SUMMARY OF CURRENT DEFERRAL AND VARIANCE ACCOUNTS

1. INTRODUCTION

This Schedule provides a summary of currently held deferral and variance accounts (DVAs), as of December 31, 2023.

In addition, the following other schedules provide additional information on DVAs:

- Schedule 9-1-2 - Group 1 Accounts;
- Schedule 9-1-3 - Group 2 Accounts;
- Schedule 9-1-4 - Account 1592 PILS and Tax Variance;
- Schedule 9-1-5 - LRAM Variance Account;
- Schedule 9-2-1 - New Deferral and Variance Account; and
- Schedule 9-3-1 - Disposition of Deferral and Variance Accounts.

A continuity schedule for current DVAs can be found in Attachment 9-3-1(A) - OEB Workform - Deferral and Variance Account (Continuity Schedule). Details of new accounts for which approval is being sought as part of this Application are included in Schedule 9-2-1 - New Deferral and Variance Accounts. Details of the accounts for which Hydro Ottawa is seeking disposition are discussed in Schedule 9-3-1 - Disposition of Deferral and Variance Accounts.

2. DETAILS OF DVAs

Tables 1 and 2 below present a complete list of Hydro Ottawa's active DVAs. The DVAs are categorized based on the OEB's report on the *Electricity Distributors' Deferral and Variance Account Review Initiative*[1] (EDDVAR Report), which categorizes the DVAs into Group 1 and Group 2 Accounts. In Table 1, Uniform System of Accounts (USofA) Account 1595 has a Sub-Account for each year from 2019-2025. In Hydro Ottawa's 2021-2025 Approved Settlement

[1] Ontario Energy Board, *Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR),* EB-2008-0046 (July 31, 2009).

Agreement,[2] the Sub-Accounts for 2016 and 2017 were cleared on a final basis. Subsequently in Hydro Ottawa's 2022, 2023 and 2024 Rate Applications, Sub-Accounts 1595 (2018), 1595 (2019) and 1595 (2020) were cleared on a final basis, respectively. Hydro Ottawa will propose to clear 1595 (2021) on a final basis based on 2024 audited financials that will be available at a later point in this proceeding.

Hydro Ottawa confirms that DVAs are being used as prescribed in the OEB's *Accounting Procedures Handbook* (APH). Please refer to Schedule 9-1-2 - Group 1 Accounts and Schedule 9-1-3 - Group 2 Accounts for additional information on these Accounts.

Table 1 – Group 1 DVAs

Group 1 Account – Description	Account
Low Voltage ("LV") Variance Account	1550
Smart Meter Entity Charge Variance Account	1551
Retail Settlement Variance Account ("RSVA") – Wholesale Market Service Charge	1580
RSVA – Retail Transmission Network Charge	1584
RSVA – Retail Transmission Connection Charge	1586
RSVA – Power (excluding Global Adjustment)	1588
RSVA – Global Adjustment	1589
Disposition and Recovery/Refund of Regulatory Balances (2016-2025)	1595

[2] Hydro Ottawa Limited, *2021-2025 Custom Incentive Rate-Setting Approved Settlement Proposal*, EB-2019-0261 (September 18, 2020), pages 33,41 & 65.

Table 2 – Group 2 DVAs

Group 2 Account – Description	Account
Other Regulatory Assets	1508
Impacts Arising from the COVID-19 Emergency	1509
Incremental Cloud Computing Implementation Costs	1511
Pension & Other Post-Employment Benefits (OPEB) Forecast Accrual versus Actual Cash Payment Differential Carrying Charges	1522
Lost Revenue Adjustment Mechanism (LRAM) Variance Account	1568
PILS and Tax Variance	1592
Other Deferred Credits	2425

3. CONTINUITY SCHEDULE

A complete continuity schedule for all DVAs, including Sub-Accounts, can be found in Attachment 9-3-1(A) - OEB Workform - Deferral and Variance Account (Continuity Schedule). Hydro Ottawa is using the DVA Workform issued on April 11, 2024. The utility has completed the model using audited balances to the end of 2023. Hydro Ottawa will update the DVA model for 2024 actuals at a later stage in this application proceeding.

For more details on Hydro Ottawa's proposed disposition of DVAs, please see Schedule 9-3-1 - Disposition of Deferral and Variance Accounts.

4. CARRYING CHARGES

The interest rate used for the calculation of all carrying charges to applicable Accounts is prescribed by the OEB and published quarterly on its website. Table 3 includes the interest rates up to Q4 2024. Hydro Ottawa confirms that it uses these interest rates where applicable.

Table 3 – Interest Rates for Carrying Charges on DVAs

Prescribed Interest Rate		
Period(s) Used	**Approved for Deferral and Variance Accounts**	**CWIP Account - Prescribed Interest Rate**
Q4 2024	4.40%	4.55%
Q3 2024	5.20%	4.98%
Q2 2024	5.49%	4.98%
Q4 2023 to Q1 2024	5.49%	5.48%
Q2 2023 to Q3 2023	4.98%	5.01%
Q1 2023	4.73%	5.01%
Q4 2022	3.87%	5.01%
Q3 2022	2.20%	4.66%
Q2 2022	1.02%	3.31%
Q1 2022	0.57%	2.72%
Q2 2021 to Q4 2021	0.57%	2.29%
Q4 2020 to Q1 2021	0.57%	2.03%
Q3 2020	0.57%	2.48%
Q2 2020	2.18%	2.48%
Q1 2020	2.18%	2.88%

5. RECONCILIATION OF CONTINUITY SCHEDULE VS. REPORTING AND RECORD KEEPING REQUIREMENTS

Appendix A of Attachment 9-3-1(A) - OEB Workform - Deferral and Variance Account (Continuity Schedule) provides a list of differences between account balances as of December 31, 2023 as reported in the Continuity Schedule and 2.1.7 of the OEB's Reporting and Record Keeping Requirements. Differences in Accounts 1588 and 1589 relate to current year principal adjustments on RPP/non-RPP volume true-ups made in 2024 on 2023 balances. The adjustments are consistent with the OEB's accounting guidance related to commodity

pass-through Accounts 1588 and 1589. Refer to details provided in the tab titled: 'Principal adjustments' in Attachment 9-3-1(A) - OEB Workform - 2025 Global Adjustment Analysis.

6. NEW DVAs AND SUB-ACCOUNTS

Please see Schedule 9-2-1 - New Deferral and Variance Accounts for information on new DVAs and Sub-Accounts.

7. ADJUSTMENTS TO DVAs

Hydro Ottawa confirms that it has only made adjustments to the 1508 Sub-account - Connection Cost Recovery Agreement (CCRA), Payments Differential Variance Account, DVA balance from 2019 that was previously approved by the OEB on a final basis. Please refer to Schedule 9-1-3 for further details. For clarity, no other adjustments were made to accounts previously approved by the OEB on a final basis.

8. STATUS OF GROUP 2 ACCOUNTS

Active Group 2 Accounts are identified in Table 2 above. Table 4 below outlines how the utility proposes to treat the Group 2 Accounts (i.e. continue or discontinue). For accounts proposed to be discontinued, Hydro Ottawa intends for this to be done after the disposition in 2026's rate application, which will include balances up to the end of 2024. For information on those Accounts for which Hydro Ottawa is continuing, please see Schedule 9-1-3 - Group 2 Accounts. Please note, Group 2 Accounts that were discontinued per Hydro Ottawa's 2021-2025 Approved Settlement Agreement have been removed from these Tables.[3]

[3] Hydro Ottawa Limited, 2021-2025 *Custom Incentive Rate-Setting Approved Settlement Proposal*, EB-2019-0261 (September 18, 2020), page 37.

1 **Table 4 – Proposed Action on Group 2 Accounts for 2025[4]**

Group 2 Account - Description	Account	Type	Continue/Discontinue
Other Regulatory Assets - Sub-Accounts			
Pole Attachment Revenue Variance	1508	Utility Specific	Discontinue
Green Button Initiative Costs	1508	Generic	Discontinue
Designated Broadband Project Impacts	1508	Generic	Continue
Ultra-Low Overnight (ULO) Implementation Costs	1508	Generic	Discontinue
Getting Ontario Connected Act (GOCA)	1508	Generic	Continue
Low-Income Energy Assistance Program Emergency Financial Assistance (LEAP EFA) Funding Deferral	1508	Generic	Continue
Pension & OPEB	1508	Generic	Continue
Gains and Loss on Disposal of Fixed Assets Variance Account	1508	Utility Specific	Continue
Earnings Sharing Mechanism (ESM) Variance Account	1508	Utility Specific	Continue
Connection Cost Recovery Agreement (CCRA) Payments Differential Variance Account	1508	Utility Specific	Continue
Efficiency Adjustment Mechanism (EAM) Deferral Account	1508	Utility Specific	Continue
OEB Cost Assessment Variance	1508	Utility Specific	Continue
RCVA Retail Incremental Revenue	1508	Generic	Discontinue
STR Incremental Revenue	1508	Generic	Discontinue
OEB Rate Application Deferral Account	1508	Utility Specific	Continue
Performance Outcomes Account Mechanism Deferral Account	1508	Utility Specific	Continue
Capital Variance Account	1508	Utility Specific	Continue
Pension & OPEB Forecast Accrual versus Actual Cash Payment Differential Carrying Charges	1522	Generic	Continue
PILS and Tax Variances	1592	Generic	Continue
LRAM Variance Account	1568	Utility Specific	Continue
Impacts Arising from COVID-19 Emergency	1509	Generic	Discontinue
Incremental Cloud Computing Implementation Costs	1511	Generic	Discontinue
Extended Horizons Variance Account	1508	Generic	Continue

[4] The LRAMVA account will remain open until it is possible for Hydro Ottawa to estimate the impact on the 2021-2025 period. For more information on Hydro Ottawa's LRAM variance account, refer to Schedule 9-1-5 - LRAM Variance Account.

GROUP 1 ACCOUNTS

1. INTRODUCTION

As per the OEB's report on the *Electricity Distributors' Deferral and Variance Account Review Initiative* (EDDVAR Report), Group 1 accounts include account balances that are cost pass-through and accounts whose original balances were approved by the OEB in a previous proceeding.[1] Please see Table 1 in Schedule 9-1-1 - Summary of Current Deferral and Variance Accounts for a list of Hydro Ottawa's active Group 1 Deferral and Variance Accounts.

2. ENERGY SALES AND COST OF POWER AND EXPENSE BALANCES

The sale of energy and the purchase of power are pass-through transactions. Hydro Ottawa records monthly retail settlement variance entries related to any difference between the Power Recovery revenue and Purchased Power expense. Under International Financial Reporting Standards (IFRS), and specifically of IFRS 14 - Regulatory Deferrals Accounts (IFRS 14), the impact of regulatory deferral account balances including retail settlement variance accounts are presented as "Net movements in regulatory balances, net of tax" on Hydro Ottawa's statements of profit and loss.

Totals for Energy Sales (Power Recovery Revenue) and Cost of Power (Purchased Power), per the Uniform System of Accounts (USofA), are reconciled to the 2023 audited financial statements, in addition 2023 totals for Power Recovery Revenue and Purchased Power by USofA net to zero. These balances have already been cleared as part of Hydro Ottawa's 2025 annual application. Hydro Ottawa will confirm 2024 audited financial statements when available at a later stage in this application proceeding.

[1] Ontario Energy Board, *Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR)*, EB-2008-0046 (July 31, 2009).

3. CLASS A & CLASS B GLOBAL ADJUSTMENT AND COMMODITY

Total wholesale purchases include purchases from the Independent Electricity System Operator (IESO), Hydro One Networks Inc. (Hydro One) and various embedded generators. On a monthly basis, Hydro Ottawa accrues purchased power cost, which includes cost for charge type (CT) 147 - Class A Global Adjustment, CT 148 - Class B Global Adjustment (GA) and CT 1115 - Real-Time Energy Settlement Amount for Non-Dispatchable Loads. Hydro Ottawa records such amounts into pass-through Class B GA expense (Account 4707 - Charges GA) and Commodity expense account (Account 4705 - Power Purchased), respectively. Hydro Ottawa also accrues unbilled Power Recovery Revenue, which includes revenue for Class B GA and Commodity. The utility records amounts into pass-through Class B GA revenue and Commodity revenue accounts (Accounts 4006-4055), respectively.

Hydro Ottawa bills all Class B non-Regulated Price Plan (RPP) customers on the GA 1st Estimate posted on the IESO's website. For Commodity, Hydro Ottawa bills RPP customers based on their choice of Standard Time of Use (TOU), Tiered RPP (Tiered) or Ultra-Low Overnight (ULO) price plans. Non-RPP customers are billed the weighted average hourly spot price (WAHSP). The RPP portion of the CT 148 GA Charge is recorded into the Commodity expense account. Hydro Ottawa confirms that journal entries are recorded as instructed in the OEB's accounting guidance related to commodity pass-through Accounts 1588 and 1589.[2]

The estimates for unbilled Power Recovery Revenue are based on preliminary metered data. An interval class customer's unbilled estimate is based on preliminary metered hourly data, while a non-interval class customer's unbilled data is based on preliminary smart metered data. Where meter data is missing, a class average is used as an estimate.

By the fourth business day of the following month, Hydro Ottawa submits to the IESO the difference between fixed price for TOU, Tiered and ULO purchases, the estimated weighted

[2] Ontario Energy Board, *Accounting Procedures Handbook Update - Accounting Guidance Related to Commodity Pass-Through Accounts 1588 & 1589* (Re-Issued May 23, 2023), pages 11-30.

average price for RPP customers, and the estimated RPP portion of the GA Charge (which is based upon the GA 2nd Estimate posted on the IESO's website, multiplied by the estimated TOU, Tiered and ULO kWh (billed and unbilled)). The RPP portion of the GA Charge is recorded into Account 1588. The RPP proration is based on billed and estimated unbilled kWh. This is requested through CT 142 - Regulated price plan settlement amount (RPP settlement).

RPP settlement first true-up claim is completed the month following the initial settlement claim and consists of updating the GA 2nd Estimate to actual GA rate paid. At the same time, the updates are made to the wholesale purchased power cost (price and volume) to actual price and quantity. Subsequent true-up claims are completed when additional actual kWh sales for RPP customers vs. non-RPP customers are known. All changes are recorded in the general ledger. Typically actual kWh volumes are known by the third month after the initial purchase month and therefore the majority of the true up settlement are finalized at that time. In addition, in 2024 the IESO introduced additional settlement statements into the market, known as Resettlement Settlement Statements. The final potential impact of IESO's resettlement amounts will not be known until the final recalculated settlement statement has been issued for the last trade day of each initial calendar month. Typically, final remaining true-up between 1588 and 1589 will be completed up to and as at May 31 of each subsequent year for the previous calendar year. The final review for 2023 was completed and was included in the 2025 Application.

Hydro Ottawa bills its Class A customers the amount the utility pays for Class A global adjustment. Class A customers are charged a GA amount that is based on their individual peak demand factor multiplied by the total Class A global adjustment amount paid by Hydro Ottawa.

Hydro Ottawa has no embedded distributors in its service territory. Wholesale metered customers are billed directly from the IESO for Commodity and Global Adjustment charges. Hydro Ottawa submits kWh to the IESO for embedded generation within its service territory.

Hydro Ottawa calculates and maintains both GA Retail Settlement Variance Accounts for Class A and Class B separately in Sub-Accounts of Account 1589.

4. CERTIFICATION OF EVIDENCE

Please refer to Schedule 1-1-4 - Administration for confirmation that Hydro Ottawa's has followed the updated accounting guidance with respect to Account 1588 RSVA - Power and Account and 1589 RSVA - Global Adjustment.

GROUP 2 ACCOUNTS

1. INTRODUCTION

As per the OEB's report on the *Electricity Distributors' Deferral and Variance Account Review Initiative* (EDDVAR Report),[1] Group 2 Accounts include deferral and variance accounts (DVAs) that require a prudency review by the OEB. Please see Tables 2 and 4 in Schedule 9-1-1 - Summary of Current Deferral and Variance Accounts for a list of Hydro Ottawa's active Group 2 DVAs, some of which are proposed to be discontinued in this application.

This Schedule discusses Group 2 Accounts, with the exception of the following:

- Account 1592 (for details on this Account, please see Schedule 9-1-4 - Account 1592 PILS and Tax Variance);
- 1568 Lost Revenue Adjustment Mechanism (LRAM) Variance Account (for details on this Account, please see Schedule 9-1-5 - LRAM Variance Account); and
- 1508 Sub-Accounts that are now closed.

More information on the disposition of these accounts is available in Schedule 9-3-1 - Disposition of Deferral and Variance Accounts. The 2023 balances of Group 2 Accounts can be viewed in Excel Attachment 9-3-1(A) - OEB Workform - Deferral and Variance Account (Continuity Schedule). Hydro Ottawa will update the DVA model for 2024 actuals, including Group 2 Accounts at a later stage in this Application proceeding.

2. UTILITY SPECIFIC GROUP 2 ACCOUNTS

Sub-Accounts that have been fully disposed of are not discussed in this Application. The status of active accounts are discussed below.

[1] Ontario Energy Board, *Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR)*, EB-2008-0046 (July 31, 2009).

