to complete its review due to high staff turnover within both Hydro Hawkesbury and the accounting firm.¹² Hydro Hawkesbury later confirmed that an update to the application in this regard would not be made, as it cannot at this time provide the necessary evidence to support disposal of these amounts.¹³

Included in 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

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 Electricity Distributors' Deferral and Variance Account Review ("EDDVAR Report"), released July 2009 (EB-2008-0046)", issued July 25, 2014

¹¹ EB-2021-0031. Decision and Rate Order, December 9, 2021

¹² Managers Summary, page 14

¹³ OEB-Staff-1

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).¹⁴ A similar mechanism applies to Class A and Class B customers for Capacity Based Recovery (CBR) charges.¹⁵ 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.

Hydro Hawkesbury 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.

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 accepts Hydro Hawkesbury's proposal to defer disposition of the balances in Accounts 1588 and 1589. The OEB is reiterating its expectation that Hydro Hawkesbury bring forth the results of the review of the balances in these accounts as part of its subsequent rates proceeding (in this case, for 2024 rates). The OEB approves the disposition of a debit balance of \$62,612 as of December 31, 2021, including interest projected to December 31, 2022, for the Group 1 accounts, excluding Accounts 1588 and 1589, on a final basis.

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

¹⁴ For additional details on the Global Adjustment charge, refer to the Independent Electricity System Operator (IESO)'s [website](#).

¹⁵ 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](#).

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	29,944	499	30,443
Smart Meter Entity Variance Charge	1551	(2,659)	(37)	(2,696)
RSVA - Wholesale Market Service Charge	1580	65,608	2,269	67,877
Variance WMS - Sub-account CBR Class B	1580	(47,759)	(1,712)	(49,471)
RSVA - Retail Transmission Network Charge	1584	118,390	2,235	120,625
RSVA - Retail Transmission Connection Charge	1586	(24,886)	(425)	(25,311)
Disposition and Recovery of Regulatory Balances (2018)	1595	(72,851)	(6,838)	(79,690)
Disposition and Recovery of Regulatory Balances (2019)	1595	8,625	(7,790)	834
Total for Group 1 accounts		74,411	(11,800)	62,612

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*.¹⁶ 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, 2023.¹⁷

¹⁶ Article 220, Account Descriptions, Accounting Procedures Handbook for Electricity Distributors, effective January 1, 2012

¹⁷ 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.¹⁸

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.¹⁹

Distributors filing an application for 2023 rates are required to seek disposition of all outstanding LRAMVA balances related to program savings related to CFF programs or other conservation programs they delivered, unless they do not have complete information on eligible program savings.²⁰

Hydro Hawkesbury explained that it intends to write off the remaining residual balance in its LRAMVA and will not be seeking disposition of this amount in a future proceeding.²¹

Findings

The OEB accepts Hydro Hawkesbury's proposal to write off its remaining LRAMVA balance. The account balance is now set to zero and no further entries to the LRAMVA are permitted at this time. The LRAMVA will not be discontinued, in the event that Hydro Hawkesbury 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.²²

¹⁸ Conservation and Demand Management Guidelines for Electricity Distributors, December 20, 2021, chapter 8

¹⁹ On March 20, 2019 the Minister of Energy, Northern Development and Mines issued separate Directives to the OEB and the IESO.

²⁰ Chapter 3 Filing Requirements, section 3.2.6.1

²¹ OEB-Staff-2

²² Conservation and Demand Management Guidelines for Electricity Distributors, December 20, 2021, p. 28

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

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

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. Hydro Hawkesbury 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, December 8, 2022

ONTARIO ENERGY BOARD

Nancy Marconi
Registrar

SCHEDULE A
DECISION AND RATE ORDER
HYDRO HAWKESBURY INC.
TARIFF OF RATES AND CHARGES
EB-2022-0039
DECEMBER 8, 2022