Toronto Hydro-Electric System Limited

OEB Staff Questions

EB-2023-0054

 **Toronto Hydro-Electric System Limited (Toronto Hydro)
EB-2023-0054**

Please note, Toronto Hydro-Electric System Limited (Toronto Hydro) is responsible for ensuring that all documents it files with the OEB, including responses to OEB staff interrogatories and any other supporting documentation, do not include personal information (as that phrase is defined in the *Freedom of Information and Protection of Privacy Act*), unless filed in accordance with rule 9A of the OEB’s *Rules of Practice and Procedure.*

**Staff Question-1**

**Ref: Manager’s Summary, Page 2**

Toronto Hydro noted that it updated the number of customers in the residential and CSMUR classes within the rate generator model.

Question(s):

1. Please confirm what the numbers were updated from as it appears the numbers in the model match that of the RRR data for Toronto Hydro in 2022.

**Staff Question-2**

**Ref: 2024 IRM Rate Generator, Tab 11, 15**

On September 28th, the OEB issued a letter regarding 2024 Preliminary Uniform Transmission Rates (UTRs) and Hydro One Sub-Transmission Rates[[1]](#footnote-2). The OEB determined to use of preliminary UTRs to calculate 2024 Retail Service Transmission rates (RTSR) to improve regulatory efficiency, allowing for this data to feed into the rate applications including annual updates for electricity distributors on a timelier basis. The OEB also directed distributors to update their 2024 application with Hydro One Network Inc.’s proposed host RTSRs.

Utilities that have utility-specific models (e.g., those under Revenue Cap IR or Custom IR) should update any applications, as appropriate, for approval by the OEB.

Question(s):

1. Please update the Rate Generator Model for the 2024 RTSRs and file the updated model.
2. Please also file an updated Bill Impacts model reflecting the updates.
3. Please update the Tariff of Rates and Charges to incorporate the RTSRs.

**Staff Question-3**

**Ref: 2024 Custom IR Update Rate Generator Model, Tab 3, DVA Continuity Schedule, September 8, 2023**

On September 12, 2023, the OEB published the 2023 Quarter 4 prescribed accounting interest rates applicable to the carrying charges of deferral, variance and construction work in progress (CWIP) accounts of natural gas utilities, electricity distributors and other rate-regulated entities.

Question(s):

1. Please update Tab 3 (DVA Continuity Schedule) of the rate generator model to reflect the Q4 2023 OEB-prescribed interest rate of 5.49%.

**Staff Question-4**

**Ref: 2024 Custom IR Update Rate Generator Model, Tab 3, DVA Continuity Schedule, September 8, 2023**

OEB staff notes that Toronto Hydro is requesting large debit claimed amounts relating primarily to 2022 principal activity: $55,495,950 in Account 1580 RSVA – Wholesale Market Service Charge (WMS), $38,148,161 in Account 1584 RSVA – Retail Transmission Network Charge, and $18,464,964 in Account 1586 RSVA - Retail Transmission Connection Charge. These amounts are large relative to other claimed DVA balances.

Question(s):

1. Please identify, explain, and quantify the drivers of the large debit claims of $55,495,950 in Account 1580 RSVA – WMS, $38,148,161 in Account 1584 RSVA – Retail Transmission Network Charge, and $18,464,964 in Account 1586 RSVA - Retail Transmission Connection Charge.

**Staff Question-5**

**Ref 1: Manager’s Summary, Tab 2, Schedule 1, p. 5 & 6, September 8, 2023**

**Ref 2: OEB** [**Letter**](https://www.oeb.ca/sites/default/files/ltr-Retro-Ratemaking-Guidance-20191031.pdf)**, Adjustments to Correct for Errors in Electricity Distributor “Pass-Through” Variance Accounts After Disposition, October 31, 2019**

**Ref 3: Filing Requirements For Electricity Distribution Rate Applications - 2023 Edition for 2024 Rate Applications- Chapter 3, Incentive Rate-Setting Applications, June 15, 2023, Section 3.2.6**

In this proceeding, Toronto Hydro is not proposing to clear the balances within Accounts 1588 and 1589, due to the need to further analyze a 2021 principal adjustment associated with reporting enhancements.

After recalculating the 2021 Account 1588 balance using an enhanced model for customer billings, Toronto Hydro discovered that the Account 1588 balance had been understated by $5.7 million. Toronto Hydro is still investigating the financial impacts of this understatement.

Toronto Hydro proposes not to reverse this $5.7 million amount in the current application and instead defer the review and disposition of Accounts 1588 and 1589 to its next rebasing application proceeding.