- Sub-Account 1508 - Other Regulatory Assets - Gains and Losses on Disposal of Fixed Assets Variance Account, to record the difference between the forecast and actual loss on the disposal of fixed assets, related to retirement of assets or damage to plant. This Sub-Account is still active. See further details below in Section 2.1.
- Sub-Account 1508 - Other Regulatory Assets - Earnings Sharing Mechanism (ESM) Variance Account, to record amounts related to any earnings above Hydro Ottawa's approved Return on Equity (ROE) to be shared on a 50/50 basis between Hydro Ottawa and its ratepayers with no dead band. This Sub-Account is still active. See further details below in Section 2.2.
- Sub-Account 1508 - Other Regulatory Assets - Connection Cost Recovery Agreement (CCRA) Payments Deferral Account, to move the identified payments out of the proposed revenue requirement and establish the CCRA Regulatory Account. See further details below in Section 2.3.
- Sub-Account 1508 - Other Regulatory Assets - Connection Cost Recovery Agreement (CCRA) Payments Differential Variance Account, to record the revenue requirement difference between what Hydro Ottawa has included in base rates and what actual CCRA payments were made to Hydro One Networks Inc. (Hydro One). This Sub-Account is still active. See further details below in Section 2.4.
- Sub-Account 1508 - Other Regulatory Assets - Revenue Requirement Differential Variance Account related to Capital Additions, to record the revenue requirement impact of underspending on Hydro Ottawa's capital plan by specific categories. This Sub-Account is still active. See further details below in Section 2.5.
- Sub-Account 1508 - Other Regulatory Assets - Efficiency Adjustment Mechanism (EAM) Deferral Account, to record the proxy stretch factor related to any Hydro Ottawa efficiency ranking declines during the Custom Incentive Rate-setting (Custom IR) term for 2016-2020. This Sub-Account was active until December 31, 2020. For further detail, refer to Section 2.6 below.
- Sub-Account 1508 - Other Regulatory Assets - Performance Outcomes Accountability Mechanism (POAM) Deferral Account, to link the execution of certain aspects of Hydro

Ottawa's 2021-2025 Distribution System Plan (DSP) to the recovery of amounts included in the agreed-upon revenue requirement. There are five performance metrics linked to specific outcomes identified in the DSP, each of which will have an annual target. For further details, refer to Section 2.7 below.

2.1. GAINS AND LOSSES ON DISPOSAL OF FIXED ASSETS VARIANCE ACCOUNT

The purpose of this 1508 Sub-Account is to record the difference between the forecast and actual gain or loss recorded in Account 4362 - Loss from Retirement of Utility and Other Property Uniform System of Accounts (USofA) 4362. Account 4362 tracks the disposal of fixed assets related to scheduled retirements or unforeseen damage to Hydro Ottawa plant, including costs associated with weather related damage as well as damages incurred by third parties. Examples recorded into this account include losses on meters, station equipment, transformers, poles ,vehicles, scrap sales and inventory obsolescence. As part of the 2021-2025 Approved Settlement Agreement,[2] the Parties[3] agreed to the continuation of this 1508 Sub-Account.

The forecast balances for 2021-2025 Custom IR term fluctuates annually with an overall estimated loss of $2.243M.[4] Balances related to this 1508 Sub-Account for years 2020-2023 is outlined in Table 18 below, as well as in Excel Attachment 9-1-1(A) - OEB Workform - Deferral and Variance Account (Continuity Schedule). Balances accumulated up until December 31, 2019, have been approved for disposal. Accumulated balances up until December 31, 2023 are proposed to be disposed of in this application. Balances related to 2024 and 2025 will be calculated and be addressed as part of a future Application.

[2] Hydro Ottawa Limited, *2021-2025 Custom Incentive Rate-Setting Approved Settlement Agreement*, EB-2019-0261 (September 18, 2020).
[3] Hydro Ottawa and the following intervenor groups: Building Owners and Managers Association, Consumers Council of Canada, Distributed Resource Coalition, Environmental Defence, Energy Probe Research Foundation, Pollution Probe, School Energy Coalition, Vulnerable Energy Consumers Coalition.
[4] Hydro Ottawa Limited, *2021-2025 Custom Incentive Rate-Setting Distribution Rate Application*, EB-2019-0261 (February 10, 2020, Updated May 29, 2020).

Table 1 – 2020 to 2023 Loss from Retirement of Utility and Other Property ($'000s)[5]

	Historical Years			
	2020	**2021**	**2022**	**2023**
USofA 4362 OEB-Approved (gain)/loss	$ (198)	$ 389	$ 751	$ 323
USofA 4362 Actual (gain)/loss	$ 87	$ (202)	$ 1,234	$ (897)
USofA 1508 Variance (Principle)	**$ 285**	**$ (590)**	**$ 483**	**$ (1,220)**

2.1.1. Update/Continuance

Weather-related damages are unpredictable and have been increasing in frequency. Historical events included freezing rain, powerful winds, and tornadoes that were beyond Hydro Ottawa's control inflicted significant damage on assets across various lifespans. According to Stantec Consulting Ltd.'s distribution system climate vulnerability risk assessment report, "there are several indicators that suggest that derecho activity may increase in frequency for southern Canada under climate warming".[6] This report reaffirms the need to revise design standards to minimize weather related damages to the distribution system. For information on distribution enhancement programs that address adverse weather events risks, see Schedule 2-5-8 - System Service Investments. Hydro Ottawa has not budgeted costs related to significant weather damages in USoA 4362, as such costs are unpredictable. As outlined in Schedule 9-1-1 - Summary of Current Deferral and Variance Accounts, Hydro Ottawa is requesting a continuance of this 1508 Sub-Account. As such, this 1508 Sub-Account will record the difference between the forecast loss and the actual gain/loss on the disposal of fixed assets related to scheduled retirements or unforeseen damage to our plant, including costs associated with weather related damage for Test years 2026-2030. For more information on USofA 4362 forecast loss/costs, please refer to Schedule 6-3-5 - Other Income & Deductions. Table 2 below provides Hydro Ottawa's forecast financial losses related to the disposal of fixed assets over Test years 2026-2030 related to both planned and unplanned asset retirements.

[5] The related USofA is Sub-Account 1508 - Gains and Loss on disposal of Fixed Assets Variance Account.
[6] Included in this Application as Attachment 2-5-4(B) - Addendum Report to Distribution System Climate Vulnerability Risk Assessment and Climate Change Adaption Plan, page 47.

Table 2 – 2026 to 2030 Loss from Retirement of Utility and Other Property ($'000s)

	Test Years				
	2026	**2027**	**2028**	2029	**2030**
USofA 4362 Forecast Loss	$ 167	$ 635	$ 596	$ 609	$ 576

2.2. EARNINGS SHARING MECHANISM VARIANCE ACCOUNT

The ESM Account credits ratepayers for 50% of any earnings above Hydro Ottawa's approved regulatory ROE, with no dead band. The ratepayer share of the earnings shall be grossed up for any tax impacts and credited to this account. The account is asymmetrical, meaning if Hydro Ottawa under earns, no amount will be collected from ratepayers.

The regulatory net income for the purpose of earnings sharing is to be calculated in the same manner as net income for regulatory purposes under the Reporting and Record Keeping Requirements (RRR) filings. This will exclude revenue and expenses that are not otherwise included for regulatory purposes, such as settlement of any regulatory assets or regulatory liabilities, including the LRAM and changes in taxes/Payments in Lieu of Taxes (PILS) to which the USofA 1592 – PILS and Tax Variance for 2006 and Subsequent Years applies.

In addition, the ESM calculation may require adjustments to ensure there is an appropriate treatment of amounts recorded and/or recovered by way of DVAs. As part of the 2016-2020 Approved Settlement Agreement,[7] the ESM was calculated on an individual yearly basis. As per the 2021-2025 Approved Settlement Agreement,[8] the account has been modified such that starting in 2021 the ESM will function as a cumulative account. The balance (if any) will be cleared and credited on a final basis to customers at the end of the five-year rate term. Other components of the previous ESM will remain the same.

[7] Hydro Ottawa Limited, *2016-2020 Custom Incentive Rate-Setting Approved Settlement Proposal*, EB-2015-0004 (December 7, 2015).
[8] Hydro Ottawa Limited, *2021-2025 Custom Incentive Rate-Setting Approved Settlement Proposal*, EB-2019-0261 (September 18, 2020), pages 34-35.

Amounts related to 2016-2018 were approved for disposition as part of the 2021-2025 Approved Settlement Agreement. For Historical Year 2019, Hydro Ottawa realized over-earnings above the deemed return of 0.40%, and therefore a principal balance of $1,152K has been recorded into this account. Hydro Ottawa did not over-earn in 2020. Tables 3 and 4 below provide calculations for the amounts recorded 2019-2020 and 2021-2023 respectively. For the 2021-2023 historical period, no amount has been recorded into this account.

1 **Table 3 – ESM Calculation for 2019 - 2020 ($'000s)[9]**

	Historical Years	
	2019	**2020**
Net Income (per RRR)	$ 38,519	$ 33,518
Deduct Previous Years' LRAM	$ (1,322)	$ (330)
Add Current Year LRAM	$ (250)	$ 884
Deduct Previous Years' ESM	$ 311	$ 1,668
Add Current Year FRP	$ 5,000	$ 8,757
Deduct Previous Years' FRP	$ (5,019)	$ (8,427)
Add Current Year CCRA	$ (729)	$ (2,359)
Deduct Previous Years' CCRA	$ 729	$ 2,359
Add Current Year CCRA	$ 652	-
Deduct Previous Years' CCRA	$ (649)	-
Add (Deduct) Provision	$ 3,039	$ (2,565)
PILS Grossed-upon Regulatory Net Income Adjustments	$ (635)	$ 4
Net Income after Adjustments	**$ 39,646**	**$ 33,510**
Deemed Equity (per RRR)	$ 422,635	$ 463,342
ESM Achieved ROE	9.38%	7.23%
Deemed ROE	8.98%	8.98%
% Return Above Deemed	**0.40%**	**-**
Earnings Above Regulated Return	$ 1,693	-
50% of Earnings above Regulated Return	$ 846	-
PILS Grossed-up	$ 305	-
RATEPAYERS' SHARE OF OVEREARNING	**$ 1,152**	**-**

[9] Totals may not sum due to rounding.

Table 4 – ESM Calculation for 2021 - 2023 ($'000s)[10]

	Historical Years			Cumulative
	2021	2022	2023	2021-2023
Net Income (per RRR)	$ 40,101	$ 35,083	$ 28,798	$ 103,982
Deduct Previous Years' LRAM	$ (1,175)	$ 9	$ (354)	$ (1,520)
Add Current Year LRAM	$ 489	$ 304	$ (209)	$ 584
Deduct Previous Years' ESM	$ 1,809	$ (701)	-	$ 1,109
POAM - Recorded in Year	$ (108)	$ (292)	$ (400)	$ (800)
CCRA - Earned in Year	$ (308)	$ (1,026)	$ (273)	$ (1,607)
CCRA - Recorded in Year	$ 264	$ 1,508	$ (120)	$ 1,652
PILS Grossed-up on CDM Adjustments	$ (350)	$ 71	$ 489	$ 209
Net Income after Adjustments	**$ 40,723**	**$ 34,956**	**$ 27,930**	**$ 103,609**
Deemed Equity (per RRR)	$ 473,473	$ 505,352	$ 528,965	$ 1,507,790
ESM Achieved ROE	8.60%	6.92%	5.28%	6.87%
Deemed ROE	8.34%	8.34%	8.34%	8.34%
% Return Above Deemed	**0.26%**	**-**	**-**	**-**
Earnings Above Regulated Return	$ 1,235	-	-	-
50% of Earnings above Regulated Return	$ 618	-	-	-
PILS Grossed-up	$ 223	-	-	-
RATEPAYERS' SHARE OF OVEREARNING	**$ 840**	**-**	**-**	**-**

2.2.1. Continue with Modification

As described in Schedule 1-3-1 Rate Setting Framework, Hydro Ottawa proposes to continue the use of this variance account with one modification. Hydro Ottawa proposes to establish a deadband that is tied to Hydro Ottawa Adjusted PEG model results, as described in Attachment 1-3-3 (A) - PEG Benchmarking Analysis. Establishing a deadband is consistent with a number of OEB's policies[11] and recent Decision and Orders such as THESL's 2020-2024 rate application (EB-2023-0195) and Alectra Utilities Corporation's 2020 rate application (EB-2019-0018). If the

[10] Totals may not sum due to rounding.
[11] Ontario Energy Board, Handbook for Utility Rate Applications (October 13, 2016), page 16

utility's actual Return on Equity ROE differs from the approved ROE, Hydro Ottawa proposes returning any excess earnings to customers while not recovering any underearning to customers as outlined in Table 5.

Table 5 - ESM Proposed ESM Formula

Earnings Results	Efficiency Test Met	Treatment
Below approved ROE	N/A	Borne entirely by utility/shareholder
0-150 basis points above approved ROE	Yes	Retained by utility/shareholder if the adjusted PEG cohort is maintained at the end of the term per Attachment 1-3-3 (A) - PEG Benchmarking Analysis
0-150 basis points above approved ROE	No	50:50 sharing of ratepayer/shareholder
Above 150 basis points	N/A	50:50 sharing of ratepayer/shareholder

The above would be based on overall earnings at the end of the Custom IR rate term (i.e. end of 2030), as per the direction signalled in the *OEB's Handbook for Utility Rate Applications*.[12]

For the purpose of earnings sharing, the regulatory net income will be calculated in the same manner as net income for regulatory purposes under the RRR filings. For clarity, this calculation excludes revenue and expenses related to non-distribution activities. In addition, Regulatory Assets (such as changes in taxes/PILS to which USofA 1592 - PILS and Tax Variance for 2006 and Subsequent Years applies) will be shared through the Regulatory account rather than through the ESM.

The ratepayer share of earnings will be credited to the variance account in any given year and subsequently adjusted as required. The final balance at the end of the Custom IR term will be based on a cumulative five years.

[12] Ontario Energy Board, *Handbook for Utility Rate Applications* (October 13, 2016), page 28.

Draft Accounting Order:

A) The following is a sample journal entry when an ESM amount is required. The debits and credits would be reversed should underearning occur, which could be recorded up to a full reversal of any previous over-earned amounts in the 2026-2030 rate period. For clarity, this could not result in a recovery from customers.

B) This account will accrue carrying charges based on OEB-prescribed interest rates until final disposition.

Table 6 - ESM Sample Journal Entry

Account	Debit	Credit
Account 4080 - Distribution Services Revenue	x,xxx.xx	
Account 1508 - Sub-Account ESM Variance		x,xxx.xx
To record cumulative overearning		
Account 1508 - Sub-Account ESM Variance	x,xxx.xx	
Account 6035 - Other Interest Expense		x,xxx.xx
To record carrying charges		

In the event that Hydro Ottawa achieves cumulative over-earnings exceeding 150 basis points at the end of 2030, such determination will not be known at the time of the utility's next rebasing application. Therefore, Hydro Ottawa proposes any resultant balance be returned to customers in accordance with the materiality levels prescribed by the OEB for Group 2 Accounts.

2.3. CONNECTION COST RECOVERY AGREEMENT PAYMENTS DEFERRAL ACCOUNT

As part of Hydro Ottawa's 2016-2020 Custom IR Application,[13] $5M of unidentified CCRA payments to Hydro One were estimated per year. As part of the 2016-2020 Approved

[13] Hydro Ottawa Limited, *2016-2020 Custom Incentive Rate-Setting Distribution Rate Application*, EB-2015-0004 (April 29, 2015).

Settlement Agreement,[14] it was agreed to move the unidentified payments out of the proposed revenue requirement and establish the CCRA Regulatory Account. The CCRA Regulatory Account allows Hydro Ottawa to record (and later recover from customers) the annual revenue requirement of CCRA payments that commence in the year in which the facilities (to which each CCRA payment relates) provide services to Hydro Ottawa customers.

Hydro Ottawa recorded the revenue requirement related to eligible projects 2017 through 2020. No revenue requirement was recorded in 2016. The 2017-2019 balance was disposed of as part of the 2021-2025 Approved Settlement Agreement.[15] Hydro Ottawa recorded the revenue requirement in fiscal year 2020 related to eligible projects in 2017-2019. Please see Table 7 below for the calculation of the revenue requirement. In the 2022 fiscal year, Hydro Ottawa received an invoice from Hydro One related to a 2019 CCRA as well as a refund from Hydro One. Although the 2019 CCRA balance has been disposed of, Hydro Ottawa has recorded a return of $23K (principal balance) to rate payers in this account. The return amount is reflected in Excel Attachment 9-3-1(A) - OEB Workform - Deferral and Variance Account (Continuity Schedule).

Capital Cost Allowance affects the amount of PILS to be recovered from ratepayers. Hydro Ottawa has used the Capital Cost Allowance (CCA) Class 14.1 rules for eligible capital property effective January 1, 2017 for the PILS calculation. As per OEB guidance, any impact of Bill C-97 prior to rebasing, or due to any other legislative or regulatory changes to tax rates, is being recorded in Sub-Account of 1592. Please see Schedule 9-1-4 - Account 1592 PILs and Tax Variance for further details.

[14] Hydro Ottawa Limited, *2016-2020 Custom Incentive Rate-Setting Approved Settlement Proposal*, EB-2015-0004 (December 7, 2015).
[15] Hydro Ottawa Limited, *2021-2025 Custom Incentive Rate-Setting Approved Settlement Agreement*, EB-2019-0261 (September 18, 2020), pages 30, 33, 34, 58, 66, 67 & Attachment 6.

Table 7 – CCRA Revenue Requirement Calculation 2020 ($'000s)[16]

	Historical Year
	2020
Opening Gross Asset Balance	$ 12,304
Additions	-
Closing Gross Asset Balance	**$ 12,304**
Opening Accumulated Depreciation	$ 209
Current Year Depreciation	$ 322
Closing Accumulated Depreciation	**$ 531**
Average Net Book Value	**$ 11,935**
Financial Net Income	$ 429
Add Depreciation	$ 322
Deduct CCA	$ (604)
Net Income For Tax Purposes	**$ 147**
Tax Rate	$ 0
PILS	$ 39
PILS Grossed-up	**$ 53**
Depreciation	$ 322
Short Term Interest	$ 13
Long-Term Interest	$ 247
ROE	$ 429
PILS Grossed-up	$ 53
TOTAL REVENUE REQUIREMENT	**$ 1,064**

Hydro Ottawa is seeking to clear the (23K) adjustment to the 2019 value and the principal balance of $1,064 for year 2020 as part of this Application.

