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BY EMAIL

January 26, 2023

Ms. Nancy Marconi
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4
Registrar@oeb.ca

Dear Ms. Marconi:

**Re: Ontario Energy Board (OEB) Staff Submission
Orangeville Hydro Limited (Orangeville Hydro)
2023 Electricity Distribution Rates
OEB File Number: EB-2022-0056**

Please find attached OEB staff's submission in the above-referenced proceeding, pursuant to Procedural Order No. 1.

Yours truly,

Birgit Armstrong
Sr. Advisor, Incentive Rate Setting & Regulatory Accounting

Encl.

cc: All parties in EB-2022-0056



ONTARIO ENERGY BOARD

STAFF SUBMISSION

Orangeville Hydro Limited (Orangeville Hydro)

2023 Electricity Distribution Rates

EB-2022-0056

January 26, 2023

Application Summary

Orangeville Hydro filed an incentive rate-setting mechanism (IRM) application with the Ontario Energy Board (OEB) on October 12, 2022,¹ seeking approval for changes to its electricity distribution rates to be effective May 1, 2023.

The purpose of this document is to provide the OEB with the submissions of OEB staff based on its review of the evidence submitted by Orangeville Hydro. Consistent with the Chapter 3 Filing Requirements, Orangeville Hydro applied the Price Cap IR adjustment factor to adjust the monthly service charge and distribution volumetric rate during the incentive rate-setting years. As part of the interrogatory process in this proceeding, OEB staff updated Orangeville Hydro's calculated price cap adjustment, to reflect the OEB's 2023 inflation factor of 3.70%.² The stretch factor assigned to Orangeville Hydro is 0.60%, resulting in a rate adjustment of 3.10%, based on the Annual IR Index adjustment formula.

Orangeville Hydro is fully embedded within Hydro One Networks Inc.'s (HONI) distribution system. Orangeville Hydro has requested an update to its Retail Transmission Service Rates (RTSRs) to recover the rates charged by HONI. On November 29, 2022, the OEB issued a Decision and Rate Order for HONI's 2023 distribution rates, effective January 1, 2022. OEB staff has updated Orangeville Hydro's RTSRs in the Rate Generator Model as part of its interrogatories to reflect Hydro One's 2023 host-RTSRs. Orangeville Hydro has confirmed the accuracy of these adjustments.

Every year, the OEB sets the Wholesale Market Service (WMS) rate and the Rural or Remote Electricity Rate Protection (RRRP) charge that every distributor charges its customers. On December 8, 2022, the OEB issued a Decision and Rate Order that set the WMS including the Capacity Based Recovery (CBR) at \$0.0045/kWh and the RRRP charge at \$0.0007/kWh, effective January 1, 2023. OEB staff has updated the IRM rate generator model to reflect this decision and order.

OEB staff makes additional submissions on the following:

- Shared Tax Adjustment
- Group 1 Deferral and Variance Accounts
- Lost Revenue Adjustment Mechanism Variance Account (LRAMVA)
- Low Voltage (LV) service charge update

¹ EB-2022-0056, filed under section 78 of the *Ontario Energy Board Act, 1998* on October 12, 2022

² OEB Letter, 2023 Inflation Parameters, October 20, 2022

1. Shared Tax Adjustment

Orangeville Hydro has calculated a credit amount of \$18,323 associated with the OEB's shared tax savings mechanism, which allows for a 50/50 sharing of the impact of changes in tax legislation. Orangeville Hydro has proposed to refund this credit amount through a fixed monthly rate rider for residential customers, and through rate riders calculated on a volumetric basis for all other customers over a one-year period.

OEB staff agrees with Orangeville Hydro's calculated tax sharing amount and its approach for disposition.

2. Group 1 Deferral and Variance Accounts

Group 1 DVAs Excluding Accounts 1588 and 1589

In the current proceeding, Orangeville Hydro has requested the disposition of a \$1,231,694 debit balance for Group 1 DVAs (excluding Accounts 1588 and 1589), as of December 31, 2021 (adjusted for dispositions in 2022), on an interim basis over one year.

