



Hydro One Networks Inc.

483 Bay Street
7th Floor South Tower
Toronto, Ontario M5G 2P5
HydroOne.com

Kathleen Burke

Director, Applications Delivery
T 416-770-0592
Kathleen.Burke@HydroOne.com

BY EMAIL AND RESS

July 17, 2023

Ms. Nancy Marconi
Registrar
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON M4P 1E4

Dear Ms. Marconi,

EB-2023-0130 – Hydro One Sault Ste. Marie – Application for 2024 Transmission Revenue Requirement

Pursuant to section 78 of the *Ontario Energy Board Act, 1998* and the Ontario Energy Board's Decision and Order in EB-2018-0218, enclosed is Hydro One Sault Ste. Marie (HOSSM)'s annual Revenue Cap IR Application (the Application) in support of its request for transmission revenue requirement effective January 1, 2024.

An electronic copy of the Application has been submitted, by Hydro One Networks Inc. on behalf of HOSSM, using the Board's Regulatory Electronic Submission System.

Sincerely,

A handwritten signature in black ink that reads "Kathleen Burke". The signature is written in a cursive, flowing style.

Kathleen Burke

EXHIBIT LIST

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APPLICATION

IN THE MATTER OF the *Ontario Energy Board Act, 1998*,
S.O.1998, c.15 (Schedule B);

AND IN THE MATTER OF an Application by Hydro One Sault
Ste. Marie Limited Partnership, for an Order or Orders made
pursuant to section 78 of the *Ontario Energy Board Act, 1998*
approving rates and other charges for the transmission of
electricity to be effective January 1, 2024.

1. The applicant, Hydro One Sault Ste. Marie Limited Partnership (HOSSM), is an Ontario limited partnership with its head office in Toronto, Ontario. HOSSM is licensed by the Ontario Energy Board (the OEB or the Board), under licence number ET-2007-0649, to transmit electricity and carry on the business of owning and operating transmission facilities in Ontario.
2. In the OEB's Decision and Order in EB-2016-0050, the OEB approved the acquisition of HOSSM¹ by Hydro One Inc. as well as a ten-year deferral period for rebasing. In the same decision, the OEB determined that HOSSM would continue with its 2016 revenue requirement and could bring forward a separate rate application, proposing a revenue cap index for the deferral period.
3. In its decision in EB-2018-0218, the OEB approved HOSSM's proposed revenue cap index (RCI) methodology and determined that this methodology would be used to determine HOSSM's base transmission revenue requirement for the years 2019 to 2026 inclusive.

¹ HOSSM was named Great Lakes Power Transmission LP at the time of the acquisition; a name change took place on January 16, 2017.

- 1 4. This is an Application for HOSSM's 2024 transmission revenue requirement
2 determined formulaically, using the RCI methodology approved in EB-2018-0218.
3
- 4 5. HOSSM hereby applies to the OEB for an Order approving a total rates revenue
5 requirement of \$43,016,456 for 2024, to be effective on January 1, 2024, along with
6 an amendment to the 2024 Uniform Transmission Rates (UTRs) to allow for
7 recovery of this amount; and other items or amounts that may be requested by
8 HOSSM in the course of this proceeding, and as may be granted by the OEB.
9
- 10 6. HOSSM is not requesting approval to dispose of any deferral and variance account
11 balances in this Application, with the exception of the 2022 Earnings Sharing
12 Mechanism (ESM) account balance which will be subtracted from the 2024 base
13 revenue requirement such that 2022 excess earnings are shared with ratepayers as
14 approved by the OEB in EB-2016-0050. Detailed calculations of the ESM amount
15 are provided at Exhibit A-04-01, Section 3.
16
- 17 7. Approval of HOSSM's 2024 rates revenue requirement results in an increase in the
18 total bill of 0.0033% or \$0.005 per month for a typical Hydro One medium density
19 residential (R1) customer consuming 750 kWh monthly and an increase in total bill
20 of 0.0024% or \$0.010 per month for a typical Hydro One General Service Energy
21 less than 50 kW (GSe < 50 kW) customer consuming 2,000 kWh monthly. More
22 information regarding the monthly bill impacts may be found in Exhibit A-4-1.
23
- 24 8. In preparing this Application, HOSSM has been guided by the OEB's *Filing*
25 *Requirements for Electricity Transmission Applications*.

