



Ontario | Commission  
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**BY EMAIL**

February 23, 2024

Ms. Nancy Marconi  
Registrar  
Ontario Energy Board  
2300 Yonge Street, 27<sup>th</sup> Floor  
Toronto, ON M4P 1E4  
[Registrar@oeb.ca](mailto:Registrar@oeb.ca)

Dear Ms. Marconi:

**Re: Ontario Energy Board (OEB) Staff Submission  
London Hydro Inc.  
2024 Distribution Rate Application  
OEB File Number: EB-2023-0037**

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Please find attached OEB staff's submission in the above referenced proceeding, pursuant to Procedural Order No.1. London Hydro Inc. has been copied on this filing.

Yours truly,

*Original Signed By*

Dana Wong  
Case Manager

Encl.

cc: All parties in EB-2023-0037



# **ONTARIO ENERGY BOARD**

## **OEB Staff Submission**

**London Hydro Inc.**

**2024 Distribution Rate Application**

**EB-2023-0037**

**February 23, 2024**

## Introduction

London Hydro Inc. (London Hydro) filed an incentive rate-setting mechanism (IRM) application with the Ontario Energy Board (OEB) on October 11, 2023, under section 78 of the *Ontario Energy Board Act, 1998* seeking approval for changes to its electricity distribution rates to be effective May 1, 2024.

In its 2024 Rate Generator model, London Hydro used the default values for the inflation factor, productivity factor and stretch factor of 4.80%, 0.00% and 0.30% respectively, consistent with the Chapter 3 Filing Requirements.<sup>1</sup> The resulting 4.50% Total Price Cap Index is used in the 2024 IRM Rate Generator. OEB staff has no concerns with London Hydro's proposed price cap adjustment. Retail Transmission Service Rates (RTSRs) were also updated in the Rate Generator model, based on final Uniform Transmission Rates (UTRs<sup>2</sup>) and proposed Sub-transmission rates, to recover the wholesale transmission rates charged by the Independent Electricity System Operator (IESO) and host distributor, Hydro One Networks Inc. (Hydro One). London Hydro has reviewed and confirmed the Rate Generator model and shown no concerns with the adjustments to its RTSRs and UTRs.

## OEB Staff Submission

In this document, OEB staff makes detailed submissions on the following:

- Group 1 Deferral and Variance Accounts (DVAs)
- Retroactive adjustments to certain final disposed Group 1 DVA balances for the years 2015-2020
- Advanced Capital Module (ACM)

## Group 1 Deferral and Variance Accounts

London Hydro requested disposition of its December 31, 2022 Group 1 DVA balances in the debit amount of \$8,522,021 on a final basis over a one-year period. This includes interest projected to April 30, 2024. The components of this balance are shown in Table 1 below. The Group 1 account balances exceed the OEB's \$0.001/kWh threshold for disposition.<sup>3</sup>

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<sup>1</sup> Chapter 3 Filing Requirements, section 3.2.1

<sup>2</sup> EB-2023-0222, 2024 Uniform Transmission Rates

<sup>3</sup> Chapter 3 Filing Requirements, section 3.2.6

**Table 1: Group 1 DVA Balances**

Account Name	Account Number	Principal Balance (\$)	Interest Balance (\$)	Total Claim (\$)
		A	B	C=A+B
Smart Metering Entity Charge	1551	(468,017)	(37,195)	(505,212)
RSVA - Wholesale Market Service Charge	1580	9,799,860	829,012	10,628,873
Variance WMS – Sub-account CBR Class B	1580	(588,594)	(53,700)	(642,294)
RSVA - Retail Transmission Network Charge	1584	4,296,521	362,217	4,658,738
RSVA - Retail Transmission Connection Charge	1586	2,351,160	197,072	2,548,233
RSVA - Power	1588	(507,102)	(13,010)	(520,112)
RSVA - Global Adjustment	1589	(6,895,613)	(875,242)	(7,770,855)
Disposition and Recovery/Refund of Regulatory Balances (2019)	1595	171,691	(61,541)	110,149
<b>Totals for all Group 1 accounts excluding RSVA – Global Adjustment</b>		<b>15,555,507</b>	<b>1, 376,814</b>	<b>16,278,374</b>
<b>Totals for all Group 1 accounts</b>		<b>8,658,894</b>	<b>501,572</b>	<b>8,507,519</b>

