

June 27, 2025
Nancy Marconi, Registrar
Ontario Energy Board
P.O. Box 2319 27th Floor
2300 Yonge Street
Toronto ON M4P 1E4

Attention: Nancy Marconi, Registrar
Regarding: Request for creation of a Deferral Account due to Incremental Capital Module inclusion in rate base error in 2022 Cost of Service Application (EB-2021-0052)

Dear Ms. Marconi,

Following a review of its 2022 Cost of Service application, Ottawa River Power Corporation ("ORPC") identified a formula error that excluded its OEB-approved Incremental Capital Module ("ICM") from its rate base.

A detailed analysis of the Chapter 2 Filing Requirements, Revenue Requirement, PILs, and Cost Allocation workforms confirmed that the Gross Fixed Assets included in the rate base were understated by \$2,059,754—the gross asset value of ORPC's approved ICM project. We have attached a full description of the error and the related revenue requirement impacts to this letter.

ORPC is therefore requesting the establishment of a deferral account to accumulate the annual revenue requirement impact of the error effective from May 1, 2022 to the effective date of ORPC's next rebasing application, currently scheduled for May 1, 2027. ORPC is not asking that the OEB pre-determine as part of this request the clearance of the amount tracked in the proposed account; it is ORPC's expectation that the parameters of any clearance, i.e. the correct calculation of the revenue requirement of the error and the period over which ORPC is permitted to recover the lost revenue associated with the error, would be determined as part of ORPC's next rebasing application.

If there are any questions with respect to the requested relief please contact the undersigned.

Respectfully submitted,



Justin Allen
President & CEO
Ottawa River Power Corporation

Context

On March 24th, 2022, the Ontario Energy Board issued its Decision and Order for rates effective May 1st, 2022 (EB-2021-0052). The settlement proposal within the Decision and Order stated that “The parties have agreed that the amounts proposed for inclusion in rate based for the Incremental Capital Module approved in EB-2018-0063 are appropriate.” Further to this, the settlement proposal stated that “the true-up recognizes, as recoverable the increased costs of the project relative to the approved amount in EB-2018-0063, for an approved ICM Project cost of \$2,059,754.”

Following a review of the Fixed Asset Continuity Schedule in its filed and settled Chapter 2 Filing Requirements Appendices, it was noted that the worksheet ‘App.2-BA_Fixed Asset Cont’ formulas contained in the 2022 Opening Balance cells D342, D343, D344, D345, D346, D347 and D361, (where the asset values of its ICM project were to be added) was incorrectly adding the 2022 Closing Balance in cells G384 to G390. These formulas were intended to add the 2021 Closing Balance in cells G323 to G329. ORPC noted that the formulas used to calculate the accumulated depreciation amounts correctly included the ICM accumulated depreciation and depreciation expense. The formula error appears to have been present from the initial application through to the Draft Rate Order and was inadvertently overlooked during the review process.

When the gross asset values are adjusted, the following amounts are recalculated:

Figure 1 – Recalculated Chapter 2 Appendices 2022 Gross Assets

Row Ref.	Description	Gross Assets Opening Balance	Gross Assets Closing Balance	Average Gross Balance
342	1820 - Distribution Station Equipment	\$3,437,506	\$3,647,506	\$3,542,506
343	1830 - Poles, Towers & Fixtures	\$3,117,914	\$3,488,890	\$3,303,402
344	1835 - Overhead Conductors & Devices	\$4,131,458	\$4,371,150	\$4,251,304
345	1840 - Underground Conduit	\$816,408	\$876,378	\$846,393
346	1845 - Underground Conductors&Devices	\$1,286,853	\$1,441,286	\$1,364,070
347	1850 - Line Transformers	\$2,848,375	\$3,159,987	\$3,004,181
361	1980 – System Supervisory Equipment	\$65,426	\$110,426	\$87,926
365	Subtotal	\$20,335,015	\$21,636,704	\$20,985,860

When the recalculated figures translate to the Rate Base Calculation in the 2022 Revenue Requirement Workform, the ‘Total Rate Base’ calculated in worksheet ‘4. Rate_Base’ increases by the value of the ICM project which in turn impacts worksheets ‘7. Cost_of_Capital’ calculated Return on Equity, ‘6. Taxes_PILs’ calculated income taxes and ‘9. Rev_Req’ calculated Revenue Requirement as follows:

Figure 2 – Comparative Total Rate Base

Particulars	Per EB-2021-0052 Settlement Proposal on March 24 th , 2022	Recalculated for inclusion of ICM
Gross Fixed Assets (Average)	\$18,926,106	\$20,985,860
Accum. Depreciation (Average)	\$(7,675,477)	\$(7,675,477)
Net Fixed Assets (Average)	\$11,250,629	\$13,310,383
Allowance for Working Capital	\$1,784,286	\$1,784,286
Total Rate Base	\$13,034,914	\$15,094,668

Figure 3 – Comparative Return on Deemed Equity

Particulars	Per EB-2021-0052 Settlement Proposal on March 24 th , 2022	Recalculated for inclusion of ICM
Utility Rate Base	\$13,034,914	\$15,094,668
Deemed Equity Portion	40%	40%
Deemed Equity Portion	\$5,213,966	\$6,037,867
Deemed Return on Equity	8.66%	8.66%
Deemed Return on Equity	\$451,529	\$522,879

Figure 4 – Comparative Income Taxes

Particulars	Per EB-2021-0052 Settlement Proposal on March 24 th , 2022	Recalculated for inclusion of ICM
Deemed Return on Equity	\$451,529	\$522,879
Adjustments Required	\$(390,128)	\$(389,674)
Taxable Income	\$61,401	\$133,205
Total Tax Rate	20.88%	26.50%
Income Taxes	\$12,821	\$35,299
Gross-up of Income Taxes	\$3,383	\$12,727
Grossed-up Income Taxes	\$16,204	\$48,026

Figure 5 – Comparative Revenue Requirements

Particulars	Per EB-2021-0052 Settlement Proposal on March 24 th , 2022	Recalculated for inclusion of ICM
OM&A Expenses	\$3,623,394	\$3,623,394
Amortization/Depreciation	\$950,237	\$950,237
Income Taxes (Grossed up)	\$16,204	\$48,026
Deemed Interest Expense	\$260,855	\$302,075
Return on Deemed Equity	\$451,529	\$522,879
Service Revenue Requirement	\$5,302,220	\$5,446,612
Revenue Offsets	\$(339,757)	\$(339,757)
Base Revenue Requirement	\$4,962,463	\$5,106,855

Materiality

ORPC applies a materiality threshold of \$50,000, as prescribed by the Ontario Energy Board. Appendix K has been provided which details calculations of estimated fiscal year lost revenues if no corrective action is taken prior to May 1, 2026 which is the next effective date of new IRM rates. The estimated lost revenues calculated are summarized as follows:

Figure 6 – Estimated Lost Revenues by Fiscal Year

Year	Estimated Lost Revenues
2022	\$93,118
2023	\$142,859
2024	\$143,533
2025	\$148,767
2026	\$50,510
Total	\$578,786

Under the currently approved rates, it is estimated that ORPC will have lost a total of \$578,786 which significantly exceeds the materiality threshold. The materiality threshold is also exceeded in any given year. Additionally, the estimated impacts to ORPC's achieved Return on Equity are summarized as follows:

Figure 7 – Recalculated Deviation from Target Return on Equity

Year	Reported Deviation from Target Return on Equity	Recalculated Deviation from Target Return on Equity
2022	1.93%	3.50%
2023	(4.82)%	(2.71)%
2024	(4.16)%	(2.15)%

Although 2022 results would have been outside the deadband of +/- 3%, the recalculated deviation for fiscal years 2023 and 2024, which were reported under the deadband, would improve ORPC's results and move the utility within the allowable range.

Overall, the error exceeds its \$50,000 materiality threshold and has challenged the utility financially resulting in reported under-earnings deviations outside of the allowable deadband.

Proposal

ORPC proposes the establishment of a deferral account to capture lost revenues resulting from the omission of the ICM in its rate base. Specifically, ORPC proposes that:

- the account capture the annual revenue requirement impact from May 1, 2022 to the effective date of ORPC's next rebasing application;
- the amounts be calculated based on the difference between recalculated fixed and variable distribution rates using actual monthly customer consumption by rate classification and adjusted for the price cap index; and
- the proper calculation of the tracked balance and ORPC's entitlement to recovery of all or some of that tracked balance be determined in its next Cost of Service rate application currently scheduled to be filed in August 2026 for rates effective May 1st, 2027.