The Group 1 DVAs equate to a debit of \$0.0048 per kWh which exceeds the OEB's IRM disposition threshold of \$0.001 per kWh.

Orangeville Hydro's Group 1 balances were last approved for disposition, on an interim basis, in its 2022 rate application, excluding Accounts 1588 and 1589.³

The OEB's rationale for interim disposition of these DVAs (but excluding Accounts 1588 and 1589 balances) in Orangeville Hydro's 2022 rate application, as well as a similar approach proposed in Orangeville Hydro's 2023 rate application, are discussed further below in the Accounts 1588 and 1589 section of this submission.

Submission

³ EB-2021-0049, 2022 IRM Decision and Rate Order, March 24, 2022, page 9

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 (excluding Accounts 1588 and 1589) on an interim basis over one year. OEB staff's submission on Accounts 1588 and 1589 is in the section below.

Accounts 1588 and 1589

The OEB, in its decision on Orangeville Hydro's 2019 rates application, did not approve Orangeville Hydro's request to recover \$385,933 from its Class B customers, relating to a Class A GA administrative error.⁴ The OEB referred this matter to the OEB's compliance review process.

The OEB, in its decision on Orangeville Hydro's 2021 rates application, cited concerns that were noted in prior decisions with respect to inaccuracies in Accounts 1588 and 1589.⁵ The matter was referred to the OEB's Inspection & Enforcement department for the consideration of an inspection of Orangeville Hydro's internal controls and associated accounting practices relating to those two accounts.

In this submission, OEB staff has referred to the OEB's compliance review (as per the 2019 IRM decision) and the additional OEB inspection (as per the 2021 IRM decision) collectively as "the Inspection".

In Orangeville Hydro's 2022 IRM decision, the OEB noted that, while the scope of the Inspection is focused on Accounts 1588 and 1589, other Group 1 account balances may also potentially be impacted by the outcomes of the Inspection.⁶ The OEB determined that deferring the disposition of Accounts 1588 and 1589, while disposing of the remaining Group 1 balances (other than Accounts 1588 and 1589) on an interim basis, was appropriate at that time.

In its application, Orangeville Hydro sought interim disposition of its Group 1 deferral and variance accounts in this proceeding over a one-year basis, excluding Accounts

⁴ EB-2018-0060, 2019 IRM Decision and Rate Order, March 28, 2019, page 11

⁵ EB-2020-0046, 2021 IRM Decision and Rate Order, March 25, 2021, page 13

⁶ EB-2021-0049, 2022 IRM Decision and Rate Order, March 24, 2022, page 9

1588 and 1589 until the Inspection is completed. Orangeville Hydro expected the completion of the Inspection to occur prior to a decision being issued in this case.

In response to interrogatories, Orangeville Hydro confirmed that it is not requesting disposition of Accounts 1588 and 1589 balances in the current proceeding, as it is likely that the Inspection will not be completed by the February 10, 2023 close of record of this proceeding (i.e., the date of Orangeville Hydro's reply submission).⁷ Orangeville Hydro also confirmed that it still requests the disposition of the Group 1 balances (other than Accounts 1588 and 1589) on an interim basis in the current proceeding.⁸

Submission

Given the ongoing Inspection, OEB staff submits that it is appropriate that the Accounts 1588 and 1589 balances not be disposed in the current proceeding.

In the 2022 IRM decision, the OEB determined that deferring the disposition of Accounts 1588 and 1589, while disposing of the remaining Group 1 balances (other than Accounts 1588 and 1589) on an interim basis, was appropriate at that time. OEB staff submits that a similar approach for the current application is appropriate.⁹

In the 2022 IRM decision, the OEB directed Orangeville Hydro to provide the outcomes of the Inspection for the OEB's consideration in the first rate application following the conclusion of the Inspection.¹⁰ OEB staff submits that the question of final disposition of these balances can be revisited at that time.