In the 2023 IRM proceeding, London Hydro disclosed an issue regarding the potential over-allocated global adjustment charges on embedded generation by the IESO going back to 2015.<sup>4</sup> London Hydro also suggested that Class A volumes submitted to the IESO were incorrect because they were not resubmitted if volumes changed. OEB staff refers to these issues as the “Identified Issue.”

<sup>4</sup> EB-2022-0048, March 23, 2023

In that proceeding, London Hydro stated that it was in the process of analyzing and submitting revisions to the IESO. The distributor therefore withdrew its request to dispose of Accounts 1580, Account 1580 sub-account CBR Class B, Account 1588, and Account 1589 (collectively referred to as the “Impacted Accounts”) in the amount of \$2,209,816. The OEB determined that interim disposition of Accounts 1551, 1584, 1586, and 1595 was appropriate in the event that there are changes required to these balances after resolving the Identified Issue and its impact on the DVA balances. The OEB also determined that no disposition of the Impacted Accounts was appropriate, as London Hydro had not finished resolving the Identified Issue.

In its 2023 IRM Decision and Order, the OEB directed London Hydro to provide the dollar amount adjustments (principal and interest) related to the Identified Issue for each DVA and for each period impacted (2015 to 2022), in its next rate application (for rates effective May 1, 2024).<sup>4</sup> These DVA balances should include those that were previously approved on a final basis. In addition, London Hydro was directed to confirm that the balances in the Impacted Accounts that will be requested for disposition are accurate and have been adjusted accordingly based on the results of resolving the Identified Issue. London Hydro was directed to provide supporting explanations for each adjustment with sufficient detail to support balances proposed for disposition.

Furthermore, the OEB found that for both components of the Identified Issue, the distributor should reiterate in its next rate application how it has addressed the four factors which the OEB may consider whether to make a retroactive adjustment. The four factors are set out in the OEB’s letter, [Adjustments to Correct for Errors in Electricity Distributor “Pass-Through” Variance Accounts After Disposition](#) dated October 31, 2019 ([OEB Guidance Letter](#)). The Guidance Letter discusses the OEB’s approach to addressing accounting or other errors in respect of certain electricity distributor commodity accounts resulting from errors after final disposition in appropriate cases. This generic approach will apply to the variance accounts listed in Table 2 further below for so-called “pass-through costs” that have been cleared by a final order of the OEB. The OEB may determine whether to approve any retroactive adjustments based on the circumstances of London Hydro’s case.

### **Background: Identified Issue**

In this application, London Hydro confirms that it has now completed its analysis of the Identified Issue. London Hydro states that the Identified Issue is comprised of two components:

- a) Global adjustment (GA) amounts were allocated to behind the meter embedded generation kWhs by the IESO when they should not have been
- b) Adjustments were made to Class A consumptions after the data were submitted to the IESO and the Class A consumptions were not updated

London Hydro provided the dollar amount adjustments (principal and interest) related to the Identified Issue for the Impacted Accounts for each period impacted (2015 to 2022) including those that were previously approved on a final basis. These adjustments are summarized in Table 2:

