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November 16, 2023

Via RESS

Nancy Marconi
Registrar
Ontario Energy Board
PO Box 2319
2300 Yonge Street, 27th floor
Toronto, ON M4P 1E4

Dear Ms. Marconi:

**Re: Toronto Hydro-Electric System Limited ("Toronto Hydro")
Application to Finalize 2024 Electricity Distribution Rates and Charges
OEB File No. EB-2023-0054 – Clarification regarding the Lost Revenue Adjustment Mechanism
Variance Account**

Toronto Hydro submitted on August 25, 2023, and updated on September 8, 2023, its 2024 Rates Update Application to finalize Toronto Hydro's distribution rates and other charges, effective January 1, 2024. Toronto Hydro is filing the enclosed updated Manager's Summary, which has been revised on page 7 to provide clarification with respect to the utility's Lost Revenue Adjustment Mechanism Variance Account.

Please contact me directly if you have any questions.

Respectfully,

A handwritten signature in dark ink, appearing to read "Deniz H. Oktem", with a stylized flourish at the end.

Deniz H. Oktem

Senior Manager, Regulatory Services
Toronto Hydro-Electric System Limited

**APPLICATION TO FINALIZE 2024 ELECTRICITY DISTRIBUTION RATES AND
CHARGES: MANAGER’S SUMMARY**

On August 15, 2018, Toronto Hydro filed the 2020-2024 Custom Incentive Rate-setting (“Custom IR”) application (EB-2018-0165) pursuant to the OEB’s Renewed Regulatory Framework. On December 19, 2019, the OEB issued the Decision and Order approving the Custom IR framework for setting distribution rates for 2020-2024 (the “2020-2024 Custom IR Decision”). On February 20, 2020, the OEB issued the rate order approving final distribution rates and charges for 2020 (the “2020 Rate Order”).¹ On August 23, 2022 (updated on September 6, 2022), Toronto Hydro filed an application for approval of the 2023 distribution rates and charges (EB-2022-0065) and on December 8, 2022 a final Rate Order (the “2023 IR Update”) was received from the OEB.

This application seeks final approval of the 2024 distribution rates, effective January 1, 2024, pursuant to the Custom IR framework approved by the OEB in the 2020-2024 Custom IR Decision. In addition, the application seeks approval of the following:

- 2024 Retail Transmission Service Rates (“RTSR”), effective January 1, 2024;
- Leave to clear the amounts accumulated in the Group 1 Deferral and Variance Accounts (“DVAs”);
- Approval to update Retail Service Charges and the Specific charge for access to the power poles (wireline attachments) pending the OEB’s generic decision(s) for 2024 rates;
- Final approval of the rates and charges set out in the 2024 Tariff Sheet at Tab 5, Schedule 2; and
- Other items or amounts that Toronto Hydro may request during the course of the proceeding, and such other relief or entitlements as the OEB may grant.

¹ EB-2018-0165, Toronto Hydro-Electric System Limited Application (Filed: August 15, 2018), [Decision and Order \(December 19, 2020\)](#) at page 23; EB-2018-0165, [Decision and Rate Order \(February 20, 2020\)](#) at page 1.

1 All rate adjustments, including the clearance of Group 1 DVAs, sought as a part of this
2 application are the output of the 2024 Incentive Rate-setting Mechanism (“IRM”) Rate
3 Generator Model (the “Rate Model”) filed at Tab 3, Schedule 1. The Rate Model is a
4 replica of the OEB’s 2024 IRM Rate Generator Model with customizations to address
5 Toronto Hydro’s specific requirements, including: (i) integration of the Custom Incentive
6 Price Cap Index (“CPCI”) mechanism, (ii) use of a 30-day basis for fixed and demand-based
7 rates, and (iii) use of kVA for distribution related demand-based rates. To facilitate these
8 customizations, Toronto Hydro has developed the 2024 Tariff Sheet and the associated
9 Bill Impacts outside of the Rate Model.

10

11 Toronto Hydro reviewed the pre-populated billing determinants in the OEB’s model and
12 made adjustments to include the Competitive Sector Multi-Unit Residential (“CSMUR”) rate
13 class throughout the model. The number of customers in the residential and CSMUR
14 classes were also adjusted. The utility confirms that all other pre-populated billing
15 determinants are accurate.

16

17 All the changes that Toronto Hydro made to the Rate Model are summarized in the
18 worksheet entitled “Summary of Changes”.