3. Request for Disposition of Account 1568 LRAMVA

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.¹¹

⁷ OEB Staff – 9

⁸ Ibid

⁹ EB-2021-0049, 2022 IRM Decision and Rate Order, March 24, 2022, page 9

¹⁰ EB-2021-0049, 2022 IRM Decision and Rate Order, March 24, 2022, page 9

¹¹ Chapter 3 Filing Requirements, section 3.2.6.1

Orangeville Hydro is requesting the final disposition of all outstanding LRAMVA balances related to previously established LRAMVA thresholds resulting from their conservation and demand management (CDM) activities. This includes approval of the LRAMVA balances for 2021 and 2022 resulting from 2021 CDM programs and persistence of 2011 to 2020 CDM programs. The LRAMVA balance including carrying charges projected to April 30, 2023, is a debit balance of \$124,351. Orangeville Hydro is requesting disposition over 12 months. Should the OEB approve Orangeville Hydro's request, the LRAMVA would have a balance of zero.

The components of the LRAMVA balance are shown in Table 1.

Table 1 - LRAMVA Balance for Disposition

Account Number	Actual CDM Savings (\$)	Forecasted CDM Savings (\$)	Carrying Charges (\$)	Total Claim (\$)
	A	B	C	D = (A-B)+C
1568	167,130	44,862	2,083	124,351

The OEB's CDM Guidelines¹² indicate that distributors are also eligible for 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.¹³ Orangeville Hydro has requested approval on a prospective basis for an LRAM-eligible debit amount of \$203,849 in 2023-2027, arising from persisting savings in 2023-2027 from previously implemented CDM programs as set out in Table 2 below. This amount would be adjusted mechanistically by the approved inflation minus X factor for 2023-2027, when available.¹⁴ Orangeville Hydro is proposing

¹² [Conservation and Demand Management Guidelines for Electricity Distributors](#) (EB-2021-0106), December 20, 2021.

¹³ [Guidance on Prospective Lost Revenue Adjustment Mechanism \(LRAM\) Amounts – 2023 Rates](#), June 16, 2022

¹⁴ On October 20, 2022, the OEB announced the inflation factors for 2023 rate applications (OEB Letter, 2023 Inflation Parameters, issued October 20, 2022).

a separate LRAM-Eligible Amount Rate Rider to be included beginning with the 2023 rate year to recover this amount.

Table 2 - LRAM-Eligible Amounts for Prospective Disposition

Year	LRAM-Eligible Amount (in 2022 \$)
2023	\$58,057
2024	\$47,598
2025	\$37,007
2026	\$33,617
2027	\$27,568

Submission

OEB staff supports Orangeville Hydro's requests to dispose of its LRAMVA balances on a final basis, and to also approve the 2023-2027 LRAM-eligible amounts, including recovering these amounts, subject to adjustment by the approved inflation minus X factors, beginning with the 2023 rate year.

OEB staff submits that Orangeville Hydro's requests are consistent with the OEB's CDM Guidelines. OEB staff has reviewed the December 31, 2022 LRAMVA balances and the LRAM-eligible amounts, and the supporting evidence substantiating these amounts. In OEB staff's opinion, the LRAMVA balances and the LRAM-eligible amounts are reasonable.

4. Low Voltage Service Rate Adjustment

Orangeville Hydro is requesting to adjust its Low Voltage (LV) service rates (LVSR) billed to customers to minimize its DVA account balances and mitigate intergenerational inequity. Orangeville Hydro noted that it last updated its LVSR as part of its 2014 Cost of Service application.¹⁵ In its response to OEB staff's interrogatory, Orangeville Hydro stated that it has not yet decided when it will submit its next Cost of Service application.¹⁶

¹⁵ EB-2013-0160

¹⁶ OEB Staff Interrogatory 7(c)

LVSR is based on the LV costs/charges that a distributor has to pay to its host distributor and is typically updated during a Cost of Service application. LV charges relate to the cost of a host distributor to distribute electricity to an embedded distributor. Any variance between the LV charges paid to the host distributor and the amounts collected from customers via LVRS are captured in Account 1550 - LV Variance Account. Account 1550 is one of the Group 1 accounts, which a distributor typically disposes annually as part of the IRM process. Orangeville Hydro is embedded in HONI's service area.