**Table 2: London Hydro Proposed Adjustments in the Impacts Accounts for the Identified Issue**

Year Impacted	1588 Power	1589 GA	1580 CBR	1580 WMS	Total
2015	-	(857,979)	(3,461)	(8,374)	(869,814)
2016	-	(801,551)	(2,777)	(6,947)	(811,275)
2017	17,955	(346,408)	(3,656)	(11,976)	(344,085)
2018	2,218	(443,283)	(2,632)	(8,899)	(452,597)
2019	(1,251)	(625,943)	(3,205)	(12,597)	(642,996)
2020	8,492	(1,279,057)	(8,533)	(25,586)	(1,304,685)
2021	390,367	(589,435)	(8,494)	(37,039)	(244,601)
2022	(32,621)	(677,215)	(4,979)	(36,662)	(751,477)
	385,159	(5,620,872)	(37,737)	(148,080)	(5,421,530)

\*small differences due to rounding

London Hydro states that the \$5,421,530 net credit adjustment received from the IESO related to the Identified Issue, including the portion related to periods that were previously cleared by a final order of the OEB, is a reduction of the pass-through costs paid by customers and a refund to the customers. London Hydro is proposing the disposition of the IESO adjustments in this application to keep its customers and London Hydro whole.<sup>5</sup> In this application, London Hydro proposes including the \$4,425,452 retroactive adjustment (the sum of the adjustments of 2015 to 2020 in the table above) in its proposed disposition, relating to previously approved balances of the Impacted Accounts pertaining to the Identified Issue for periods of 2015 to 2020. London Hydro addressed the four factors in the Guidance Letter as set out further below:

1. Whether the error was within the control of the distributor: London Hydro stated that the error was in control of London Hydro. However, it felt that the IESO's guidance could be clearer for the submission. London Hydro has changed its internal processes and controls to ensure the accuracy of the reported embedded generation and Class A consumption volumes.

<sup>5</sup> Manager's summary, page 24.

2. The frequency with which the distributor made the same error: both issues persisted between 2015 through 2022, however, upon discovering their errors during the 2023 IRM proceeding, London Hydro initiated a solution.
3. Failure to follow the guidance provided by the OEB: with regards to the embedded generation amounts, London Hydro is not aware of any specific guidelines provided by the OEB. London Hydro did not appropriately apply the accounting guidance provided by the OEB with respect to Accounts 1588 and 1589, as far back as 2015.
4. The degree to which other distributors are making similar errors: London Hydro appears to be the only distributor which collected GA on embedded generation amounts and did not update Class A volumes to the IESO with final figures. Other utilities have proposed retroactive dispositions of debit balances for Accounts 1588 and 1589 for other reasons.

Because the Identified Issue is related to the Class A consumption and embedded generation consumption that were submitted to the IESO, London Hydro first revised these submissions with the IESO and received the related credits for Global Adjustment (GA), Capacity Based Recovery (CBR) and Wholesale Market Service (WMS) charges from the IESO in December 2022 to March 2023. London Hydro states that it then recalculated the RPP settlements for the affected periods based on the correct information and trued up the IESO settlements with the IESO.

The total GA credit adjustment received from the IESO (in Charge Type 2148) amounts to \$10.98 million for the years of 2015 to 2022. Out of \$10.98 million, \$5.67 million represents the RPP settlement true-up amounts from 2017 to 2022, excluding 2015 and 2016.<sup>6</sup> In its application, London Hydro states that it uses two different approaches to record the GA credit adjustments received, depending on the accounting approach at the time:

- For 2015 and 2016, London Hydro states that it used Method B to book the Non-RPP portion of the GA costs in Account 1589.<sup>7</sup> OEB staff notes that under Method B, no allocation of the total GA costs is done because the total GA costs are recorded in Account 1589 and the RPP portions of the GA costs that are submitted to the IESO on the RPP monthly settlements are taken out from Account 1589.

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<sup>6</sup> EB-2023-0037, OEB Staff IRR 5

As a result, the Non-RPP portion of the GA costs is left in Account 1589 by nature of the calculation. Under Method B, there are no journal entries to book the RPP portions of the GA costs in Account 1588. London Hydro noted, in its response to OEB staff's interrogatory, that to align with the Method B approach, the GA credits received from the IESO for the retroactive adjustments made to correct the Identified Issue were allocated entirely to Account 1589 for the years 2015 and 2016.