19

20 **A. 2023 TARIFF SHEET**

21

22 Toronto Hydro included at Tab 5, Schedule 1 a copy of the current 2023 Tariff Sheet
23 approved by the OEB in the 2023 Annual Update application. The rates and charges set
24 out in the 2023 Tariff Sheet are the starting point from which the 2024 rates and charges
25 were calculated using the Rate Model.

1 **B. CUSTOM PRICE CAP INDEX (“CPCI”) ADJUSTMENT**

2

3 In the 2020-2024 Custom IR Decision, the OEB approved the CPCI for setting rates in the
4 years 2021 through 2024. The OEB approved the CPCI formula as follows:

5

$$\text{CPCI} = I - X + C - g, \text{ or}$$

6

$$\text{CPCI} = I - X + C_n - S_{\text{cap}} * (I + X_{\text{cap}}) - g$$

7

8 The OEB approved the values for all elements of the CPCI formula for the entire duration
9 of the Custom IR period, with the exception of the Inflation Factor (“I”), which is to be
10 updated annually.² Therefore, the only adjustment for the calculation of the final 2024
11 distribution rates is the 2024 Inflation Factor, which was issued by the OEB on June 29,
12 2023.³

13

14 The Rate Model filed at Tab 3, Schedule 1 uses this 2024 Inflation Factor of 4.8 percent in
15 calculating a CPCI of 4.6 percent, as shown in the table below outlining the approved
16 components of the CPCI.

17

18

Table 1 - CPCI Factors and Values

CPCI Components	2021	2022	2023	2024
I	2.20%	3.30%	3.70%	4.80%
X – productivity	0.00%	0.00%	0.00%	0.00%
X – stretch factor	0.60%	0.60%	0.60%	0.60%
X _{cap}	0.30%	0.30%	0.30%	0.30%
C _n	4.97%	1.56%	6.43%	4.36%
S _{cap}	71.22%	71.38%	72.83%	73.70%
g	0.20%	0.20%	0.20%	0.20%
CPCI	4.59%	1.49%	6.42%	4.60%

² EB-2018-0165, [Decision and Order \(December 19, 2020\)](#) at page 31.

³ [OEB Letter re: 2024 Inflation Parameters \(June 29, 2023\)](#).

C. REVIEW AND DISPOSITION OF GROUP 1 DVA BALANCES

Toronto Hydro requests OEB approval to clear through rate riders the balances and carrying charges in the Group 1 Retail Settlement Variance Accounts (“RSVAs”), except for Accounts 1588 (“RSVA Power”) and 1589 (“RSVA Global Adjustment”), as discussed below. In accordance with the Report of the Board on Electricity Distributors’ Deferral and Variance Account Review Initiative (“the EDDVAR Report”), the Group 1 RSVA balances must be cleared if the amounts exceed the pre-set disposition threshold of \$0.001 per kWh.⁴ As shown in the Rate Model at Tab 3, Schedule 1, the 2022 year-end balances exceed this threshold.

The Group 1 continuity schedules are set out in the Rate Model. Table 2 below summarizes the balances proposed for clearance. A certification by the Chief Financial Officer relating to the processes and controls in place for the preparation, review, verification, and oversight of account balances is filed at Tab 1, Schedule 3.

Table 2: Group 1 Balances for Clearance (\$ Millions)

Account	Dec 31, 2022 Balance (\$)	Carrying Charges (to Dec 31, 2023) (\$)	Total for Clearance (\$)
1550 – Low Voltage (“LV”) Variance Account	0.5	-	0.5
1551 – Smart Meter Entity Variance Account	(2.1)	(0.1)	(2.2)
1580 – RSVA Wholesale Market Service Charges (“WMS”)	52.0	3.5	55.5
1580 – RSVA WMS – Sub-account Capacity Based Recovery (“CBR”) Class B	(2.1)	(0.2)	(2.3)
1584 – RSVA Retail Transmission Network Charge	35.4	2.8	38.1
1586 – RSVA Retail Transmission Connection Charge	17.4	1.1	18.5
Total	101.0	7.1	108.1

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⁴ EB-2008-0046, [The Report of the Board on Electricity Distributors’ Deferral and Variance Account Review Report](#) (July 31, 2009) at page 10.

1 The Rate Model details the balances allocated to each rate class and shows the
2 development of the proposed rate riders. Toronto Hydro proposes to clear the balance in
3 all accounts over a 12-month period from January 1, 2024 through December 31, 2024.
4 All rate riders were calculated using the 2022 Reporting and Recording Keeping (“RRR”)
5 billing unit data.

