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BY EMAIL

November 13, 2025

Mr. 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
Hydro One Networks Inc. (Hydro One)
Application for 2026 Distribution Rates
OEB File Number: EB-2025-0030**

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

Yours truly,

Original Signed By

Lizzie Zhang
Analyst, Electricity Distribution I

Encl.

cc: All parties in EB-2025-0030



ONTARIO ENERGY BOARD

OEB Staff Submission

**Hydro One Networks Inc. (Hydro One)
Application for 2026 Distribution Rates**

EB-2025-0030

November 13, 2025

Application Summary

Hydro One Networks Inc. (Hydro One) filed a 2026 Custom Incentive Rate-setting (IR) Annual Update application with the OEB seeking approval for changes to its electricity distribution rates and other charges to be effective January 1, 2026. The application included a claim for Z-factor costs related to a March 2025 ice storm. This is the first consolidated annual application by Hydro One seeking approval of the 2026 distribution rates and charges for Hydro One Distribution, the Orillia Rate Zone and the Peterborough Rate Zone.

On November 29, 2022, the OEB approved a 5-year Custom IR framework for Hydro One that covers the years 2023 to 2027 (JRAP Decision). For Hydro One's Custom IR framework, the JRAP Decision approved rates for 2023 which were to be adjusted mechanistically through a custom Revenue Cap Index (RCI) adjustment for each of the ensuing four (adjustment) years. In each of the adjustment years, Hydro One was required to file an application consistent with the approved framework as set out in the JRAP Decision.

OEB staff has updated the time-of-use(TOU) pricing and Ontario Electricity Rebate(OER) in the 2026 Rate Generator Model for Orillia Rate Zone and Peterborough Rate Zone, to reflect the updated values set on October 17, 2025. Hydro One should update the TOU pricing and OER in the corresponding models for Hydro One Distribution, as part of its reply submission.

This document outlines OEB staff's submissions on the following topics based on a review of the evidence submitted by Hydro One:

- Custom RCI Adjustment
- Annual Adjustment Mechanism
- Retail Transmission Service Rates and Sub Transmission Rates
- Group 1 Deferral and Variance Accounts (DVAs)
- Earnings Sharing Mechanism (ESM) balance
- Wheeling Credits
- Z-factor Claim
- LRAM Eligible Amounts

1. Revenue Cap Incentive Rate-setting Adjustment – Hydro One Distribution Rate Zone

Hydro One is requesting OEB approval of an adjustment to its distribution revenue requirement determined using the custom RCI methodology approved in the JRAP Decision.

Hydro One's approved custom RCI formula is $I - X + C$, where:

- **I** is an adjustment for inflation based on the OEB's methodology and updated annually.
- **X** is the productivity factor, which is equal to the sum of Hydro One's custom industry total factor productivity measure and a custom productivity stretch factor. The approved productivity factor is 0.45% and will not be updated over the 2024 to 2027 period.
- **C** is Hydro One's custom capital factor, reduced by a supplemental stretch factor on capital of 1.96%, and updated annually to reflect any changes to the inflation factor. The capital factor is designed to recover the incremental revenue each test year to support Hydro One's distribution system plan.

On June 11, 2025, the OEB issued the inflation factors to be used to set rates for certain electricity transmitters and distributors for 2026 rate applications beginning January 1, 2026. Hydro One's current application reflects the updated 3.7% inflation factor for distributors calculated by the OEB.

Table 1 summarizes the component and results of the RCI for 2025:

Table 1: 2026 Revenue Cap Index (RCI)

Custom Revenue Cap Index by Component	2026
Inflation Factor (I)	3.70%
Productivity Factor (X)	0.45%
Custom Capital Factor (C)	1.96%
Total RCI = I – X + C	5.21%

Hydro One provided a detailed calculation of the Custom Capital Factor (C) as part of its application. The calculation includes the increase in capital-related revenue requirement, the relative percentage increase to the previous year's total, and adjustments for inflation and stretch factor.

Hydro One calculated the 2026 total revenue requirement of \$1,991.2M as shown in

Table 2 below, before deductions for external revenues:

Table 2: 2026 Revenue Cap Index (RCI)

Year	Formula	Total Revenue Requirement
2025	OEB-approved 2025 Total revenue requirement	1,892.6
2026	2026 Total revenue requirement = 2025 Total revenue requirement x 2026 RCI	1,991.2

Submission

OEB staff supports Hydro One's calculation of the distribution revenue requirement for 2026. The adjustment is in accordance with the RCI methodology and parameters set by the OEB in the JRAP Decision.

2. Annual Adjustment Mechanism – Orillia and Peterborough Rate Zones

Consistent with Chapter 3 of the Filing Requirements,¹ Hydro One has 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 the Orillia rate zone is 0.30%,³ resulting in a rate adjustment of 3.40% based on the Price Cap adjustment formula. And the stretch factor assigned to the Peterborough rate zone is 0.45%,⁴ resulting in a rate adjustment of 3.25% based on the Price Cap adjustment formula.

Submission

OEB staff has no concerns with Hydro One's proposed Price Cap adjustments to the Orillia and Peterborough rate zones.

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 Empirical Research in Support of Incentive Rate-Setting: 2024 Benchmarking Update, Report to the Ontario Energy Board, August 2025 p. 23, Table 5

3. Retail Transmission Service Rates (RTSR) and Sub-transmission (ST) Rates

Hydro One is billed by the IESO at each of its transmission delivery points for the transmission of power. The IESO charges the Uniform Transmission Rates (UTRs) approved by the OEB.

To recover its transmission costs, in its original application Hydro One requested approval to adjust the RTSRs that it charges its customers based on the current OEB-approved UTRs⁵. Hydro One noted that once the 2026 UTRs are issued by the OEB, it will update and submit the revised 2026 RTSRs, Sub-transmission rates (specifically HVDS-High, HVDS-Low and Common ST Line) and corresponding bill impacts.

On October 9, 2025, the OEB issued a letter⁶ regarding 2026 preliminary UTRs and Hydro One's 2026 proposed ST rates. The OEB determined that it would use preliminary UTRs to calculate 2026 RTSRs. This would improve regulatory efficiency, allowing for this data to feed into rate applications (including annual updates for electricity distributors) on a timelier basis. The OEB also directed distributors to update their 2026 rate applications with Hydro One's proposed host RTSRs.

For the Peterborough and Orillia Rate Zones, 2026 preliminary UTRs and Hydro One's proposed ST rates have been updated into their 2026 Rate Generator.

Submission

OEB staff has no concerns with Peterborough and Orillia Rate Zone's RTSRs and ST rates. However, Hydro One has not yet filed updated 2026 RTSR calculations reflecting the 2026 preliminary UTRs, and updated ST rates for Hydro One Distribution. OEB staff submits that Hydro One should provide the revised 2026 RTSRs, ST rates, and corresponding bill impacts as part of its reply submission.

⁵ Exhibit A, Tab 4, Schedule 4, Page 1 of 6

⁶ EB-2025-0232 - 2026 Preliminary Uniform Transmission Rates and Hydro One Sub Transmission Rates, October 9, 2025.