1 9. The written evidence filed with the OEB may be amended from time to time prior to
2 the OEB's final decision on the Application.

3
4 **NOTICE AND FORM OF HEARING REQUESTED**

5 10. The Application may be viewed on the Internet at the following address:
6 <https://www.hydroone.com/about/regulatory/hydro-one-sault-ste-marie>

7
8 11. The persons affected by this Application are all persons affected by Ontario's UTRs.
9 It is impractical to set out their names and addresses because they are too
10 numerous.

11
12 12. HOSSM requests, in accordance with sections 6(4) and 21(4)(b) of the *Ontario*
13 *Energy Board Act, 1998*, that this Application be disposed of without a hearing, and
14 hereby provides its consent to same. HOSSM submits that in accordance with the
15 requirements of section 21(4)(b) of the *Ontario Energy Board Act, 1998*, no person
16 will be adversely affected in a material way by the outcome of this proceeding.

17
18 **PROPOSED EFFECTIVE DATE**

19 13. HOSSM requests that the OEB's rate Order be effective January 1, 2024. In order
20 to address the possibility that the requested rate Order cannot be made effective by
21 that time, HOSSM requests an interim rate Order making its current transmission
22 revenue requirement and charges effective on an interim basis as of January 1,
23 2024, and approval of a Transmission Foregone Revenue Deferral Account to
24 recover any differences between the interim rates and final rates effective January
25 1, 2024, based on the OEB's Decision and Order herein.

26
27 **CONTACT INFORMATION**

28 14. HOSSM requests that a copy of all documents filed with the OEB by each party to
29 this Application be served on the Applicant and the Applicant's counsel, as follows:

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a) The Applicant:

Ms. Carla Molina
Senior Regulatory Coordinator – Regulatory Affairs
Hydro One Networks Inc.

Mailing Address: 7th Floor, South Tower
483 Bay Street
Toronto, Ontario M5G 2P5
Telephone: (416) 345-5317
Fax: (416) 345-5866
Email: Regulatory@HydroOne.com

b) The Applicant's Counsel:

Ms. Raman Dhillon
Senior Legal Counsel
Hydro One Networks Inc.
Mailing Address: 8th Floor, South Tower
483 Bay Street
Toronto, Ontario M5G 2P5
Telephone: (416) 859-0942
Fax: (416) 345-6972
Email: Raman.Dhillon@HydroOne.com

DATED at Toronto, Ontario, this 17th day of July, 2023.

By its counsel,



Raman Dhillon

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Exhibit A-2-1
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APPLICATION SUMMARY

1.0 INTRODUCTION

This Exhibit describes HOSSM's 2024 transmission revenue requirement application (the Application).

The 2024 transmission base revenue requirement of \$46,150,495 has been determined formulaically, using the RCI methodology approved in EB-2018-0218. Inclusion of the 2022 Earnings Sharing Mechanism (ESM) account balance results in a proposed 2024 rates revenue requirement of \$43,016,456 as outlined in Table 1 below, and a detailed breakdown is provided in Section 2.0.

Table 1 - Total Rates Revenue Requirement

	Total	Section Reference
Base Revenue Requirement	\$46,150,495	Section 2.0
Disposition of 2022 ESM balance	\$3,134,039	Section 3.0
Total Rates Revenue Requirement	\$43,016,456	

HOSSM is requesting that the OEB approve the 2024 rates revenue requirement to be effective on January 1, 2024.

Approval of the 2024 rates revenue requirement results in an increase in the total bill of 0.0033% or \$0.005 per month for a typical Hydro One medium density residential (R1) customer consuming 750 kWh monthly and an increase in total bill of 0.0024% or \$0.010 per month for a typical Hydro One General Service Energy less than 50 kW (GSe < 50 kW) customer consuming 2,000 kWh monthly. More information regarding the monthly bill impacts may be found in Section 4.3.

