



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

DECISION AND RATE ORDER

EB-2023-0056

WELLAND HYDRO-ELECTRIC SYSTEM CORP.

**Application for rates and other charges to be effective May
1, 2024**

BY DELEGATION, BEFORE:

Theodore Antonopoulos
Vice President
Applications Division

Month XX, 2024

1. OVERVIEW

The Ontario Energy Board is approving changes to the rates that Welland Hydro-Electric System Corp. (Welland Hydro) charges to distribute electricity to its customers, effective May 1, 2024.

As a result of this Decision, there will be a monthly total bill increase of \$2.93 for a residential customer consuming 750 kWh. This change does not factor in applicable taxes or the Ontario Electricity Rebate.

2. CONTEXT AND PROCESS

Welland Hydro filed its application on November 13, 2023 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](#) (Filing Requirements). The application was based on the Price Cap Incentive Rate-setting (Price Cap IR) option.

The Price Cap IR option is one of three incentive rate-setting mechanisms (IRM) approved by the OEB.¹ It involves the setting of rates through a cost of service application in the first year and mechanistic price cap adjustments which may be approved through IRM applications in each of the ensuing adjustment years.

The OEB follows a standardized and streamlined process for processing IRM applications filed under Price Cap IR. In each adjustment year of a Price Cap IR term, 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.

Welland Hydro serves approximately 25,000 mostly residential and commercial electricity customers in the City of Welland.

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

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, together with the OEB's findings.

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

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

This Decision 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-2023-0193, issued September 26, 2023 established the adjustment for energy retailer service charges, effective January 1, 2024; and the Decision and Order EB-2023-0194, issued September 26, 2023, established the 2024 Wireline Pole Attachment Charge, effective January 1, 2024.

4. ANNUAL ADJUSTMENT MECHANISM

Welland Hydro has applied to change its rates, effective May 1, 2024, 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 Price Cap adjustment formula applicable to Welland Hydro are set out in the table below. Inserting these components into the formula results in a 4.80% increase to Welland Hydro rates: **4.80% = 4.80% - (4.80% + 0.00%)**.

Table 4.1: Price Cap IR Adjustment Formula

Components			Amount
Inflation factor ⁴			4.80%
Less: X-factor		Productivity factor ⁵	0.00%
		Stretch factor (0.00% to 0.60%) ⁶	0.00%

An inflation factor of 4.80% applies to all IRM applications for the 2024 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 2024 rate year. The stretch factor component of the X-factor is one of five stretch factor groupings established by the OEB, ranging from 0.00% to 0.60%. The stretch factor assigned to any distributor is based on the distributor's total cost performance as benchmarked against other distributors in Ontario. The stretch factor assigned to Welland Hydro is 0.00%, resulting in a rate adjustment of 4.80%.

³ The adjustment does not apply to delivery rates: rate riders, rate adders, low voltage service charges, retail transmission service rates, wholesale market service rate, smart metering entity charges, rural or remote electricity rate protection charge, standard supply service – administrative charge, transformation and primary metering allowances, loss factors, specific service charges (other than the Wireline Pole Attachment charge), and the microFIT charge.

⁴ [OEB Letter, 2024 Inflation Parameters, issued June 29, 2023](#)

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: 2022 Benchmarking Update”, prepared by Pacific Economics Group LLC., July 2023

Findings

Welland Hydro's request for a 4.80% rate adjustment is in accordance with the annually updated parameters set by the OEB. The adjustment is approved, and Welland Hydro's new rates shall be effective May 1, 2024.

DRAFT

5. RETAIL TRANSMISSION SERVICE RATES (RTSRs)

Welland Hydro is transmission connected.

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

Findings

Welland Hydro's proposed adjustment to its RTSRs is approved.

The RTSRs have been adjusted based on the current OEB-approved UTRs.

UTRs and host-RTSRs are typically approved annually by the OEB. In the event that the OEB updates the approved UTRs and host-RTSRs during Welland Hydro's 2024 rate year, any resulting differences (from the prior-approved UTRs and host-RTSRs) will be captured in Retail Settlement Variance Accounts 1584 (Retail Transmission Network Charge) and 1586 (Retail Transmission Connection Charge).