4. Group 1 Deferral and Variance Accounts (DVAs)

DVA Overview – Background

Hydro One has applied to dispose of December 31, 2024 consolidated Group 1 DVA account balances (including interest to December 31, 2025) for a total credit of \$94.9 million, on a final basis.⁷ The breakdown of account balances is shown in Appendix A to this submission, and includes amounts for Hydro One Consolidated, Hydro One Distribution, Chapleau, Orillia RZ, and Peterborough RZ. Hydro One is requesting the disposition of these balances over a 12-month period, beginning January 1, 2026.

The credit amount of \$94.9 million for Group 1 DVAs also includes 2023 balances for Accounts 1588 and 1589 for Hydro One Distribution, Orillia, and Peterborough, as well as the balance in Account 1595 (2021) for Hydro One Distribution. These balances were not disposed of in Hydro One's 2025 rates proceedings. The December 31, 2022 Account 1588 and 1589 balances were disposed of in Hydro One's 2024 rates proceedings, on a final basis.⁸

Hydro One is seeking final disposition of 2021-2023 wheeling debit and credit amounts of \$2,372,701 previously approved for Hydro One Distribution and Orillia rate zones, respectively, on an interim basis, in decisions for 2025 rates.⁹ This is discussed further in the section on "Wheeling Credits".

In the OEB's decisions for Hydro One's 2025 rates,¹⁰ the OEB did not approve the disposition of Accounts 1588, 1589, and 1595 (2021) and ordered that they be brought forward to Hydro One's next rate application for 2026 rates. The OEB directed Hydro One to perform a detailed internal review (Internal Review) of its Account 1588, 1589, and 1595 (2021) balances.¹¹ This Internal Review is discussed further below. The OEB most recently approved the disposition of Hydro One's other Group 1 account balances on an interim basis, as of December 31, 2023, as part of its 2025 rates proceedings.¹²

Regarding the accounts that underwent the Internal Review, Hydro One is requesting disposition of the following in the current proceeding:¹³

- A consolidated Account 1588 balance of a credit of \$82,861,102

⁷ HONI_Dx_IRRs_I-01-12-01 (HONI Consolidated DVA Continuity)_20251031

⁸ EB-2023-0030 and EB-2023-0059, Decision and Rate Order, June 13, 2024, p. 3

⁹ EB-2024-0032, Decision and Order, December 11, 2024, p. 28; EB-2024-0033, Decision and Rate Order, December 19, 2024, p. 11

¹⁰ EB-2024-0032, Decision and Order, December 11, 2024, p. 19; EB-2024-0033, Decision and Rate Order, December 19, 2024, p. 8

¹¹ EB-2024-0032, Decision and Order, December 11, 2024, p. 21

¹² EB-2024-0032, Decision and Order, December 11, 2024, p. 23; EB-2024-0033, Decision and Rate Order, December 19, 2024, p. 9

¹³ HONI_Dx_IRRs_I-01-12-01 (HONI Consolidated DVA Continuity)_20251031

- A consolidated Account 1589 balance of a debit of \$53,962,836
- A Hydro One Distribution Account 1595 (2021) balance of a credit of \$2,631,108

As the OEB pre-set disposition threshold of \$0.001 per kWh has been exceeded for all of Hydro One Distribution, Chapleau, Orillia RZ, and Peterborough RZ, Hydro One has requested disposition of the Group 1 balances on a final basis in this proceeding.¹⁴

In its pre-filed evidence, Hydro One noted that OEB staff would support disposition of the 2023 balances for Accounts 1588 and 1589 on an interim basis, in the event that the OEB is not prepared to dispose of the balances on a final basis as part of its decision in the current rate application.¹⁵

Hydro One Internal Review

The OEB directed Hydro One to perform a detailed Internal Review of Accounts 1588, 1589 and Account 1595 (2021) for all three rate zones (Hydro One Distribution, and the Orillia and Peterborough RZs), with the results of the review to be filed in the current proceeding.¹⁶ The OEB was of the view that it would be more efficient for Hydro One and OEB staff to meet prior to Hydro One filing its 2026 rate application to reach an agreement on the balances to be included for disposition in 2026 rates.¹⁷ Hydro One met with OEB staff a number of times prior to Hydro One filing its current application, however no agreement was reached on Accounts 1588 and 1589.

The results of the Internal Review for Accounts 1588, 1589 and 1595 (2021), including the Report on Account Balances pursuant to the decision for 2025 rates, were included in the current application. No changes to these balances were made by Hydro One. However, there was a change in a previously reported Account 1589 reconciling item of a credit of \$27,492,434 to a revised reconciling item of a credit of \$26,319,169.¹⁸ OEB staff notes that in general, reconciling items help explain the reasonableness of Accounts 1588 and 1589 balances, but do not directly impact the balances requested for disposition themselves.

¹⁴ Exhibit A, Tab 4, Schedule 5, Page 6, August 28, 2025

¹⁵ Exhibit A, Tab 4, Schedule 6, Page 3, August 28, 2025; Exhibit A-4-6, Attachment 2, Page 2, August 28, 2025.

¹⁶ EB-2024-0032, Decision and Order, December 11, 2024, p. 22

¹⁷ EB-2024-0032, Decision and Order, December 11, 2024, p. 19

¹⁸ Exhibit A, Tab 4, Schedule 6, Page 2, August 28, 2025; The OEB's Instructions for Completing Commodity Accounts Analysis Workform (formerly "GA Analysis Workform") – 2026 Rates, pp. 6 and 21, state:

Reconciling items are the difference between:

- i. the total expected GA variance for the year calculated in the Workform for Account 1589, and
- ii. the adjusted net variance recorded in the distributor's general ledger

Some of the reconciling items in Note 7a of the Commodity Accounts Analysis Workform for Account 1588 mirror the examples of reconciling items for Account 1589 in Note 5.

DVA Overview – Submission

For the reasons that follow, OEB staff summarizes in Table 3 below its recommendation for disposition of the various DVA accounts (including Wheeling Amounts) at issue in this proceeding.

Table 3 – Summary of OEB Staff’s Recommended Treatment of DVAs and Wheeling Amounts

DVA / Wheeling Amount	Final Disposition	Interim Disposition
2023 and 2024 Account 1588		✓
2023 and 2024 Account 1589		✓
Account 1595 (2021)	✓	
2023 Group 1 DVA balances (excluding Accounts 1588 and 1589) ¹⁹	✓	
2024 Group 1 DVA balances (excluding Accounts 1588 and 1589)	✓	
2021 to 2024 Wheeling Debits and Credits ²⁰	✓	

OEB staff supports the disposition of Hydro One’s December 31, 2024 consolidated Group 1 DVAs on a final basis, except for Accounts 1588 and 1589 (of which OEB staff supports disposition on an interim basis). OEB staff notes however that Column Z and Column AE (which relate to 2024 OEB-approved dispositions) of the Chapleau DVA continuity schedules (Tab 2)²¹ in this proceeding continue to show zero balances, despite OEB staff’s interrogatory asking Hydro One to populate these cells with data.²² OEB staff submits that this should be corrected in Hydro One’s reply submission.

OEB staff notes that typically there are only two types of rate riders applicable to the disposition of Group 1 DVAs:²³

1. A “general” Group 1 DVA rate rider applicable to all customers
2. A Global Adjustment rate rider applicable to non-RPP Class B customers (i.e.,

¹⁹ Note that these balances were previously approved on an interim basis in Hydro One’s 2025 rates proceedings.

²⁰ Note that the 2021 to 2023 amounts were previously approved on an interim basis in Hydro One’s 2025 rates proceedings.