[16] Totals may not sum due to rounding.

2.4. CONNECTION COST RECOVERY AGREEMENT PAYMENTS DIFFERENTIAL VARIANCE ACCOUNT

As noted above in Section 2.3, Hydro Ottawa's CCRA regulatory account to collect or refund the difference for CCRA payments between what Hydro Ottawa has forecasted and what is actually paid for both new and true-up CCRA payments. The account is symmetrical and effective January 1, 2021 replaces the existing Sub-Account 1508 - Other Regulatory Assets - CCRA Payments Deferral Account. Per the 2021-2025 Approved Settlement Agreement,[17] Hydro Ottawa modified this Group 2 Account to recover the difference between the forecasted new and true-up CCRA payments (known and unknown) and actual CCRA payments made to Hydro One. Hydro Ottawa has developed a detailed estimate of future CCRA payments. However, unknown variables during construction, for which Hydro Ottawa relies on Hydro One, as well as changes in load expectations during the project development phase or actual load from Customers can significantly impact Hydro Ottawa's ability to manage the ultimate cost. As such this account was modified to include both known and unknown CCRA payments to Hydro One.

Table 8 provides a detailed breakdown of the yearly difference between actual and forecasted CCRA additions for historical years 2021-2023. Due to the below planned additions and/or delay in the timing of additions, Hydro Ottawa has recorded annual revenue requirement return to ratepayers. The balances in Table 8 below also include the adjustment to the 2022 refund mentioned in the above section.

[17] Hydro Ottawa Limited, *2021-2025 Custom Incentive Rate-Setting Approved Settlement Agreement,* EB-2019-0261 (September 18, 2020), page 30.

Table 8 – CCRA Revenue Requirement Calculation 2021-2023 ($'000s)[18]

	Historical Years		
	2021	**2022**	**2023**
Opening Gross Cumulative Asset Balance	$ (588)	$ (23,363)	$ (2,747)
(Under)/Over additions	$ (22,775)	$ 20,616	$ (5,571)
Closing Gross Cumulative Asset Balance	**$ (23,363)**	**$ (2,747)**	**$ (8,318)**
Opening Accumulated Depreciation	$ (21)	$ (142)	$ (247)
Current Year Depreciation	$ (122)	$ (104)	$ (96)
Closing Accumulated Depreciation	**$ (142)**	**$ (247)**	**$ (343)**
Average Cumulative Net Book Value	**$ (11,894)**	**$ (12,860)**	**$ (5,237)**
Financial Net Income	$ (397)	$ (429)	$ (175)
Add Depreciation	$ (122)	$ (104)	$ (96)
Deduct CCA	$ 1,735	$ (165)	$ 533
Net Income For Tax Purposes	**$ 1,216**	**$ (698)**	**$ 262**
Tax Rate	26.50%	26.50%	26.50%
PILS	$ 322	$ (185)	$ 70
PILS Grossed-up	**$ 439**	**$ (252)**	**$ 95**
Depreciation	$ (122)	$ (104)	$ (96)
Short Term Interest	$ (8)	$ (9)	$ (4)
Long-Term Interest	$ (220)	$ (238)	$ (97)
ROE	$ (397)	$ (429)	$ (175)
PILS Grossed-up	$ 439	$ (252)	$ 95
Capital stretch factor	-	$ 6	$ 3
TOTAL (RETURN) REVENUE REQUIREMENT	**$ (308)**	**$ (1,026)**	**$ (273)**

In total, Hydro Ottawa is seeking to clear the principal balance of $(566K) for years 2019-2023 as part of this Application. The $(566k) balance is made up of $(23)k[19] and $1,064k for the years 2019 and 2020 respectively from the 2016-2020 CCRA regulatory account and $(308k),

[18] Totals may not sum due to rounding.
[19] Refer to Section 2.3

$(1,026k) and $(273k) for years 2021-2023 respectively from the 2021-2025 CCRA regulatory account.

2.4.1. Continue

In recent years, Large Load requests have increased significantly and are influenced by several factors. These include the growing adoption of electrification and customers' goals of achieving decarbonization targets. In addition, the Provincial and Federal government focus on building new homes has resulted in more residential housing, including significant development of mutli-unit buildings. Furthermore, Hydro Ottawa has also more recently received data centre enquiries which are not forecasted as part of this Application. Please see Schedule 2-5-4 - Asset Management Process and Schedule 3-1-1 - Revenue Load and Customer Forecast for additional information regarding impacts of Large Load requests.

True-up costs can be unpredictable and Hydro Ottawa has obligations under current CCRA agreements signed with Hydro One to complete true-up payment, with true-up reviews completed on five-year increments. These reviews may result in additional payments being made for any shortfall of revenue generated by Hydro One as a result of the forecasted load not materializing. While Hydro Ottawa attempts to accurately forecast future loading, shortfalls related to a particular connection facility can occur and can be material. This situation of load not materializing or being delayed may increase as an unintended consequence with the changes related to the connection horizon for residential developments and up to 15 years for connection horizons.

With growth and electrification, managing asset replacements, managing capacity with non-wires solutions and the prevalence of cost sharing with large loads, the need for the CCRA account has become greater to manage the uncertainty of costs to Hydro Ottawa and the customer. In addition, the CCRA financial model and variables are maintained by Hydro One and as such, Hydro Ottawa cannot always reliably predict the amount of both new and true-up CCRA payments. Please see Table 9 below for the estimated CCRA and True-up amounts.

Table 9 - CCRA Program Expenditures ($'000 000s)

	Test Years				
	2026	2027	2028	2029	2030
CCRA Payments	18.0	1.3	8.5	17.1	0.9
TOTAL	**18.0**	**1.3**	**8.5**	**17.1**	**0.9**

Below is a sample journal entry of a collection of funds through the symmetrical account, which reflects the difference for CCRA payments between what Hydro Ottawa has included in its Distribution System Plan and what is actually paid for new and true-up CCRA payments. A refund would result in reversing the debits and credits.

Draft Accounting Order:

A) Monthly journal entries will capture revenue requirement difference of new CCRA payments as assets provide service, as well as any revenue requirement difference resulting from scheduled true-ups and what has been estimated.

B) This account would accrue carrying charges at OEB-prescribed rates until final disposition.

Table 10 - CCRA Sample Journal Entry

Account	Debit	Credit
Account 1508 - Sub-Account CCRA	x,xxx.xx	
Account 4080 – Distribution Services Revenue		x,xxx.xx
To record revenue requirement difference as actual CCRA payments are higher than forecasted		
Account 1508 - Sub-Account CCRA	x,xxx.xx	
Account 6035 - Other Interest Expense		x,xxx.xx
To record carrying charges		

Hydro Ottawa proposes that any balance related to 2026-2029 be recovered from or returned to customers at the utility's next rebasing application, while any 2030 balance be recovered from or

returned to customers based on the materiality level per OEB guidelines related to Group 2 Accounts.

2.5. REVENUE REQUIREMENT DIFFERENTIAL VARIANCE ACCOUNT RELATED TO CAPITAL ADDITIONS

2.5.1. 2016-2020 Capital Related Variance Account

For the years 2016-2020, the purpose of this asymmetrical account was to track revenue requirement impacts resulting from any underspending in Hydro Ottawa's three capital spending categories (System Renewal/System Service, System Access, and General Plant).[20] The account was computed and tracked on an annual basis and calculated on a cumulative basis. If overspending occurred, no amount would be recorded into this account. As provided in the 2021-2025 Rate Application Evidence[21] for the years 2016-2019, Hydro Ottawa spent more than planned in each of the three spending categories. Therefore no amount was recorded into this variance account. As forecasted in Hydro Ottawa's 2021-2025 Custom IR Application, Hydro Ottawa confirms that it also spent more than planned in 2020 and no amount has been recorded related to that year.

2.5.2. 2021-2025 Capital Related Variance Account

For the years 2021-2025, the purpose of this Sub-Account is to record the annual revenue requirement associated with the difference between actual and forecasted cumulative capital additions (net of capital contributions). However this Sub-Account was modified[22] to split a symmetrical subset of System Access Capital Additions net of contributions into a separate sub-account - System Access Capital Additions that consist of third party-driven plant relocation and residential expansion capital additions. The remaining System Access spending, along with

[20] The System Renewal and System Service categories have been merged into one category to reflect Hydro Ottawa's standard operating practice to shift funds between the two categories, as warranted by customer and operational requirements.
[21] Hydro Ottawa Limited, *2021-2025 Custom Incentive Rate-Setting Distribution Application - Updated Exhibit 9-1-3*, EB-2019-0261, (May 5, 2020), page 24.
[22] Hydro Ottawa Limited, *2021-2025 Custom Incentive Rate-Setting Approved Settlement Proposal*, EB-2019-0261 (September 18, 2020), Attachment 6, pages 5-8.

System Renewal/System Service and General Plant, continues to be tracked asymmetrically, meaning only amounts related to underspending in capital additions, net of contributions are recorded. Amounts would be recorded into this account until the earliest of actual cumulative net capital additions for 2021-2025 catching up to the forecasted cumulative net capital additions. Any overspending does not result in recording amounts to be recovered from customers during this period. Actual cumulative net capital additions for 2024-2025 will be reported in future application. The Sections 2.5.3 and 2.5.4 below provide information for accounts recorded into this account for 2021-2025, and Table 11 provides a summary of the revenue requirements.

Table 11 - Summary of Revenue Requirement 2021-2023 ($'000s)[23]

CVA Category	Symmetrical or Asymmetrical	Historical Years			Total	Collect from or Return to Customers
		2021	2022	2023	2021-2023	
System Access - Sub	Symmetrical	$ 94	$ 609	$ 966	$ 1,670	Collect
System Access	Asymmetrical	$ (60)	$ (600)	$ (925)	$ (1,585)	Return
General Plant	Asymmetrical	$ 522	$ (1,159)	-	$ (637)	Return
TOTAL (PRINCIPLE)		**$ 556**	**$ (1,151)**	**$ 41**	**$ (553)**	

2.5.3. System Renewal/System Service Differential Variance

For the historical period 2021-2023, Hydro Ottawa's annual and cumulative capital additions related to the asymmetrical System Renewal/System Service investment categories were over the approved settlement plan. As such, no revenue requirement has been recorded into this differential variance account. For a comprehensive look at the yearly investment amounts, refer to Schedule 2-1-1 - Rate Base Overview.

[23] Totals may not sum due to rounding.

2.5.4. General Plant Capital Additions Revenue Requirement (excluding CCRA) Differential Variance Account

In 2021 and 2022 Hydro Ottawa recorded spending less than planned on general plant capital (excluding CCRA). The approved revenue requirement used to calculate annual rates in 2021 and 2022 are used to calculate the amount to return to customers as actual cumulative capital net additions was less than forecasted cumulative additions related to this subset of capital investments. Hydro Ottawa has recorded $(636)K of revenue requirement amounts to return to customers as actual cumulative capital net additions for 2021-2022 was less than forecasted cumulative additions.

By 2023, the cumulative capital net additions exceeded the forecasted cumulative additions therefore the revenue requirement calculation section in the below table is left as nil. Table 12 below provides a detailed breakdown of the yearly difference between actual and forecasted cumulative capital additions (net of capital contributions) as well as the annual revenue requirement amounts, if any. For a more comprehensive history of yearly additions, refer to Schedule 2-1-1 - Rate Base Overview.

Table 12 – General Plant Capital Additions Revenue Requirement (excluding CCRA) Differential Variance Account ($'000s)[24]

	Historical Years		
	2021	2022	2023
Opening Gross Cumulative (Under)/Over Asset Addition	-	$ (8,522)	$ (7,494)
(Under)/Over additions	$ (8,522)	$ 1,028	$ 8,535
Closing Gross Cumulative (Under)/Over Asset Addition	**$ (8,522)**	**$ (7,494)**	**$ 1,041**
Opening Accumulated Depreciation	-	$ (615)	-
Current Year Depreciation	$ (615)	$ (717)	-
Closing Accumulated Depreciation	**$ (615)**	**$ (1,332)**	**-**
Average Cumulative Net Book Value	**$ (3,953)**	**$ (7,034)**	**-**
Financial Net Income	$ (132)	$ (235)	-
Add Depreciation	$ (615)	$ (717)	-
Deduct CCA	$ 4,480	$ 730	-
Net Income For Tax Purposes	**$ 3,733**	**$ (221)**	**-**
Tax Rate	26.50%	26.50%	-
PILS	$ 989	$ (59)	-
PILS Grossed-up	**$ 1,346**	**$ (80)**	**-**
Depreciation	$ (615)	$ (717)	-
Short Term Interest	$ (3)	$ (5)	-
Long-Term Interest	$ (73)	$ (130)	-
ROE	$ (132)	$ (235)	-
PILS Grossed-up	$ 1,346	$ (80)	-
Capital stretch factor	-	$ 7	-
TOTAL (RETURN) REVENUE REQUIREMENT	**$ 522**	**$ (1,159)**	**-**

[24] Totals may not sum due to rounding.

2.5.5. System Access Capital Additions Revenue Requirement (excluding Residential and Plant Relocation) Differential Variance Account

In each of the years 2021-2023, Hydro Ottawa recorded $(1,585)K of revenue requirement amounts to return to customers as actual cumulative capital net additions was less than forecasted cumulative additions related to this subset of capital investments. Table 13 below provides a detailed breakdown of the yearly difference between actual and forecasted cumulative capital additions (net of capital contributions) as well as the annual revenue requirement amounts. For a more comprehensive history of yearly additions, refer to Schedule 2-1-1 - Rate Base Overview.

Table 13 – System Access Capital Additions Revenue Requirement (excluding Residential & Plant Relocation) Differential Variance Account ($'000s)[25]

	Historical Years		
	2021	2022	2023
Opening Gross Cumulative (Under)/Over Asset Addition	-	$ (6,157)	$ (10,577)
(Under)/Over additions	$ (6,157)	$ (4,420)	$ (3,937)
Closing Gross Cumulative (Under)/Over Asset Addition	**$ (6,157)**	**$ (10,577)**	**$ (14,514)**
Opening Accumulated Depreciation	-	$ (95)	$ (374)
Current Year Depreciation	$ (95)	$ (278)	$ (421)
Closing Accumulated Depreciation	**$ (95)**	**$ (374)**	**$ (794)**
Average Cumulative Net Book Value	**$ (3,031)**	**$ (8,133)**	**$ (11,962)**
Financial Net Income	$ (101)	$ (271)	$ (399)
Add Depreciation	$ (95)	$ (278)	$ (421)
Deduct CCA	$ 734	$ 834	$ 1,131
Net Income For Tax Purposes	**$ 538**	**$ 285**	**$ 312**
Tax Rate	26.50%	26.50%	26.50%
PILS	$ 143	$ 75	$ 83
PILS Grossed-up	**$ 195**	**$ 102**	**$ 113**
Depreciation	$ (95)	$ (278)	$ (421)
Short Term Interest	$ (2)	$ (6)	$ (8)
Long-Term Interest	$ (56)	$ (150)	$ (221)
ROE	$ (101)	$ (271)	$ (399)
PILS Grossed-up	$ 195	$ 102	$ 113
Capital stretch factor	-	$ 4	$ 11
TOTAL (RETURN) REVENUE REQUIREMENT	**$ (60)**	**$ (600)**	**$ (925)**

[25] Totals may not sum due to rounding.

2.5.6. System Access Capital Additions Revenue Requirement (Residential and Plant Relocation) Differential Variance Account

This is a symmetrical differential variance account. In each of the years 2021-2023, Hydro Ottawa recorded $1,670K of revenue requirement amounts to collect from customers as actual cumulative capital net additions were more than forecasted cumulative additions related to this subset of capital investments. Table 14 below provides a detailed breakdown of the yearly difference between actual and forecasted cumulative capital additions (net of capital contributions) as well as the annual revenue requirement amounts. For a more comprehensive history of yearly additions, refer to Schedule 2-1-1 - Rate Base Overview.

Table 14 – System Access Capital Additions Revenue Requirement (Residential & Plant Relocates) Differential Variance Account ($'000s)[26]

	Historical Years		
	2021	2022	2023
Opening Gross Cumulative (Under)/Over Asset Addition	-	$ 6,431	$ 10,726
(Under)/Over additions	$ 6,431	$ 4,294	$ 5,032
Closing Gross Cumulative (Under)/Over Asset Addition	**$ 6,431**	**$ 10,726**	**$ 15,758**
Opening Accumulated Depreciation	-	$ 120	$ 431
Current Year Depreciation	$ 120	$ 311	$ 471
Closing Accumulated Depreciation	**$ 120**	**$ 431**	**$ 902**
Average Cumulative Net Book Value	**$ 3,156**	**$ 8,303**	**$ 12,575**
Financial Net Income	$ 105	$ 277	$ 420
Add Depreciation	$ 120	$ 311	$ 471
Deduct CCA	$ (756)	$ (961)	$ (1,316)
Net Income For Tax Purposes	**$ (530)**	**$ (373)**	**$ (425)**
Tax Rate	26.50%	26.50%	26.50%
PILS	$ (141)	$ (99)	$ (113)
PILS Grossed-up	**$ (192)**	**$ (135)**	**$ (154)**
Depreciation	$ 120	$ 311	$ 471
Short Term Interest	$ 2	$ 6	$ 9
Long-Term Interest	$ 58	$ 153	$ 232
ROE	$ 105	$ 277	$ 420
PILS Grossed-up	$ (192)	$ (135)	$ (154)
Capital stretch factor	-	$ (4)	$ (12)
TOTAL (RETURN) REVENUE REQUIREMENT	**$ 94**	**$ 609**	**$ 966**

[26] Totals may not sum due to rounding.