- Starting in 2017, the approach used was to allocate total GA costs to Accounts 1588 and 1589 based on the RPP/non-RPP percentage split (Method A or the method adopted by the OEB since the issuance of the Accounting Guidance). Under Method A, the RPP portion and Non-RPP portion of the total GA costs on the IESO's invoice is prorated based on the RPP and Non-RPP consumptions and recorded in Account 1588 and 1589 respectively. As a result, London Hydro allocated the GA adjustments received from the IESO for the periods 2017 to 2022 between RPP and non-RPP consumption and recorded in Accounts 1588 and 1589 respectively.

In its letter dated [February 19, 2019 for the Accounting Guidance](#), the OEB states that:

The new guidance is effective January 1, 2019. Distributors are expected to implement the new guidance no later than August 31, 2019 retroactive to January 2019. In its July 2018 letter, the OEB suspended final disposition of Group 1 accounts until such time as the OEB developed further accounting guidance. The OEB expects that distributors will consider the accounting guidance in the context of their historical balances (i.e. pre January 1, 2019 that have not been disposed on a final basis). If any distributor is of the view that there may be **systemic issues with their RPP settlement and related accounting processes that may give rise to material errors or discrepancies**, or if the OEB has identified issues with balances, those distributors are expected to correct those balances before filing for disposition in an annual rate application. [Emphasis Added]

In its 2021 IRM rate application, London Hydro noted that it had implemented the Accounting Guidance, made the process changes (mainly from Method B to Method A) and made the material adjustments in each year of 2017 to 2019.<sup>8</sup> London Hydro noted that it built a billing statistics database for the years of 2017 to 2019 to fully comply with the Accounting Guidance. London Hydro considered the balances that were not final disposed at the time (which is back to the year of 2017). It appears that London Hydro did not consider the systemic issues prior to 2017.

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<sup>7</sup> Method B is a legacy method that is allowed under the Accounting Procedure Handbook but is not used after the issuance of Accounting Guidance on the Commodity Accounts 1588 and 1589 that was issued in February 2019.

<sup>8</sup> (EB-2020-0038) Manager's Summary, page 33



In this application, London Hydro updated the 2015 and 2016 GA Analysis Workforms by adding the unbilled accruals and the reversals. However, in its response to an OEB staff interrogatory, London Hydro stated that it does not have the data required to use Method A for 2015 and 2016 for the GA allocations between Account 1588 and Account 1589.<sup>9</sup>

### OEB Staff Submission

OEB staff supports London Hydro's request to dispose of its December 31, 2022 Group 1 DVA balances on a final basis, except for Accounts 1588 and 1589.

OEB staff does not take issues with regard to the credit adjustments proposed by London Hydro in Account 1580, Account 1580 sub-account CBR, and Accounts 1588 and 1589 pertaining to the years of 2017 to 2022, including the retroactive adjustments for the balances that were final disposed in 2020. With the exception of years 2015 and 2016, OEB staff submits that the retroactive adjustments for 2017-2020 and the associated credit adjustments pertaining to 2021-2022 are appropriate and should be returned to London Hydro's ratepayers. OEB staff agrees with London Hydro's assessment for the four factors in the Guidance Letter.

However, OEB staff does not agree with London Hydro's proposed approach regarding the 2015 and 2016 GA credit adjustments. OEB staff is of the view that London Hydro should use the same approach that was used for the years of 2017 to 2022's GA credit adjustments: i.e., allocate the GA credit adjustments received from the IESO pertaining to the years of 2015 and 2016 in Account 1588 and 1589 and settle the RPP portions of these adjustments with the IESO. OEB staff submits that without this allocation, London Hydro's Non-RPP customers would be over-refunded at the expense of the province's RPP customers. OEB staff's position is supported by the following two reasons:

1. The Identified Issue is due to the submission errors on the embedded generation and Class A volumes by London Hydro. These submission errors had resulted in London Hydro being overcharged by the IESO for GA costs for the years of 2015 to 2022. These GA credit amounts are issued by the IESO in CT 2148 pertaining to prior period corrects to the GA costs. The OEB issued [the accounting guidance for the CT2148 in May 2019](#). This accounting guidance states that:

Accounting guidance previously provided for charge type 148 will also apply to charge type 2148. This includes the methodology to apportion RPP and non-RPP total global adjustment costs as per the Accounting Procedures Handbook Update – Accounting Guidance Related to Pass-Through Accounts 1588 & 1589, issued on February 21, 2019.