²¹ HONI_Dx_IRRs_I-01-17-01 (A-08-01-02 Rate Rider Derivation for Group 1 DVAs - Chapleau)_20251031; HONI_Dx_IRRs_I-01-17-02 (Chapleau DVA)_20251031.

²² Exhibit I, Tab 1, Schedule 17, Page 1, October 31, 2025.

²³ OEB staff notes that in some cases, there is also an additional rate rider relating to Capacity Based Recovery (CBR).

relating to Account 1589)

The Account 1588 balance is typically incorporated into rate rider #1. However, since OEB staff is recommending interim clearance of Account 1588 (but final disposition of the other balances incorporated into rate rider #1), OEB staff recommends that in this case, Account 1588 should be cleared using a separate rate rider.

The OEB most recently approved the disposition of Hydro One's other Group 1 account balances on an interim basis, as of December 31, 2023, as part of its 2025 rates proceedings. OEB staff supports the OEB declaring these balances final in this proceeding. This is because no issues were uncovered by Hydro One in its Internal Review relating to those balances.

Internal Review – Accounts 1588 and 1589 Background

Following the Internal Review and meetings with OEB staff, there was no agreement between Hydro One and OEB staff on the 2023 balances for Accounts 1588 and 1589.²⁴ However, in the Report on Account Balances, Hydro One noted that OEB staff would support disposition of the 2023 balances for Accounts 1588 and 1589 on an interim basis, in the event that the OEB is not prepared to dispose of the balances on a final basis as part of its decision in the current rate application.

Use of "Plugs"

In questions to Hydro One, OEB staff noted that Hydro One had calculated "plug" reconciling items (i.e., simply comparing the Accounts 1588 and 1589 transactions in the general ledger to that shown in the Commodity Accounts Analysis Workform on an aggregate basis).²⁵ Examples of "plug" reconciling items are:

- The Account 1589 reconciling item of a 2023 credit of \$26,319,169 which is shown in "Table 4: Revised supporting documentation for Note 5, Reconciling Item 10".²⁶ After backing out certain reconciling items/ principal adjustments, a "plug" reconciling item was generated to compare the expected balance in the Commodity Accounts Analysis Workform to the general ledger. (Note that Hydro One also referred to the 2023 credit of \$26,319,169 as a "plug".²⁷)
- The Account 1589 reconciling item of a 2024 credit of \$11,223,509 (which Hydro One confirmed is similar to the above-noted 2023 reconciling item).²⁸

²⁴ Exhibit A, Tab 4, Schedule 6, Page 3, August 28, 2025; Exhibit A-4-6 Attachment 2, Page 2, August 28, 2025.

²⁵ Exhibit A-4-6, Attachment 1h, Page 2, August 28, 2025

²⁶ Exhibit A-4-6, Attachment 1, Page 15, August 28, 2025.

²⁷ Exhibit I, Tab 1, Schedule 19, Page 3, October 31, 2025.

²⁸ Exhibit I, Tab 1, Schedule 19, Page 5, October 31, 2025.

Lack of Modified Commodity Accounts Analysis Workform

As an outcome of a meeting with OEB staff (prior to the filing of the current application), Hydro One committed to produce a modified Commodity Accounts Analysis Workform to support the reasonableness of the Account 1589 balance and, on a best efforts basis, file that during the course of this proceeding to support final disposition of the 2023 and 2024 Account 1589 balances.²⁹ This modified Commodity Accounts Analysis Workform was to be filed in interrogatory responses, but was not filed by Hydro One.³⁰

Internal Review – Accounts 1588 and 1589 Submission

OEB staff submits that the OEB should dispose of the 2023 and 2024 Accounts 1588 and 1589 balances on an interim basis, for the reasons set out below.

Use of “Plugs”

OEB staff maintains its concern that it is not appropriate for Hydro One to calculate “plug” reconciling items (i.e., simply comparing the Accounts 1588 and 1589 transactions in the general ledger to that shown in the Commodity Accounts Analysis Workform on an aggregate basis).³¹ This type of reconciliation is a circular argument, essentially saying that the variances shown in the Commodity Accounts Analysis Workform are explained by the variances in the general ledger. OEB staff submits this is not a reconciliation.

OEB staff submits that separate reconciling items should be calculated instead, and more of a breakdown is needed to support the reasonableness of the Account 1588 and 1589 balances, for approval on a final basis. This is particularly important given the magnitude of these amounts (i.e., Account 1589 2023 credit of \$26,319,169 and 2024 credit of \$11,223,509).

Lack of Modified Commodity Accounts Analysis Workform

OEB staff cannot support the disposition of the Account 1588 and 1589 balances on a final basis, given that Hydro One did not file a modified Commodity Accounts Analysis Workform to support the reasonableness of its Account 1588 and 1589 balances.

As part of its interrogatory responses,³² Hydro One attributed its inability to create a modified Commodity Analysis Workform to the lack of “availability of calendarized monthly billed loss-adjusted consumption and billed Global Adjustment (GA)

²⁹ Exhibit A, Tab 4, Schedule 6, Page 7, August 28, 2025

³⁰ Exhibit I, Tab 1, Schedule 18, Page 1 & 2, October 31, 2025

³¹ Exhibit A-4-6, Attachment 1h, Page 2, August 28, 2025

³² Exhibit I, Tab 1, Schedule 18, Page 1 & 2, October 31, 2025.

revenues.”³³ However, the questions posed to Hydro One by OEB staff related to “any billing adjustments, IESO settlement adjustments, or other adjustments in breaking down true-up amounts further”, and not solely those impacted by the calendarization limitations.

Furthermore Hydro One stated that “a prerequisite to preparing a modified Commodity Accounts Analysis Workform is the availability of calendarized monthly billed loss-adjusted consumption and billed Global Adjustment (GA) revenues.”³⁴ In OEB staff’s view, Hydro One would have been aware of this limitation when previously agreeing to file a modified Commodity Accounts Analysis Workform in this proceeding. Therefore Hydro One’s argument regarding why it could not file such a modified spreadsheet in this proceeding is not reasonable.

OEB staff submits that the OEB should direct Hydro One to file a modified Commodity Accounts Analysis Workform in its next rate application for 2027 rates, including separate reconciling items for “any billing adjustments, IESO settlement adjustments, or other adjustments in breaking down true-up amounts further”. OEB staff is of the view that Hydro One would be able to address such separate reconciling items in a modified Commodity Accounts Analysis Workform, outside of any calendarization issues to be identified by Hydro One at the time of that filing. OEB staff submits that given Hydro One’s calendarization issues, the OEB cannot make the 2023 and 2024 balances final until these issues are resolved, or at least addressed in Hydro One’s plan to fully adopt the Accounting Guidance³⁵ on a prospective basis.³⁶

OEB staff notes that Hydro One confirmed its plans to present a plan to the OEB, no later than its 2028 rebasing application, to fully adopt the Accounting Guidance.³⁷ OEB staff submits that by the time that Hydro One’s next rate application for 2027 rates is filed, Hydro One should be in a position to be able to file a modified Commodity Accounts Analysis Workform, given that its plan is due to be filed in its 2028 rebasing application.

Adoption of Accounting Guidance

³³ Exhibit I, Tab 1, Schedule 18, Page 1 & 2, October 31, 2025.

³⁴ Exhibit I, Tab 1, Schedule 18, Page 1 & 2, October 31, 2025.