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 of. OEB policy states that Group 1 account balances should be disposed of 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 justifies why balances should not be disposed of.⁷ If the net balance does not exceed the threshold, a distributor may still request disposition.⁸

The 2022 year-end net balance for Welland Hydro's Group 1 accounts eligible for disposition, including interest projected to April 30, 2024, is a debit of \$960,919 and pertains to variances accumulated during the 2022 calendar year. This amount represents a total claim of \$0.0025 per kWh, which exceeds the disposition threshold. Welland Hydro has requested disposition of this amount over a one-year period.

Included in the Group 1 accounts are certain variances related to costs that are paid for by a distributor's customers on different bases, depending on their classification. Namely, "Class A" customers, who participate in the Industrial Conservation Initiative, pay for Global Adjustment (GA) charges based on their contribution to the five highest Ontario demand peaks over a 12-month period. "Class B" customers pay for GA charges based on their monthly consumption, either as a standalone charge or embedded in the Regulated Price Plan (RPP).⁹ A similar mechanism applies to Class A and Class B customers for Capacity Based Recovery (CBR) charges.¹⁰ The balance in the GA variance account is attributable to non-RPP Class B customers and is disposed of through a separate rate rider. The balance in the CBR Class B variance account is attributable to all Class B customers.

Welland Hydro had one or more Class A customers during the period in which variances accumulated so it has applied to have the balance of the CBR Class B variance account disposed of through a separate rate rider for Class B customers to ensure proper allocation between Class A and Class B customers.

During the period in which variances accumulated, Welland Hydro had one or more customers transition between Class A and Class B. Under the general principle of cost causality, customer groups that cause variances that are recorded in Group 1 accounts

⁷ Report of the OEB – "Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR)." EB-2008-0046, July 31, 2009

⁸ OEB letter, "Update to the Electricity Distributors' Deferral and Variance Account Review ("EDDVAR Report"), released July 2009 (EB-2008-0246)", issued July 25, 2014

⁹ For additional details on the Global Adjustment charge, refer to the Independent Electricity System Operator (IESO)'s [website](#).

¹⁰ All Class B customers (RPP and non-RPP) pay the CBR as a separate charge based on their monthly consumption. For additional details on the CBR for Class A customers, refer to the IESO's [website](#).

should be responsible for paying (or receiving credits) for their disposal. Welland Hydro has proposed to allocate a portion of the GA and CBR Class B balances to its transition customers, based on their customer-specific consumption levels.¹¹ The amounts allocated to each transition customer are proposed to be recovered (or refunded, as applicable), by way of 12 equal monthly installments.

Findings

The balances proposed for disposition reconcile with the amounts reported as part of the OEB's *Electricity Reporting and Record-Keeping Requirements*.

The OEB approves the disposition of a debit balance of \$960,919 as of December 31, 2022, including interest projected to April 30, 2024, for Group 1 accounts on a final basis.

Table 6.1 identifies the principal and interest amounts, which the OEB approves for disposition.

Table 6.1: Group 1 Deferral and Variance Account Balances

Account Name	Account Number	Principal Balance (\$) A	Interest Balance (\$) B	Total Claim (\$) C=A+B
Smart Metering Entity Charge Variance Account	1551	(67,482)	(5,374)	(72,856)
RSVA - Wholesale Market Service Charge	1580	764,416	58,160	822,576
Variance WMS - Sub-account CBR Class B	1580	(37,945)	(2,994)	(40,939)
RSVA - Retail Transmission Network Charge	1584	253,243	17,925	271,167
RSVA - Retail Transmission Connection Charge	1586	146,438	12,900	159,338
RSVA - Power	1588	(152,467)	(17,317)	(169,784)
RSVA - Global Adjustment	1589	(33,751)	830	(32,921)

¹¹ 2024 IRM Rate Generator Model, Tab 6.1a "GA Allocation" and Tab 6.2a "CBR B_Allocation"

Disposition and Recovery/Refund of Regulatory Balances (2019)	1595	22,222	2,115	24,337
Total for Group 1 accounts		894,764	66,245	960,919

The balance of each of the Group 1 accounts approved for disposition shall be transferred to the applicable principal and carrying charge sub-accounts of Account 1595. Such transfer shall be pursuant to the requirements specified in the *Accounting Procedures Handbook for Electricity Distributors*.¹² The date of the transfer must be the same as the effective date for the associated rates, which is generally the start of the rate year.

