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BY EMAIL

October 31, 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
Algoma Power Inc. (Algoma Power)
Application for 2026 Electricity Distribution Rates
OEB File Number: EB-2025-0054**

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

Yours truly,

Original Signed By

Oluwole (Wolly) Bibiresanmi
Advisor, Incentive Rate-Setting

Encl.



ONTARIO ENERGY BOARD

OEB Staff Submission

Algoma Power Inc.

2026 Distribution Rate Application

EB-2025-0054

October 31, 2025

Introduction

Algoma Power Inc. (Algoma Power) 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.

Consistent with Chapter 3 of the OEB's *Filing Requirements for Electricity Distribution Rate Applications* (Filing Requirements),¹ Algoma Power 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 Algoma Power is 0.60%,³ resulting in a rate adjustment of 3.10% based on the Price Cap adjustment formula. OEB staff has no concerns with Algoma Power's proposed price cap adjustment.

Algoma Power has also requested an update to its Retail Transmission Service Rates (RTSRs) to recover the wholesale transmission rates charged by the Independent Electricity System Operator (IESO). Algoma Power updated the RTSRs to reflect the OEB's preliminary Uniform Transmission Rates in its response to interrogatories.⁴ OEB staff has no concerns with Algoma Power's requested adjustments to its RTSRs. Further, OEB staff has 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. The models are attached for Algoma Power to review and confirm that it has no concerns with the adjustments made by OEB staff.

In this document, OEB staff makes detailed submissions on the following:

- Rural or Remote Electricity Rate Protection (RRRP) Adjustment
- Residential Rate Design
- Group 1 Deferral and Variance Account balances (DVA)
- Group 2 DVAs – Cost of Capital Updates

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

Rural or Remote Electricity Rate Protection Adjustment

The RRRP program in Ontario is funded by all electricity customers through a province-wide charge. It is administered by the OEB in coordination with the IESO. The program is designed to subsidize electricity distributors serving rural or remote areas, ensuring that eligible customers receive electricity at rates lower than they would otherwise pay.⁵

Algoma Power requests adjustments to the RRRP funding in its 2026 IRM application. Algoma Power's R1 and R2 customer classes are treated as residential customers in accordance with Ontario Regulations 442/01 and 445/07⁶, and pay rates below the cost of providing distribution service. Rates for these customers are financially subsidized through the RRRP fund.⁷

The funding to be provided to Algoma Power's eligible classes is determined in accordance with the regulations in line with a method set out and followed in prior OEB decisions.⁸ For 2026, Algoma Power incorporated a proposed level of funding of \$20,314,394. The RRRP funding amount will be provided to Algoma Power so that the rates to Algoma Power's Residential - R1(i), Residential - R1(ii)⁹ and Residential - R2 are set lower than they otherwise would have been.

In a previous Decision and Order,¹⁰ the OEB stated its intention to calculate an RRRP adjustment factor annually for Algoma Power, with rates and the RRRP amount for the rate year affected accordingly. The OEB stated:

"The Board intends to calculate an RRRP adjustment factor annually for Algoma Power, with rates and the RRRP amount for the rate year affected accordingly. Every year the Board will communicate the RRRP adjustment factor to Algoma Power to ensure that it is reflected in Algoma Power's rates application. Should Algoma Power not file either an IRM or a cost of service application, the Board will on its own motion initiate a proceeding in this regard."¹¹

In accordance with this practice, OEB staff has calculated and provided the RRRP adjustment factor as part of this submission. The rates for Algoma Power's Residential and General Service <50 kW classes have been adjusted to reflect the average annual

⁵ The setting of rates for Algoma Power's Residential R-1 and R-2 classes is subject to subsections 4(3.1) and 4(3.2) of Ontario Regulation 442/01 (Rural or Remote Electricity Rate Protection), and O. Reg. 445/07 (Reclassifying Certain Classes of Consumers as Residential-Rate Class Customers: Section 78 of the Act), each made under the *Ontario Energy Board Act, 1998*

⁶ *Ibid.*

⁷ [O. Reg. 442/01: Rural or Remote Electricity Rate Protection, made under the OEB Act, 1998, S.O. 1998, c. 15, Sch B](#)

⁸ EB-2009-0278

⁹ Algoma Power's R1 class was segregated into residential (i) and non-residential (ii) sub-groups in the EB-2015-0051 proceeding.

¹⁰ EB-2009-0278

¹¹ Decision and Order, EB-2009-0278, November 11, 2010, p. 8

change in distribution rates for Residential and General Service <50 kW customer rate classes across all rate-regulated distributors in Ontario.

For the 2026 rate year, OEB staff has calculated an updated RRRP adjustment factor of 3.78%, based on the simple average rate change for all distributor rate zones in 2026 for the Residential and General Service <50 kW customer rate classes.