To recalculate rates by rate class for the purposes of calculating the difference between recalculated and approved distribution rates, the 'Allocated Class Revenue Requirement' in worksheet '11. Cost_Allocation' of the Revenue Requirement Workform requires recalculated data from worksheet 'O1 Revenue to cost/RR' of the Cost Allocation Model which results in the following proposed allocations:

Figure 8 – Comparative Revenue Requirement by Rate Class

Customer Class	Per EB-2021-0052 Settlement Proposal on March 24 th , 2022	Recalculated for inclusion of ICM
Residential	\$3,539,001	\$3,602,538
GS <50	\$833,501	\$861,508
GS>50-Regular	\$783,459	\$835,862
Street Light	\$119,616	\$120,055
Sentinel	\$14,688	\$14,570
Unmetered Scattered Load	\$11,954	\$12,078
Total	\$5,302,220	\$5,446,612

Figure 9 – Comparative Revenue-to-Cost Ratios

Customer Class	Per EB-2021-0052 Settlement Proposal on March 24th, 2022	Recalculated for inclusion of ICM
Residential	95.04%	94.96%
GS <50	100.00%	99.05%
GS>50-Regular	119.99%	120.00%
Street Light	116.94%	119.77%
Sentinel	95.00%	94.93%
Unmetered Scattered Load	95.00%	94.95%

Figure 10 – Comparative Distribution Rate Fixed Split

Customer Class	Per EB-2021-0052 Settlement Proposal on March 24th, 2022	Recalculated for inclusion of ICM
Residential	100.00%	100.00%
GS <50	45.99%	44.85%
GS>50-Regular	18.08%	16.89%
Street Light	67.51%	67.51%
Sentinel	56.81%	56.81%
Unmetered Scattered Load	52.46%	52.46%

This data results in the following comparative Fixed Monthly Service Charges and Volumetric Rates per worksheet '13. Rate Design' of the Recalculated Revenue Requirement Workform:

Figure 11 – Comparative Fixed Monthly Service Charge

Customer Class	Per EB-2021-0052 Settlement Proposal on March 24th, 2022	Recalculated for inclusion of ICM
Residential	\$25.57	\$26.04
GS <50	\$23.74	\$23.74
GS>50-Regular	\$89.34	\$89.34
Street Light	\$2.55	\$2.62
Sentinel	\$3.74	\$3.70
Unmetered Scattered Load	\$24.58	\$24.83

Figure 12 – Comparative Volumetric Rates

Customer Class	Per EB-2021-0052 Settlement Proposal on March 24 th , 2022	Recalculated for inclusion of ICM
Residential	\$0.0000	\$0.0000
GS <50	\$0.0140	\$0.0147
GS>50-Regular	\$3.4192	\$3.7055
Street Light	\$13.9936	\$14.4013
Sentinel	\$11.5335	\$11.4245
Unmetered Scattered Load	\$0.0083	\$0.0084

Finally, ORPC analyzed the comparative monthly bill impacts utilizing the above recalculated rates in a Tariff and Bill Impact Model which demonstrated the following:

Figure 13 – Comparative Total Monthly Bill Impacts

Rate Classes	Per EB-2021-0052 Settlement Proposal on March 24 th , 2022		Recalculated for inclusion of ICM	
	\$	%	\$	%
Residential – RPP	\$(0.20)	(0.2)%	\$0.24	0.2%
GS <50 – RPP	\$6.00	2.0%	\$7.02	2.5%
GS50to4,999kW–Non-RPP (Dem)	\$(35.26)	(0.9)%	\$(2.91)	(0.1)%
Sentinel – Non-RPP	\$0.25	0.9%	\$0.11	0.4%
Street Lighting – Non-RPP	\$(578.38)	(8.3)%	\$(458.21)	(6.6)%
Unmetered – RPP	\$23.09	6.5%	\$22.56	6.7%
Residential – Non-RPP (Retail)	\$(0.21)	(0.2)%	\$0.23	0.2%
Residential – RPP (10 th Percent)	\$(1.23)	(2.0)%	\$(0.74)	(1.3)%
GS50to4,999kW–Non-RPP (Int.)	\$(167.07)	(0.9)%	\$(134.72)	(0.8)%

No rate plans or mitigation strategies would have been proposed under the recalculated rates as all bills impacts would have been maintained well below the 10% impact threshold.

List of Appendices

Appendix A	EB-2021-0052 Decision and Order
Appendix B	Approved 2022 Chapter 2 Filing Requirements
Appendix C	Approved 2022 Cost Allocation Model
Appendix D	Approved 2022 PILs Model
Appendix E	Approved 2022 Revenue Requirement Workform
Appendix F	Approve 2022 Tariff and Bill Impact Model
Appendix G	Recalculated 2022 Chapter 2 Filing Requirements
Appendix H	Recalculated 2022 Cost Allocation Model
Appendix I	Recalculated 2022 PILs Model
Appendix J	Recalculated 2022 Revenue Requirement Workform
Appendix K	Recalculated 2022 Tariff and Bill Impact Model
Appendix L	Distribution Revenue Impact Analysis