



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

DECISION AND RATE ORDER

EB-2023-0020

Essex Powerlines Corporation

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

BY DELEGATION, BEFORE: **Kevin Mancherjee**
Director
Operation Decision Support

Month XX, 20XX

1. OVERVIEW

The Ontario Energy Board is approving changes to the rates that Essex Powerlines Corporation (Essex Powerlines) 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 \$8.89 for a residential customer consuming 750 kWh. This change does not factor in applicable taxes or the Ontario Electricity Rebate.

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2. CONTEXT AND PROCESS

Essex Powerlines Corporation filed its application on October 24, 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, with a five-year term.

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.

Essex Powerlines serves approximately 28,600 mostly residential and commercial electricity customers in the Town of Amherstburg, the Town of LaSalle, the Municipality of Leamington, and the Town of Tecumseh.

The application was supported by pre-filed written evidence and a completed Rate Generator Model and as required during the proceeding, Essex Powerlines 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
- Revenue-to-Cost Ratio Adjustments
- Retail Transmission Service Rates
- Group 1 Deferral and Variance Accounts
- Lost Revenue Adjustment Mechanism Variance Account

Instructions for implementing Essex Powerline'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

Essex Powerlines 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 Essex Powerlines are set out in the table below. Inserting these components into the formula results in a 4.80% increase to Essex Powerline's rates: **4.80% = 4.80% - (0.00% + 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 Essex Powerlines 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

Essex Powerline'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 Essex Powerline's new rates shall be effective May 1, 2024.

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5. RETAIL TRANSMISSION SERVICE RATES (RTSRs)

Essex Powerlines is fully embedded within Hydro One Networks Inc.'s distribution system.

To recover its cost of transmission services, Essex Powerlines requests approval to adjust the RTSRs that it charges its customers in accordance with the host distributor RTSRs currently in effect.

Findings

Essex Powerline's proposed adjustment to its RTSRs is approved.

The RTSRs have been adjusted based on the current OEB-approved host-RTSRs.⁷

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

⁷ EB-2023-0030, Partial Decision and Rate Order, December 14, 2023

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.⁸ If the net balance does not exceed the threshold, a distributor may still request disposition.⁹

The 2022 year-end net balance for Essex Powerlines' Group 1 accounts eligible for disposition, including interest projected to April 30, 2024, is a debit of \$4,553,193 and pertains to variances accumulated during the 2017 to 2022 calendar years. This amount represents a total claim of \$0.0082 per kWh, which exceeds the disposition threshold. Essex Powerlines has requested disposition of this amount over an eight-month period to coincide with its rebasing application, scheduled to be submitted by April 30, 2024 for rates effective January 1, 2025.

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).¹⁰ A similar mechanism applies to Class A and Class B customers for Capacity Based Recovery (CBR) charges.¹¹ 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.

Essex Powerlines 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.

⁸ Report of the OEB – "Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR)." EB-2008-0046, July 31, 2009

⁹ OEB letter, "Update to the Electricity Distributors' Deferral and Variance Account Review ("EDDVAR Report"), released July 2009 (EB-2008-0246)", issued July 25, 2014

¹⁰ For additional details on the Global Adjustment charge, refer to the Independent Electricity System Operator (IESO)'s [website](#).

¹¹ 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](#).

During the period in which variances accumulated, Essex Powerlines 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 should be responsible for paying (or receiving credits) for their disposal. Essex Powerlines 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.¹² The amounts allocated to each transition customer are proposed to be recovered (or refunded, as applicable), by way of eight equal monthly installments.

Accounts 1588 and 1589 Disposition

In Essex Powerlines' 2020 IRM proceeding, the OEB did not approve the disposition of its 2017 and 2018 Group 1 balances, due to OEB's concern, with the accounting treatment of unbilled to actual revenue differences in Accounts 1588 and 1589.¹³ Subsequently, in Essex Powerlines' 2021 IRM application, Essex Powerlines responded to the OEB's directions and clarified that it had reviewed the 2017 and 2018 Account 1588 and 1589 balances in the context of the OEB's accounting guidance for these accounts. Essex Powerlines noted that it did not find any other systemic issues during its review.¹⁴

At the time, Essex Powerlines was still in the process of reviewing its 2019 balances as well as engaging a third-party review of its improved Standard Operating Procedures (SOP) with respect to its approach to its regulatory accounting oversight, as part of its Management Action Plan. Essex Powerlines requested and received approval for interim disposition of its 2017 and 2018 Group 1 balances.¹⁵ In the associated decision and order, the OEB stated that when Essex Powerlines requests the disposition of its 2019 Group 1 balances, Essex Powerlines would be expected to bring forth the results of its review of the 2019 Group 1 balances. The OEB also directed Essex Powerlines to provide the results of its SOP, including whether the outcomes of these reviews impact the 2017 to 2018 balances being disposed of.