2.5.7 Continue with Modification

Hydro Ottawa proposes to continue with the existing System Access Capital Additions Revenue Requirement (Residential and Plant Relocation) Differential Variance Account in response to the Ontario government's housing development mandate to promote new residential development in high growth areas. This directly translates to increased demand for electricity distribution infrastructure, necessitating upgrades and expansions to accommodate increased energy demand.

In addition, Hydro Ottawa has budgeted $311 million in capital additions for 2026-2030 to upgrade system capacity. This investment is based on capacity needs identified through System Capacity Assessments in Section 9 of Schedule 2-5-4 and Integrated Regional Resource Planning in Section 4 of Schedule 2-5-2. For more information, refer to Schedule 2-5-8 DSP - System Service Investments. In November 2024, the OEB established a technical advisory group to develop capacity allocation strategies for system expansions related to these housing developments.

To manage potential discrepancies between actual and forecasted capital additions related to customer-driven system access relocates, housing development projects as well as capacity upgrade programs, particularly in light of possible regulatory changes affecting distributor planning for system enhancements and future developments, Hydro Ottawa proposes that the existing sub-account - System Access Capital Additions - which consists of third party-driven plant relocation and residential expansion capital additions - be modified to also include commercial expansions (under System Access) and capacity upgrades (under System Service) related to enabling housing development as defined under Ontario's Bill 214, the *Affordable Energy Act*, 2024.

Should there be significant growth in capital investments related to housing development, additional revenue requirements will be recorded into this sub-account.

Therefore the proposed asymmetrical capital variance accounts are:

- Existing asymmetrical System Access Capital Additions Differential Account - exclude capital additions related to the System Access sub-account
- Existing asymmetrical System Renewal/System Service (SR/SS) Capital Additions Differential Account (asymmetric) to exclude commercial projects related to sub-account - System Access and Growth Capital Development Additions
- Existing asymmetrical General Plant (excluding CCRA) Capital Additions Differential Account

The purpose of asymmetrical sub-accounts are to record the revenue requirement impact where capital additions are lower than, or the pacing of capital additions are slower than, the forecast over the 2026-2030 period. Revenue requirement discrepancies would be credited to any asymmetric sub-account until actual cumulative net capital additions for 2026-2030 match or exceed the forecasted amounts. Overspending or faster pace of spending will not result in recording debits in asymmetrical sub-accounts. Overspending or earlier spending will therefore not result in recording amounts to be recovered from customers during the 2026-2030 period.

Proposed symmetrical capital variance sub-accounts are:

- Modified existing symmetrical System Access & System Service Capital Additions Differential Sub-Account - System Access and Growth Capital Development Additions

The purpose of symmetrical sub-accounts are to record the revenue requirement impact associated with the difference between actual and forecasted cumulative capital additions (net of capital contributions) for 2026-2030, should in-service additions be greater than or lower than, or the pacing of capital additions be faster than or slower than, forecast over the

five-year period. Hydro Ottawa shall continue to record variances in this account until the utility's next rebasing period.

The following are sample journal entries for each sub-account to collect (applicable only for symmetrical sub-accounts) or refund the capital addition difference between actual and forecasted cumulative capital additions (net of capital contributions).

Draft Accounting Order:

A) Revenue requirement discrepancies would be debited or credited to the each applicable symmetric sub-account ('XXX') where there are capital addition differences between actual and forecasted cumulative capital additions (net of capital contributions).

B) This account would accrue carrying charges at OEB-prescribed rates until final disposition.

Table 15 - 1508 Sub- Account CVA Sample Journal Entry to collect additional revenue requirement

Account	Debit	Credit
Account 1508 - Sub-Account CVA XXX	x,xxx.xx	
Account 4080 – Distribution Services Revenue		x,xxx.xx
To record revenue requirement difference as cumulative capital additions are higher than forecasted		
Account 1508 - Sub-Account CVA XXX	x,xxx.xx	
Account 6035 - Other Interest Expense		x,xxx.xx
To record carrying charges		

Hydro Ottawa proposes that any balance related to 2026-2029 be recovered from or returned to customers at the utility's next rebasing application. Any balance related to 2030 to be returned to or recovered from customers will be disposed of in accordance with OEB guidelines related to Group 2 Accounts.

2.6. EFFICIENCY ADJUSTMENT MECHANISM DEFERRAL ACCOUNT

This account was established to provide ratepayers a credit should Hydro Ottawa's efficiency ranking decline during any year of the Custom IR term. The year 2014 was the starting efficiency ranking point. Hydro Ottawa could not benefit from moving into a more efficient cohort except to mitigate future adjustments. 2020 was the fourth (and last) year for which the EAM assessment was to be performed. As per the Approved Settlement Agreement,[27] Hydro Ottawa has calculated the efficiency adjustment based on efficiency ranking as determined by the OEB for 2019 rates, which was released on August 15, 2019.[28] Please see Attachment 1-3-3 (A) - PEG Benchmarking Analysis for a historical analysis and proposed correction to Hydro Ottawa's ranking.

Table 16 below provides the EAM calculation for the historical year 2020. The 2017-2019 balances were disposed of as part of the 2021-2025 Approved Settlement Agreement. The 2020 balance along with the projected interest to the end of 2025 are included in the proposed disposition total in Schedule 9-3-1 - Disposition of Deferral and Variance Accounts.

Table 16 – EAM Calculation[29]

	Historical Year
	2020
2014 Starting Point - Cohort 3	(0.30)%
Ending Point - Cohort 4	(0.45)%
% Change	0.15%
Service Revenue Requirement	$ 200,544,060
TOTAL BALANCE	**$ (300,816)**

[27] Hydro Ottawa Limited, *2021-2025 Custom Incentive Rate-Setting Approved Settlement Agreement*, EB-2019-0261 (September 18, 2020).
[28] Ontario Energy Board, *Incentive Rate Setting: 2018 Benchmarking Update or Determination of 2019 Stretch Factor Rankings*, EB-2010-0379 (August 15, 2019), pages 1-2.
[29] Totals may not sum due to rounding.

As per 2021-2025 Approved Settlement Agreement,[30] the EAM has been replaced with the POAM, please see Section 2.7 for further details.

2.7. PERFORMANCE OUTCOMES ACCOUNTABILITY MECHANISM DEFERRAL ACCOUNT

As part of the Approved 2021-2025 Approved Settlement Agreement, the Parties agreed to the establishment of a POAM Deferral Account. The Deferral Account is based on specific performance-based outcomes and targets over the five-year Test period. The account relies on outcomes of certain aspects of Hydro Ottawa's 2021-2025 DSP.

There are five performance metrics which have an annual target. If the target is not met in any year of the five year term Hydro Ottawa will credit the deferral account up to $200K. The maximum amount that can be credited in any year is $1M for all five targets. If all targets are met, no credit will be recorded into this account.

These metrics use a "Green-Yellow-Red" band indicator system to determine if Hydro Ottawa has achieved its designated target. Per Attachment 5 of the Settlement Agreement[31]:

- Green indicates the target has been met
  - No amounts are added to the POAM deferral account
- Yellow denotes the target has been narrowly missed within a prescribed range
  - Each POAM metric has a unique threshold (e.g. <10% of target)
  - A scaling approach is used to calculate the credit obligation to add to the POAM deferral account,[32]

[30] Hydro Ottawa Limited, *2021-2025 Custom Incentive Rate-Setting Approved Settlement Proposal*, EB-2019-0261 (September 18, 2020), Attachment 6, pages 35-36.
[31] Hydro Ottawa Limited, 2021-2025 *Custom Incentive Rate-Setting Approved Settlement Agreement*, EB-2019-0261 (September 18, 2020), pages 36-37 & Attachment 5, pages 1-5.
[32] As per the Settlement Agreement, the scaling approach used within the "yellow" band for this metric will employ the following formula to calculate the credit obligation for Hydro Ottawa:
$200,000*(1-((Target*(1+Threshold))-Actual)/(Target*Threshold))) where "Threshold" is defined as the threshold for the red band (e.g. 10%).

- Red indicates the target has been missed
  - Each POAM metric has a unique threshold (e.g. >10% of Target)
  - The maximum amount of the credit obligation, $200k is to be added to the deferral account.

The five performance metrics that will be measured over the five-year term are:

- Number of Interruptions Caused by Defective Equipment (Overhead System) - Excluding Major Event Days;
- Number of Interruptions Caused by Defective Equipment (Underground System) - Excluding Major Event Days and Leaking Padmount Transformers;
- System Average Interruption Duration Index (SAIDI)[33] - Excluding Major Event Days and Loss of Supply;
- Wood Pole Replacement Unit Cost; and
- Underground Cable Replacement Unit Cost.

Hydro Ottawa is to report annually as part of its Annual Custom Incentive Report. In 2022 and 2023, Hydro Ottawa did not meet the SAIDI - Excluding Major Event Days and Loss of Supply or the Wood Pole Replacement Unit Cost.[34] As the outcomes of these two metrics were in the red band, the maximum annual amount of $200k was credited to the POAM Deferral Account for both of these POAM metrics in each year for a total annual credit of $400k. A total principal credit balance of $800k has been recorded into the variance account at the end of 2023. These performance metrics are being measured over a five-year term, from 2021 to 2025. Hydro Ottawa is proposing to dispose of this 1508 Sub-Account as part of this Application, up to 2023

[33] The target for this metric is sourced from Table B in the response to interrogatory CCC-38, from Hydro Ottawa's 2021-2025 Custom IR Application. In addition, it is acknowledged that this approach deviates from the OEB's use of five-year averages to calculate a distributor's SAIDI target. However, the Parties agree to the use of a three-year average so as to maintain consistency across the three reliability-related performance metrics that are utilized under this accountability mechanism.
[34] For 2021 Hydro Ottawa initially reported that one POAM target was not met, the Wood Pole Replacement Unit Cost, which was based on preliminary numbers. When finalized, it was determined that this target was met and the credit was reversed.

year-end values. Please refer to Schedule 9-3-1 - Disposition of Deferral and Variance Accounts for further details.

Hydro Ottawa has not included this account as part of its proposed rate framework for 2026-2030, please see Schedule 1-3-1 Rate Setting Framework. For further details, please refer to Schedule 2-5-3 - Performance Measurement for Continuous Improvement

2.8. P&OPEB DEFERRAL ACCOUNT

Sub-Account 1508 - Other Regulatory Assets - Other Post-Employment Benefits (OPEB) Deferral Account is used to track cumulative actuarial gains or losses in Hydro Ottawa's post-retirement benefits. This Account was originally approved in Hydro Ottawa's 2012 rate application.[35] This Sub-Account is still active. Balances in this account are unrealized therefore these amounts are not subject to disposition. Only realized OPEB balances are included in base rates.

2.8.1. Continuance

Hydro Ottawa proposes to continue this deferral account with no modifications.

3. GENERIC DEFERRAL AND VARIANCE ACCOUNTS

This section discusses the DVAs that were established by the OEB and remains open and active.

3.1. OEB COST ASSESSMENT VARIANCE

As per the OEB's revisions to the Cost Assessment Model, the OEB established Account 1508 Other Regulatory Assets - Sub-Account - OEB Cost Assessment Variance for electricity distributors to record any material differences between OEB cost assessments that were built into rates at the time of the issuance of the OEB's revisions, and cost assessments that would result from the application of the new Cost Assessment Model effective April 1, 2016.[36] Per the

[35] Ontario Energy Board, *Decision and Order*, EB-2011-0054 (December 28, 2011).
[36] Ontario Energy Board, Letter re: *Revisions to the Ontario Energy Board Cost Assessment Model* (February 9, 2016).

2021-2025 Approved Settlement Agreement,[37] Hydro Ottawa cleared balances in this account until the end of December 31, 2019. In 2020, Hydro Ottawa incurred OEB assessed costs of $486,987.09 that have been recorded into this Sub-Account. Both this principal balance and related carrying charges are being proposed for disposition in this Application for a total of $556,829.39.

3.2. REGULATORY TREATMENT OF PENSION AND OTHER POST-EMPLOYMENT BENEFITS

On September 14, 2017, the OEB issued its final report on the regulatory treatment of pension and OPEB costs establishing the use of accrual accounting as the default method on which to set rates for pension and OPEB amounts in cost-based applications.[38] Moreover, this report also provides for the establishment of a variance account (Account 1522) to track the difference between the forecasted accrual amount in rates and actual cash payment(s) made, with an asymmetric carrying charge in favour of ratepayers applied to the differential.

Hydro Ottawa provides pension benefits for its employees through the Ontario Municipal Employees Retirement System (OMERS) Fund (the Fund). Although the plan is a defined benefit plan, sufficient information is not available to Hydro Ottawa to account for it as such because it is not possible to attribute the Fund assets and liabilities between the various employers who contribute to the Fund. As a result, Hydro Ottawa accounts for the plan as a defined contribution plan. Contributions payable as a result of employee service are expensed as incurred similar to short-term employee benefits.

Hydro Ottawa also provides other post-employment benefits. These plans provide benefits to certain employees when they are no longer providing active service to the utility. Other post-employment benefits are recorded on an accrual basis. The accrued benefit obligation and

[37] Hydro Ottawa Limited, *2021-2025 Custom Incentive Rate-Setting Approved Settlement Proposal,* EB-2019-0261 (September 18, 2020).
[38] Ontario Energy Board, *Report of the Ontario Energy Board - Regulatory Treatment of Pension and Other Post-Employment Benefits Costs*, EB-2015-0040 (September 14, 2017).

current service costs are calculated using the projected benefit method prorated on service and based on assumptions that reflect Hydro Ottawa's best estimates. The utility tracks the difference between the forecast accrual amount in rates and actual cash payments in a variance account, as set out in the OEB's final report on the regulatory treatment of pension and OPEB costs.

Hydro Ottawa confirms that it is recording amounts into the tracking account for the purpose of recording carrying charges. The utility further confirms that carrying charges are being calculated using the OEB-prescribed Construction Work in Progress (CWIP) rate.

3.3. REGULATORY ASSETS FOR RETAIL SERVICE CHARGES INCREMENTAL REVENUE

As part of the 2016-2020 Approved Settlement Agreement, Hydro Ottawa received approval for utility-specific Retail Service Charges (RSCs). Subsequently, on November 29, 2018, the OEB issued a Report on Energy Retailer Services Charges, which stated that updated RSCs would be established and applied to all electricity distributors.[39] The Report specifically indicated that the updated RSCs would apply to Hydro Ottawa. The Decision and Rate Order for the new RSCs had an effective date of May 1, 2019.[40] The OEB issued a Decision and Rate Order on November 28, 2019, with updated rates for RSCs effective January 1, 2020.[41]

As per the OEB's Decision and Order regarding energy retailer service charges, Hydro Ottawa recorded the difference between revenues collected at the previously approved charges and the revenue collected based on the charges established pursuant to the OEB report.[42] Hydro Ottawa had discontinued recording amounts into the Retail Cost and Variance Accounts (RCVAs) 1518 and 1548 and as such, consistent with OEB direction, the utility set up a Sub-Account under 1508 Other Regulatory Assets for Retail Service Charges Incremental Revenue. Hydro Ottawa cleared

[39] Ontario Energy Board, *Report of the Ontario Energy Board - Energy Retailer Service Charges*, EB-2015-0304 (November 29, 2018), page 20.
[40] Ontario Energy Board, *Decision and Rate Order*, EB-2015-0304 (February 14, 2019).
[41] Ontario Energy Board, *Decision and Rate Order*, EB-2019-0280 (November 28, 2019), Schedule A.
[42] Ontario Energy Board, *Decision and Order - In the matter of energy retailer service charges effective May 1, 2019 - Schedule B - Accounting Order*, EB-2015-0304 (February 14, 2019), pages 11-13.

balances in this Account until the end of December 31, 2019, as part of the 2021-2025 Approved Settlement Agreement. Hydro Ottawa continued to use this Sub-Account to record amounts until December 31, 2020. Balances in these 1508 Incremental Sub-Accounts are proposed to be disposed of in this rate application.

3.4. REGULATORY ASSET FOR ACCOUNT 1509 - IMPACTS ARISING FROM THE COVID-19 EMERGENCY

On March 25, 2020 and April 29, 2020, the OEB issued accounting orders for the establishment of deferral accounts to record impacts arising from the COVID-19 Emergency.[43] The OEB established Account 1509 - Impacts Arising from the COVID-19 Emergency, which included three Sub-Accounts. These Sub-Accounts are for costs associated with billing and system changes related to the Government of Ontario's emergency order regarding time-of-use pricing, lost revenue, and other incremental costs.[44]

During the month of August 2020, through the issuance of two separate accounting orders, the OEB confirmed the establishment of two additional Sub-Accounts under Account 1509.[45] Their names and descriptions are as follows:

- Foregone Revenues from Postponing Rate Implementation Sub-Account - the purpose of which is to record forgone revenues due to the postponement of rate implementation as a result of the COVID-19 emergency; and
- Bad Debt Sub-Account - which is intended for recording amounts related to bad debt resulting from COVID-19.

[43] Ontario Energy Board, *Accounting Order for the Establishment of Deferral Accounts to Record Impacts Arising from the COVID-19 Emergency*, (March 25, 2020), pages 1-3 and Ontario Energy Board, *Accounting Order for the Establishment of Deferral Accounts to Record Impacts Arising from the COVID-19 Emergency for Ontario Power Generation Inc. and Electricity Transmitters*, (April 29, 2020), pages 1-2.
[44] Ontario Regulation 80/20: Order under Subsection 7.0.2 (4) of the *Emergency Management and Civil Protection Act* - Electricity Price for RPP Consumers.
[45] Ontario Energy Board, *Accounting Order for the Establishment of a Sub-account to Record Impacts Arising from the COVID-19 Emergency for Foregone Revenues from Postponing Rate Implementation*, (August 6, 2020), pages 1-4; Ontario Energy Board, *Accounting Order for the Establishment of a Sub-account to Record Impacts Arising from the COVID-19 Emergency from Bad Debt*, (August 14, 2020), pages 1-3.