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<sup>9</sup> EB-2023-0037, OEB Staff Follow up IRR 1

2. The different accounting methods (i.e., the legacy Method B and the current Method A) used by London Hydro is not relevant for how the GA credit adjustments received from the IESO should be recorded in the commodity accounts 1588 and 1589. London Hydro indicates that the Method B resulted in over-collected GA costs from Non-RPP customers, therefore the GA credit adjustments received pertaining to the 2015 and 2016 should also be refunded to the Non-RPP customers by recording the adjustments in Account 1589 only. However, OEB staff submits that this rationale is not valid because Method A and Method B should result in the same amounts of GA allocated to RPP and Non-RPP customers if everything else works perfectly (i.e. the billing stats capture the consumptions accurately and the RPP settlements were trued up accurately and on timely basis).

OEB staff notes that the RPP portion of the GA costs would have no impact on the Account 1588 balance under both methods. Under Method A, the RPP portions of the GA costs in the RPP settlements are offset against the allocated RPP portions of the GA costs based on the IESO invoices, therefore, the net impact of GA costs on the Account 1588 is nil. Under Method B, there is no journal entry for the GA in Account 1588. However, OEB staff does acknowledge that often times there are material adjustments from the switch of Method B to Method A, as noted in London Hydro's 2021 rate proceeding. The material adjustments often arise from the inaccurate use of the consumption data in the RPP settlements and the omission of the true-ups for the RPP settlement data. OEB staff notes that due to the nature of the Method B, i.e., to calculate the Non-RPP portion of the GA costs in the Account 1589, any mistake in the RPP settlements would result in inaccurate balances in both commodity accounts 1588 and 1589.

Furthermore, another issue arises in this application for the 2015 and 2016 balances in Account 1588 and Account 1589 that were final disposed in London Hydro's 2017 rebasing and 2018 IRM proceedings respectively. OEB staff notes that material adjustments may arise from the switch of the legacy Method B to Method A. London Hydro, in its 2021 IRM proceeding, had made material adjustments from the switch of Method B to Method A for balances in Accounts 1588 and 1589 for the years of 2017 to 2019. However, at the time, the distributor only considered the balances that were not disposed on a final basis and built the billing statistics database accordingly. However, as noted above in the OEB's Accounting Guidance, distributors should correct the balances that were final disposed if there are systemic issues with their RPP settlement and related accounting processes that may give rise to material errors or discrepancies.

OEB staff notes that London Hydro may have difficulties in going back to the years of 2015 and 2016 to rebuild the billing stats database to come up with the correct RPP submissions and GA allocations. In its response to OEB staff's interrogatory, London Hydro explained that the RPP and non-RPP proportions in 2015 and 2016 are not

available because the database built for the implementation of the Accounting Guidance started from 2017 and this fact was disclosed in its 2021 IRM proceeding.<sup>10</sup>

In sum, OEB staff submits that London Hydro should, on a best efforts basis, revisit the 2015 and 2016 balances for Accounts 1588 and 1589 to assess the impact from the switch from Method B to method A because OEB staff is of the view that material adjustments may arise from this assessment. London Hydro is encouraged to propose an estimation of the adjustments for Accounts 1588 and 1589 due to the switch from Method B to Method A in its reply submission.