In its 2022 IRM proceeding, Essex Powerlines explained that the third-party review of its SOP was delayed with the onset of the COVID-19 pandemic and had since resumed with an expected completion date in 2022. Essex Powerlines further noted that it was still undergoing its review of the 2019 account balances. Essex Powerlines requested interim disposition of Group 1 balances (excluding Accounts 1588 and 1589) and stated

¹² 2024 IRM Rate Generator Model, Tab 6.1a "GA Allocation" and Tab 6.2a "CBR B_Allocation"

¹³ EB-2019-0034, Decision and Rate Order, April 16, 2020

¹⁴ EB-2020-0021, Application filed November 2, 2022, page 5

¹⁵ EB-2020-0021, Decision and Rate Order, page 11

that final disposition would be requested upon completion of the review. The OEB approved Essex Powerlines' request.

The OEB instructed Essex Powerlines to address a number of OEB staff's outstanding questions for Accounts 1588 and 1589 and to bring forth the results of the review of the 2019 balances and of the SOP review, including whether the outcomes of these reviews impact the 2017 to 2018 balances that were previously disposed on an interim basis.¹⁶

In its 2023 IRM proceeding, Essex Powerlines confirmed the third-party review of its SOP regarding the approach to regulatory accounting oversight, including a review of the processes used to account for regulatory accounts 1588 and 1589, was ongoing. Accordingly, the OEB approved the disposition for Group 1 accounts excluding Account 1588 and Account 1589, including interest projected to April 30, 2022, on an interim basis.¹⁷ In the associated decision and order, the OEB stated that, as was the case in prior decisions, Essex Powerlines would be expected to bring forth the results of its review of the 2019 to 2021 balances for Accounts 1588 and 1589 and the results of the SOP review, including whether outcomes of these reviews impact the 2017 to 2018 balances that were previously disposed on an interim basis, as part its subsequent rate proceeding.

In the current proceeding,¹⁸ Essex Powerlines confirmed the implementation of the OEB's Accounting Guidance Related to Commodity Pass-Through Accounts 1588 and 1589 issued on February 21, 2019, including the completion of a comprehensive review of historical balances (2017-2021) and the third-party SOP review. Essex Powerlines also confirmed the implementation of the revised settlement procedures in relation to the OEB's guidance on August 31st, 2019, effective January 1, 2019. Essex Powerlines acknowledged the discovery of settlement issues had impacted the balances for Accounts 1588 and 1589 from 2018 to 2021. Essex Powerlines clarified that the errors have been rectified and the settlement corrections have been filed with the IESO.¹⁹ Furthermore, Essex Powerlines confirmed that the previously approved 2017 balances on an interim basis for Accounts 1588 and 1589 remain unchanged, and the comprehensive review did not uncover any issues with other variance accounts.

In response to the OEB's 2022 decision and rate order (as noted previously), Essex Powerlines addressed the outstanding OEB staff questions and provided the scope and results of the third-party's SOP review.²⁰

¹⁶ EB-2021-0023, Decision and Rate Order, page 10

¹⁷ EB-2021-0023, Decision and Rate Order

¹⁸ Management Summary, page 5

¹⁹ Interrogatory responses to Staff- 7 (d)

²⁰ Interrogatory responses to Staff-8, Staff-10

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 \$4,553,193 as of December 31, 2022, including interest projected to April 30, 2024, for Group 1 accounts on a final basis. The OEB also approves on a final basis for the Group 1 account balances that were previously disposed on an interim basis (2017 balance for Accounts 1588 and 1589, and 2018-2021 for all other Group 1 accounts)

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
LV Variance Account	1550	91,612	(1,063)	90,549
Smart Metering Entity Charge Variance Account	1551	(92,968)	(6,825)	(99,793)
RSVA - Wholesale Market Service Charge	1580	1,109,150	88,512	1,197,662
Variance WMS - Sub-account CBR Class B	1580	(52,525)	(4,202)	(56,727)
RSVA - Retail Transmission Network Charge	1584	321,646	30,965	352,611
RSVA - Retail Transmission Connection Charge	1586	110,220	11,673	121,893
RSVA - Power	1588	1,939,390	174,215	2,113,606
RSVA - Global Adjustment	1589	801,905	31,486	833,391
Total for Group 1 accounts		4,228,430	324,763	4,553,193

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*.²¹ 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 eight-month period from May 1, 2024 to December 31, 2024.²²

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²¹ Article 220, Account Descriptions, Accounting Procedures Handbook for Electricity Distributors, effective January 1, 2012

²² 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.²³

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.²⁴

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.²⁵

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.