³⁵ Accounting Procedures Handbook Update -Accounting Guidance Related to Commodity Pass Through Accounts 1588 & 1589, February 21, 2019. Note that the Accounting Guidance has been updated by the OEB since 2019.

³⁶ EB-2023-0030, Partial Decision and Rate Order, December 14, 2023, p. 21. EB-2023-0059, Partial Decision and Rate Order, December 19, 2023, p. 21. In the 2024 Hydro One Distribution rates decision EB-2023-0030, and in EB-2023-0059 for the Orillia and Peterborough RZs, the OEB ordered Hydro One to fully adopt the Accounting Guidance on a prospective basis, and ordered Hydro One to present a plan with costs and implications of fully adopting the OEB’s Accounting Guidance on a prospective basis no later than its next Custom IR application.

³⁷ Exhibit A, Tab 4, Schedule 6, Page 1, August 28, 2025.

Hydro One also stated that “the OEB’s direction in EB-2023-0030 was to adopt the Accounting Guidance on a prospective basis. OEB staff’s expectation to reproduce the 2023 and 2024 GA reasonability result using calendarized data within this context will be introducing a retroactive application of the guidance.”³⁸

Although OEB staff agrees that the OEB’s direction was for adoption on a prospective basis, rate retroactivity is not an issue, if the 2023 and 2024 balances in this proceeding are disposed of on an interim (as opposed to final) basis. Therefore, OEB staff submits that the OEB should dispose of the Accounts 1588 and 1589 balances on an interim basis at this time. OEB staff submits that a benefit of interim disposition is reducing the risk of intergenerational inequity issues.

OEB staff notes that its recommendation of interim disposition for Accounts 1588 and 1589 may limit the risk to Hydro One, compared to final disposition. This is because if Hydro One brings forward an error in a future proceeding related to these balances, an asymmetrical approach to the correction of the error may be made by the OEB. This is in accordance with the October 31, 2019 OEB Letter³⁹ on correcting for retroactive adjustments.

Internal Review – Account 1595 (2021)

After the Internal Review, Hydro One and OEB staff agreed to support the disposition of the balance in Account 1595 (2021) on a final basis for Hydro One Distribution.⁴⁰

OEB staff notes that in Hydro One’s 2024 rates proceeding, the OEB approved a separate rate rider for Hydro One Distribution’s Account 1595 (2019).⁴¹ OEB staff submits that it would be appropriate to generate a separate rate rider for Hydro One Distribution’s Account 1595 (2021) in the current proceeding. OEB staff’s submission on creating a separate rate rider for Account 1595 (2021) aligns with the submissions made on creating separate rate riders for Accounts 1588 and 1589.

³⁸ Exhibit I, Tab 1, Schedule 18, Page 2, October 31, 2025.

³⁹ OEB Letter, Adjustments to Correct for Errors in Electricity Distributor “Pass-Through” Variance Accounts After Disposition, October 31, 2019

⁴⁰ Exhibit A, Tab 4, Schedule 6, Page 3, August 28, 2025; Exhibit A-4-6, Attachment 2, Page 2, August 28, 2025.

⁴¹ EB-2023-0030 and EB-2023-0059, Decision and Rate Order June 13, 2024, Settlement Proposal, May 24, 2024, p. 12; Schedule B, Tariffs of Rates and Charges.

5. Earnings Sharing Mechanism (ESM) Balance

Background

Hydro One Distribution has requested disposition of a December 31, 2024 ESM deferral account balance of a credit of \$66,768,985, including carrying charges to December 31, 2025.⁴² Hydro One is requesting the disposition of this balance over a 12-month period, beginning January 1, 2026, on a final basis.⁴³

Hydro One Distribution's ESM deferral account records 50% of earnings that exceed the regulatory return on equity (ROE) by more than 100 basis points in any year of its rate term, with the account being asymmetrical. In accordance with the OEB's decision for Hydro One's last rebasing application (JRAP), Hydro One Distribution is requesting disposition of the ESM balances for 2021-2024 in the current proceeding.⁴⁴

Hydro One Distribution is also requesting to dispose of a \$2.2 million credit amount that was identified in 2021 and should have been presented as part of the 2020 disposed ESM balance.⁴⁵ Including this amount, the total ESM principal requested for disposition is \$59.1 million (\$56.9 million + \$2.2 million), which agrees to the closing December 31, 2024 principal balance per the DVA Continuity schedule.⁴⁶

The 2020 ESM balance was last disposed on a final basis in the last rebasing application (JRAP).⁴⁷ The ESM principal balance disposed should have been presented as a credit of \$17.1 million (instead of a credit of \$14.9 million) as of 2020, to include an additional \$2.2 million credit amount.

OEB staff notes that where an accounting or other error is discovered after the balance in one of the Group 1 variance accounts has been cleared by a final order of the OEB, the OEB will determine on a case-by-case basis whether to make a retroactive adjustment based on the particular circumstances of each case, including the factors shown in Table 4 below. This is in accordance with the October 31, 2019 OEB Letter⁴⁸ on correcting for retroactive adjustments.

In Hydro One's view, the October 31, 2019 OEB Letter⁴⁹ does not apply in this instance,

⁴² HONI A-05-01_01_Gr 2 Dx DVA_ESM Continuity_20250911_v2

⁴³ Exhibit A, Tab 2, Schedule 1, Page 2 & 3, August 28, 2025.

⁴⁴ EB-2021-0110, Decision and Order, November 29, 2022, Settlement Proposal, Pages 13 & 26, October 24, 2022.

⁴⁵ Exhibit A, Tab 5, Schedule 1, Page 1, August 28, 2025.

⁴⁶ HONI A-05-01_01_Gr 2 Dx DVA_ESM Continuity_20250911_v2

⁴⁷ EB-2021-0110, Decision and Order, November 29, 2022, Settlement Proposal, Page 47, October 24, 2022.

⁴⁸ OEB Letter, Adjustments to Correct for Errors in Electricity Distributor "Pass-Through" Variance Accounts After Disposition, October 31, 2019

⁴⁹ OEB Letter, Adjustments to Correct for Errors in Electricity Distributor "Pass-Through" Variance

as the ESM account balance is not classified as a Group 1 account. However, Hydro One addressed the criteria in the October 31, 2019 Letter to justify the prudence of including the \$2.2 million credit adjustment as part of the 2020 approved ESM balance. Please see the discussion in Table 4 below which has been taken from Hydro One's pre-filed evidence.⁵⁰

Table 4 – Hydro One's Response: Factors to Consider Whether to Make a Retroactive Adjustment

Criteria Applied for Review of Retroactive Adjustments	Applicability
Whether the error was within the control of the distributor	Yes; however, due to timing of the application being filed and the time the application being settled, there was no appropriate opportunity for Hydro One to update the DVA balances for post-audited adjustments
The frequency with which the distributor has made the same error	Due to the nature of the ESM account, post-audit adjustments have been identified more frequently in subsequent rate applications. The practice of updating for post-audited results is now part of process for other rate applications
Failure to follow guidance provided by the OEB	Not applicable
The degree to which other distributors are making similar errors	Not applicable

OEB staff also notes that in Hydro One's decision on 2025 rates, the OEB allowed certain retroactive adjustments, as noted below:⁵¹

The OEB finds that Hydro One's proposed allocations of wheeling-related credits and debits between the Orillia Rate Zone and Hydro One's other customers for 2021 and 2022 represent a retroactive adjustment to account balances that were previously disposed of on a final basis... in the circumstances of this case, the OEB will allow the retroactive adjustment, and will allow Hydro One to make the adjustment symmetrically.