As per the 2021-2025 Approved Settlement Agreement,[46] the Parties agreed that, as of January 1, 2021, Hydro Ottawa will not record any amounts in the first three Sub-Accounts established under Account 1509 (Costs Associated with Billing and System Changes, Lost Revenues, and Other Incremental Costs), or any additional Sub-Accounts that may be created on a generic basis.[47] The only exception to this provision is if during the 2021-2025 Custom IR term, there is material change in Ontario's public health and economic circumstances (relative to those existing at the time of filing the Settlement Agreement) which is directly caused by the COVID-19 pandemic and which has significant negative impact on Hydro Ottawa's operations or financial circumstances. By way of an illustrative example, such a material change could consist of the City of Ottawa and/or the Province of Ontario reverting to economic restrictions that are materially more severe than those in place at the time of filing the Settlement Proposal.

Per the 2021-2025 Approved Settlement Agreement, the Parties agreed that Hydro Ottawa will be permitted to continue recording amounts in the Bad Debt Sub-Account for as long as the OEB permits this Sub-Account to remain in place. The utility will follow the methodology and guidelines from the OEB's consultation, outlined in the OEB's Report for Regulatory Treatment of Impacts Arising from the COVID-19 Emergency, including the means test to use this Sub-Account.[48]

With respect to the Sub-Account associated with the Foregone Revenues from Postponing Rate Implementation, Hydro Ottawa confirms that it is not applicable, and the utility's rate implementation was not postponed. This account has been labeled as discontinued in Table 4 in Schedule 9-1-1 - Summary of Current Deferral and Variance Accounts.

[46] Hydro Ottawa Limited, *2021-2025 Custom Incentive Rate-Setting Approved Settlement Proposal*, EB-2019-0261 (September 18, 2020), pages 39-41.
[47] To confirm, this provision is intended to apply to costs incurred and/or lost revenue from the 2021-2025 period that would have otherwise been eligible for recording within the three sub-accounts. It does not apply to costs incurred in 2020 and/or lost revenue from 2020. It is acknowledged that journal entries for 2020 costs and losses may occur after December 31, 2020.
[48] Ontario Energy Board, *Impacts Arising from the COVID-19 Emergency,* EB-2020-0133 (June 17, 2021), pages 2-3.

3.5. REGULATORY ASSET FOR SUB-ACCOUNT 1508 - POLE ATTACHMENT REVENUE VARIANCE ACCOUNT

As part of Hydro Ottawa's 2021-2025 Custom Incentive Rate-setting Application, Hydro Ottawa moved from an approved utility-specific wireline pole attachment rate to the OEB's provincial standard rate. The Parties to the 2021-2025 Settlement Agreement,[49] which was accepted by the OEB on October 2, 2020,[50] agreed that most Specific Services Charges would be updated annually, including the associated revenue requirement. Revenue from wireline attachment are part of specific service charges.

On December 10, 2020, the OEB suspended increases to the Wireline Pole Attachment Order[51] and use of an inflationary adjustment on an interim basis. However, given the timing of the December 10th Pole Attachment Decision, Hydro Ottawa did not update its 2021 base revenue requirement. On November 23, 2021, Hydro Ottawa sent a letter to the OEB seeking guidance for Pole Attachments charge into its 2022 distribution revenue,[52] should a rate not be released in time for rates effective January 1, 2022.[53] Specifically Hydro Ottawa indicated, "should the Pole Attachment Charge not be set in time for rates effective January 1, 2022, Hydro Ottawa intends to request any relevant variance accounts at the time of the Final Decision and Order related to the Pole Attachment Charge." On November 29, 2021, the OEB sent a response[54] to Hydro Ottawa acknowledging that a variance account to allow distributors an opportunity to true-up any material differences in pole attachment revenue may be needed and that the OEB did not anticipate the decision to be released before setting Hydro Ottawa's 2022 distribution revenue.

[49] Hydro Ottawa Limited, *2021-2025 Custom Incentive Rate-Setting Approved Settlement Proposal*, EB-2019-0261 (September 18, 2020).
[50] Ontario Energy Board, *Decision on Settlement Proposal and Procedural Order No.8*, October 2, 2020.
[51] Ontario Energy Board, *Order - Wireline Pole Attachment Charge,* EB-2020-0288 (December 10, 2020).
[52] Hydro Ottawa Limited, Letter RE: *2022 Electricity Distribution Rate Application (EB-2021-0035) Distribution Rates and Charges - Pole Attachment Guidance,* (November 23, 2021) pages 1-2.
[53] Hydro Ottawa Limited, *2021-2025 Custom Incentive Rate-Setting Distribution Rate Application*, EB-2019-0261 (February 10, 2020, Updated May 29, 2020).
[54] Ontario Energy Board Letter RE: *Hydro Ottawa Limited - Application for 2022 Rates Pole Attachment Guidance*, EB-2021-0035 (November 29, 2021), pages 1-2.

On December 16, 2021, the OEB released its Decision and Order[55] as well as Accounting Guidance[56] for a Wireline Pole Attachment Charge whereby the OEB approved a generic pole attachment rate of $34.76 effective January 1, 2022. The aforementioned Accounting Guidance indicates that distributors who rebased their rates and are impacted by the updated pole attachment charge are permitted to reopen the sub-account 1508 - Pole Attachment Revenue Variance Account effective January 1, 2021 to record any revenue impact until the effective date of the utilities next rebasing application.

In normal course, Hydro Ottawa would have incorporated its CIR adjustment for rates effective January 1, 2022. Hydro Ottawa also notes that the OEB introduced a new Holiday Timeout November 1, 2021[57] resulting in a timeout period occurring from December 19, 2021 to January 8, 2022. This additional strain on managing earlier timelines was not foreseen at the time of the Settlement Agreement, however does not change the Settlement Agreement approved annual adjustments.

Hydro Ottawa confirms that for 2022, the variance between the generic rate of $34.76 per pole and Hydro Ottawa's approved rate of $44.50 per pole has been recorded into the sub-account 1508 - Pole Attachment Revenue Variance Account. This variance balance and carrying charges projected to December 31, 2025 is included in Attachment 9-1-1(A) - OEB Workform - Deferral and Variance Account (Continuity Schedule). Table 17 shows how the principal balance was derived; this balance of $697,316 accounts for 22% of the total approved revenue requirement of $3,185,889 for wireline attachments.

Hydro Ottawa's framework is different from other distributors who may use this account to record changes in the pole attachment rate. Hydro Ottawa's CIR framework included the update

[55] Ontario Energy Board, *Decision and Order - Wireline Pole Attachment Charge,* EB-2021-0302 (December 16, 2021), pages 1-6.
[56] Ontario Energy Board, *Accounting Guidance for Wireline Pole Attachment Charge,* EB-2021-0302 (December 16, 2021), pages 1-3.
[57] Ontario Energy Board, *Protocol for Adjusting Adjudicative Timelines*, (November 21, 2021), pages 1-2.

of its revenue requirement based upon agreed adjustments without consideration of materiality. As such, the delayed final decision based on a provincial policy change should not result in a change to the agreed CIR framework, regardless of the final mechanism to ensure these adjustments occur.

Table 17 – Pole Attachment Lost Revenue - 2022

	Historical Year 2022		
	Telecom & Streetlighting Poles	**($/pole)**	**$**
Revenue 2022 Rate Application	71,593	44.50	$ 3,185,889
Revenue 2022 Approved OEB Generic Rate	71,593	34.76	$ 2,488,573
PRINCIPLE BALANCE (Difference between Application and Approved)			**$ 697,316**

3.6. REGULATORY ASSET FOR SUB-ACCOUNT 1508 - DESIGNATED BROADBAND PROJECT IMPACTS DEFERRAL ACCOUNT

In a letter dated July 7, 2022, the OEB established a new generic deferral account to record the impacts pertaining to Ontario Regulation 410/22, Electricity Infrastructure - Designated Broadband Projects, under the *Ontario Energy Board Act, 1998*.[58] The regulation requires that electricity distributors who have designated broadband projects in their service territory, as defined by the *Building Broadband Faster Act, 2021,* record all incremental costs and revenues related to carrying out activities pertaining to these projects Hydro Ottawa confirms that no amounts have been added to this Sub-Account up to the end of 2024 as there have not been any designated broadband projects in Hydro Ottawa's service territory. Any amounts recorded within this deferral account will require a prudency review.

[58] Ontario Energy Board, Letter RE: *Accounting Order (001-2022) for the Establishment of a Deferral Account to Record Impacts Pertaining to Ontario Regulation 410/22 (Electricity Infrastructure – Designated Broadband Projects)* (July 7, 2022).

3.7. REGULATORY ASSET FOR SUB-ACCOUNT 1508 - GREEN BUTTON INITIATIVE DEFERRAL ACCOUNT

In a letter dated November 1, 2021, the OEB established a new generic deferral account to record the incremental costs directly attributable to the implementation of the Green Button initiative.[59] Pursuant to amendments to the *Electricity Act, 1998* that came into force on November 1, 2021, Ontario's electricity and natural gas utilities were required to implement the Green Button standard by November 1, 2023. Hydro Ottawa achieved this deadline despite the 84-day strike in 2023 leading up to this deadline.

The Green Button is a data standard that provides residential and business energy customers access to their hourly consumption data. The accounting order states that electricity distributors may record incremental costs directly attributable to the implementation of Green Button as set out in O. Reg. 633/21 (Energy Data) under the *Electricity Act, 1998*. Any amounts recorded within this deferral account will require a prudency review. No incremental costs have been recorded into this account as the materiality threshold was not met. Hydro Ottawa proposes to discontinue the use of this Account.

3.8. REGULATORY ASSET FOR SUB-ACCOUNT 1508 - ULTRA-LOW OVERNIGHT (ULO) REGULATED PRICE PLAN OPTION

In a letter dated March 2, 2023, the OEB established a new generic deferral account to record the impacts arising from implementing the Ultra-Low Overnight (ULO) Regulated Price Plan Option.[60] Pursuant to amendments to O. Reg. 95/05 (Classes of Consumers and Determination of Rates) under the *Ontario Energy Board Act, 1998* that came into force on January 1, 2023, distributors are required to offer the new ULO price plan to Regulated Price Plan consumers no later than November 1, 2023.

[59] Ontario Energy Board, Letter RE: *Accounting Order (003-2021) for the Establishment of a Deferral Account to Record Impacts Arising from Implementing the Green Button Initiative,* EB-2021-0183 (November 1, 2021).
[60] Ontario Energy Board, Letter Re: *Accounting Order (001-2023) for the Establishment of a Deferral Account to Record Impacts Arising From Implementing the Ultra-Low Overnight (ULO) Regulated Price Plan Option),* EB-2022-0160 (March 2, 2023).

The accounting order states that electricity distributors can track the revenue requirement impacts of their one-time material costs of implementing the ULO option in a deferral account. Any amounts recorded within this deferral account will require a prudency review. No incremental costs have been recorded into this account as the materiality threshold was not met. Hydro Ottawa proposes to discontinue the use of this Account.

3.9. REGULATORY ASSET FOR SUB-ACCOUNT 1508 - GETTING ONTARIO CONNECTED ACT (GOCA) VARIANCE ACCOUNT

It is a legal requirement within Ontario, to accurately locate and mark underground electrical infrastructure, this is done to protect the public, to stop expensive damages from occurring, and to ensure that electrical services are not interrupted. For more information on Hydro Ottawa's underground locates costs, refer to Section 3.3 of Schedule 4-1-2 - Operations, Maintenance and Administration Program Costs. The Ontario government enacted Bill 93, the *Getting Ontario Connected Act*, 2022, (GOCA) to expedite construction, particularly housing development, by significantly reducing the time required for underground infrastructure locate services.

In a letter dated October 31, 2023, the OEB established a new generic variance account to record the variance between locate costs resulting from Bill 93 and the approved cost included in base rates.[61] The accounting order states that distributors are expected to track costs at a detailed level, and that amounts recorded in the account are both incremental to the base rates and are a direct result of Bill 93. At the time of disposition any amounts recorded within this variance account will require a prudency review.

Balances related to this 1508 Sub-Account for 2023 are outlined in Table 18 below, as well as in Attachment 9-3-1(A) - OEB Workform - Deferral and Variance Account (Continuity Schedule).

[61] Ontario Energy Board, Letter RE: *Getting Ontario Connected Act Variance Account*, EB-2023-0143 (October 31, 2023).

Hydro Ottawa is requesting to clear $803K related to GOCA, which includes projected interest of $65K; this amount is above materiality.[62]

Hydro Ottawa's 2021 operating, maintenance and administration costs of $90.6M were approved on an envelope basis of which $3.0M related to underground locates. The 2023 approved amount for underground locates of $3.2M is based upon Hydro Ottawa's annual approved custom price escalation factor of 3.19% and 3.59% respectively for 2022 and 2023. Hydro Ottawa's OEB-approval for underground locates related expenses, from April to December 2023, was $2.4 million, calculated by applying a 9/12ths factor to the annual $3.2 million cost, reflecting the legislation's effective date of April 1, 2023.

Through the period from April to December 2023, Hydro Ottawa incurred $3.1M of actual underground locates costs. Though the number of actual locates decreased from 2021 to 2023, the elevated cost is attributed to the 48% increase of the cost per locate. For more information on underground locates volume and unit costs, refer to Section 3.3 in Schedule 4-1-2 - Operations, Maintenance and Administration Program Costs. Notably, this increase is significant even as Hydro Ottawa has proactively implemented operational efficiencies to reduce the cost of locates. Namely, the Clearing of House Implementation and the usage of Expansion of Alternate Locate Agreements. Without these additional efficiencies, it is estimated that the total costs attributed to Bill 93 would have been $0.4M higher. For more information on the productivity improvements related to cable locates, refer to Schedule 1-3-4 Facilitating Innovation and Continuous Improvement.

Hydro Ottawa will continue to track the variance between locate costs resulting from Bill 93 and the approved cost included in base rates for 2024 and 2025.

[62] Materiality of $750,000 ($1M * 9/12)

Table 18 – GOCA Variance Account - 2023[63]

	Historical Year
	2023
OEB approved amount for the period April - December 2023	$ 2,408,463
Actual cost for the period April - December 2023	$ 3,146,211
Sub Account GOCA - Principal balance	**$ 737,748**
Interest, including portion projected to December 31, 2025	$ 64,797
TOTAL BALANCE	**$ 802,545**

3.10. REGULATORY ASSET FOR SUB-ACCOUNT 1511 - CLOUD COMPUTING IMPLEMENTATION COSTS

In a letter dated November 2, 2023, the OEB established a new generic deferral account to record the incremental cloud computing implementation costs incurred when utilities first transition from on-premise solutions to cloud computing, as well as any related offsetting savings as applicable.[64] The accounting order states that costs are to be tracked at a detailed level. At the time of disposition any amounts recorded within this deferral account will require a prudency review.

No incremental costs have been recorded into this account and forecasted cloud computing costs are included in the proposed operating, maintenance and administration budget outlined in Schedule 4-1-2 - Operations, Maintenance and Administration Program Costs.

Hydro Ottawa is proposing a new deferral account for incremental cloud computing costs, as detailed in Schedule 9-2-1 - New Deferral and Variance Accounts.

[63] Actual cost of $3.1M excludes productivity savings of $.4M
[64] Ontario Energy Board, Letter RE: *Accounting Order (003-2023) for the Establishment of a Deferral Account to Record Incremental Cloud Computing Arrangement Implementation Costs*, (November 2, 2023).

3.11. REGULATORY ASSET FOR SUB-ACCOUNT - LEAP EFA FUNDING DEFERRAL ACCOUNT

In a letter dated February 12, 2024, the OEB established a new generic deferral account to record incremental Low-Income Energy Assistance Program (LEAP) Emergency Financial Assistance (EFA) contributions made on and after March 1, 2024 that are beyond the amounts embedded in distribution rates.[65] The letter indicated that these funding contributions are to be tracked at a detailed level. The accounting order states that amounts in this sub-account may be brought forward for its next cost-based rate application if they exceed the distributor's materiality threshold. At the time of disposition any amounts recorded within this deferral account will require a prudency review.

No incremental costs have been recorded into this account; however, Hydro Ottawa has proposed for this sub-Account to remain open for potential future use.

3.12. EXTENDED HORIZONS VARIANCE ACCOUNT

In late 2024, the Distribution System Code (DSC) was revised to facilitate housing development connections. The DSC was amended to extend the connection horizon to a maximum of 15 years for qualifying housing developments (as newly defined) and extend the revenue horizon to 40 years for all residential customers. These amendments, effective December 23, 2024, apply to initial connection offers made on or after November 18, 2024, and became mandatory on March 3, 2025. Subsequently, on March 20, 2025, the OEB mandated a new generic deferral account, retroactive to November 18, 2024, to track revenue requirement changes stemming from reduced customer capital contributions within distribution rates.[66]

Hydro Ottawa has established a sub-account for this purpose, anticipating potential future use.

[65] Ontario Energy Board, Letter RE: *Changes to the Low-Income Energy Assistance Program Emergency Financial Assistance and Accounting Orders*, EB-2023-0135 (February 12, 2024).
[66] Ontario Energy Board, *Extended Horizons Variance Account,* EB-2024-0092 (March 20, 2025)

ACCOUNT 1592 PILS AND TAX VARIANCE

1. INTRODUCTION

Per the *Accounting Procedures Handbook for Electricity Distributors* (APH), Account 1592[1] is used to record the tax impact for the following differences that are not reflected in a distributor's rates:

1. Legislative or regulatory changes to tax rates; and
2. Rules or disclosure of a new assessing or administrative policy published by federal or provincial public tax bulletins.