1 **2.0 REVENUE CAP INDEX ADJUSTMENT**

2 In the OEB's Decision for HOSSM's RCI application (EB-2018-0218), the OEB approved
3 the RCI methodology for adjusting HOSSM's transmission revenue requirement for the
4 years 2019 to 2026, inclusive.¹

5
6 The approved formula for the Revenue Cap Index for the test year t+1 is equal to the
7 revenue in year t inflated by the Revenue Cap Index (RCI) set out below as:

8
9
$$\text{RCI} = I - X$$

10 Where:

11 "I" is the Inflation Factor, based on a transmission industry specific weighted two-factor
12 input price index;

13 "X" is the Productivity Factor, which includes a Stretch Factor.

14
15 In accordance with the OEB's Decision and Order in EB-2018-0218, only the Inflation
16 Factor will be updated annually.

17
18 On June 29, 2023, the OEB released the Inflation Factor to be used by electricity
19 transmitters for 2024 rate applications beginning January 1, 2024. This Application reflects
20 the 5.4% Inflation Factor calculated by the OEB for electricity transmitters.²

21
22 In the OEB's Decision and Order in EB-2018-0218, the OEB approved a productivity factor
23 of 0.3% (which includes a stretch factor of 0.3%)³ Table 2 summarizes the approved
24 components of the RCI for 2024.

¹ Decision and Order, EB-2018-0218, Hydro One Sault Ste. Marie Revenue Cap Index application, June 20, 2019, p. 14.

² OEB Letter, 2024 Inflation Parameters, June 29, 2023.

³ Decision and Order, EB-2018-0218, Hydro One Sault Ste. Marie Revenue Cap Index application, June 20, 2019, p. 20.

1 **Table 2 - 2024 Revenue Cap Index (RCI) by Component (%)**

Inflation Factor (I)	5.4%
Productivity Factor (X)	0.3%
Total Revenue Cap Index (RCI = I – X)	5.1%

2

3 The 2024 base revenue requirement is calculated as shown in Table 3 below.

4

5 **Table 3 - 2024 Base Revenue Requirement**

Year	Formula	Base Revenue Requirement
2023	OEB-approved HOSSM 2023 base revenue requirement ^[1]	\$43,911,032
2024	2024 base revenue requirement = 2023 base revenue requirement x 2024 RCI ^[2]	\$46,150,495

^[1] As per Decision and Rate Order, EB-2023-0101, 2023 Uniform Transmission Rates Update-Schedule A, June 1, 2023.

^[2] 2024 RCI as per Table 2 above.

6

7 **3.0 DEFERRAL AND VARIANCE ACCOUNTS**

8 HOSSM is not requesting approval to dispose deferral and variance account balances in
 9 this Application, with the exception of the 2022 ESM account balance which will be
 10 subtracted from the 2024 revenue requirement, as approved by the OEB in EB-2016-
 11 0050. The calculation of the ESM amount is a straightforward calculation and is based on
 12 HOSSM's audited financial statements. The mid-year rate base used in the calculation
 13 ties directly to what HOSSM submitted pursuant to the OEB's RRR reporting.⁴

14

15 In EB-2016-0050, the OEB approved an ESM⁵ that would take effect during the last five
 16 years of the rebasing deferral period (2022 to 2026) where HOSSM's revenue requirement
 17 is to be adjusted so that prior year excess earnings are shared with ratepayers on a 50:50

⁴ The ESM balance submitted for disposal in this application is slightly higher than the amount submitted pursuant to section 3.1.1 of HOSSM's 2023 RRR reporting. This is due to a minor error in the ESM calculation at the time of RRR submission. HOSSM will be submitting a correction to the RRR filing.

⁵ Decision and Order, EB-2016-0050, October 13, 2016, p. 24

1 basis for all earnings that exceed 300 basis points.⁶ HOSSM's audited financial
2 statements are to be used to calculate any earning sharing amounts.⁷ A continuity
3 schedule for the ESM account is provided at exhibit A-04-01-01.

4
5 The calculation of the ROE uses the rate base as determined by the sum of the Average
6 regulated fixed assets and working capital allowance, as set out in the "Calculation of ROE
7 on a Deemed Basis" filed pursuant to the OEB's RRR reporting⁸. The ROE calculation is
8 normalized for revenue impacting items such as entries recorded in the year which relate
9 to prior years to normalize the in-year net income. The ratepayers' share of the excess
10 earnings are grossed up for the associated tax impact.