Submission

OEB staff supports Hydro One Distribution's request to dispose of its ESM credit balance of \$66,768,985. This disposition should occur on a final basis.

OEB staff does not take issue with the retroactive adjustment of a material credit of \$2.2

Accounts After Disposition, October 31, 2019

⁵⁰ Exhibit A, Tab 5, Schedule 1, Page 6, August 28, 2025

⁵¹ EB-2024-0032, Decision and Order, December 11, 2024, pp. 27 & 28

million that was incorporated into the credit balance of \$66,768,985. Also as noted above, the OEB allowed certain retroactive adjustments as recent as Hydro One's decision on 2025 rates.

OEB staff agrees with Hydro One that the \$2.2 million credit adjustment should be made after considering Hydro One's response regarding the October 31, 2019 OEB Letter (as summarized in Table 4 of this submission), especially since it is to the benefit of customers. OEB staff submits that Hydro One's proposed refund to its customers in this proceeding is appropriate.

OEB staff also considers it noteworthy that Hydro One raised this matter with the OEB as part of the current rate application, after Hydro One determined that the adjustment was necessary.

6. Wheeling Credits

Hydro One is requesting the final disposition of credits in accordance with wheeling agreements related to two Orillia Power Generation Corporation (OPGC) generation stations embedded in Hydro One's distribution system, Swift Rapids GS and Minden GS. In the Decision on Hydro One's 2025 Distribution Rates, the OEB approved the wheeling adjustments for the year 2021 to 2023 on interim basis, subject to addressing the potential discrepancies between deemed and actual billing quantities used to determine wheeling adjustments in the 2026 Application. The OEB outlined three concerns about the billing quantities:

- Concern One: Hydro One did not provide evidence to support its claim, aside from an unverified statement that post-2016 billing quantities align with those in the existing Wheeling Agreements.
- Concern Two: The OEB is unclear how Hydro One determines these quantities, given that it removed the necessary measurement facilities after integrating OPDC and hasn't updated billing kW's in the amended Wheeling Agreements since 2016.
- Concern Three: The OEB is concerned that differences between the deemed and actual generation quantities in the Wheeling Agreements could lead to inappropriate subsidies across rate zones.

In response to OEB's direction and concerns, Hydro One submitted the calculation of the 2021-2023 RTSR benefits using average monthly billing quantities based on more recently available data from July 2016 to April 2021.

By comparing the deemed billing quantities stipulated in the Wheeling Agreements (which were established based on 2011-2015 data) for both generation stations, and more recent billing quantities based on 2016-2021 monthly data, the difference in RTSR dollar benefits is 1.95%. Therefore, Hydro One is of the view that the RTSR billing quantities stipulated and agreed upon by both parties in the Wheeling Agreement continue to be appropriate and request that the 2021-2023 balances previously approved on an interim basis be approved on a final basis.

Hydro One is also seeking approval for 2024 Wheeling Adjustments as part of the application. The 2024 Wheeling Adjustments are based on the billing quantities from the Wheeling Agreements. The table below reflects the wheeling adjustments in the allocation of 2024 transactions between the Hydro One Distribution and Orillia RZ. 2021-2023 wheeling adjustments remain the same as in the 2025 Application.

Table 5: Impact of Orillia Wheeling Agreement on Hydro One Distribution (\$)

Account Descriptions	Account Number	2021-2023 Principal and Interest Impact of Orillia Wheeling Agreements \$	2024 Principal and Interest Impact of Orillia Wheeling Agreements \$
RSVA - Wholesale Market Service Charge	1580	451,895	228,304
Variance WMS – Subaccount CBR Class B	1580	67,864	22,427
RSVA – Retail Transmission Network Charge	1584	1,081,115	462,496
RSVA – Retail Transmission Connection Charge	1586	771,827	361,266
Total		2,372,702	1,074,492

In response to an OEB Staff interrogatory⁵², Hydro One and Orillia Power Distribution Corporation (OPDC) confirmed that no material changes are expected in the operation of the two generators. Hydro One and OPGC consider the RTSR billing quantities appropriate. However, should significant change in generation or local load profile at a future time arise, Hydro One stated that it will initiate discussions with OPGC to explore options to amend these wheeling agreements in accordance with the provisions contained therein.

Submission

OEB staff finds the calculation of 2021-2023 RTSR benefits, based on average monthly billing quantities from 2016-2021 data, to be reasonable. The 1.95% difference in RTSR dollars between deemed billing quantities and actual billing quantities from 2016 to 2021 data confirms that any discrepancy is immaterial. Therefore, OEB staff submits that Hydro One has addressed the direction and concerns from its 2025 Decision, and that 2021-2023's billing quantities are proved to be appropriate. OEB Staff also has no issues with the proposed 2024 Wheeling Credits in this application. OEB staff supports the disposition of 2021-2023 Wheeling Adjustments, and 2024 Wheeling Agreements on a final basis.

⁵² OEB Staff Interrogatory 10 (a)-(b)

7. Z-factor Claim

In its application, Hydro One advised that starting on March 29, 2025, severe freezing rain and significant ice accumulation significantly impacted Hydro One's distribution system resulting in widespread outages. Hydro One recorded 1.2 million service interruptions and affected over 600,000 impacted customers, representing 42% of total Hydro One customers. The areas most severely affected by the Z-factor event were Hydro One's Southern, Eastern, and Central regions.

The majority of customer restorations took place between March 29 and April 14. While normal operations resumed on April 14, the final customer outage was not resolved until early May. To aid in restoring power, Hydro One received mutual assistance from over 30 utilities through Ontario Mutual Assistance Group (OnMAG) and Canadian Mutual Assistance Group (CanMAG).

The storm and subsequent restoration efforts have resulted in Hydro One incurring total costs of approximately \$223M. The table 6 below provides a breakdown of the costs Hydro One incurred as a result of its restoration efforts. Hydro One states in the interest of regulatory efficiency, it is not seeking recovery of the OM&A costs due to the Z-factor event.

Table 6: Total costs by Rate Zone(\$M)

	Hydro One Distribution	Peterborough	Orillia	All Rate Zones
Z-factor Related Net Capital Expenditures	\$187.0	\$7.4	\$1.8	\$196.2
Asset Removal Costs	\$25.5	\$1.0	\$0.2	\$26.7
Toal Z-factor related costs	\$251.3	\$8.4	\$2.0	\$223.0

Hydro One also provided a more detailed breakdown of Net Capital Expenditures in response to an interrogatory⁵³, as shown in Table 7 and 8 below.

