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

BY EMAIL

October 28, 2025

Ritchie Murray
Acting Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4
Registrar@oeb.ca

Dear Ritchie Murray:

Re: Ontario Energy Board (OEB) Staff Submission
Centre Wellington Hydro Ltd.
Application for 2026 Electricity Distribution Rates
OEB File Number: EB-2025-0049

Please find attached OEB staff's submission in the above referenced proceeding, pursuant to Procedural Order No. 1.

Yours truly,

Kelli Benincasa

Kelli Benincasa
Analyst, Incentive Rate-setting

Encl.

ONTARIO ENERGY BOARD

OEB Staff Submission

Centre Wellington Hydro Ltd.

2026 Electricity Distribution Rates Application

EB-2025-0049

October 28, 2025

Introduction

Centre Wellington Hydro Ltd. (CWH) filed an incentive rate-setting mechanism (IRM) application with the Ontario Energy Board (OEB) on August 14, 2025, under section 78 of the *Ontario Energy Board Act, 1998* seeking approval for changes to its electricity distribution rates to be effective January 1, 2026. CWH also applied for an Advanced Capital Module (ACM) rate rider to recover the costs of the Fergus MS-5 Station, a new distribution station expected to be in service by the end of Q1 2026.

Consistent with Chapter 3 of the Filing Requirements,[1] CWH applied the Price Cap IR adjustment factor to adjust the monthly service charge and distribution volumetric rate during the incentive rate-setting years. An inflation factor of 3.70% applies to all IRM applications for the 2026 rate year.[2] The stretch factor assigned to CWH is 0.15%,[3] resulting in a rate adjustment of 3.55% based on the Price Cap adjustment formula. OEB staff has no concerns with CWH's proposed Price Cap adjustment.

CWH has also requested an update to its Retail Transmission Service Rates (RTSRs) to recover the cost of transmission charged by its host distributor, Hydro One Networks Inc. (Hydro One). OEB staff has no concerns with CWH's requested adjustments to its RTSRs.

CWH has updated its 2026 Rate Generator Model to reflect the preliminary Uniform Transmission Rates (UTRs) and proposed Hydro One Sub-Transmission Rates, as communicated by the OEB on October 9, 2025.[4] Further, OEB staff has also updated the time-of-use pricing and Ontario Electricity Rebate in the 2026 Rate Generator Model to reflect the updated values set on October 17, 2025.

CWH is requesting the disposition of its Group 1 Deferral and Variance Account (DVA) debit balances as of December 31, 2024, including projected carrying charges to December 31, 2025, totaling $224,917 and to update its Low Voltage (LV) Service Rates. OEB staff has no concerns with either of these requests.

OEB staff noted during interrogatories[5] that the Sentinel Lighting Rate Classification – RPP and Sentinel Lighting Rate Classification – Non-RPP (Retailer) have bill impacts above 27% and asked CWH if rate mitigation had been considered. CWH responded that it has reviewed the potential for rate mitigation, but does not believe any specific

[1] Filing Requirements for Electricity Distribution Rate Applications - 2025 Edition for 2026 Rate Applications - Chapter 3 Incentive Rate-Setting Applications, June 19, 2025
[2] OEB Letter, 2026 Inflation Parameters, issued June 11, 2025
[3] Empirical Research in Support of Incentive Rate-Setting: 2024 Benchmarking Update, Report to the Ontario Energy Board, August 2025 p. 23, Table 5
[4] EB-2025-0232, 2026 Preliminary Uniform Transmission Rates and Hydro One Sub-Transmission Rates, October 9, 2025
[5] OEB Staff Interrogatory 3

measures are necessary. CWH stated that the rate adjustments are formula-based and applied consistently across all classes, and introducing mitigation without a cost allocation study would offer little benefit and could unfairly shift costs to other customers. Further, the Sentinel Lighting Rate Class represents only 0.08% of CWH's total distribution revenue and the dollar impact is noted to be minimal. OEB staff is satisfied with CWH's response and notes the main contributors to the rate increase are the ACM rate rider and the LV rate rider.

OEB staff makes detailed submissions on the following issues:

- Cost of Capital
- ACM Rate Rider

Cost of Capital

Background

In the pre-filled evidence[6], CWH states that it implemented 2025 rates using interim cost of capital parameters for Return on Equity (ROE) of 9.25%, deemed short-term debt rate (DSTDR) of 5.04% and deemed long-term debt rate (DLTDR) of 3.89%. CWH also notes that it is tracking the variances of its 2025 revenue requirement impact between interim and final cost of capital parameters for ROE of 9.00%, DSTDR of 3.91%, and DLTDR of 3.82% through the OEB's approved generic DVAs (i.e., DSTDR, DLTDR and ROE) for 2025.

In response to an OEB staff interrogatory[7], CWH proposes to adjust the 2025 base rates to account for differences between the interim and final parameters established in the Cost of Capital Proceeding[8]. This adjustment results in the 2025 test year distribution revenue requirement decreasing by $37,938[9], which has been recorded in the three generic DVAs. Further, CWH states that the updated base rates can align with its approved rates with the final parameters and eliminate the need for any future variance tracking or disposition.

CWH proposes to dispose of all three DVAs for a total balance, a credit $37,938 as of December 31, 2025, through a one-time rate rider effective January 1, 2026. CWH states that it recognizes that disposition within the current 2026 IRM application is both permissible and consistent with the OEB's stated intent to dispose of these accounts following the finalization of the cost of capital parameters for 2025. Accordingly, CWH has included the 2025 balances to be disposed in its 2026 IRM application.

