



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

DECISION AND RATE ORDER

EB-2022-0064

TILLSONBURG HYDRO INC.

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

BY DELEGATION, BEFORE: Alex Share
Manager
Generation & Transmission

[Date]

1. OVERVIEW

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

As a result of this Decision and Rate Order, there will be a monthly total bill increase of \$1.76 for a residential customer consuming 750 kWh. This change does not factor in applicable taxes or the Ontario Electricity Rebate.

2. CONTEXT AND PROCESS

Tillsonburg Hydro filed its application on November 30, 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](#). The application was based on the Annual IR Index (Annual IR).

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 an 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.

Tillsonburg Hydro serves approximately 7,900 mostly residential and commercial electricity customers in the Town of Tillsonburg.

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

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 and Rate Order, together with the OEB's findings.

- Annual Adjustment Mechanism
- Retail Transmission Service Rates
- Group 1 Deferral and Variance Accounts

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

This Decision and Rate Order 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

Tillsonburg Hydro has applied to change its rates, effective May 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 Tillsonburg Hydro are set out in the table below. Inserting these components into the formula results in a 3.10% increase to Tillsonburg 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 usually assigned to any distributor is based on the distributor's total cost performance as benchmarked against other distributors in Ontario. However, as Tillsonburg Hydro's application is based on the Annual IR option, it is required to apply

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

the highest stretch factor in the price cap adjustment. Accordingly, the stretch factor applied to Tillsonburg Hydro is 0.60%, resulting in a rate adjustment of 3.10%.

Findings

Tillsonburg 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 Tillsonburg Hydro's new rates shall be effective May 1, 2023.

5. RETAIL TRANSMISSION SERVICE RATES

Tillsonburg Hydro is transmission connected.

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

Findings

Tillsonburg Hydro's proposed adjustment to its RTSRs is approved. The RTSRs have been adjusted based on the current OEB-approved UTRs.⁷

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

⁷ EB-2022-0250, Decision and Rate Order, December 8, 2022

6. 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 can justify why balances should not be disposed.⁸ If the net balance does not exceed the threshold, a distributor may still request disposition.⁹

The 2021 year-end net balance for Tillsonburg Hydro's Group 1 accounts that are eligible for disposition, including interest projected to April 30, 2023, is a debit amount of \$940,035 and pertains to variances accumulated during the 2016 to 2021 calendar years. This amount represents a total claim of \$0.0053 per kWh, which exceeds the disposition threshold. Tillsonburg Hydro seeks relief from the requirement to dispose Group 1 accounts in the 2023 rate year despite the account balances exceeding the disposition threshold.

In the OEB's decision and rate order for Tillsonburg Hydro's 2021 rates, the OEB expressed concerns with unusually large Group 1 account balances in Accounts 1588 and 1589 and referred this matter to the OEB's Inspection & Enforcement department for the consideration of a review of Tillsonburg Hydro's internal controls and associated accounting practices relating to Account 1588 and Account 1589.¹⁰

In its decision and rate order on Tillsonburg Hydro's 2022 rates, the OEB found that no disposition of Tillsonburg Hydro's Group 1 accounts was required. The disposition threshold was not exceeded, and Tillsonburg Hydro did not request disposition. The OEB did, however, direct Tillsonburg Hydro to file the outcomes of any review by the OEB's Inspection & Enforcement department for consideration in Tillsonburg Hydro's first rates application following the conclusion of such review.¹¹ As this review has yet to be completed, Tillsonburg Hydro proposes the Group 1 account balances not to be disposed in this proceeding.¹²

Findings

As the OEB's review of Tillsonburg Hydro's commodity account balances has not concluded as of the date of this Decision and Order, the OEB approves Tillsonburg

⁸ Report of the OEB – "Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR)." EB-2008-0046, July 31, 2009

⁹ OEB letter, "Update to the Electricity Distributors' Deferral and Variance Account Review ("EDDVAR Report"), released July 2009 (EB-2008-0046)", issued July 25, 2014

¹⁰ EB-2020-0056, Decision and Rate Order, p. 9

¹¹ EB-2021-0059, Decision and Rate Order, p. 7

¹² Manager's Summary, p. 6

Hydro's request to defer disposition of its Group 1 account balances. The OEB expects Tillsonburg Hydro to bring forth its Group 1 account balances, along with the outcomes of the OEB's review of Accounts 1588 and 1589, for the OEB's consideration in Tillsonburg Hydro's subsequent rates proceeding (for rates effective May 1, 2024).

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7. IMPLEMENTATION

This Decision and Rate Order 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 7.1.

Table 7.1: Regulatory Charges

Rate	per kWh
Rural or Remote Electricity Rate Protection (RRRP)	\$0.0007
Wholesale Market Service (WMS) billed to Class A and B Customers	\$0.0041
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 and WMS rates were set by the OEB on December 8, 2022.¹³

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, 2022.¹⁴

In the *Report of the Board: Review of Electricity Distribution Cost Allocation Policy*,¹⁵ 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. On December 8, 2022, the OEB issued a letter advising electricity distributors that the microFIT charge shall remain at \$4.55 for the duration of the 2023 calendar year.¹⁶

¹³ EB-2022-0269, Decision and Order, December 8, 2022

¹⁴ EB-2022-0137, Decision and Order, September 8, 2022

¹⁵ EB-2010-0219, Report of the Board “Review of Electricity Distribution Cost Allocation Policy”, March 31, 2011

¹⁶ OEB Letter, issued December 8, 2022

8. 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 May 1, 2023 for electricity consumed or estimated to have been consumed on and after such date. Tillsonburg Hydro 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

SCHEDULE A
DECISION AND RATE ORDER
TILLSONBURG HYDRO INC.
TARIFF OF RATES AND CHARGES
EB-2022-0064
DATED: [DATE OF ISSUANCE]