Table 3 below shows LV charges payable to HONI as well as the revenues collected from Orangeville Hydro's customers through LVSRs from 2014 to 2022.¹⁷ Table 3 seeks to demonstrate the magnitude of the variance accumulated in Account 1550 since Orangeville's last rebasing application.

Table 3: Low Voltage Charges, LVSRs Revenues and Variances

Year	Low Voltage Costs (Payments to Hydro One)	LV Revenues	Variance Cost vs Revenues
2014 Actual	\$ 534,011	\$ 333,412	\$ 200,600
2015 Actual	\$ 675,954	\$ 378,662	\$ 297,291
2016 Actual	\$ 799,803	\$ 387,932	\$ 411,871
2017 Actual	\$ 775,365	\$ 379,177	\$ 396,188
2018 Actual	\$ 668,075	\$ 394,845	\$ 273,230
2019 Actual	\$ 912,091	\$ 386,690	\$ 525,401
2020 Actual	\$ 1,249,117	\$ 386,835	\$ 862,283
2021 Actual	\$ 1,319,832	\$ 394,193	\$ 925,639
2022 Actual	\$ 942,601	\$ 405,265	\$ 537,338
	\$ 7,876,849	\$ 3,447,011	\$ 4,429,841

In this application, Orangeville Hydro requested to adjust its LVRS for the 2023 rate year.¹⁸ In addition to citing concerns about the significant increase in LV costs since 2014, Orangeville Hydro's reason for this request is two-fold:

¹⁷ Table 3 is created by OEB staff, based on information provided as part of VECC Interrogatory Response 3

¹⁸ Manager's Summary p. 16

1. To set its LVRS at an appropriate level to reflect actual costs.
2. To minimize the variances accumulated in Account 1550, by reducing the differential between the LV charges incurred and its LVSRs charged to customers.

In addition, Orangeville noted that the accumulation of variance balances may cause intergenerational inequity when recovered in future rate periods.¹⁹ As a secondary benefit, Orangeville Hydro noted its approach allows for a more accurate forecast of its LRSR. To set its LV service rate at a more appropriate level, Orangeville Hydro proposed to forecast its 2023 LV costs by multiplying its 2022 demand values by HONI's 2023 OEB-approved sub-transmission rates.²⁰ This results in forecasted LV cost for the 2023 rate year of \$835,475. This amount is then allocated to its customer classes on the same basis as the Transmission Connection Charges are allocated using 2021 RRR data.²¹

Orangeville Hydro used the OEB's RTSR model to complete its final LV service rate calculation.

In its response to an OEB staff interrogatory asking if Orangeville Hydro had considered alternative methodologies of updating its LV charges, Orangeville Hydro stated that it has considered the following two alternatives:

- Using actual historical 2022 LV cost based on 2022 HONI sub-transmission rates as opposed to approved HONI's 2023 sub-transmission rates
- Using an estimate of demand as opposed to actual prior year consumption.

Orangeville Hydro did not adopt the first alternatives because using historical LV cost may include rate elements²² that are no longer applicable, which has the potential that the resulting LVSR may be over- or understated.

¹⁹ VECC Interrogatory 1 (d)

²⁰ Decision and Rate Order, EB-2021-0110, Tariff of Rates and Charges

²¹ LV costs are allocated to rate classes in proportion to transmission connection rate revenues.

Transmission connection amounts for each customer class is based on the customer class current RTSR connection charge multiplied by loss-adjusted billed kWh.

²² LV costs depend on the embedded distributor's system configuration. The LV host charge, payable to HONI, may vary depending on which sub-transmission rate applies to the embedded distributor's distribution system (number of stations, type facility charge for connection. etc.).