For further information on the Payments in Lieu of Taxes (PILS) impact related to utility-specific Regulatory Assets which are unrelated to changes defined as part of Account 1592 per the APH (e.g. the Earnings Sharing Mechanism), please refer to Schedule 9-1-3 - Group 2 Accounts.

2. PILS ACCELERATED INVESTMENT INCENTIVE 2018 TO 2027

Bill C-97, also known as the *Budget Implementation Act, 2019*, was passed by the Parliament of Canada and received Royal Assent in June 2019. The legislation provides for accelerated investment incentive or Accelerated Capital Cost Allowance (CCA) deductions for eligible property available for use and acquired after November 20, 2018. The accelerated investment incentive is to be gradually phased out starting in 2024 and will not apply to capital property available for use after 2027. The OEB released guidance on July 25, 2019 which instructed utilities to record 100% of the rule change in a Sub-Account of 1592 - PILS and Tax Variances - CCA Changes, if not already recorded in base rates. The guidance states that "The OEB therefore expects that all Utilities will record the full revenue requirement impact of any changes in CCA rules that are not reflected in base rates."[2]

[1] Ontario Energy Board, *Accounting Procedures Handbook for Electricity Distributors* (December 2011), page 38.
[2] Ontario Energy Board, Letter RE: *Accounting Direction Regarding Bill C-97 and Other Changes in Regulatory or Legislated Tax Rules for Capital Cost Allowance* (July 25, 2019), page 2.

2.1. ACCELERATED CCA - 2016-2020 BASE RATES

Accelerated CCA was not reflected in Hydro Ottawa's base rates for 2018 to 2020. As directed, Hydro Ottawa recorded the impact of the legislative change for 2018-2020 in Sub-Account 1592 - PILS and Tax Variances - CCA Changes. Per Hydro Ottawa's 2021-2025 Approved Settlement Agreement,[3] accelerated CCA for Approved Additions for 2018-2020 and portions related to the New Facilities[4] were fully disposed of.

2.2. ACCELERATED CCA - 2021-2025 BASE RATES

The impact of Accelerated CCA was reflected in Hydro Ottawa's base rates for the 2021-2025 rate years as part of Hydro Ottawa's rate application and its incorporation was approved as part of the 2021-2025 Approved Settlement Agreement. Thus no amount was required to be recorded in Sub-Account 1592 - PILS and Tax Variances - CCA Changes.

2.3. ACCELERATED CCA - 2026-2030 BASE RATES

The impact of Accelerated CCA is incorporated in the base rates for the 2026 and 2027 Test Years as part of Hydro Ottawa's 2026-2030 Rate Application. Therefore no amounts will be recorded in Sub-Account 1592 - PILs and Tax Variances - CCA Changes for 2026 and 2027. Since Accelerated CCA is not available for tax years after 2027, it has not been incorporated into base rates for the 2028, 2029 and 2030 Test Years. Please also see Section 7 of this Schedule for further details.

2.4. ACCELERATED CCA FOR CONNECTION COST RECOVERY AGREEMENT (CCRA) - 2020

For the change in CCA, specifically due to Accelerated CCA CCRA Payments, the amounts to the end of 2019 were fully disposed of as per Hydro Ottawa's 2021-2025 Approved Settlement

[3] Hydro Ottawa Limited, *2021-2025 Custom Incentive Rate-Setting Approved Settlement Proposal*, EB-2019-0261 (September 18, 2020), page 66.
[4] Ibid, page 30.

Agreement[5] and the balance for 2020 CCA impact to CCRA is proposed to be disposed of in this Application. Please refer to Table 1 below for details.

No balance is required past 2020 as Accelerated CCA for CCRA payments were reflected in base revenue requirement for the 2021-2025 rate years in Hydro Ottawa's 2021-2025 Approved Settlement Agreement.[6] Accelerated CCA for CCRA payments have also been reflected in base rates for the 2026 and 2027 Test Years as part of this Application. With Accelerated CCA ending at the end of December 31, 2027, Accelerated CCA has not been recorded in base rates for 2028, 2029 and 2030.

Table 1 – Impact of Prior "Regular" CCA Rules vs. Accelerated CCA Rules on CCRA for 2020

Year	"Regular" CCA	Accelerated CCA	Difference in CCA	Difference in Grossed Up PILS
2020	$ 504,182	$ 495,743	$ (8,439)	$ 3,043

3. PILS ACCELERATED INVESTMENT INCENTIVE EXTENSION

On December 16, 2024, the Fall Economic Statement (FES) for 2024 was tabled in Parliament. The FES 2024 proposes to reinstate the Accelerated Investment Incentive (or Accelerated CCA). Bill C-97 which contained the original accelerated CCA legislation was to be gradually phased out starting in 2024 and would not apply to capital property available for use after 2027. The FES retained the 2024 phase out period for Accelerated CCA, but fully reinstates Accelerated CCA from 2025 with a phase out starting in 2030, and will not apply to capital property available for use after 2033. Under the re-instated Accelerated CCA proposals, eligible capital property that would normally be subject to the half-year rule would qualify for a CCA equal to three times the normal first-year deduction if it becomes available for use from 2025 to

[5] Hydro Ottawa Limited, *2021-2025 Custom Incentive Rate-Setting Approved Settlement Proposal*, EB-2019-0261 (September 18, 2020), page 33.
[6] Hydro Ottawa Limited, *2021-2025 Custom Incentive Rate-Setting Approved Settlement Agreement*, EB-2019-0261 (September 18, 2020).

before 2030. The proposed phase out period will be reinstated from 2030 to 2033 and would allow eligible capital property that would normally be subject to the half-year rule qualify for a CCA equal to two times the normal first-year deduction. The reinstatement of Accelerated CCA was announced on December 16, 2024 and draft legislation has not yet been introduced nor enacted by Parliament.

Hydro Ottawa will record the impact of this legislative change in Sub-Account 1592 - PILS and Tax Variances - CCA Changes should the legislation for this FES 2024 proposal be enacted by Parliament.

4. 2021 FEDERAL BUDGET TEMPORARY IMMEDIATE EXPENSING

The 2021 Federal Budget announced changes to allow temporary immediate expensing of certain properties acquired that would otherwise qualify for CCA, providing up to a maximum of $1.5M of additional CCA per taxation year. Bill C-19, which includes this income tax measure, received Royal Assent on June 23, 2022. Eligible property includes any capital property subject to the CCA rules, except for property included in Classes 1-6, 14.1, 17, 47, 49 and 51. The immediate expensing is only available in the year the property becomes available for use, and the half-year rule is suspended where this measure applies.

The $1.5M limit is shared amongst associated members of a group. Entities acquiring more than $1.5M of eligible property in a taxation year may decide which CCA class to apply the immediate expensing rules to, with any excess capital cost over $1.5M subject to the normal CCA rules. This immediate expensing measure applies to eligible property acquired after April 18, 2021 that is available for use before 2024.

The 2021 immediate expensing measure has allowed Hydro Ottawa to deduct up to $1.5M in CCA in the first year of an asset's depreciable life. Therefore, less CCA for this asset would be available in later years. However, the total amount of CCA that would be deducted over the life of the asset remains the same.

Hydro Ottawa has taken this $1.5M CCA deduction in 2021, 2022 and 2023 and Hydro Ottawa has not shared the $1.5M CCA deduction with associated members in those years. The $1.5M immediate expensing CCA deduction is not available in 2024 and 2025. Due to the $1.5M immediate expensing available in years 2021, 2022 and 2023, more CCA was deducted resulting in less CCA being available for these assets in Bridge Years 2024 and 2025 and into Test Years 2026-2030. Hydro Ottawa has recorded the impact of this legislative change in Sub-Account 1592 - PILS and Tax Variances - CCA Changes. Any balance in this Sub-Account is being proposed for disposal as part of this Application. Refer to Schedule 9-3-1 - Disposition of Deferral and Variance Accounts for further details.

Table 2 provides a summary of the impact of the 2021 immediate expensing for 2021-2025 rate years and future impact of reduced CCA for this 2021 immediate expensing measure which has been reflected in base rates for the 2026-2030 Test Years. Please also see Section 7 of this Schedule below.

Table 2 - Impact of 2021 Immediate Expensing for 2021- 2025 ($'000s)

Year	Prior "Regular" CCA	Immediate Expensing CCA	Difference in CCA	Difference in Grossed up PILS
2021	$ 89,529	$ 90,579	$ 1,050	$ (379)
2022	$ 92,513	$ 93,235	$ 722	$ (260)
2023	$ 85,233	$ 85,731	$ 498	$ (179)
2024	$ 79,436	$ 78,895	$ (541)	$ 195
2025	$ 92,774	$ 92,367	$ (407)	$ 147
TOTAL				**$ (476)**

5. 2024 FEDERAL BUDGET TEMPORARY IMMEDIATE EXPENSING

The 2024 Federal Budget released on April 16, 2024 (Budget Day) proposed to provide immediate expensing for new additions of property in respect of Classes 44, 46, and 50 if the property is acquired on or after Budget Day and becomes available for use before January 1, 2027. The 2024 immediate expensing measure is not the same as the 2021 immediate

expensing measure described in Section 4. If enacted, the 2024 immediate expensing would provide a 100% first-year CCA deduction on Classes 44, 46 and 50 additions; it would be available only for the year in which the property becomes available for use and there is no upper maximum limit. Unlike the 2021 immediate expensing measure which is limited to $1.5M in eligible additions for certain CCA classes. However, similar to the 2021 immediate expensing measure, Hydro Ottawa would be allowed to deduct the eligible additions in those prescribed Classes 44, 46 and 50 as CCA in the first year of an asset's depreciable life. Therefore, no CCA for these assets would be available in later years. The total amount of CCA that would be deducted over the life of the asset remains the same, except all the CCA would have been deducted in the first year.

On August 12, 2024, draft legislation was introduced regarding this 2024 Budget change. However, this legislation has not yet been enacted by Parliament. Hydro Ottawa will record the impact of this legislative change in Sub-Account 1592 - PILS and Tax Variances - CCA Changes should the legislation for this 2024 Budget change be enacted. Any balance in this Sub-Account will be disposed of in a future Rate Application.

6. 2023 & 2024 FEDERAL BUDGETS CLEAN ELECTRICITY INVESTMENT TAX CREDIT

The 2023 Federal Budget introduced a refundable tax credit of up to 15% for clean electricity investments for Federally tax exempt entities such as Hydro Ottawa. The 2024 Federal Budget included further details on the requirements and implementation of the Clean Electricity Investment Tax Credit (ITC). This ITC will apply to eligible property that is acquired and becomes available for use on or after April 16, 2024 to December 31, 2034, excluding property that is part of a project which began construction before March 28, 2023.

On August 12, 2024, draft legislation for the Clean Electricity ITC was introduced. However, the legislation for the Clean Electricity ITC has not yet been enacted by Parliament. Hydro Ottawa will record the impact of this legislative change in Sub-Account 1692 - PILS and Tax Variances - CCA Changes should the legislation for this ITC be enacted. Any balance in this Sub-Account will be disposed of in a future Rate Application.

7. PILS CONTRIBUTION ADJUSTMENT FOR 2026 & 2027 ACCELERATED CCA AND 2021 IMMEDIATE EXPENSING

Accelerated CCA is available for assets acquired and put in use from November 18, 2018 to December 31, 2027. The accelerated CCA rules were a temporary tax measure that will no longer be available for eligible assets acquired after 2027. Due to the accelerated CCA tax measures being introduced and enacted during Hydro Ottawa's 2016–2020 rate period, the impacts to CCA due to the newly enacted accelerated CCA rules were recorded in Sub Account 1592 for 2018 to 2020 rate years. The amounts were subsequently cleared as per Hydro Ottawa's 2021-2025 Approved Settlement Agreement.[7] For the 2021–2025 rate period the accelerated CCA tax measures were included in base rates. For the 2026–2030 Application, the Accelerated CCA tax measures are included in base rates for 2026 and 2027 Test Years only, as Accelerated CCA is no longer available after 2027 (as originally enacted in Bill C-97).

Accelerated CCA allows Hydro Ottawa to deduct more CCA in the first years that the assets are available for use and correspondingly, less CCA is available in the later years on the same assets. The total amount of CCA that will be deducted over the life of the asset remains the same. However, the amount of CCA that Hydro Ottawa is allowed to deduct as Accelerated CCA is considerably much more that "regular" CCA in the first year. As more CCA is allowed to be deducted from regulatory income, less PILs will be required in those first years. Hydro Ottawa has calculated the difference in PILs for 2026 and 2027 due to Accelerated CCA in Table 3 below.

[7] Ibid.

Table 3 - Impact of "Regular" CCA Rules vs. Accelerated CCA Rules for 2026 and 2027 Test Years ($'000s)

Year	Test Year Additions	Prior "Regular" CCA	Accelerated CCA	Difference in CCA	Difference in Grossed up PILS
2026	$ 205,446	$ 91,132	$ 103,864	$ 12,732	$ (4,590)
2027	$ 278,998	$ 106,979	$ 118,340	$ 11,361	$ (4,096)

Hydro Ottawa is proposing to exclude the impact of the decrease in Grossed Up PILS due to Accelerated CCA for 2026 and 2027 and the impact in the decrease in accumulated Grossed Up PILS due to the 2021 immediate expensing measure in the proposed revenue requirement for 2026 and 2027. Hydro Ottawa is proposing to record a corresponding amount in the fixed asset subledger (similar to Capital Contributions) and amortize these amounts over 36 years. This will allow Hydro Ottawa to smooth out the Grossed Up PILS difference for both the 2026 and 2027 Accelerated CCA and the 2021 immediate expensing measure over 36 years instead of allocating the entire decrease in Grossed Up PILS to current ratepayers. Reducing intergenerational impacts related to Accelerated CCA and immediate expensing while still providing the benefit to customers through amortization of the contribution and related cost of capital impacts on rate base. Please note that this proposal is for existing Accelerated CCA rules and for the 2021 immediate expensing measure already recorded in USofA Account 1592 and any other amounts recorded for the remaining Test Years. Hydro Ottawa is not suggesting to impact the prior treatment of accelerated CCA from 2018 to 2025. The amounts added to 2026 and 2027 proposed revenue requirement and set up as PILS Contribution are detailed in Table 4 below.

Table 4 - PILS Contribution ($'000s)

Test Year	Accelerated CCA Grossed Up PILS Difference	2021 Immediate Expensing Grossed Up PILS Difference	Total Grossed Up PILS Difference Included in Revenue Requirement
2026	$ (4,590)	$ (476)	$ (5,066)
2027	$ (4,096)	-	$ (4,096)

Please see Schedule 6-1-1 - Revenue Requirement and Revenue Deficiency or Sufficiency for further details.

8. JANUARY 6, 2025 PROROGATION OF PARLIAMENT

On January 6, 2025, the Governor General prorogued the 44th Canadian Parliament at the request of the Prime Minister. Prorogation brings the current session of Parliament to an end. Prorogation suspends Parliament but does not dissolve it. Generally, when Parliament is prorogued all unfinished business "dies" on the Order Paper. Bills which have not received Royal Assent before prorogation are "entirely terminated" and must be reintroduced as if they had never existed, or in certain circumstances, reinstated by motion at the start of a new session of Parliament at the same stage they had reached at the end of the previous session.

Tax legislation discussed in this section that has not been enacted by Parliament before the Prorogation are as follows :

- PILS Accelerated Investment Incentive Extension (as proposed in the Fall Economic Statement 2024 of December 2024);
- 2024 Budget Temporary Immediate Expensing (draft legislation released in August 2024); and
- 2023 Budget and 2024 Budget Clean Electricity Investment Tax Credit (draft legislation released in August 2024).

At this time, it is not determinable if and when the final legislation for the above will be enacted by Parliament. Therefore, these legislative changes have not been reflected in the proposed revenue requirement for 2026-2030.

LOST REVENUE ADJUSTMENT MECHANISM VARIANCE ACCOUNT

1. INTRODUCTION

Hydro Ottawa is seeking Lost Revenue Adjustment Mechanism (LRAM) disposition in the amount of $(684,997), including principal of $(584,266) and carrying charges of $(100,730) including projected carrying charges to 2025. At the time of filing this Application, Hydro Ottawa can support LRAM claims for 2021-2023 period, which includes persistence from in-service programs from 2020 and onwards. Hydro Ottawa may provide further LRAM claims for years 2024 and 2025 as part of future Applications.

Hydro Ottawa have appended two Excel attachments to support the LRAM claims for 2021-2023:

- Attachment 9-1-5(A) - OEB LRAMVA Workform
- Attachment 9-1-5(B) - IESO Final Verified 2017 CDM Summary Report

2. BACKGROUND

In September 2020, the (then) Ministry of Energy, Northern Development and Mines (ENDM) and the Independent Electricity System Operator (IESO) introduced the 2021-2024 electricity conservation framework and program. On December 20, 2021, the OEB released updated Conservation and Demand Management (CDM) Guidelines for Electricity Distributors that outlined the 2021-2024 CDM Framework and previous provincial CDM Frameworks.[1] This guideline was ultimately replaced by the OEB's Non-Wires Solutions Guidelines for Electricity Distributors (NWS Guidelines) in March 2024.[2] These activities occurred after Hydro Ottawa filed its 2021-2025 Custom Rate Application and the updated guidelines were introduced after Hydro Ottawa 2021-2025 Customer Framework Decision and Order was received.

[1] Ontario Energy Board, *Conservation and Demand Management Guidelines for Electricity Distributors*, EB-2021-0106, (December 20, 2021).
[2] Ontario Energy Board, *Non-Wires Solutions Guidelines for Electricity Distributors*, EB-2024-0118 (March 28, 2024).