11 Included in the balance submitted for approval is interest forecast through to December
12 31, 2023 to reflect carrying charges anticipated through to the proposed effective date.
13 This will result in a forecast balance of \$(3,134,039) as at December 31, 2023.⁹

14
15 Table 4 below provides a summary of the calculations for the 2022 ESM:

16
17 **Table 4 - ESM Calculation**

		2022
Mid-Year Rate base	A	\$204,933,223
Capital Structure:		
Long-term debt	B	56%
Short-term debt	C	4%
Common equity	D	40%
Allowed Return:		

⁶ See description of ESM at page 12 of the EB-2016-0050 Decision and Order. Please note that the description refers to the use of the ROE approved by the Board for 2018 in HOSSM's 2017-2018 rate application – however, the OEB did not allow the 2017-2018 rebasing application (see pages 17-19 of the EB-2016-0050 Decision and Order). As a result, the allowed ROE is the ROE approved for HOSSM's 2016 revenue requirement (see EB-2015-0337 Decision and Order dated January 14, 2016, pages 3-4).

⁷ HOSSM's audited financial statements are to be used prior to amalgamation. See Decision and Order, EB-2016-0050, October 13, 2016, p. 12.

⁸ See "Calculation of ROE on a Deemed Basis" filed pursuant to the OEB's RRR reporting, "Total Rate Base" (item L in spreadsheet).

⁹ \$2,985,368 multiplied by the OEB's prescribed interest rate of 4.98% equals to \$3,134,039.

Long-term debt	E	6.87%
Short-term debt	F	1.65%
Allowed ROE	G	9.19%
Regulated Net Income (actual)	H	\$14,381,035
Achieved ROE	I = H / (A x D)	17.54%
Allowed ROE	J	9.19%
Over/(Under) earning (%)	K = H - J	8.35%
OEB allowed earnings threshold	L	3%
Over/(Under) earning to allowed threshold (%)	M = K - L	5.4%
Excess Earnings Pool	N = A x D x M	\$4,388,491
Sharing with ratepayers	O	50%
Sharing with ratepayers	P = N x O	\$2,194,246
Tax Grossed-Up Amount	Q = P / 0.735	\$2,985,368

1

4.0 RATES

2

4.1 CHARGE DETERMINANTS

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HOSSM is currently under a deferred rebasing period, and as such the charge determinants for 2024 will remain the same as were used for the approved current 2023 UTRs as outlined in Table 5.¹⁰

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Table 5 - 2024 Charge Determinants by Rate Pool ^[1] (in MWs)

Network	Line Connection	Transformation Connection
3,498.236	2,734.624	635.252

^[1] Sum of the 12 monthly charge determinants as per Decision and Rate Order, EB-2023-0101, 2023 Uniform Transmission Rates Update-Schedule A, June 1, 2023.

9

4.2 RATES REVENUE REQUIREMENT BY RATE POOL

10

UTRs are established by allocating the revenue requirement to the UTR Rate Pools: Network, Line Connection and Transformation Connection. As previously approved by the OEB, the revenue requirement allocation to the UTR rate pools for HOSSM uses the same

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¹⁰ Decision and Rate Order, EB-2023-0101, 2023 Uniform Transmission Rates Update-Schedule A, June 1, 2023

1 allocation across the UTR rate pools as Hydro One Networks, which is based on a cost
 2 allocation study conducted by Hydro One Networks on a regular basis.¹¹

3
 4 HOSSM's 2024 rates revenue requirement allocation to the rate pools will be established
 5 during the 2024 UTR proceeding, using the OEB approved methodology as described
 6 above. An estimate of HOSSM's proposed 2024 rates revenue requirement by rate pool
 7 using the split of Hydro One Networks' approved 2023 rates revenue requirement across
 8 the UTR rate pools¹² is provided in Table 6 below.

9
 10 **Table 6 - 2024 Rates Revenue Requirement by Rate Pool**

Transmitter	Total Rates Revenue Requirement	Network	Line Connection	Transformation Connection
Hydro One Networks (2023)	\$1,868,951,099	\$1,113,426,469	\$196,096,559	\$559,428,072
Percentage Split by Rate Pool		59.6%	10.5%	29.9%
HOSSM ^[1]	\$43,016,456	\$25,627,027	\$4,513,429	\$12,875,999

^[1] Numbers may not add up due to rounding.