However, if London Hydro, on a practical level, cannot propose the adjustments from the switch of the methods in 2015 and 2016, OEB staff is of the view that at minimum, London Hydro should use the monthly RPP consumptions submitted to the IESO in its 2015 and 2016 RPP settlements to adjust part of the GA credits adjustments received for these two years from Account 1589 to Account 1588. This adjustment would reduce the credit adjustments in Account 1589 that is to be refunded to London Hydro's Non-RPP customers and would require London Hydro to repay the IESO for the RPP portion of the GA credit adjustments by settling these adjustments with the IESO.

## **Advanced Capital Module (ACM)**

### Background

London Hydro made an ACM request for an upgrade to its Customer Information System (CIS) as part of its 2022 Cost of Service application.<sup>11</sup> In that application, materiality, the need for and prudence of the request was reviewed. Issue 5.3 of the Settlement Agreement identified that there was a full settlement of the issue.<sup>12</sup> In its February 24, 2022 Decision and Rate Order the OEB explicitly endorsed the Customer Information System-related AM with a revenue rate rider cap of \$18.5 million provision of the Settlement Agreement.<sup>13</sup>

London Hydro did not seek ACM funding for the CIS project in its 2023 IRM application because at the time of filing that application, it was felt that the project would not go into service until late in 2023 or potentially early in 2024.

As a result, the revenue requirement impact in 2023 would be minimal if there was any revenue requirement impact in 2023 at all. In response to OEB staff's interrogatory, London Hydro provided an updated timeline for in-service in Q4 2024 and has calculated the incremental revenue requirement of the project which is \$99,036.<sup>14</sup>

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<sup>10</sup> EB-2020-0038, Staff IRR 5

<sup>11</sup> EB-2021-0041

<sup>12</sup> EB-2021-0041 Settlement Agreement, page 55 of 62

<sup>13</sup> EB-2021-0041 Decision and Order, page 5

<sup>14</sup> EB-2023-0037, Staff IRR-9

London Hydro has elected to collect this as a fixed service charge rate rider from May 1, 2024 to April 30, 2027.

Table 2: Incremental Revenue by Rate Class

Rate Class	Total Revenue by Rate Class	Billed Customers or Connections	Service Charge Rate Rider Col F / Col K / 12
	<i>Col I total</i>	<i>From Sheet 4</i>	
RESIDENTIAL	63,190	150,337	0.04
GENERAL SERVICE LESS THAN 50 kW	13,420	13,050	0.09
GENERAL SERVICE 50 TO 4,999 KW	18,737	1,526	1.02
GENERAL SERVICE 1,000 TO 4,999 kW	180	9	1.67
STANDBY POWER	774		0.00
LARGE USE	926	1	77.13
STREET LIGHTING	1,512	38,784	0.00
SENTINEL LIGHTING	63	465	0.01
UNMETERED SCATTERED LOAD	234	1,548	0.01
<b>Total</b>	<b>99,036</b>	<b>205,720</b>	
	99,036		
	<i>From Sheet 11, E93</i>		

### OEB Staff Submission

London Hydro confirmed through interrogatories that it intends to include the full cost of the CIS project in rate base at its next rebasing application and that the prudence of the (incremental) project costs will be fully assessed as part of that cost of service application.<sup>15</sup>

OEB staff submits that assessing the prudence of the overspending for this project in London Hydro's next cost of service proceeding is consistent with the settlement proposal.

In addition, a review at the next cost of service will also allow the OEB to consider the actual project costs before it decides on recovery for any incremental remaining net book value amounts to be included in rate base. OEB staff notes that London Hydro is not seeking any recovery of overspending dollars in the current application and so OEB staff has no concerns with the rate rider proposals as filed. OEB staff also anticipates that London Hydro will not be seeking recovery of the revenue requirement impact of the difference between \$18.5M and actual project costs for the current IRM period. OEB staff submits that the proposal to defer further review of this project is reasonable.

~All of which is respectfully submitted~

<sup>15</sup> EB-2023-0037, Staff IRR-9