Essex Powerlines originally applied to dispose of its LRAMVA debit balance of \$107,403. The balance consists of lost revenues from 2019 to 2023 from CDM programs delivered during the period from 2016 to 2019 and carrying charges. During the proceeding, Essex Powerlines updated its LRAMVA balance to correct an inadvertent error whereby some CDM program savings were double counted in the original claim. This update results in a decrease of \$8,223 and a revised LRAMVA balance of \$99,180. The actual conservation savings claimed by Essex Powerlines under the CFF were validated with reports from the IESO, project level savings files, or both.

²³ Conservation and Demand Management Guidelines for Electricity Distributors, December 20, 2021, chapter 8.

²⁴ On March 20, 2019 the Minister of Energy, Northern Development and Mines issued separate Directives to the OEB and the IESO.

²⁵ Chapter 3 Filing Requirements, section 3.2.6.1

Actual conservation savings were compared against Essex Powerline's forecasted conservation savings of 16,493,468 kWh included in its last OEB-approved load forecast.²⁶

Essex Powerline also applied for approval of LRAM-eligible amounts for the year 2024 on a prospective basis, arising from persisting savings from completed CDM programs.

Findings

The OEB finds that Essex Powerline's LRAMVA balance has been calculated in accordance with the OEB's CDM-related guidelines and updated LRAMVA policy. The OEB approves the disposition of Essex Powerline's LRAMVA debit balance of \$99,180, as set out in Table 7.1 below.

Table 7.1 LRAMVA Balance for Disposition

Account Name	Account Number	Actual CDM Savings (\$) A	Forecasted CDM Savings (\$) B	Carrying Charges (\$) C	Total Claim (\$) D=(A-B)+C
LRAMVA	1568	406,961	315,429	7,649	99,180

The balance in the LRAMVA is now zero, and no further entries to the LRAMVA are permitted at this time. The LRAMVA will not be discontinued, in the event that Essex Powerlines requests the use of the LRAMVA for a CDM activity in a future application, which the OEB will consider on a case-by-case basis.²⁷

The OEB also approves the LRAM-eligible amount for the year 2024, arising from persisting savings from completed CDM programs, as set out in Table 7.2 below. This amount is adjusted mechanically 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. For the 2024 rate year, the OEB approves the requested LRAM-eligible amount of \$16,985, a debit to be recovered from customers, and the associated rate riders.

²⁶ EB-2017-0039, Decision and Order, August 23, 2018

²⁷ Conservation and Demand Management Guidelines for Electricity Distributors, December 20, 2021, p. 28

Table 7.2 LRAM-Eligible Amounts for Prospective Disposition

Year	LRAM-Eligible Amount (in 2023 \$)	LRAM-Eligible Amount (in 2024 \$) ²⁸
2024	16,458	16,985

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²⁸ Calculated as: (approved LRAM-eligible amount for a given rate year in 2023 dollars) x (2024 approved inflation minus X-factor of 4.8%). The inflation minus X-factor is only applied to 2/3 of the LRAM-eligible amount, as Essex Powerline's rate year begins on May 1, 2024.

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, 2023.²⁹

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, 2022.³⁰

In the *Report of the Board: Review of Electricity Distribution Cost Allocation Policy*,³¹ the OEB indicated that it will review the default province-wide microFIT charge annually to ensure it continues to reflect actual costs in accordance with the established methodology. On November 29, 2023, the OEB issued a letter advising electricity distributors that the microFIT charge shall remain at \$4.55 for the duration of the 2024 rate year (May 1, 2024 to April 30, 2025).³²

²⁹ EB-2023-0268, Decision and Order, December 7, 2023

³⁰ EB-2022-0137, Decision and Order, September 8, 2022

³¹ EB-2010-0219, Report of the Board “Review of Electricity Distribution Cost Allocation Policy”, March 31, 2011

³² OEB Letter, “Review of Fixed Monthly Charge for microFIT Generator Service Classification”, issued November 29, 2023

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. Essex Powerlines Corporation 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, Year

ONTARIO ENERGY BOARD

Nancy Marconi
Registrar

SCHEDULE A
DECISION AND RATE ORDER
ESSEX POWERLINES CORPORATION
TARIFF OF RATES AND CHARGES

EB-2023-0020

MONTH XX, 20XX