In a prior decision, the OEB found that RRRP funding for Algoma Power's R1 and R2 rate classes during IRM years would be calculated using the difference between:

1. The total revenue requirement for the R1 and R2 rate classes adjusted by the price cap adjustment; and
2. The revenues generated by the base rates for the R1 and R2 rate classes adjusted by the RRRP adjustment factor.¹²

Algoma Power has applied for rates in this proceeding using the same methodology. OEB staff has updated Algoma Power's rate design model to reflect the RRRP adjustment factor and requests that Algoma Power review and confirm the methodology used in its reply submission.

OEB staff notes that the RRRP adjustment factor is higher than in previous years. This year's analysis incorporates multiple years of rate increases for certain distributors, resulting in a higher calculated adjustment.

The updated RRRP funding for 2026 is \$20,410,529 calculated by applying a price cap index adjustment of 3.10% and an RRRP adjustment factor of 3.78% using the methodology outlined above.

Rates for all other customer classes not eligible for RRRP are adjusted by the price cap adjustment only.

Residential Rate Design

Algoma Power filed proposals related to residential rate design for its R1, R2, and Seasonal service rate classes in this proceeding. The OEB's residential rate design policy requires electricity distributors to transition residential customers to a fully fixed monthly distribution service charge over a four-year period beginning in 2016.¹³

Distributors such as Algoma Power, which began the transition later or have a longer approved transition period, are required to continue the process until the fixed monthly

¹² EB-2011-0152, Decision and Order, January 20, 2012

¹³ [OEB Policy – "A New Distribution Rate Design for Residential Electricity Customers" EB-2012-0410, April 2, 2015](#)

charge is fully implemented.

Algoma Power noted that since January 1, 2023, the Residential R1(i) has been charged based on fully fixed distribution rates, and no further adjustments under the Residential Rate Design Transition are needed for the Residential R1(i) class.¹⁴

For the Seasonal rate class, Algoma Power continues its transition to fully fixed rates as directed by the OEB.¹⁵ This transition spans nine years, with annual \$4 increases to the fixed monthly charge. In a previous decision,¹⁶ the OEB approved maintaining the 2025 fixed-variable split to mitigate bill impacts, with the transition resuming in 2026.

In this application, Algoma Power proposes a \$4 increase to the fixed monthly charge for Seasonal customers, offset by a corresponding decrease in the volumetric rate. This approach aligns with the approved transition schedule and is expected to achieve fully fixed rates by 2028, subject to future bill mitigation considerations.

Algoma Power's bill impact analysis, based on 2019 consumption data, indicates that 10% of Seasonal customers consume 15 kWh/month. For these customers, the proposed 2026 rate change results in an \$8.48 (8.6%) increase, which remains below the OEB's 10% threshold for requiring mitigation.

OEB staff has no concerns regarding Algoma Power's residential rate design proposals in its 2026 IRM application.

Group 1 Deferral and Variance Account Balances

Algoma Power has included a request for future disposition of residual balances in Account 1595, noting that the related rate riders expired on December 31, 2022. Algoma Power confirms that its financial statements have been audited for the two subsequent years, 2023 and 2024, in accordance with OEB requirements. Algoma Power attributes the credit residual balance of \$160,476 to higher than forecasted billing determinants relative to those used in the 2022 IRM modeling.

Algoma Power stated that in a prior proceeding, the disposition of Accounts 1595, 2021 balances, was requested and approved. However, Algoma Power noted that within the account 1595 in year 2021, one set of rate riders had a sunset date of December 31, 2023, while all other rate riders for that period expired on December 31, 2021.¹⁷ The rate rider for the Lost Revenue Adjustment Mechanism Account, applicable to Seasonal and Street Lighting classes expired on December 31, 2023.¹⁸ Algoma Power plans to

¹⁴ EB-2022-0014

¹⁵ EB-2015-0051, Decision and Order, December 10, 2015

¹⁶ EB-2024-0007

¹⁷ EB-2024-0007

¹⁸ Manager's Summary, p. 30

include any accumulated net credit balances in its Group 1 disposition request to be made in its 2027 IRM application and will continue recording regulatory interest in accordance with standard practice.

Algoma Power's threshold test result of \$(0.0005)/kWh does not meet the OEB's threshold of $\pm\$0.0010/\text{kWh}$ required for the disposition of an account balance. Algoma Power is requesting interim disposition of its 2023 balances for Accounts 1588 and 1589, submitting that the 2024 balances are currently not within the 1% threshold. Algoma Power stated that if reconciling items in 2024 affects 2023 amounts, the interim disposition being requested by Algoma Power would allow for adjustments. However, Algoma Power also noted that since the 2023 claim amounts are not material, it is open to withdrawing its request while it continues reviewing the 2024 balances.¹⁹

OEB staff does not support Algoma Power's request for interim disposition of 2023 balances in Accounts 1588 and 1589 at this time given that the 2024 balances for these accounts remain under review and that they do not meet the OEB's $\pm\$0.0010/\text{kWh}$ threshold for disposition. The 2024 items being reconciled could potentially impact the 2023 balances. As a result, OEB staff considers it premature to dispose of the 2023 balances prior to the resolution of the 2024 variances. Furthermore, the aggregated Group 1 threshold test result does not meet the OEB's prescribed disposition threshold of $\pm\$0.0010/\text{kWh}$, and therefore, OEB staff submits that disposition is not warranted at this time.