With respect to the second alternative, Orangeville Hydro noted that by using forecasted demand data, the LVSR may be higher than necessary given the possible fluctuation in demand.

Submission

OEB staff supports Orangeville Hydro's request and the methodology used to amend its 2023 LVSRs in this proceeding. OEB staff agrees that the updated LVSR would better reflect the actual LV costs, which would not be updated until the next rebasing application. OEB staff notes that HONI's sub-transmission rates are subject to inflationary increases year over year, while Orangeville Hydro's LVSR are only set during a Cost of Service application. The fact that Orangeville Hydro has not rebased its rates since 2014 and that it has not set the timeline for its next rebasing application increases the need to update its LVSR in order to match revenues to costs.

Furthermore, OEB staff supports Orangeville Hydro's attempt to minimize the balance in Account 1550. OEB staff notes that the disposition of Account 1550 balance may not occur on an annual basis because the total Group 1 account balance is subject to the IRM threshold test. Therefore, when the debit balance in Account 1550 is offset by the credit balances in other Group 1 accounts, resulting in the total balance not exceeding the IRM threshold, the balance in Account 1550 may accumulate for a lengthy period. As a result, updating the LVSRs would achieve the objectives of ensuring that variances do not accumulate for a lengthy period and that intergenerational inequity is minimized.

Distributors have proposed, and the OEB has approved, a variety of approaches in setting the appropriate LVSRs, which often recognize some of the unique circumstances different distributors face.²³ The OEB has recently approved the updates of the LVSRs in Milton Hydro's 2022 IRM decision and order.²⁴ OEB staff notes from Milton Hydro's decision and order²⁵ as well as the review of LV rates approved during Cost of Service applications, that the make-up of a fully or partially embedded distributor's LV costs varies between embedded distributors based on the ownership

²³ EB-2021-0011, Canadian Niagara Power Inc. Exhibit 8, page 17, is a recent example.

²⁴ EB-2021-0042, Milton Hydro Distribution Inc., December 9, 2021

²⁵ Ibid, Milton Hydro requested rates effective January 1, 2022. Hydro One Networks Inc. Decision and Order, EB-2021-0032 was issued on December 14, 2021.

profile of the interconnection assets that are used to serve embedded distributors. Therefore, a one-size-fits-all methodology may not work for all situations.

Milton Hydro's methodology was similar to Orangeville Hydro's first alternative (the use of the most recent actual historical LV cost to determine the LVSR). Orangeville Hydro dismissed this alternative as the LVSR could be over- or understated since the sub-transmission rates underlying the LVSR would not be based on HONI's most recent OEB-approved rates. A significant difference between Milton Hydro's and Orangeville Hydro's requests is the effective date of their distribution rates and therefore the timing of their IRM applications. While Milton Hydro's decision was made in the absence of its host distributors' 2022 sub-transmission rates,²⁶ Orangeville Hydro was able to recalculate its 2023 LV costs based on 2023 sub-transmission rates and 2022 actual demand. OEB staff submits that the use of the most recent host sub-transmission rates as well as the most recent actual demand data will result in a reasonably accurate forecast for the 2023 LVSR. OEB staff notes this will greatly reduce the variance in Account 1550, reducing the risk of intergenerational inequity at the time of disposition.

Orangeville Hydro also dismissed the second alternative to forecasted its 2023 demand data when calculating the LVSR as the possible fluctuation in demand may result in an overcollection of LV revenues. OEB staff notes that the IRM process is meant to be mechanistic and as such does not lend itself to a full prudence review of a load forecast, even for the sole purpose of forecasting the 2023 LVSR.

OEB staff is of the view that the proposed methodology by Orangeville Hydro is the most reasonable approach.

~ All of which is respectfully submitted ~

²⁶ Milton Hydro is partially embedded in HONI as well as in Oakville Hydro Electricity Distribution Inc.'s service areas.