11
 12 **4.3 BILL IMPACTS**

13 An update to the estimated average transmission cost as a percentage of the total bill for
 14 a transmission-connected customer is presented in Table 7 below.

15
 16 **Table 7 - Estimated Transmission Cost as a Percentage of**
 17 **Total Electricity Market Costs**

	Cost Component	¢/kWh	Source
A	Commodity	9.99	IESO Monthly Market Report December 2022
B	Wholesale Market Service Charges	0.59	IESO Monthly Market Report December 2022
C	Wholesale Transmission Charges	1.42	IESO Monthly Market Report December 2022

¹¹ This was most recently approved by the OEB in EB-2023-0101.

¹² Decision and Rate Order, EB-2023-0101, 2023 Uniform Transmission Rates Update-Schedule A, June 1, 2023.

D	Total Monthly Cost for TX-Connected Customers	12.00	D=A+B+C
E	Transmission as % of Total Cost for TX-Connected Customers	11.8%	E=C/D

1 HOSSM's proposed 2024 rates revenue requirement represents a 2.0% decrease from
 2 the approved 2023 rates revenue requirement. HOSSM's rates revenue requirement
 3 represents 2.1% of the total revenue requirement across all transmitters.¹³ As such,
 4 HOSSM's proposed 2024 rates revenue requirement results in a net reduction of 0.04%
 5 on the average transmission rates. A summary of the average bill impact as a result of the
 6 proposed 2024 rates revenue requirement is presented in Table 8 below for transmission-
 7 connected customers and Table 9 for distribution-connected customers.

8
 9

Table 8 - Average Bill Impacts on Transmission-Connected Customers

	2023 ^[1]	2024 ^[2]
Rates Revenue Requirement	\$43,911,032	\$43,016,456
% Change in Rates Revenue Requirement over prior year		-2.0%
% Impact of load forecast change		0.0%
Net Impact on Average Transmission Rates ^[3]		-0.04%
Transmission as a % of Tx-connected customer's Total Bill		11.8%
Estimated Average Transmission Customer Bill Impact		-0.005%

^[1] The 2023 rates revenue requirement per Decision and Rate Order, EB-2023-0101, 2023 Uniform Transmission Rates Update-Schedule A, June 1, 2023.

^[2] The 2024 rates revenue requirement per Table 1.

^[3] The calculation of net impact on transmission rates accounts for HOSSM's 2023 rates revenue requirement as 2.1% of the total rates revenue requirement across all transmitters (2.1% x -2.0% = -0.04%) as per Decision and Rate Order, EB-2023-0101, 2023 Uniform Transmission Rates Update-Schedule A, June 1, 2023.

10

11 The total bill impact for a typical Hydro One medium density residential (R1) customer
 12 consuming 750 kWh monthly, and for a typical Hydro One General Service Energy less
 13 than 50 kW (GSe < 50 kW) customer consuming 2,000 kWh monthly is determined based

¹³ HOSSM's rates revenue requirement divided by all transmitters' rates revenue requirement (\$43,911,032 / \$2,051,862,091 = 2.1%) as per Decision and Rate Order, EB-2023-0101, 2023 Uniform Transmission Rates Update-Schedule A, June 1, 2023.

1 on the forecast change in the customer's Retail Transmission Service Rates (RTSRs),
 2 which reflects the proposed changes to the current UTRs¹⁴, as detailed in Table 9 below.¹⁵

3
 4 The proposed 2024 rates revenue requirement results in an increase¹⁶ in the total bill for
 5 a typical Hydro One medium density residential (R1) customer consuming 750 kWh
 6 monthly (0.0033% or \$0.005 per month) and for a typical Hydro One General Service
 7 Energy less than 50 kW (GSe < 50 kW) customer consuming 2,000 kWh monthly
 8 (0.0024% or \$0.010 per month).