OEB staff notes that because Toronto Hydro is not proposing to reverse this credit amount of $5.7 million in the current proceeding as a debit, Toronto Hydro may be proposing to adjust the Account 1588 balance cleared on a final basis in the 2023 Custom IR update proceeding. A principal adjustment of a credit of $5.7 million was included in the above-noted cleared balance.

OEB staff notes that Toronto Hydro has not specifically addressed the OEB’s October 31, 2019 letter, regarding adjustments to correct for errors after disposition. For example, the OEB outlined factors that it may consider to determine on a case-by-case basis whether to make a retroactive adjustment based on the particular circumstances of each case.

The OEB’s Filing Requirements state that a distributor must make a statement as to whether it has made any adjustments to DVA balances that were previously approved by the OEB on a final basis. The OEB expects that distributors will not adjust any DVA balances that were previously approved by the OEB on a final basis. If any adjustments are made to previously approved final balances, the distributor must identify the nature of the adjustment as “retroactive”, provide explanations for the nature and the amount of the adjustment(s), and include appropriate supporting documentation, under a section titled “Adjustments to Deferral and Variance Accounts”.

This expectation also applies to adjustments relating to previously approved balances that are proposed to be made to the current balances requested for disposition in the current application. In the case where an accounting or other error is discovered in Group 1 DVAs, the OEB expects distributors to disclose the errors as a part of their rate applications. The OEB will determine on a case-by-case basis whether to make a retroactive adjustment based on the circumstances of each case. Note that an asymmetrical approach to correction of the error may be appropriate in certain circumstances.

Question(s):

1. Please confirm that Toronto Hydro, in its next Custom IR application for 2025 to 2029 rates, will address the requirements in the OEB’s October 31, 2019 letter, specifically the factors regarding adjustments to correct for errors after disposition, including the above-noted $5.7 million adjustment.
2. If this is not the case, please explain.
3. Please confirm that Toronto Hydro, in its next Custom IR application for 2025 to 2029 rates, will address section 3.2.6 of the Filing Requirements that outlines required documentation to be filed in a proceeding, including any adjustments made to DVA balances that were previously approved by the OEB on a final basis.
4. If this is not the case, please explain.
5. Please confirm that Toronto Hydro, in its next Custom IR application for 2025 to 2029 rates, will also demonstrate whether DVA balances prior to 2021 were impacted by the above-noted unbilled revenue adjustment. If this will not be demonstrated, please explain.
6. OEB staff notes that this adjustment may not be an issue related to DVA balances prior to 2021, in the event that Accounts 1588 and 1589 unbilled revenue amounts have been reversed year-over-year in the Global Adjustment (GA) Analysis Workform. Please confirm that Toronto Hydro will demonstrate whether or not this is the case in its next Custom IR application for 2025 to 2029 rates. If this will not be demonstrated, please explain.

**Staff Question-6**

**Ref 1: Manager’s Summary, Tab 2, Schedule 1, p. 5 & 6, September 8, 2023**

In this proceeding, Toronto Hydro is not proposing to clear the balances within Accounts 1588 and 1589, due to the need to further analyze a 2021 principal adjustment associated with reporting enhancements.

Toronto Hydro also noted that its enhanced model for customer billings was implemented after it filed its 2023 Custom IR Update application (EB-2022-0065).

OEB staff notes that more adjustments may come to light after Toronto Hydro analyzes the Accounts 1588 and 1589 balances in more detail.

Question(s):

1. Please discuss the pros and cons of the remaining Group 1 DVAs (i.e., other than Accounts 1588 and 1589) being cleared on an interim basis in the current proceeding, rather than on a final basis.
2. Please confirm that there likely would not be a similar impact to other Group 1 DVA balances related to the unbilled revenue adjustment identified by Toronto Hydro in the current proceeding. Please confirm that this is because the OEB only requires the components of the Account 1588 and Account 1589 balances relating to unbilled revenue to be trued-up to actual billings post year-end, as part of the GA Analysis Workform. If any of these two sentences are not the case, please explain.
3. Although Toronto Hydro noted that its enhanced model for customer billings was implemented after it filed its 2023 Custom IR Update application with the OEB, please explain why Toronto Hydro did not bring forth this matter related to the unbilled revenue adjustment in that proceeding, as opposed to in the current proceeding.
1. OEB Letter, EB-2023-0222, 2024 Preliminary Uniform Transmission Rates and Hydro One Sub-Transmission Rates, issued September 28, 2023 [↑](#footnote-ref-2)