Table 7: Z-factor Net Capital Expenditures by Rate Zone

⁵³ VECC Interrogatory-01 (a)

	Hydro One Distribution	Peterborough Rate Zone	Orillia Rate Zone	Total
Internal Labour (\$M)	79.0	1.7	0.5	81.2
Fleet (\$M)	12.4	0.3	0.1	12.8
External Contractor (\$M)	75.4	4.8	1.1	81.3
Material (\$M)	14.4	0.1	0.0	14.6
Other(\$M)	5.8	0.5	0.1	6.3
Z-Factor Costs (\$M)	187.0	7.4	1.8	196.1

Table 8: Breakdown of Z-factor Costs

	Internal Resources	Third-Party Contractors	Mutual Aid Partners	Total
Labour- Regular (\$M)	29.7	50.0	7.3	86.9
Labour- Overtime (\$M)	51.5	0.5	-	52.0
Materials (\$M)	14.6	2.0	0.1	16.6
Fleet (\$M)	12.8	15.9	1.4	30.2
Sub-contractor(\$M)	-	0.7	-	0.7
Other(\$M)	6.3	2.8	0.6	9.8
Total (\$M)	114.9	71.8	9.4	196.1

Out of the total storm-related cost of \$223 Million, Hydro One seeks a cost recovery of \$69.4 Million which consists of incremental Asset Removal Costs of \$26.7 Million, and Revenue Requirement Impact of Capital Expenditures of 42.7M, as shown below.

Table 9: Total Relief Sought by Rate Zone

	Hydro One Distribution	Peterborough	Orillia	All Rate Zones
Revenue Requirement Impact of Capital Expenditures	\$38.8	\$3.0	\$0.9	\$42.7
Asset Removal Costs	\$25.5	\$1.0	\$0.2	\$26.7

Total Relief Sought	\$64.3	\$4.0	\$1.1	\$69.4
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Chapter 3 of the OEB’s [Filing Requirements for Electricity Distribution Rate Applications](#) (Filing Requirements) defines Z-factor events as unforeseen events that are outside the control of a distributor’s ability to manage. The Filing Requirements state that a distributor must submit evidence to substantiate that the costs incurred meet the following eligibility criteria of causation, materiality, and prudence:

Causation – Amounts should be directly related to the Z-factor event. The amount must be clearly outside of the base upon which rates were derived.

Materiality – The amounts must exceed the Board-defined materiality threshold and have a significant influence on the operation of the distributor; otherwise they should be expensed in the normal course and addressed through organizational productivity improvements.

Prudence – The amounts must have been prudently incurred. This means that the distributor’s decision to incur the amounts must represent the most cost-effective option (not necessarily least initial cost) for ratepayers.

Causation

In the application, Hydro One stated the amounts sought for recovery are outside of the base upon which rates were set. The costs included in this application were directly related to restoration of service in response to the extreme weather experienced between March 29 and April 6, 2025, with restoration activities occurring until June 30, 2025.

Capital Expenditures

In response to a staff interrogatory⁵⁴, Hydro One confirmed the total capital amount of \$196.2M is directly attributable to the asset replacement and storm restoration effort for the Z-factor event and does not include costs in addition to asset replacement and restoration. Additionally, during interrogatories⁵⁵, Hydro One confirmed it will write off damaged assets from its books as part of its year-end financial closing process. As such, the associated depreciation expenses will no longer be recognized throughout the assets’ useful life. As part of the Interrogatory responses⁵⁶, Hydro One also provided a

⁵⁴ OEB Staff Interrogatory 1(a)

⁵⁵ OEB Staff Interrogatory 3(e)

⁵⁶ OEB Staff Interrogatory 2(a)

breakdown of the total capital expenditures by asset classes for each rate zone, as shown in tables below.

Table 10: Hydro One Distribution Capital costs by asset class

Asset/Equipment	Quantity	Repaired or Replaced	Estimated Net Asset Value
Poles, Towers & Equipment	6,159 units	Replaced	\$87.0M
Overhead Conductors and Devices	401,358 meters	Replaced	\$54.9M
Line Transformers	758 units	Replaced	\$45.1M
Total			\$187.0M

Table 11: Peterborough Rate Zone Capital costs by asset class

Asset/Equipment	Quantity	Repaired or Replaced	Estimated Net Asset Value
Poles, Towers & Equipment	419 units	Replaced	\$4.3M
Overhead Conductors and Devices	28,199 meters	Replaced	\$3.1M
Line Transformers	1 unit	Replaced	\$0.02M
Total			\$7.4M

Table 12: Orillia Rate Zone Capital costs by asset class

Asset/Equipment	Quantity	Repaired or Replaced	Estimated Net Asset Value
Poles, Towers & Equipment	37 units	Replaced	\$1.0M
Overhead Conductors and Devices	1,448 meters	Replaced	\$0.8M
Line Transformers	0 unit	Replaced	\$0.0M
Total			\$1.8M

In the application, Hydro One indicated that the capital expenditures incurred related to storm restoration and trouble call response efforts exceed the amounts included in base rates for this investment driver. As for July 31, 2025, actual capital expenditures in this

program, including the Z-factor event, are approximately 155.8M greater than the full year forecast for Hydro One Distribution, as shown in table below.

Table 13: Hydro One Distribution Lines Trouble Call and Storm Damage Response Program (D-SR-05) Capital Expenditures

		Capital Expenditures (\$M) - 2023		Capital Expenditures (\$M) - 2024			Capital Expenditures (\$M) – 2025		
Program	Forecast	Actual	Variance	Forecast	Actual	Variance	Forecast	YTD Act	Variance
D-SR-05	111.6	141.4	29.8	113.8	168.5	54.7	116.1	271.9	155.8

In its response to an OEB staff interrogatory⁵⁷, Hydro One indicated that 115 Poles, 18 Cross Arms, and 2 Transformers replaced during the Z-Factor Event were previously planned for replacement as part of the replacement program outlined in the last rebasing application (EB-2021-0110).

Table 14: Assets Replaced During the Z-Factor Event Previously Planned for Replacement by Rate Zone

	Hydro One Distribution	Peterborough	Orillia	Total
Poles	112	2	1	115
Cross Arms	18			18
Transformers	2			2

OEB Staff Submission on Capital Expenditures

OEB staff submits that Hydro One should not be allowed to recover the costs of those poles, cross arms, and transformers in Table 13, which were already scheduled for replacement. Hydro One has not substantiated that all pole replacement costs are incremental to its regular pole renewal program, particularly assets already due for replacement would have higher probabilities of failing as a result of the storm. Any costs related to poles that would otherwise have been replaced in 2025 or shortly after under Hydro One's regular renewal program should not be approved as part of the Z-factor claim, as the costs for normal replacement are already funded through Hydro One's base electricity distribution rates.

⁵⁷ OEB Staff Interrogatory 2(c)

This approach is consistent with recent decisions of the OEB in Elexicon Energy's Z-factor application⁵⁸, Canadian Niagara Power Inc.(CNPI)'s Z-factor application⁵⁹, and E.L.K Energy's Z-factor application⁶⁰, where the OEB did not allow cost recovery for certain poles that were expected to be replaced in the near term.

OEB staff submits that Hydro One should provide the net values of the assets replaced during the Z-Factor Event that were previously planned for replacement in its reply submission, and this amount should be excluded from cost recovery in this application. Hydro One should also provide the updated revenue requirement impact of capital expenditures and total relief sought by rate zone.

Asset Removal Costs

In its application, Hydro One claimed total Asset Removal costs of \$26.7M related to the Z-factor event. Hydro One responded to a Staff Interrogatory⁶¹ that Asset Removal Costs are the costs to retire and remove utility assets from service, either at the end of their useful life or when replacements are required due to service upgrade or damage (such as in response to a weather event). These costs include labour, equipment, and other expenditures associated with dismantling, disconnecting and disposing of the asset, as well as site restoration where applicable. Hydro One's treatment of Asset Removal Costs is consistent with USGAAP accounting and reporting standards.