Submission

OEB staff does not take issue with CWH's proposal of implementing the updated cost of capital framework established in the OEB's Cost of Capital Decision and Order, issued in March 2025. CWH's proposal in this application is amending the 2025 base rates which reflects the application of updated cost of capital parameters and using the three cost of capital-related DVAs to record the 2025 credit variance refund to customers.

OEB staff has no concerns with the disposition of CWH's three cost of capital DVAs and the adjustment to the base revenue requirement formula for its 2026 rates on an interim basis. While audited balances are normally disposed, CWH's cost of capital DVAs arise from a mechanistic true-up from interim to final 2025 parameters. OEB staff submits that CWH should perform a true-up in its 2027 IRM application if the interim disposed

[6] EB-2025-0049, Section 11.9, Table 9, pg. 20-21
[7] OEB Staff Interrogatory 6
[8] EB-2024-0063
[9] CWH Base Current Rates vs Revised Rates 20251015, Tab 1508 Rate Rider Calcs (2025)

balance in its 2026 IRM application materially changes, once audited. The OEB can then declare the cost of capital DVAs disposed on a final basis in its decision on CWH's 2027 rates. OEB staff proposes that CWH can include a statement to confirm whether there are any material changes between the interim disposed balance in this application and the final audited balance for the three DVAs in the 2027 IRM application.

CWH's proposal aligns with the Cost of Capital Decision and Order's direction that such variance accounts may be disposed in an IRM or Custom IR application. OEB staff submits that the proposed disposition by CWH is consistent with the objectives of the Cost of Capital Decision and Order. Disposition in the current proceeding avoids carrying principal balances and interest into future years and supports intergenerational equity. Further, forecasting error for the balances is not expected, given that the final cost of capital rates are available.

OEB staff does take issue with the total balance of the three DVAs that CWH proposes for disposition. OEB staff notes that the current total balance, a credit of $37,938, excludes the forecast carrying charges. Therefore, OEB staff submits that CWH should update the interest balance of the three DVAs to include the forecast carrying charges for the period up to December 31, 2025.

OEB staff also notes a formula error in Account 1508 Cost of Capital 2025 Variance Rider (the last column in the table of 2025 DSTDR, DLTDR, and ROE Rate Rider[10]). OEB staff submits that CWH duplicated the number of months in the denominator in deriving the rate riders. This formula error appears to apply to all the customer classes. For example, the base rate change for the Residential class shows a credit of $0.2744 per customer and the rate rider should also be a credit of $0.2744.[11] However, the current proposed rate rider shows a credit of $0.02. OEB staff requests that CWH, in its reply submission, confirm OEB staff's observation of the formula error and provide an updated 2026 Rate Generator model with corrected rate riders.

Advanced Capital Module Rate Rider

Background

CWH is requesting an ACM rate rider to recover the cost of a material capital project that was previously approved in its 2025 Cost of Service[12] proceeding. CWH's ACM is for the Fergus MS-5 Station, which is expected to be in service by the end of Q1 2026. The total budgeted cost for the project is $3,355,200.

In the 2025 Cost of Service application, materiality, need, and prudence for the Fergus

[10] CWH Base Current Rates vs Revised Rates 20251015, Tab-1508 Rate Rider Calcs (2025), Column H
[11] OEB Staff Interrogatory 6(c), pg. 8
[12] EB-2024-0012

MS-5 Station was reviewed. Issue 7.3 of the settlement agreement identified that there was a full settlement of the issue.[13] In its 2026 IRM application, CWH provided context on the project being approved in its 2025 Cost of Service proceeding and that it had filed an updated ACM model to calculate the proposed ACM rate rider. Further, CWH updated the revenue requirement input based on the approved Draft Rate Order from its 2025 Cost of Service and confirmed that no accelerated Capital Cost Allowance has been applied to the revenue requirement related to the ACM project, as per Chapter 3 of the Filing Requirements.[14]

CWH proposes to collect this as a fixed service charge rate rider from May 1, 2026 to until its next Cost of Service. Details of the rate rider for each class are detailed in Table 1 below.

Table 1: ACM Rate Riders

Rate Class	Service Charge Rate Rider	Distribution Volumetric Rate kWh Rate Rider	Distribution Volumetric Rate kW Rate Rider
RESIDENTIAL	$1.96	0.0000	0.0000
GS <50 kW	$1.35	0.0014	0.0000
GS 50 TO 4,999 KW	$11.43	0.0000	0.2846
UNMETERED SCATTERED LOAD	$0.79	0.0012	0.0000
SENTINEL LIGHTING	$0.39	0.0000	1.0372
STREET LIGHTING	$0.21	0.0000	1.0320

<u>Submission</u>

OEB staff notes that the need, materiality, and prudence of the ACM was reviewed and determined in CWH's 2025 Cost of Service application.[15] Through an OEB staff interrogatory[16], CWH confirmed that the Fergus MS-5 Station capital expenditure and scheduled in-service date of Q1 2026 approved in its 2025 Cost of Service has not changed.

As there are no changes to the Fergus MS-5 Station project cost or schedule, and the need, materiality, and prudence of the project have already been established, OEB staff does not object to the proposed ACM rate rider. Further, OEB staff does not take issue with the revenue requirement inputs included in the ACM model[17] submitted by CWH

[13] EB-2024-0012, Settlement Agreement, pg. 41
[14] Section 3.3.2.5 of Chapter 3 of the OEB's Filing Requirements
[15] EB-2024-0012, OEB Staff Interrogatories, 2-Staff 26 to 2-Staff 28 and 5-Staff-45
[16] OEB Staff Interrogatory 13
[17] CWH 2026_ACM_ICM_20251015

and notes that CWH has confirmed that it will bring forward the Account 1508 sub-account for review in its next rebasing application.

~All of which is respectfully submitted~