6
7 **Wholesale Market Participants**

8
9 Toronto Hydro allocated the DVA amounts proposed for clearance in accordance with the
10 EDDVAR Report. The utility confirms that Wholesale Market Participants (“WMPs”) are
11 not subject to clearance of RSVA amounts for Wholesale Market Services (“WMS”) /C
12 (including sub-account CBR Class B) and have not been included in the load/customer
13 counts used to determine rate riders for these accounts.

14
15 **Account 1580 – RSVA WMS – Sub-account Capacity Based Recovery (CBR) Class B**

16
17 Toronto Hydro seeks clearance of the Class B Capacity Based Recovery (“CBR”) balances
18 to December 31, 2022 through a separate rider as calculated by the Rate Model and in
19 accordance with the OEB’s CBR Accounting Guidance. Toronto Hydro used the Rate
20 Model to address the CBR for customers that transitioned between Class A and Class B
21 during 2022.

22
23 **Accounts 1588 – RSVA Power and 1589 – RSVA Global Adjustment (“GA”)**

24
25 The balances within Account 1588 and Account 1589 were last approved on a final basis
26 for year-end 2021 and Toronto Hydro has completed the GA Analysis Workform, filed at /C
27 Tab 3, Schedule 2, accordingly. In this proceeding, Toronto Hydro is not proposing to
28 clear the balances within Accounts 1588 and 1589 due to the need to further analyze a

1 2021 principal adjustment associated with reporting enhancements. This matter is related
2 to the “actual” component of the 2021 principal adjustment of Account 1588 and does
3 not impact any audited balances. As customer billing dates do not always align with
4 fiscal period dates, Toronto Hydro uses a model to allocate billings into their respective
5 periods to get a proxy for “actual” billings by period, which is used in calculating principal
6 adjustments. In 2022, the utility enhanced the model to more accurately allocate billings
7 to their periods. However, this enhancement was implemented after Toronto Hydro filed
8 its application for approval of the 2023 distribution rates and charges (EB-2022-0065).
9 After recalculating the 2021 Account 1588 balance using the enhanced model, Toronto
10 Hydro discovered that the balance had been understated by \$5.7 million. As of the filing
11 of this application, Toronto Hydro is still investigating the financial impacts of this
12 understatement.

/c

13
14 Although, all principal adjustment amounts are reversed in the following year, Toronto
15 Hydro proposes to not reverse this \$5.7 million amount in the current application and
16 instead defer the review and disposition of accounts 1588 and 1589 to its next rebasing
17 application proceeding.⁵ This approach would both enable the utility to complete its
18 analysis regarding the implications of recovering this amount and contribute to the
19 regulatory efficiency of this proceeding by allowing OEB Staff to approve all requests
20 under delegated authority, without requiring the appointment of an OEB panel of
21 commissioners.

22 23 **Adjustments to Deferral and Variance Accounts**

24
25 The adjustments and balances in the DVA Continuity Schedule in the Rate Model match
26 the account balances filed in the RRR, with the following exception:

⁵ Toronto Hydro expects to file its rebasing application by early Q4 of 2023.

- Toronto Hydro adjusted the RSVA Global Adjustment and RSVA Power principal balances for actual volumes and accrued versus actual revenue differences as per the Accounting guidance from the OEB for Account 1588 and Account 1589. The details of the RSVA Global Adjustment are outlined in the GA Analysis Workform at Tab 3, Schedule 2.

Toronto Hydro confirms that it has not made any adjustments to balances and amounts previously approved by the OEB on a final basis.

Account 1595

Toronto Hydro does not propose to clear any residual balances in Account 1595 - Disposition/Refund of Regulatory Balances. The sub-accounts that have not been approved for disposition do not yet meet the 2-year requirement.

Lost Revenue Adjustment Mechanism Variance Account ("LRAMVA")

Toronto Hydro is not seeking approval to dispose of any LRAMVA balances at this time, as the OEB has approved in the utility's 2023 rates application the deferral of such balances until Toronto Hydro's next rebasing application.⁶

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D. EARNINGS SHARING MECHANISM

In the 2020-2024 Custom IR Decision, the OEB approved a cumulative, asymmetrical Earnings Sharing Mechanism ("ESM") variance account using a Return on Equity ("ROE") based calculation with all earnings in excess of 100 basis points over the approved ROE

⁶ EB-2022-0065, Decision and Order (December 8, 2022) at page 18.