The OEB approves these balances to be disposed of through final rate riders, charges, or payments, as calculated in the Rate Generator Model. The final rate riders, charges, and payments, as applicable, will be in effect over a one-year period from May 1, 2024 to April 30, 2025.¹³

¹² Article 220, Account Descriptions, Accounting Procedures Handbook for Electricity Distributors, effective January 1, 2012

¹³ 2024 IRM Rate Generator Model Tab 6.1 GA, Tab 6.1a GA Allocation, Tab 6.2 CBR B, Tab 6.2a CBR B_Allocation and Tab 7 Calculation of Def-Var RR

7. LOST REVENUE ADJUSTMENT MECHANISM VARIANCE ACCOUNT

The OEB has historically used a Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) to capture implications for a distributor's revenues which arise from differences between actual and forecast conservation and demand management (CDM) savings included in its last OEB-approved load forecast. The use of the LRAMVA is no longer the default approach for CDM activities.¹⁴

Distributors delivered CDM programs to their customers through the Conservation First Framework (CFF) that began on January 1, 2015 until March 20, 2019, when the CFF was revoked.¹⁵

Distributors filing an application for 2024 rates are required to seek disposition of all outstanding LRAMVA balances related to program savings related to CFF programs or other conservation programs they delivered, unless they do not have complete information on eligible program savings.¹⁶

Distributors are also eligible for LRAM for persisting impacts of conservation programs until their next rebasing. The OEB previously provided direction for distributors to seek approval of LRAM-eligible amounts for 2023 onwards on a prospective basis, and a rate rider in the corresponding rate year, to address amounts that would otherwise be recorded in the LRAMVA for all years until their next rebasing application.

Welland Hydro had LRAM-eligible amounts for future years approved on a prospective basis in a previous year. For the 2024 rate year, Welland Hydro was approved for a prospective LRAM-eligible amount of \$21,275 in 2022 dollars.¹⁷ Prospective LRAM amounts are to be adjusted mechanistically by the approved inflation minus X-factor applicable to IRM applications in effect for a given year and recovered through a rate rider in the corresponding rate year.¹⁸ Applying Welland Hydro's approved 2023 and 2024 inflation minus X-factor adjustments to the previously approved prospective balance for the 2024 rate year, results in an amount of \$23,122.¹⁹ Welland Hydro has applied for approval for the disposition of LRAM-eligible amounts for 2024.

¹⁴ Conservation and Demand Management Guidelines for Electricity Distributors, December 20, 2021, chapter 8.

¹⁵ On March 20, 2019 the Minister of Energy, Northern Development and Mines issued separate Directives to the OEB and the IESO.

¹⁶ Chapter 3 Filing Requirements, section 3.2.6.1

¹⁷ EB-2022-0068, Decision and Rate Order, March 23, 2023

¹⁸ Chapter 3 Filing Requirements, section 3.2.7.1

¹⁹ Calculated as: (previously approved 2024 LRAM-eligible amount in 2022 dollars) x (2023 approved inflation minus X-factor) x (2024 approved inflation minus X-factor).

Findings

The OEB approves the disposition of the LRAM-eligible amount for the 2024 rate year of \$ 23,122 which have been mechanistically adjusted to 2024 dollars by applying the approved inflation minus X-factor, as set out in Table 7.1 below.²⁰

Table 7.1 LRAM-Eligible Amounts for Prospective Disposition

Year	LRAM-Eligible Amount (in 2022 \$)	LRAM-Eligible Amount (in 2024 \$) ²¹
2024	21,275	23,122

²⁰ EB-2022-0068, Decision and Rate Order, March 23, 2023

²¹ Calculated as: (previously approved 2024 LRAM-eligible amount in 2022 dollars) x (2023 approved inflation minus X-factor) x (2024 approved inflation minus X-factor).

8. IMPLEMENTATION

This Decision 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 8.1.

Table 8.1: Regulatory Charges

Rate	per kWh
Rural or Remote Electricity Rate Protection (RRRP)	\$0.0014
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 7, 2023.²²

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, 2022.²³

²² EB-2023-0268, Decision and Order, December 7, 2023

²³ EB-2022-0137, Decision and Order, September 8, 2022

9. 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, 2024 for electricity consumed or estimated to have been consumed on and after such date. Welland-Hydro Electric System Corp. shall notify its customers of the rate changes no later than the delivery of the first bill reflecting the new rates.

DATED at Toronto, Month, Date, 2024

ONTARIO ENERGY BOARD

Nancy Marconi
Registrar

SCHEDULE A
DECISION AND RATE ORDER
WELLAND HYDRO-ELECTRIC SYSTEM CORP.
TARIFF OF RATES AND CHARGES
EB-2023-0056
MONTH XX, 2024