Group 2 Deferral and Variance Accounts – Cost of Capital Updates

Algoma Power's 2025 revenue requirement was established through a cost of service proceeding. The approved revenue requirement used an interim deemed short-term debt rate of 5.04% and an interim deemed return on equity (ROE) of 9.25%. The OEB approved the partial settlement proposal where the parties agreed that Algoma Power would provide updates to the ROE and deemed short-term debt rate upon the OEB's issuance of the 2025 Cost of Capital parameters.²⁰

In this application, Algoma Power is proposing to dispose of its 2025 balances in the cost of capital variance accounts arising from the OEB's March 27, 2025 generic cost of capital Decision and Order.²¹ Algoma Power also proposes to amend 2026 base rates to reflect the final 2025 cost of capital parameters using the OEB's implementation guidance.

Algoma Power recalculated the 2025 base revenue requirement using the final short-term debt rate of 3.91% and ROE of 9.00%, with no change to long-term debt as no

¹⁹ IRR 1-Staff-3b

²⁰ EB-2024-0007, [Partial Decision and Order](#), p. 6

²¹ EB-2024-0063

update was required.²² The recalculation decreases the 2025 base revenue requirement by \$325,232 or 0.97%, which is comprised of the deemed short-term debt rate (DSTDR) decrease of \$81,104; a decrease in ROE of \$179,434; and a reduction in PILs of \$64,694.²³ Additionally, Algoma Power estimated 2025 interest of \$10,261 for a total disposition among both accounts of (\$335,493) in a refund to ratepayers.²⁴

Algoma Power recorded the 2025 difference between the interim and final cost of capital parameters in Account 1508 – sub-account - ROE Variance Account and Account 1508 – sub-account - DSTDR Variance Account. Algoma Power confirmed that the balances will be disposed of in this IRM proceeding and the sub-accounts closed.²⁵

Algoma Power used only the final, approved revenue requirement and billing determinants from its 2025 proceeding. Regarding allocation and rate design, Algoma Power allocates the variance by the 2025 approved class revenue requirement, returning the Residential R1/R2 portions to the RRRP fund and crediting the remaining Seasonal and Street Lighting portions via a one-year rate rider.²⁶ OEB staff finds the proposed allocation to RRRP for Algoma Power's R1/R2 class reasonable and consistent with Algoma Power's established RRRP framework.

OEB staff has no concerns with the disposition of Algoma Power's cost of capital variance accounts and the adjustment to the base revenue requirement formula for its 2026 rates on an interim basis, but cannot support final disposition at this time. OEB staff submits that the proposed disposition by Algoma Power is consistent with the objectives of the generic cost of capital Decision and Order, and would support intergenerational equity. OEB staff agrees with Algoma Power that there was no specific OEB-approved treatment for implementing the generic cost of capital decision in its 2025 cost of service, and that the current proposal aligns with the OEB's findings in the generic cost of capital Decision and Order that such variance accounts may be disposed in an IRM or Custom IR application. OEB staff agrees with Algoma Power that complexity of the annual layering of cost of capital calculations with IRM adjustments, Seasonal Rate Design changes, and RRRP adjustments (and any future relevant billing policy updates) is mitigated.²⁷

The OEB's practice is to approve final disposition of account balances only on the basis of audited results, and Algoma Power's account balances are not yet audited. As a result, OEB staff cannot support disposition on a final basis.

In this case, however, OEB staff supports the disposition of the Algoma Power account balances on an interim basis until they can be audited. OEB staff does not anticipate

²² IRR 1-Staff-4

²³ Manager's Summary, p. 28, Table 18

²⁴ *Ibid.*

²⁵ IRR 1-Staff-1, part a

²⁶ Manager's Summary, p. 28, Table 18

²⁷ IRR 1-Staff-6

significant forecasting errors in the balances, given that the final cost of capital rates are available and Algoma Power's cost of capital variance DVAs arise from a mechanistic true-up from interim to final 2025 parameters. The balances would be trued up for final disposition in a subsequent rate adjustment proceeding, with an explanation for any material changes. OEB staff expects any true-up to take place as part of Algoma Power's 2027 IRM application.

~All of which is respectfully submitted~