Asset Removal Costs are calculated as a fixed percentage of asset costs, based on the asset type and type of work completed, and do not have a further categorization of these costs. Hydro One provided an updated table of the OEB approved and actual asset Removal costs for Hydro One Distribution from 2023 to 2025 as below, in response to an interrogatory⁶².

Table 15: Hydro One Distribution Asset Removal Costs(M)

2023		2024		2025	
OEB Approved	Actual	OEB Approved	Actual	OEB Approved	Forecast
\$72.1	\$68.9	\$72.0	\$87.1	\$77.0	\$100.1

⁵⁸ Decision and Order, EB-2022-0317, Elexicon Energy Inc., Z-factor Application for Rates and Other Charges to be Effective July 1, 2023, p. 9;

⁵⁹ Decision and Order, EB-2023-0009, CNPI 2024 IRM Application

⁶⁰ Decision and Order, EB-2023-0013, E.L.K 2024 IRM Application

⁶¹ OEB Staff Interrogatory 1(a)

⁶² VECC Interrogatory 12

In response to another interrogatory⁶³, Hydro One outlined its capitalization policy: Expenditures directly attributable to placing a new asset in service are capitalized, as they are expected to generate future economic benefits. Costs related to retiring and removing damaged assets are expensed as incurred and classified as Asset Removal Costs, which do not meet capitalization criteria due to their lack of future economic benefit.

OEB Staff Submission on Asset Removal Costs

OEB staff has no issue with Hydro One expensing asset removal costs instead of capitalizing them. This approach is consistent with the OEB's decision on Elexicon Energy's Z-factor Application⁶⁴, where the OEB found disposal costs are more appropriately expensed and approved a revised Z-factor operating cost claim to include disposal costs.

However, OEB staff notes that detailed calculations related to Asset Removal Costs were not provided. Specifically, if Hydro One could provide the fixed percentage applied, the asset cost base used, or the types of assets and associated work included in the calculation, it would assist the OEB to determine whether the magnitude of the claim is adequately supported.

Materiality

As specified in Hydro One's most recent Rebasing Application EB-2021-0110⁶⁵, its materiality threshold for Z-factor applications is \$3.0M. The total relief sought in this Z-factor application corresponds to a revenue requirement amount of \$69.4M.

OEB Staff Submission on Materiality

OEB staff submits that the total requested amount of 69.4M satisfies the materiality threshold for Hydro One. OEB staff expects this will remain the case even if the OEB accepts OEB staff's position that the capital cost should be reduced to remove assets were already scheduled for replacement.

Prudence

In its application, Hydro One stated that the costs it incurred in response to the Z-factor

⁶³ VECC Interrogatory 1(c)

⁶⁴ Decision and Order, EB-2022-0317, Elexicon Energy Inc., Z-factor Application for Rates and Other Charges to be Effective July 1, 2023, p.19

⁶⁵ EB-2021-0110, Exhibit A-04-04, Page 7

event were prudent, reasonable, and necessary to ensure the safe and timely restoration of service to affected customers. It further explained that it responded by activating established emergency protocols, mobilizing internal and external resources, and undertaking logistical and operational measures to manage restoration efforts.⁶⁶

Hydro One mentioned it activated its highest-level emergency response (Level 3) through the Distribution Emergency Operations Centre to ensure strategic oversight during the storm. Leveraging its Distribution Emergency Management Plan (DEMP), the company coordinated cross-functional efforts including forecast monitoring, staff mobilization, and stakeholder engagement. Early weather alerts triggered safety protocols and pre-storm briefings with internal and mutual assistance crews.

During the storm, Hydro One indicated its restoration efforts followed a public safety-first model, addressing downed wires and hazards before moving to critical infrastructure and large customer blocks. Over 4,500 personnel, including mutual aid crews from 30 organizations, were mobilized to support the response. Real-time adjustments were made to crew deployments, and aerial reconnaissance via helicopters helped access remote areas and deliver materials.

In response to a Staff interrogatory on how to monitor compliance with its emergency response plan⁶⁷, Hydro One indicated it relied on established checklist and support tools to guide staff and ensure the expectations are met. To maintain compliance with the DEMP, real-time oversight was provided to ensure its response to the Z-factor event was consistent with the DEMP and aligned with established emergency management principles.

OEB Staff Submission on Prudence

OEB staff notes that Hydro One called upon available internal and external resources including mutual aid partners to address the storm outages. OEB staff recognizes that Hydro One acted promptly and restored power within a reasonable period. Based on the evidence Hydro One provided in its application and interrogatory responses, OEB staff submits that Hydro One has met the criterion of prudence for its restoration efforts.

Summary of Z-factor Cost Claim Recommendations

OEB staff acknowledges that Hydro One incurred significant costs for its storm restoration efforts, and which were largely beyond Hydro One's costs funded through distribution rates paid by ratepayers. OEB staff does not dispute the occurrence of the

⁶⁶ Exhibit A, Tab 6, Schedule 1, Page 22 of 36

⁶⁷ Staff Interrogatory 6

storm, or Hydro One's efforts to fix its infrastructure and restore service to customers in an expeditious manner. However, based on the record filed in this Application, OEB staff submits that certain assets were expected to be replaced in the near term should be disallowed for recovery. Except for this adjustment, and based on the record in this application, OEB staff submits that the criteria for causation, materiality and prudence for the Z-factor claim are met.

Allocation and Rate Design

In its Application, Hydro One requested that the Z-factor amount be allocated across all rate classes, in proportion to its last OEB-approved revenue requirement by rate classes and recovered through fixed-rate riders. Hydro One proposed a disposition period of 2-years beginning January 1, 2026 for Hydro One Distribution, and a disposition period of 5-years for Peterborough and Orillia RZs.

OEB Staff Submission on Allocation and Rate Design

OEB staff finds the allocation and rate design of Hydro One's Z-factor claim are reasonable. Spreading out the recovery of the Z-factor claim over a longer period reduces the monthly bill impact that ratepayers could afford. This approach is consistent with Elexicon Energy's 2023 Z-factor Application, where the OEB agreed to a fixed rate rider that recovers the revenue requirement of the Z-factor capital costs annually until rebasing in 2029⁶⁸. OEB staff has no concern with a disposition of 2-year period for Hydro One Distribution, and a 5-year period for the Peterborough and Orillia RZs. OEB staff also notes that the rate riders and bill impacts may change if OEB staff's recommendations with respect to a disallowance of some costs.

⁶⁸ Decision and Order, EB-2022-0317, Elexicon Energy Inc., Z-factor Application for Rates and Other Charges to be Effective July 1, 2023, p. 21;

8. Lost Revenue Adjustment Mechanism (LRAM) Eligible Amounts

Hydro One requested and was granted approval of 2023-2029 Lost Revenue Adjustment Mechanism (LRAM)-eligible amounts, on a prospective basis, as part of its IRM application⁶⁹ for 2023 rates for the Orillia and Peterborough rate zones. In this application, Hydro One requested approval of 2026 rate riders to recover the 2026 LRAM-eligible amounts approved in its 2023 IRM proceeding.

Submission

OEB staff has no concerns with the proposed request.