/c

1 shared 50:50 with ratepayers.⁷ As the approved ESM for 2020-2024 is cumulative,
2 Toronto Hydro cannot perform the final calculation to determine whether or not there
3 will be a balance to dispose until the end of the term. However, in accordance with the
4 OEB’s expectation that Toronto Hydro will provide an update in each of the remaining
5 rate update applications over the 2020-2024 Custom IR term,⁸ Toronto Hydro reports that
6 the utility continues to have nil balance in the ESM variance account as it has cumulatively
7 underearned by 1.69% over 2020-2022 versus its approved ROE of 8.52% as shown in
8 Table 3 below.

9

10 **Table 3: Earnings Sharing Mechanism 2022 Update Calculation⁹**

		2020	2021	2022
Cumulative Adjusted Net Income	A	107.1	239.5	385.4
Cumulative Actual Deemed Equity	B	1,813.6	3,683.6	5,646.4
ROE Cumulative	C=A/B	5.90%	6.50%	6.83%
ROE Approved	D	8.52%	8.52%	8.52%
ROE Over (Under)	E=C-D	(2.62%)	(2.02%)	(1.69%)

11

12 **E. TAX CHANGES**

13

14 Toronto Hydro confirms that there have been no applicable legislated tax changes since
15 its last rebasing application (EB-2018-0165).

16

17 **F. RETAIL TRANSMISSION SERVICE RATES**

18

19 Toronto Hydro seeks to set 2024 Retail Transmission Service Rates based on the guidance
20 set out in the OEB’s Guideline G-2008-0001: Electricity Distribution Retail Transmission
21 Service Rates (“RTSR”), Revision 4.0, dated June 28, 2012. Toronto Hydro used the

⁷ EB-2018-0165, [Decision and Order](#) (December 19, 2020) at pages 192-193.

⁸ EB-2020-0057, [Decision and Order](#) (December 10, 2020) at page 8.

⁹ The values in this table are aligned with RRR 2.1.5.6.

1 current OEB-approved Uniform Transmission Rates (“UTR”) and the Rate Model for
2 calculating the RTSRs.

3 The utility anticipates that the OEB will update the requested RTSRs to reflect the
4 approved 2024 Uniform Transmission Rates when those rates become available.

5

6 **G. OTHER RATES AND CHARGES**

7

8 Toronto Hydro requests continuation of the various rate riders approved in the 2020-
9 2024 Custom IR Decision, in accordance with their respective effective and termination
10 dates, and of the other rates and charges approved in that decision, including the Specific
11 Service Charges and Loss Factors. Toronto Hydro proposes to maintain the monthly
12 service charge for the microFIT Generator Service Classification at its 2023 value of \$4.49
13 per 30 days, as the province-wide charge underlying its calculation has not changed.¹⁰

14

15 Toronto Hydro has updated its Retail Service Charges and Specific charge for access to the
16 power poles (wireline attachments) in the Rate Model with the 2024 Inflation Factor in
17 alignment with the updated rates in the OEB’s 2024 IRM Rate Generator Model.

18

19 **H. 2024 TARIFF SHEET**

20

21 Toronto Hydro seeks an Order for final approval of the rates and charges as set out in the
22 2024 Tariff Sheet, which is filed at Tab 5, Schedule 2.

¹⁰ [Review of Fixed Monthly Charge for microFIT Generator Service Classification \(December 8, 2022\).](#)

1 **I. 2024 BILL IMPACTS**

2

3 All Toronto Hydro customers are impacted by the changes to rates and charges requested
4 in this application. The anticipated 2024 Bill Impacts are filed at Tab 4, Schedule 1. Table
5 4 below provides a summary of the total bill impacts for a typical customer in each rate
6 class.

/c

7 **Table 4: Summary of Total Bill Impacts**

Rate Classes	\$/30 days	%
Residential (750 kWh, TOU RPP)	\$ 3.20	2.3%
Competitive Sector Multi Unit Residential (300 kWh, TOU RPP)	\$ 1.62	2.2%
General Service <50 kW (2,000 kWh, TOU RPP)	\$ 8.99	2.5%
General Service 50-999 kW (200 kVA, Spot, Class B)	\$ 480.88	3.5%
General Service 1,000-4,999 kW (2,000 kVA, Spot, Class B)	\$ 5,110.67	3.5%
Large User (9,700kVA, Spot, Class A)	\$ 13,483.13	1.9%
Unmetered Scattered Load (285 kWh, RPP)	\$ 1.95	3.1%
Street Lighting (2,700 kVA, Spot, Class B)	\$ 11,826.81	4.1%

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