The IESO's 2021-2024 CDM Framework programs, including local initiatives programs, forecasted 725 MW of peak demand savings and 3.8 TWh of electricity savings by 2025, with continued persistence beyond the Framework term.[3] The IESO publishes Evaluation Reports from the 2021-2024 CDM Framework on an annual basis.[4]

Although Chapter 8 of the 2021 CDM Guidelines stated that the use of the Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) was no longer the default approach for CDM activities, Hydro Ottawa has continued to utilize the LRAMVA to track and measure the financial impact of various CDM initiatives. This includes CDM savings driven by IESO programs, other provincial or federal initiatives, and local initiative programs as agreed upon in Hydro Ottawa's 2021-2025 Approved Settlement Agreement[5]. In that Agreement, the Parties:[6]

> "acknowledge that Hydro Ottawa will include future CDM savings driven by the Independent Electricity System Operator ("IESO") or other provincial or federal initiatives in the LRAMVA. (With respect to potential provincial initiatives, it is acknowledged that the Government of Ontario posted a regulatory proposal on July 23, 2020 which contemplates the establishment of a new CDM framework for the 2021-2024 period). The Parties further acknowledge that the OEB may set generic guidelines to measure CDM savings outside the current CFF wind-down framework. However, any updated OEB guidelines will not preclude Hydro Ottawa from bringing forward an LRAM claim, given both known and unknown initiatives have been removed from the Load Forecast for which Hydro Ottawa would have otherwise included in the base Load Forecast.
>
> The Parties agree that Hydro Ottawa has the ability to record and bring forward a request to dispose of its LRAMVA for the impact of both known and unknown CDM initiatives. This

[3] Independent Electricity System Operator, *2021-2024 Conservation and Demand Management Framework Mid-Term Review*, December 2022.
[4] Independent Electricity System Operator, "Energy Efficiency - Evaluation, Measurement and Verification," https://www.ieso.ca/en/Sector-Participants/Energy-Efficiency/Evaluation-Measurement-and-Verification.
[5] Hydro Ottawa Limited, *2021-2025 Custom Incentive Rate-Setting Approved Settlement Agreement*, EB-2019-0261 (September 18, 2020).
[6] Hydro Ottawa and the following intervenor groups: Building Owners and Managers Association, Consumers Council of Canada, Distributed Resource Coalition, Environmental Defense, Energy Probe Research Foundation, Pollution Probe, School Energy Coalition, Vulnerable Energy Consumers Coalition.

agreement shall not be construed as agreement to the disposition of such account. Parties are free to take any position they deem appropriate at the time Hydro Ottawa seeks disposition of the LRAMVA."[7]

Hydro Ottawa's streetlight lost revenue claim represents incremental savings attributed to participation in the IESO program and any associated energy savings have been removed from the LRAMVA workform. The streetlight lost revenue claim is based on a database containing energy consumption data (kWh and kW) from converted lights, both before and after conversion.

3. LOST REVENUE ADJUSTMENT MECHANISM VARIANCE ACCOUNT DETAILS

3.1. LRAMVA FOR THE PERIOD 2017 - 2020

Hydro Ottawa received approval to dispose of LRAMVA balances up to the end of 2020 in its 2023 Application.[8] This disposition consists of lost revenues from 2017 to 2020 related to CDM programs delivered during the period from 2015 to 2020, including carrying charges projected to December 31, 2022. In that Decision, the OEB cited that persisting impacts from Conservation First Framework (CFF) can be requested for disposition in distributors' next rebasing application.[9]

Table 1 below provides LRAMVA balances by rate class related to either energy savings (kWh) or peak demand (kW) savings.

[7] Hydro Ottawa Limited, *2021-2025 Custom Incentive Rate-Setting Approved Settlement Proposal*, EB-2019-0261 (September 18, 2020), page 24.
[8] Ontario Energy Board, *Decision and Rate Order* EB-2022-0042 (December 8, 2022).
[9] Ibid, page 16.

Table 1 – Lost Revenue by Year by Rate Class for 2017 - 2020[10]

	2017 ($)	2018 ($)	2019 ($)	2020 ($)	Total Principal	Total incl. interest
Residential	$ 1,431,569	$ 905,519	$ 358,616	-	**$ 2,695,705**	**$ 2,888,006**
GS< 50 kW	$ 293,657	$ 372,415	$ 465,981	$ 281,294	**$ 1,413,348**	**$ 1,489,601**
Commercial	$ (248,711)	$ (590,294)	$ (894,276)	$ (1,523,207)	**$ (3,256,489)**	**$ (3,393,528)**
Unmetered	-	-	-	-	**-**	**-**
Streetlighting	$ 116,699	$ 223,376	$ 319,732	$ 357,481	**$ 1,017,287**	**$ 1,064,688**
Total	**$ 1,593,214**	**$ 911,017**	**$ 250,053**	**$ (884,432)**	**$ 1,869,852**	**$ 2,048,767**

3.2. LRAMVA FOR THE PERIOD 2021-2023

Hydro Ottawa has recorded incremental first-year savings as well as persistent CDM savings for 2021-2023 from the 2021-2024 CDM Framework. This includes the impact of both known and estimated CDM savings using IESO's Evaluation, Measurement, and Verification (EMV) reports for in-service activities, as well as the persistence savings from the CFF and Interim Framework programs for 2020 in-service activities. Where EMV reports[11] lack specific persistence or customer rate-class data, Hydro Ottawa continues to rely on the IESO's historical Monthly Program Participation and Cost Report, which represents Hydro Ottawa's performance throughout the CFF, as of February 15, 2019. Table 3 provides customer rate class impacts used in calculating CDM savings. Table 4 provides Hydro Ottawa's estimated portion of centrally administered programs' net energy and demand savings based on IESO's Final Verified 2017 CDM Summary Report proportions for the years 2015 to 2017[12]. For more information, see section 4 below.

[10] Totals may not sum due to rounding.
[11] Independent Electricity System Operator (IESO), "Evaluation, Measurement and Verification," IESO, accessed December 2, 2024, https://ieso.ca/en/Sector-Participants/Energy-Efficiency/Evaluation-Measurement-and-Verification.
[12] 2017 was the last year the IESO provided a fully finalized report.

Hydro Ottawa has calculated its CDM savings based on the established threshold from its 2021-2025 CIR application.[13] In addition, Hydro Ottawa confirms that its calculation of lost revenue aligns to the OEB's CDM-related guidelines and applicable LRAMVA policy. These calculations utilize the most recent input assumptions available from the IESO at the time of filing this Application.

Hydro Ottawa notes that as part of the update to the Chapter 2 *Filing Requirements for Electricity Rate Applications* issued by the OEB on December 15, 2022, the OEB has stated that "most distributors will be able to request disposition of LRAMVA balances for all years up to and including 2022."[14] As acknowledged in the Decision and Order for its 2023 Application,[15] Hydro Ottawa is seeking clearance of its LRAMVA in this rebasing application. This clearance covers lost revenues, including both current-year and persistent impacts, resulting from CDM programs delivered from 2021 to 2023, as well as persistence savings from the CFF program for 2020 in-service activities. The LRAMVA balance, including carrying charges projected to December 31, 2025 is detailed in Excel Attachment 9-3-1(A) - OEB Workform - Deferral and Variance Account (Continuity Schedule).

Hydro Ottawa will calculate the impact of CDM savings for the years 2024 to 2025 in the LRAMVA once the IESO releases reports of those years.

The proposed LRAMVA disposition is outlined in Table 2 below, which shows the principal balance for 2021-2023 and projected interest to 2025 by rate class.

[13] Hydro Ottawa Limited, *2021-2025 Custom Incentive Rate-Setting Distribution Rate Application,* EB-2019-0261 (February 10, 2020).
[14] Ontario Energy Board, *Chapter 2 Filing Requirements for Electricity Distribution Rate Applications,* (December 15, 2022), page 68.
[15] Ontario Energy Board, *Decision and Rate Order* EB-2022-0042 (December 8, 2022), page 17.

Table 2 – Lost Revenue by Year by Rate Class for 2021 - 2023[16]

	2021	2022	2023	Total Principle	Total with Interest to 2023	Total with Interest to 2025
Residential	-	-	-	**-**	**-**	**-**
GS< 50 kW	$ (35,834)	$ 64,094	$ 200,563	**$ 228,824**	**$ 235,035**	**$ 255,137**
Commercial	$ (428,153)	$ (358,463)	$ 11,321	**$ (775,294)**	**$ (828,414)**	**$ (896,524)**
Unmetered	$ (1,913)	$ (2,060)	$ (2,206)	**$ (6,180)**	**$ (6,499)**	**$ (7,042)**
Streetlighting	$ (23,140)	$ (7,726)	$ (750)	**$ (31,616)**	**$ (33,789)**	**$ (36,567)**
TOTAL EXCLUDING INTEREST	**$ (489,039)**	**$ (304,155)**	**$ 208,928**	**$ (584,266)**	**$ (633,668)**	**$ (684,996)**

Table 3 of Schedule 9-3-1 Disposition of Deferral and Variance Accounts provides LRAMVA proposed rate rider by rate class.

4. CDM PROGRAMS ASSUMPTIONS

4.1. RATE CLASS ASSUMPTION

Table 3 below presents the rate class allocation for each CDM program. These allocations are consistent with those submitted by Hydro Ottawa in its 2021-2025 Custom IR Application.[17] With the exception that the percentages for the Retrofit program have been modified to remove the energy efficiency savings attributed to street lighting customers, as those savings are calculated separately.

[16] Totals may not sum due to rounding.
[17] Hydro Ottawa Limited, *Interrogatory Response - Attachment OEB-134(A): CDM Savings by Program*, EB-2019-0261 (June 5, 2020).

Table 3 - LRAMVA Allocation by Rate Class and Program[18]

Program	Residential	GS< 50 kW	GS 50 TO 1,499 KW	GS 1,500 TO 4,999	Large User	Total
CFF Framework (CFF)						
Retrofit	-	22%	65%	11%	2%	**100%**
Interim and New Framework (IF or NF)						
Retrofit	-	18%	50%	28%	4%	**100%**
Small Business Lighting	-	90%	7%	3%	-	**100%**
Energy Affordability	100%	-	-	-	-	**100%**
Energy Performance	-	-	-	-	-	**-**
Energy Manager	-	11%	67%	15%	7%	**100%**
Process & Systems Upgrade	-	-	-	-	100%	**100%**

4.2. PERSISTENCE, NET TO GROSS AND REALIZATION FACTORS

Hydro Ottawa used persistence percentages, net-to-gross ratios, or realization data from the IESO's reports to calculate the impact of centrally delivered programs. In cases where this information was unavailable, Hydro Ottawa used information from previously reported savings under the CFF program.

4.3. ENERGY EFFICIENCY SAVINGS IN HYDRO OTTAWA'S TERRITORY

Table 4 below provides the portion of energy savings from electricity conservation and demand-side management programs administered by the IESO estimated to be within Hydro Ottawa's service territory. Hydro Ottawa has used an allocation methodology that aligns with how the OEB determined CDM saving should be incorporated into Load Forecast once the IESO stopped producing distributor level reports.[19] Given these guidelines were not available at the time of Hydro Ottawa's 2021-2025 Custom Application it was not clear how the OEB

[18] IESO's monthly Participation and Cost Reports from January 1, 2018 to March 31, 2019.
[19] Ontario Energy Board, Conservation and Demand Management Guidelines for Electricity Distributors, EB-2021-0106, (December 20, 2021); Ontario Energy Board, Non-Wires Solutions Guidelines for Electricity Distributors, EB-2024-0118 (March 28, 2024).

planned to approach the incorporation of CDM into Load forecasts and ultimately the Parties agreed to remove Hydro Ottawa's CDM incorporated into its load forecast in favour of maintaining the LRAM Variance Account to be reviewed in the future. Hydro Ottawa suggests that the methodology that had been proposed as part of the 2021-2025 rate application to incorporate CDM into its load forecast aligned with the OEB's CDM guidelines subsequently established.

Table 4 – Hydro Ottawa's Portion of Energy Savings from Centrally Administered Programs for Years 2015 - 2017[20]

Program	Hydro Ottawa Total		Ontario Total		Hydro Ottawa Percentage of Provincial Savings	
	GWh	MW	GWh	MW	GWh	MW
Save on Energy Retrofit Program	105.85	15,255	1,496.88	218,486	7.07%	6.98%
Save on Energy Small Business Lighting Program	0.41	82	60.39	14,241	.67% or EMV data	0.58%
Save on Energy Energy Manager Program	0.68	58	33.63	6,139	2.03%	0.94%
Save on Energy Process & Systems Upgrades Program	4.46	472	70.23	7,387	6.36%	6.39%
Save on Energy Industrial Energy Efficiency Program	same as above program					
Save on Energy High Performance New Construction Program	0.66	197	78.63	15,949	0.84%	1.24%
Save on Energy Energy Performance Program	same as above program					
Save on Energy Home Assistance Program	2.16	162	18.68	2,408	11.58%	6.73%

[20] See total verified kWh and kW in Excel Attachment 9-1-5(B) - IESO's Final Verified 2017 CDM Summary Report.

5. ENERGY EFFICIENCY SAVINGS PROGRAM FOR 2025-2030

In alignment with section 2.3.1.3 of the OEB's *Chapter 2 Filing Requirements for Electricity Distribution Rate Applications - 2025 Edition for 2026 Rate Applications*, dated December 9, 2024, Hydro Ottawa has incorporated energy efficiency and non-wires solutions into its load forecast, as detailed in Schedule 3-1-1 - Revenue Load and Customer Forecast. Hydro Ottawa is not proposing an LRAMVA to record the impact of energy efficiency and non-wires solutions for the 2026-2030 period.

Attachment 9-1-5(A) - OEB LRAMVA Workform

(Refer to the attachment in Excel format)

Attachment 9-1-5(B) - IESO Final Verified 2017 CDM Summary Report

(Refer to the attachment in Excel format)

NEW DEFERRAL AND VARIANCE ACCOUNTS

1. INTRODUCTION

This Schedule describes Hydro Ottawa's proposals for establishing new deferral and variance accounts (DVAs) as discussed in Schedule 1-3-1 Rate Setting Framework. In the sections below, the utility describes the eligibility criteria regarding causation, materiality, and prudence for the proposed new accounts. Hydro Ottawa is seeking the OEB's approval to introduce DVAs, effective January 1, 2026 as outlined below. Any modified DVA are discussed in Schedule 9-1-3 Group 2 Accounts.

Each proposed account would accrue carrying charges at the OEB-prescribed rate and that any balance related to 2026-2029 be recovered from or returned to customers at the utility's next rebasing application or as specifically noted. Any 2030 balance shall be recovered from or returned to customers based on the materiality level per OEB guidelines related to Group 2 Accounts.

2. NEW REGULATORY ACCOUNTS

2.1. NON-WIRES SOLUTIONS VARIANCE ACCOUNT

Hydro Ottawa's proposed 2026-2030 Distribution System Plan (DSP) incorporates non-wires solutions (NWS), such as battery energy storage systems (BESSs) and distributed energy resources (DERs), to address identified capacity needs as detailed in Section 9.2 of Schedule 2-5-4 - Asset Management Process and Section 2.3.2.3 of Schedule - 2-5-8 System Service Investments.

Hydro Ottawa's forecasted costs for NWS initiatives include funding for targeted marketing campaigns and potential customer incentives within the Non-Wires Customer Solutions Program, focusing on local projects and IESO collaboration, and increased OM&A expenses related to managing advanced grid technologies like BESS, including monitoring and control, and overall safety compliance. However, the successful deployment of these NWS programs is

contingent upon several external factors, including the pace of DER technology advancements, evolving policies, and customer adoption rates. This evolving landscape directly impacts the availability and affordability of NWS technologies and service providers, thereby influencing Hydro Ottawa's implementation strategy. Customer participation, driven by economic incentives and public awareness, is crucial for the effective realization of demand-side management benefits. For instance, while interest in BESS is increasing, current penetration remains low, with only three systems larger than 100kW connected to Hydro Ottawa's distribution system, none of which are located in areas of need. Refer to Section 9.2 of Schedule 2-5-4 - Asset Management Process. This highlights the potential for material variances in costs over the rate term. In addition, these programs prudently support the objectives outlined in the Ontario Energy Board's "Non-Wires Solutions Guidelines for Electricity Distributors"[1] and aligns with the broader Framework for Energy Innovation, ultimately promoting the effective implementation of NWS for a more resilient and efficient electricity grid that benefits ratepayers.

Therefore, Hydro Ottawa proposes a symmetrical differential account to record the difference between projected and actual NWS costs for NWS projects, offset by any external funding.

Table 1 below outlines Hydro Ottawa's forecast NWS costs, as detailed in Schedule 4-1-2 - Operations, Maintenance and Administration Program Costs and Schedule 6-3-5 - Other Income and Deductions.

Table 1 - Non-Wires Solutions Test Year Costs ($'000)[2]

	2026	2027	2028	2029	2030
Costs included in OM&A	$2,192	$2,319	$2,454	$2,597	$2,747
Costs included in Other Income & Deductions	$2,000	$2,000	$2,000	$2,000	$2,000
Total NWS costs	**$4,192**	**$4,319**	**$4,454**	**$4,597**	**$4,747**

[1] Ontario Energy Board: *Non-Wires Solutions Guidelines for Electricity Distributors* (EB-2024-0118), March 28, 2024
[2] The 2026 amount includes external funding. Figures for 2027-2030 are based on the Custom Revenue OM&A Factor

Draft Accounting Order:

A) Table 2 details a sample journal entry of a collection of funds through this symmetrical account where actual NWS costs are higher than the forecasted costs noted in Table 1 above. Should the opposite occur, where actual NWS costs are lower that the amounts forecasted in Table 1 above, it would result in a refund and the debits and credits in Table 2 would be reversed.

B) This account will accrue carrying charges based on the OEB-prescribed interest rates until final disposition.

