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BY EMAIL

November 19, 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
Festival Hydro Inc. (Festival Hydro)
2026 Distribution Rate Application
OEB File Number: EB-2025-0039**

Please find attached OEB staff's submission in the above referenced proceeding, pursuant to Procedural Order No. 2. This document is also being forwarded to Festival Hydro.

Yours truly,

Harshleen Kaur
Advisor, Incentive Rate-setting

Encl.



ONTARIO ENERGY BOARD

OEB Staff Submission

Festival Hydro Inc.

2026 Distribution Rate Application

EB-2025-0039

November 19, 2025

Introduction

Festival Hydro Inc. (Festival Hydro) filed an incentive rate-setting mechanism (IRM) application dated August 14, 2025, with the Ontario Energy Board (OEB) 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. Festival Hydro is also requesting approval to correct a Group 1 Deferral and Variance Account (DVA) previously disposed of on a final basis.

As part of its application, Festival Hydro requests:

- An annual adjustment of 3.4% applied uniformly across all rate classes
- An adjustment to Retail Transmission Service Rates (RTSRs)
- An adjustment to Low Voltage (LV) Service Rates
- Disposition of the Group 1 DVA balance in a debit amount of \$3,348,686
- Correction of rate rider calculations for previously disposed Group 1 DVA balances in a net debit amount of \$158,079¹

Consistent with Chapter 3 of the Filing Requirements for Electricity Distribution Rate Applications (Filing Requirements), Festival Hydro applied the Price Cap IR adjustment factor to adjust the monthly service charge and distribution volumetric rate during the incentive rate-setting years. The annual adjustment follows an OEB-approved formula that includes components for inflation and the OEB's expectations of efficiency and productivity gains. The components in the formula are approved by the OEB annually. The formula prescribes a rate adjustment equal to the inflation factor minus the distributor's X-factor (which is the sum of the productivity factor and the stretch factor).²

An inflation factor of 3.70% applies to all IRM applications for the 2026 rate year.³ Festival Hydro has been assigned a stretch factor of 0.30%,⁴ resulting in a rate adjustment of 3.40%, in accordance with the OEB's Price Cap adjustment formula. OEB staff has no concerns with Festival Hydro's proposed price cap adjustment.

Festival Hydro is partially embedded within Hydro One Networks Inc.'s distribution system. Festival Hydro is requesting approval to adjust the RTSRs charged to

¹ The amount of \$158,079 is the net correction shown in Appendix F of Festival Hydro's pre-filed evidence. It is calculated as:
Total Correction (\$158,079) = DVA Allocation Correction (\$224,402 + \$381,341) – GA Allocation Correction (\$447,664).

² Chapter 3 – Filing Requirements for Electricity Distribution Rate Applications, p. 6

³ OEB Letter, 2026 Inflation Parameters, issued June 21, 2025

⁴ Empirical Research in Support of Incentive Rate-Setting: 2024 Benchmarking Update, Report to the Ontario Energy Board, August 2025, Table 5

customers, in accordance with the Uniform Transmission Rates.⁵ OEB staff has no concerns with Festival Hydro’s requested adjustments to its RTSRs. Festival Hydro has updated the Rate Generator Model appropriately and the adjustment requested aligns with the [Guideline: Electricity Distribution Retail Transmission Service Rates and Low Voltage Charges](#) (the Guideline), issued March 31, 2025.

LV transactions, which occur outside the wholesale electricity market, are billed to a distributor by their host distributor(s). To recover these costs, Festival Hydro seeks approval to adjust its LV Service Rates as part of this IRM application. These proposed adjustments are based on current OEB-approved embedded distributor rates and the most recent demand data for LV transactions.

OEB staff has no concerns with Festival Hydro’s proposed adjustment to its LV Service Rates as Festival Hydro has updated the Rate Generator Model appropriately. The adjustment requested aligns with the Guideline.

OEB staff’s detailed submissions on the following are included below:

- Disposition of Group 1 DVA Balance
- Correction of Rate Rider Calculations for Previously Disposed Group 1 DVA Balance on a final basis

Disposition of Group 1 DVA Balance

Background

As of December 31, 2024, the year-end balance for Festival Hydro’s Group 1 DVAs eligible for disposition, inclusive of interest projected to December 31, 2025, is a debit amount of \$3,348,686. This balance corresponds to a total claim of \$0.0055 per kWh, which exceeds the OEB’s prescribed disposition threshold. Festival Hydro has proposed to recover this amount over a one-year period.

OEB Staff Submission

OEB staff has reviewed the application and has no concerns with the proposed disposition of the \$3,348,686 debit balance, including interest to December 31, 2025, on a final basis for Group 1 accounts – which includes Accounts 1588 and 1589. However,

⁵ EB-2025-0232, 2026 Preliminary Uniform Transmission Rates and Hydro One Sub-Transmission Rates

OEB staff notes inconsistencies between Festival Hydro’s initial interrogatory responses and supplemental interrogatory responses regarding transition customers and Global Adjustment (GA) rate rider billing. Festival Hydro initially identified three transition customers as being impacted by GA rate rider changes, but later clarified that none of these customers were billed the GA rate rider. Instead, these customers were only charged their customer-specific GA and Capacity Based Recovery – Class B (CBR B) amounts. While these inconsistencies did not affect billing or calculations, they created confusion during the review process and underscore the need for clear and accurate responses.