9
 10 **Table 9 - 2024 Total Bill Impacts for Distribution-Connected Customers**

	Calculation	2022	2023	2024
HOSSM's Rates Revenue Requirement ^[1]	A	\$42,426,118	\$43,911,032	\$43,016,456
HOSSM's 2023 Revenue Requirement as % of Total UTR Revenue Requirement ^[2]	B			2.1%
HOSSM's Net Impact on 2024 RTSRs ^[3,4]	$C=(A_{2024}/A_{2022}-1)*B$			0.03%
			Typical Medium Density (HONI R1) Residential Customer Consuming 750 kWh per Month	Typical General Service Energy less than 50 kW (HONI GSe < 50kW) Customer Consuming 2,000 kWh per Month
Total bill as of Jul 1, 2023 ^[5]	D		\$136.13	\$424.76
2023 RTSR Network Charge ^[6]	E		\$8.958	\$19.290
2023 RTSR Connection Charge ^[7]	F		\$6.214	\$14.248
2023 Total RTSR Charge	G=E+F		\$15.172	\$33.538

¹⁴ Hydro One's current 2023 RTSRs are based on the 2022 UTRs as per Decision and Rate Order, EB-2022-0084, April 7, 2022.

¹⁵ Table 9 is structured to provide the additional supporting calculations requested by the OEB in HOSSM's application for 2023 transmission revenue requirement (EB-2022-0189, Exhibit I-1-3, Table 3).

¹⁶ The forecast change to RTSRs is an increase because current UTRs are based on 2022 UTRs and HOSSM's 2022 revenue requirement is lower than HOSSM's 2024 revenue requirement.

	Calculation	2022	2023	2024
2024 Estimated Change in RTSR Charge	$H=G*C$		\$0.005	\$0.010
2024 Estimated Total RTSR Charge	$I=G+H$		\$15.176	\$33.548
2024 Increase as a % of Total bill	$J=H/D$		0.0033%	0.0024%

^[1] HOSSM's 2022 rates revenue requirement as per the Decision and Rate Order, EB-2022-0084, 2022 UTR Update, April 7, 2022; the 2023 rates revenue requirement as per the Decision and Rate Order, EB-2023-0101, 2023 Uniform Transmission Rates Update, June 1, 2023; and the 2024 rates revenue requirement as per Table 1.

^[2] Represents HOSSM's currently approved revenue disbursement allocator based on total UTR Revenue Requirement of \$2,051,862,091 as per OEB Decision and Rate Order, EB-2023-0101, 2023 Uniform Transmission Rates Update-Schedule A, June 1, 2023

^[3] Net Impact on 2024 RTSRs represents the change in revenue requirement relative to 2022 as Hydro One Distribution's current (2023) RTSRs are based on the UTRs effective April 1, 2022, as per the Decision and Rate Order, EB-2022-0084, 2022 UTR Update, April 7, 2022.

^[4] HOSSM's charge determinants remain unchanged for 2024, and hence, the impact on RTSRs is based on change in HOSSM's rates revenue requirement only.

^[5] Total bill including HST, based on time-of-use commodity price effective November 1, 2022 and distribution rates effective July 1, 2023 approved per Distribution Rate Order EB-2021-0110, dated November 29, 2022, with 11.7% Ontario Energy Rebate (effective November 1, 2022), \$0.42 Smart Meter Entity Charge (effective January 1, 2023) and Distribution Rate Protection cap of \$39.49 (effective July 1, 2023).

^[6] Represents the approved 2023 RTSR Network charge (\$/kWh) multiplied by the monthly consumption (i.e. 750kWh/month HONI R1 or 2,000 kWh/month HONI GSe <50kW), multiplied by the 2023 approved loss factor; based on distribution rates effective January 1, 2023 approved per the OEB Decision and Rate Order, EB-2021-0110, November 29, 2022.

^[7] Represents the approved 2023 RTSR Connection charge (\$/kWh) multiplied by the monthly consumption (i.e. 750kWh/month HONI R1 or 2,000 kWh/month HONI GSe <50kW), multiplied by the 2023 approved loss factor; based on distribution rates effective January 1, 2023 approved per the OEB Decision and Rate Order, EB-2021-0110, November 29, 2022.

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1 **DEFERRAL AND VARIANCE ACCOUNT CONTINUITY SCHEDULE**

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3 Continuity schedule for the Earning Sharing Mechanism (provided as MS Excel file only)

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