Table 2 - Sample Journal Entry to capture additional revenue requirement where actual NWS costs are higher than forecasted costs

Account	Debit	Credit
Account 1508 - Sub Account NWS costs	x,xxx.xx	
Account 4080 - Distribution Services Revenue		x,xxx.xx
To record revenue requirement as actual non-wires solution costs are higher than the forecasted amount		
Account 6035 - Other Interest Expense	x,xxx.xx	
Account 1508 - Sub Account NWS costs		x,xxx.xx
To record carrying charges		

2.2. LARGE LOAD REVENUE VARIANCE ACCOUNT

Hydro Ottawa is proposing the establishment of a variance account to address the inherent uncertainty in forecasting individual customer's load particularly in light of the early stages of the evolving energy landscape. Customer adoption of new technologies and evolving energy consumption patterns in response to decarbonization initiatives create significant challenges for accurate revenue load forecasting. These uncertainties can create significant discrepancies between forecasted load and actual energy use, including the timing of the in-service requests. Similarly to the use of the Lost Revenue Adjustment Mechanism Variance Account (LRAMVA),

Hydro Ottawa is proposing a variance account specifically designed to address the unique forecasting challenges posed by decarbonization.

This account would be a mechanism to manage discrepancies between predicted large load requests as outlined in Table 8 of Schedule 3-1-1 - Revenue Load and Customer Forecast and actual billed demand for these large load requests. This would account for both volume and timing variations and would only be calculated for the period of time until the load substantially materializes, net of any adjustment in the customer contribution.

This account will be established as Account 1508, Other Regulatory Assets – Sub- Account "Large Load Variance Account" effective January 1, 2026 and the cumulative sum of this sub-account to 2029 will be put forward for disposition in the next rebasing rate application. 2030 will be disposed of in accordance with OEB guidelines related to Group 2 Accounts.

Draft Accounting Order:

A) Table 3 details a sample journal entry of a collection of funds where the forecasted large load requests are delayed. The revenue discrepancy is based on the difference yearly between actual and forecasted demand; Revenue requirement discrepancies would be either debited or credited to Account 1508 based on whether the yearly difference between actual and forecasted demand is less or more respectively. Hydro Ottawa shall continue to record variances in this account until the utility's next rebasing period.
B) This account will accrue carrying charges based on OEB-prescribed interest rates until final disposition.

Table 3 - Sample Journal Entry to capture lost revenue where the predicted large load requests were later than forecasted in revenue load forecast

Account	Debit	Credit
Account 1508 - Sub Account Large load variance account	x,xxx.xx	
Account 4080 – Distribution Services Revenue		x,xxx.xx
To record revenue requirement where predicted large load requests were later than forecast		
Account 6035 - Other Interest Expense	x,xxx.xx	
Account 1508 - Sub Account Large load variance account		x,xxx.xx
To record carrying charges		

2.2. TARIFF IMPACT DEFERRAL ACCOUNT

Hydro Ottawa requests the establishment of a deferral account to address the substantial and unpredictable impact of global tariffs on its supply chain, a risk that emerged after the development of its 2026-2030 test year forecasts.

This account will track costs incurred during the test period directly attributable to imposed global tariffs. These tariff-driven costs are considered prudent as they arise from external factors beyond Hydro Ottawa's control. As detailed in Schedule 1-2-5 Impacts of Inflationary Pressure and 1-3-4 - Facilitating Innovation and Continuous Improvement, Hydro Ottawa actively implements cost management and mitigation strategies. However, given the potentially significant and widespread impact of these tariffs, Hydro Ottawa anticipates that the amounts recorded in this variance account could exceed the utility's materiality threshold during the upcoming rate term.

Draft Accounting Order:

A) Table 4 details a sample journal entry to record additional revenue requirement to recover higher costs due to global tariffs. Hydro Ottawa shall continue to record variances in this account until the utility's next rebasing period.

B) This account will accrue carrying charges based on OEB-prescribed interest rates until final disposition.

Table 4 - Sample Journal Entry

Account	Debit	Credit
Account 1508 - Sub Account Tariff Impact Variance Account	x,xxx.xx	
Account 4080 – Distribution Services Revenue		x,xxx.xx
To record additional revenue requirement to recover costs resulting from global tariff.		
Account 6035 - Other Interest Expense	x,xxx.xx	
Account 1508 - Sub Account Large load variance account		x,xxx.xx
To record carrying charges		

2.3. ACCOUNT 1595 (2026)

As per the OEB's Accounting Procedures Handbook (APH)[3] and the OEB's Frequently Asked Questions from July 2012,[4] Hydro Ottawa will open a new sub-account for Account 1595 for each year that the deferral or variance balances are approved for disposition. For this Application, a sub-account will be opened for USofA 1595 (2026). DVA balances being disposed of will be transferred into Account 1595.

2.4. Z FACTOR

In its Handbook for Utility Rate Applications, the OEB affirmed its policy that [a]n acceptable adjustment during a Custom IR term is a Z factor mechanism for cost recovery of unforeseen events."[5]

[3] Ontario Energy Board, *Accounting Procedures Handbook for Electricity Distributors* (December 2011), Article 220 pages 39-40.
[4] Ontario Energy Board, *Accounting Procedures Handbook, Frequently Asked Questions* (July 2012), Question 3, page 5.
[5] Ontario Energy Board, *Handbook for Utility Rate Applications* (October 13, 2016), page 27.

In step with this guideline, Hydro Ottawa is not requesting a Z factor at this time. However, the utility is proposing to reserve the right to use a Z factor cost recovery mechanism in the future. Hydro Ottawa will only resort to using the Z factor mechanism if costs incurred arise from unforeseen events, decisions, or activities the results of which cannot be reasonably anticipated or qualified at this juncture, and where the costs exceed Hydro Ottawa's materiality threshold. Examples include unforeseen weather events, or changes to laws or regulations or other events requiring significant unexpected increase in costs.

Hydro Ottawa would apply to the OEB for a Z factor within six months of the Z factor event. If this occurs and approval is granted by the OEB, any related costs would be recorded in USofA 1572, Extraordinary Event Costs. Hydro Ottawa would likewise follow the guidelines discussed in the OEB's 2008 report on 3rd Generation Incentive Regulation for electricity distributors.[6]

[6] Ontario Energy Board, *Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors* (July 14, 2008), pages 38-41.

DISPOSITION OF DEFERRAL AND VARIANCE ACCOUNTS

1. INTRODUCTION

In this Schedule, Hydro Ottawa is requesting disposition of its Group 2 deferral and variance accounts (DVAs), in compliance with the *Electricity Distributors' Deferral and Variance Account Review Initiative* (EDDVAR Report).

Details regarding DVAs can be found in the following Schedules:

- Schedule 9-1-1 - Summary of Current Deferral and Variance Accounts;
- Schedule 9-1-2 - Group 1 Accounts;
- Schedule 9-1-3 - Group 2 Accounts;
- Schedule 9-1-4 - Account 1592 PILS and Tax Variance; and
- Schedule 9-1-5 - LRAM Variance Account.

2. ACCOUNTS FOR WHICH HYDRO OTTAWA IS SEEKING DISPOSITION

As part of this Application, Hydro Ottawa is requesting disposition of its Group 2 Accounts as presented in Attachment 9-3-1(A) - OEB Workform - Deferral and Variance Account (Continuity Schedule) based on December 31, 2023 audited balances.

Per the DVA Continuity Schedule, principal balances are up to December 31, 2023 and interest is forecasted to December 31, 2025.

Table 1 below provides a summary of the Group 2 DVAs by Uniform System of Accounts (USofA) for which Hydro Ottawa is seeking disposition. For the completed DVA Continuity Schedule, please see Attachment 9-3-1(A) - OEB Workform - Deferral and Variance Account (Continuity Schedule). Hydro Ottawa is not requesting disposal of the year-end balance for 2023 Group 2 Sub-Account 1508 - OEB Rate Application Deferral Account. The fees in this account are being fully amortized with Operations, Maintenance and Administration (OM&A) as per

Updated Schedule 4-2-4 - Regulatory Costs from Hydro Ottawa's 2021-2025 Custom IR Application[1]. As the balance in this account will be zero at the end of 2025, it is not being included in this disposition.

For clarity, although the individual sub-balances for some of the USofA 1508 Sub-Accounts do not meet the materiality disposition threshold, the total of the 1508 account does meet this threshold for proposed disposition as part of the Group 2 accounts. Please see the Sub-total of 1508 Sub-Accounts in Table 1 below.

The total net credit balance of the Group 2 DVAs for which Hydro Ottawa is seeking disposition is $4.6M.

Hydro Ottawa's last audited Group 1 balances for the 2023 year-end are being cleared as part of the implementation of the utility's 2025 rates[2], this includes the disposition of USofA Accounts 1588 Power and 1589 RSVA Global Adjustment. When 2024 audited balances are available, Hydro Ottawa will update Attachment 9-3-1(A) - OEB Workform - Deferral and Variance Account (Continuity Schedule) and the proposed disposition of Group 1 and updated Group 2 Accounts.

As part of this Application, Hydro Ottawa has provided the Global Adjustment Analysis Workform from its 2025 rate adjustment application,[3] as the utility is using data from the 2023 audited financial statements in Attachment 9-3-1(A) - OEB Workform - Deferral and Variance Account (Continuity Schedule). These are included in this Application as Attachment 9-3-1(B) - OEB Workform - Global Adjustment Analysis. Hydro Ottawa will provide an updated attachment based on 2024 audited financials at a later point in this proceeding. The unresolved difference as a percentage of expected Global Adjustment (GA) is below the materiality threshold of plus or minus 10%, and thus further investigation is not required.

[1] Hydro Ottawa Limited, 2021-2025 Custom Incentive Rate-Setting Distribution Application, EB-2019-0261 (February 10, 2020).
[2] Hydro Ottawa Limited,*2025 Electricity Distribution Rate Application*, EB-2024-0035 (August 15, 2024).
[3] Ibid.

Table 1 – Proposed DVA Dispositions[4]

Group	USofA Number	Group 2 Deferral/Variance Account Description	Amount	Principal	Interest
2	1508	Pole Attachment Revenue Variance	$ 802,348	$ 697,316	$ 105,032
2	1508	GOCA Variance Account	$ 802,545	$ 737,748	$ 64,797
2	1508	Gains and Loss on disposal of Fixed Assets Variance Account	$ (1,185,023)	$ (1,042,505)	$ (142,518)
2	1508	Earnings Sharing Mechanism (ESM) Variance Account	$ (1,355,491)	$ (1,151,693)	$ (203,797)
2	1508	Connection Cost Recovery Agreement (CCRA) Payments Differential Variance Account	$ (611,206)	$ (566,398)	$ (44,807)
2	1508	Efficiency Adjustment Mechanism (EAM) Deferral Account	$ (343,296)	$ (300,816)	$ (42,480)
2	1508	OEB Cost Assessment Variance	$ 553,119	$ 486,987	$ 66,132
2	1508	Performance Outcomes Account Mechanism (POAM) Deferral Account	$ (890,453)	$ (800,000)	$ (90,453)
2	1508	RCVA Retail Incremental Revenue	$ 54,037	$ 46,028	$ 8,009
2	1508	STR Incremental Revenue	$ 1,721	$ 1,467	$ 254
2	1508	Capital Variance Account	$ (619,989)	$ (552,268)	$ (67,721)
		Sub-Total of 1508 Sub-Accounts	**$ (2,791,686)**	**$ (2,444,135)**	**$ (347,552)**
2	1522	Pension & OPEB Forecast Accrual versus Actual Cash Payment Differential Carrying Charges	$ (208,445)	-	$ (208,445)
2	1592	PILs and Tax Variance - Sub-Account Capital Cost Allowance (CCA) Changes	$ (925,668)	$ (814,810)	$ (110,857)
		Group 2 Sub-total (Prior to Lost Revenue Adjustment Mechanism (LRAM)	**$ (3,925,799)**	**$ (3,258,945)**	**$ (666,854)**
2	1568	LRAM Variance Account (LRAMVA)	$ (684,996)	$ (584,266)	$ (100,730)
	TOTAL DVA BALANCE (Group 2) TO BE MOVED TO 1595 (2026)		**$ (4,610,795)**	**$ (3,843,211)**	**$ (767,584)**

[4] Totals may not sum due to rounding.

3. UPDATES TO DVA MODEL

To accommodate the proposed Group 2 dispositions, Hydro Ottawa has made the following changes to the 2025 DVA Continuity Schedule:

- On Tab 5. Allocation of Balances; four rows were added after row 43 and formulas were updated to incorporate the additional utility specific Account 1508 Sub-Accounts included on Tab 2b. Continuity Schedule in rows 70-73
- On Tab 7. Rate Rider Calculations; formulas in column E row 152-159 were updated to bring in Allocated Group 2 balances due to additional rows added to Tab 5
- On Tab 7. Rate Rider Calculations; formulas in column E row 208-215 were updated to reference Account 1568 balances due to additional rows added to Tab 5
- On Tab 7. Rate Rider Calculations; additional table was added to rows 259-283 to display Account 1568 balance being disposed in 2027

4. ALLOCATION OF DVAs AND LENGTH OF DISPOSITION PERIOD

Hydro Ottawa is requesting a one-year rate rider for the refund of balances proposed for the Group 2 disposition (without LRAM). Hydro Ottawa is also proposing to dispose of the LRAM rate rider over a one-year period in 2026 for all rate classes with the exception of General Service 50-1,499 kW. To help facilitate a more levelized rate impact between 2026-2027, Hydro Ottawa is proposing to dispose of the balance for the General Service 50-1,499 kW class over a one-year period in 2027.

All Group 2 rate riders were allocated by 2026 distribution revenue, which is in line with how the original revenue requirement was collected.

5. BILLING DETERMINANTS

Hydro Ottawa has used the 2026 revenue load forecast billing determinants, as presented in Schedule 3-1-1 - Revenue Load and Customer Forecast, for the calculation of the rate riders. Hydro Ottawa has utilized Appendix 2-Z to allocate percentages for Non-Regulated Price Plan

(RPP) customers based on 2023 actuals, which can be found in Attachments 2-3-1(A) through (E). The Non-RPP percentage was then applied to the 2026 Load Forecast billing determinants. Wholesale Market Participants' consumption was determined by using preliminary 2024 amounts.

6. PROPOSED RATE RIDERS

Tables 2 to 4 below outline proposed rate riders to clear the DVA balances in the Group 2 and 1568 Accounts for which Hydro Ottawa is seeking disposition.

Table 2 - Rate Riders for Group 2 Accounts (2026)[5]

Rate Class	Units	kW / kWh / # of Customers	Allocated Balance	Rate Rider	Billing Determinant
Residential	# of Customers	348,287	$ (2,264,315)	$ (0.54)	$
General Service < 50 kW	kWh	722,555,976	$ (463,686)	$ (0.0006)	$/kWh
General Service 50 to 1,499 kW	kW	6,987,734	$ (828,018)	$ (0.1185)	$/kW
General Service 1,500 to 4,999 kW	kW	1,518,409	$ (202,183)	$ (0.1332)	$/kW
Large Use	kW	1,015,559	$ (132,574)	$ (0.1305)	$/kW
Unmetered Scattered Load	kWh	14,391,506	$ (13,394)	$ (0.0009)	$/kWh
Sentinel Lighting	kW	120	$ (125)	$ (1.0395)	$/kW
Street Lighting	kW	61,129	$ (21,503)	$ (0.3518)	$/kW
TOTAL			**$ (3,925,799)**		

[5] Totals may not sum due to rounding.

Table 3 – Rate Riders for Accounts 1568 (2026)[6]

Rate Class	Units	kW / kWh / # of Customers	Allocated Balance	Rate Rider	Billing Determinant
Residential	# of Customers	348,287	-	-	$
General Service < 50 kW	kWh	722,555,976	$ 255,137	$ 0.0004	$/kWh
General Service 50 to 1,499 kW	kW	-	-	-	$/kW
General Service 1,500 to 4,999 kW	kW	1,518,409	$ (607,008)	$ (0.3998)	$/kW
Large Use	kW	1,015,559	$ (487,922)	$ (0.4804)	$/kW
Unmetered Scattered Load	kWh	14,391,506	$ (7,042)	$ (0.0005)	$/kWh
Sentinel Lighting	kW	120	-	-	$/kW
Street Lighting	kW	61,129	$ (36,567)	$ (0.5982)	$/kW
TOTAL			**$ (883,402)**		

Table 4 – Rate Riders for Accounts 1568 (2027)[7]

Rate Class	Units	kW / kWh / # of Customers	Allocated Balance	Rate Rider	Billing Determinant
Residential	# of Customers	-	$ -	-	$
General Service < 50 kW	kWh	-	$ -	-	$/kWh
General Service 50 to 1,499 kW	kW	6,987,734	$ 198,406	$ 0.0284	$/kW
General Service 1,500 to 4,999 kW	kW	-	$ -	-	$/kW
Large Use	kW		$ -	-	$/kW
Unmetered Scattered Load	kWh		$ -	-	$/kWh
Sentinel Lighting	kW		$ -	-	$/kW
Street Lighting	kW		$ -	-	$/kW
TOTAL			**$ 198,406**		

[6] Totals may not sum due to rounding.
[7] Totals may not sum due to rounding.

7. GA AND WHOLESALE MARKET SERVICE CAPACITY BASED RECOVERY CLASS A ADJUSTMENTS

Hydro Ottawa is not proposing GA and Wholesale Market Service Capacity Based Recovery Class A adjustments at this time, as the 2023 balances were addressed in Hydro Ottawa's 2025 rate application. Any required adjustments will be proposed at a later point in the proceeding.

8. PROPOSED ESTABLISHMENT OF NEW DVAs

Please see Schedule 9-2-1 - New Deferral and Variance Accounts for new accounts for which approval is being sought as part of this Application.

Attachment 9-3-1(A) - OEB Workform - Deferral and Variance Account (Continuity Schedule)

(Refer to the attachment in Excel format)

Attachment 9-3-1(B) - OEB Workform - Global Adjustment Analysis

(Refer to the attachment in Excel format)