OEB staff does not object to the disposition request of Accounts 1588 and 1589 in this application. OEB staff notes that the Account 1588 balance slightly exceeds the 1% reasonability test⁶, even after removing all reconciliation items and principal adjustments, while the Account 1589 balance meets the reasonability test. Although OEB staff does not object to the final disposition of these two accounts, OEB staff reminds Festival Hydro of the guidance outlined in the October 31, 2019 OEB letter⁷ on retroactive ratemaking, should any future adjustments arising pertain to the period in which the accounts are disposed of in this application.

OEB staff further submits that in its future rate applications, Festival Hydro should:

1. Provide a sufficient explanation in the pre-filed application and evidence for any process changes that affect the calculation or disposition of DVA balances.
2. Ensure thorough and accurate responses to interrogatories, particularly where billing determinants, account balances, or process changes are involved, and maintain consistency between pre-filed evidence and interrogatory responses.

Correction of Rate Rider Calculations for Previously Disposed Group 1 DVA Balance on a Final Basis

Background

In this application, Festival Hydro acknowledged that the DVA and GA rate riders approved in its 2024 IRM proceeding⁸ were not correctly calculated, resulting in a net debit amount of \$158,079 (reflecting a credit for the GA rate rider and a debit for the

⁶ Balances in Accounts 1588 and 1589 are compared to expected amounts based on consumption, billed rates, and IESO charges. Variances greater than $\pm 1\%$ of annual GA charges (Account 1589) or $\pm 1\%$ of annual power costs (Account 1588) must be explained through reconciling items or principal adjustments.

⁷ OEB Letter “Adjustments to Correct for Errors in Electricity Distributor “Pass-Through” Variance Accounts After Disposition”, October 31, 2019

⁸ EB-2023-0021

DVA rate rider). This issue arose because the macros embedded in the Rate Generator Model were not executed properly. Festival Hydro explained that due to cyber security restrictions, the macros which are essential for propagating approved inputs across the model, were disabled. As a result, although the final disposition amounts were correctly entered, they did not flow through to the rate rider calculation tabs, leading to discrepancies between the approved disposition amounts and the rates that appeared on the approved tariff sheet and were actually billed to customers – specifically, the GA rate rider (resulting in an overcharge to Non-RPP customers), and the DVA rate rider (resulting in an undercharge to all customers). On a net basis, Festival Hydro’s customers were undercharged by \$158,079 on account of the errors.

In its responses to OEB staff interrogatories⁹, Festival Hydro confirmed that it proposes to record the adjustment in Account 1595 (2024), and recover these amounts from ratepayers through a rate rider approved as part of this application. Any residual balance in Account 1595 (2024) will be disposed of in its 2030 rate application.

When questioned on impacts to GA transition customers,¹⁰ Festival Hydro confirmed that no transition customers were impacted. The initial mislabeling occurred only in interrogatory responses and did not affect billing or calculations. All transition customers were billed correctly for their customer-specific GA and CBR B amounts, with no duplicate charges.

OEB Staff Submission

OEB staff has reviewed Festival Hydro’s rate rider calculation correction and has verified that the amounts were derived using the rate riders approved in the final Decision and Rate Order, dated December 14, 2023, and applied when billing customers. This approach is reasonable because it reflects the rates actually charged, aligns with the OEB-approved Tariff of Rates and Charges, and is consistent with the OEB’s guidance on post-disposition adjustments. OEB staff further submits that Festival Hydro’s plan to record the adjustment in Account 1595 (2024) and dispose of the corrected residual balance in Account 1595 (2024) in 2030 is appropriate. This approach ensures the residual balance accurately reflects differences in billing determinants, consistent with the Filing Requirements¹¹, and the amounts approved for disposition in 2024 are ultimately recovered or refunded accurately.

OEB staff accepts Festival Hydro’s clarification regarding the transition customers, but asks that Festival Hydro confirm OEB staff’s understanding in its reply submission: the error was limited to the OEB staff interrogatory response¹² and did not affect billing or

⁹ Staff Interrogatory -9 c)

¹⁰ Staff Interrogatory -9 b)

¹¹ Chapter 3 Filing Requirement, June 19, 2025, Section 3.2.6.3 – Disposition of Account 1595

¹² Staff Interrogatory -9 c)

calculations.

Festival Hydro is seeking to recover amounts from a previous rate period that have already been disposed of through a Final Rate Order (i.e., the 2024 IRM proceeding in which the relevant rate riders were set). This is a form of retroactive rate making, which ordinarily is not permitted. However the OEB has provided guidance to the industry regarding circumstances in which it may permit retroactive adjustments through its letter “Adjustments to Correct for Errors in Electricity Distributor “Pass-Through” Variance Accounts After Disposition”, dated October 31, 2019. Although the improper rate riders were the result of errors made by Festival Hydro, OEB staff submits that it is appropriate in this case to allow for retroactive recovery.

OEB staff notes that the OEB has previously addressed a similar issue to that identified by Festival Hydro in this application. In ERTH Power Corporation’s 2024 IRM application¹³, a similar correction for incorrect rate riders was approved to resolve technological errors that prevented full recovery of approved GA balances. As a result, OEB staff submits that the same approach is appropriate for Festival Hydro. Further, the proposed approach is consistent with the guidance outlined in the OEB’s October 31, 2019 letter, which stipulates that any adjustments relating to prior periods must be accompanied by an assessment of the four factors outlined in that letter and addressed through established mechanisms, such as variance accounts.

~All of which is respectfully submitted~

¹³ EB-2023-0019