~All of which is respectfully submitted~

⁶⁹ EB-2022-0040, Decision and Rate Order, December 16, 2022

Appendix A – Breakdown of Group 1 DVA Account Balances**November 13, 2025**

Hydro One has applied to dispose of December 31, 2024 consolidated Group 1 DVA account balances (including interest to December 31, 2025) for a total credit of \$94.9 million. The breakdown of account balances is shown below and includes amounts for Hydro One Consolidated, Hydro One Distribution, Chapleau, Orillia RZ, and Peterborough RZ. This amount of a credit of \$94.9 million also includes 2023 balances for Accounts 1588 and 1589, as well as the balance in Account 1595 (2021) for Hydro One Distribution, that were not disposed in Hydro One's 2025 rates proceeding.

Table 16 – Group 1 DVA Consolidated Account Balances (including Hydro One Distribution, Orillia RZ, Peterborough RZ and Chapleau RZ)

Account Descriptions	Account Number	Closing Principal Balance as of Dec 31, 2024	Total Interest as of Dec 31, 2025	Total Balance for Disposition as of Dec 31, 2025
		A	B	A+B
LV Variance Account	1550	2,276,944	163,772	2,440,716
Smart Metering Entity Charge Variance Account	1551	(1,361,886)	(141,875)	(1,503,760)
RSVA – Wholesale Market Service Charge	1580	(25,435,692)	19,065,102	(6,370,590)
Variance WMS – Subaccount CBR Class B	1580	7,965,326	(20,523,737)	(12,558,410)
RSVA – Retail Transmission Network Charge	1584	(8,450,897)	(854,934)	(9,305,831)
RSVA – Retail Transmission Connection Charge	1586	(33,798,164)	(2,251,542)	(36,049,706)
RSVA – Power (excluding Global Adjustment)	1588	(76,693,946)	(6,167,156)	(82,861,102)
RSVA – Global Adjustment	1589	48,816,002	5,146,834	53,962,836
Disposition and Recovery/Refund of Regulatory Balances (2021) - HONI and Acquired LDCs	1595	(5,032,770)	2,401,662	(2,631,108)

Disposition and Recovery/Refund of Regulatory Balances (2019) CPUC	1595	(7,048)	6,413	(636)
Disposition and Recovery/Refund of Regulatory Balances (2020) CPUC	1595	(1,879)	10,779	8,900
Disposition and Recovery/Refund of Regulatory Balances (2022) CPUC	1595	1,814	2,996	4,810
Group 1 Sub-Total		(91,722,196)	(3,141,685)	(94,863,881)

Table 17 – Group 1 DVA Account Balances for Disposition for Hydro One Distribution (excluding Chapleau)

Account Descriptions	Account Number	Closing Principal Balance as of Dec 31, 2024	Total Interest as of Dec 31, 2025	Total Balance for Disposition as of Dec 31, 2025
		A	B	A+B
LV Variance Account	1550	2,232,835	183,010	2,415,845
Smart Metering Entity Charge Variance Account	1551	(1,310,933)	(136,469)	(1,447,403)
RSVA – Wholesale Market Service Charge	1580	(24,246,790)	18,355,915	(5,890,875)
Variance WMS – Subaccount CBR Class B	1580	7,685,596	(19,766,411)	(12,080,815)
RSVA – Retail Transmission Network Charge	1584	(7,776,911)	(834,624)	(8,611,535)
RSVA – Retail Transmission Connection Charge	1586	(32,487,973)	(2,180,484)	(34,668,457)
RSVA – Power (excluding Global Adjustment)	1588	(73,818,980)	(5,855,555)	(79,674,534)
RSVA – Global Adjustment	1589	46,107,808	4,849,830	50,957,638
Disposition and Recovery/Refund of Regulatory Balances (2021) - HONI and Acquired LDCs	1595	(5,032,770)	2,401,662	(2,631,108)

Group 1 Sub-Total		(88,648,118)	(2,983,125)	(91,631,244)
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Table 18 – Group 1 DVA Account Balances Proposed for Disposition for Chapleau

Account Descriptions	Account Number	Closing Principal Balance as of Dec 31, 2024	Total Interest as of Dec 31, 2025	Total Balance for Disposition as of Dec 31, 2025
		A	B	A+B
LV Variance Account	1550	44,109	3,396	47,504
Smart Metering Entity Charge Variance Account	1551	(2,797)	(311)	(3,108)
RSVA – Wholesale Market Service Charge	1580	(34,659)	(2,558)	(37,216)
Variance WMS – Subaccount CBR Class B	1580	10,983	226	11,209
RSVA – Retail Transmission Network Charge	1584	10,133	645	10,778
RSVA – Retail Transmission Connection Charge	1586	(7,274)	(738)	(8,012)
RSVA – Power (excluding Global Adjustment)	1588	(19,723)	(2,091)	(21,814)
RSVA – Global Adjustment	1589	44,507	5,354	49,861
Disposition and Recovery/Refund of Regulatory Balances (2019) CPUC	1595	(7,048)	6,413	(636)
Disposition and Recovery/Refund of Regulatory Balances (2020) CPUC	1595	(1,879)	10,779	8,900
Disposition and Recovery/Refund of Regulatory Balances (2022) CPUC	1595	1,814	2,996	4,810
Group 1 Sub-Total		38,165	24,111	62,276

Table 19 – Group 1 DVA Account Balances for Disposition for Orillia RZ

Account Descriptions	Account Number	Closing Principal Balance as of Dec 31, 2024	Total Interest as of Dec 31, 2025	Total Balance for Disposition as of Dec 31, 2025
		A	B	A+B
LV Variance Account	1550	0	(10,260)	(10,260)
Smart Metering Entity Charge Variance Account	1551	(13,726)	(1,411)	(15,137)
RSVA – Wholesale Market Service Charge	1580	(491,259)	203,538	(287,721)
Variance WMS – Subaccount CBR Class B	1580	63,707	(218,919)	(155,212)
RSVA – Retail Transmission Network Charge	1584	(510,783)	50	(510,733)
RSVA – Retail Transmission Connection Charge	1586	(626,395)	(18,263)	(644,658)
RSVA – Power (excluding Global Adjustment)	1588	(829,348)	(96,578)	(925,925)
RSVA – Global Adjustment	1589	873,406	115,105	988,511
Group 1 Sub-Total		(1,534,398)	(26,738)	(1,561,136)

Table 20 – Group 1 DVA Account Balances for Disposition for Peterborough RZ

Account Descriptions	Account Number	Closing Principal Balance as of Dec 31, 2024	Total Interest as of Dec 31, 2025	Total Balance for Disposition as of Dec 31, 2025
		A	B	A+B
LV Variance Account	1550	0	(12,373)	(12,373)
Smart Metering Entity Charge Variance Account	1551	(34,430)	(3,684)	(38,113)
RSVA - Wholesale Market Service Charge	1580	(662,984)	508,207	(154,777)
Variance WMS – Subaccount CBR Class B	1580	205,041	(538,633)	(335,592)
RSVA – Retail Transmission Network Charge	1584	(173,336)	(21,005)	(194,341)
RSVA – Retail Transmission Connection Charge	1586	(676,522)	(52,057)	(728,579)
RSVA – Power (excluding Global Adjustment)	1588	(2,025,896)	(212,932)	(2,238,829)

RSVA - Global Adjustment	1589	1,790,281	176,545	1,966,826
Group 1 Sub-Total		(1,577,845)	(155,933)	(1,733,778)