

PARTIAL DECISION AND ORDER

EB-2025-0030

Hydro One Networks Inc.

Application for rates and other charges to be effective January 1, 2026

BEFORE: **Vinay Sharma**
Presiding Commissioner

Damien A. Côté
Commissioner

Patrick Moran
Commissioner

December 17, 2025

1. OVERVIEW

The Ontario Energy Board (OEB) approves changes to the rates that Hydro One Networks Inc. charges to distribute electricity to its customers, effective January 1, 2026.

These changes do not factor in applicable taxes or the Ontario Electricity Rebate but include impacts resulting from the Distribution Rate Protection (DRP) program. The program has been in effect since July 2017, and currently caps monthly distribution charges at \$42.88.¹

The bill impacts also factor in the phasing in of the requirement to transition seasonal rate customers to the R2 residential class.² The phase-in requirement limits the total bill impacts to 10% per year for affected seasonal customers. As part of this bill impact, all R2 customers pay an increased volumetric rate that ensures recovery of the total revenue to be collected from the R2 class, including the revenue not covered by the lower monthly fixed charge to affected seasonal R2 customers.³

¹ Decision and Order, EB-2025-0133, Distribution Rate Protection, June 17, 2025

² Decision and Order, EB-2020-0246, November 10, 2021

³ *Ibid.*

2. CONTEXT AND PROCESS

Hydro One filed its application for 2026 distribution rates on August 29, 2025, under section 78 of the *Ontario Energy Board Act, 1998* (the OEB Act). The application was based on the Custom Incentive Rate-setting (Custom IR) option with a five-year term. This is the third annual application filed by Hydro One using the Custom IR methodology approved by the OEB in 2022, as described below.

In November 2022, the OEB approved a settlement proposal submitted on October 24, 2022 (and then updated on November 16, 2022), for a five-year Custom IR framework (Custom IR Decision) that covers the years 2023 to 2027.⁴ As part of the 2023-2027 Custom IR Decision, the OEB issued a final rate order establishing distribution rates for 2023. The distribution revenue requirement and the rates to recover it for subsequent years are to be adjusted mechanistically through a Custom Revenue Cap Index Adjustment formula as given in Section 5 of this Decision as the Custom Revenue Cap Index Adjustment.

The key components of Hydro One's Custom IR framework are:

- A custom revenue cap approach for adjusting rates for 2024-2027 (years two to five) of the five-year term
- A productivity factor of 0.45% to remain constant over the term of the plan
- A capital factor, reduced by a supplemental stretch factor on capital of 0.20%, 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
- A forecast of the number of customers and load by rate class for 2023-2027
- An earnings sharing mechanism (ESM) and access to the OEB's Z-factor mechanism
 - Hydro One is to bring any ESM balances for the years 2021-2024, to the extent that the ESM is triggered and there are balances required to be disposed of, for disposition as part of Hydro One's 2026 rate application
- Annual updates to Retail Transmission Service Rates
- No changes to its capital structure

The OEB follows a standardized and streamlined process for Custom IR update applications.

⁴ EB-2021-0110, Decision on Settlement Proposal and Order on Rates, Revenue Requirement and Charge Determinants, November 29, 2022.

Hydro One serves approximately 1.5 million distribution customers, primarily in the rural and remote areas of the province.

Notice of the application was issued on September 22, 2025. Consumers Council of Canada (CCC), Ontario Federation of Agriculture (OFA), School Energy Coalition (SEC), and Vulnerable Energy Consumers Coalition (VECC) requested intervenor status. CCC, SEC and VECC requested cost eligibility. The OEB approved CCC, OFA, SEC and VECC as intervenors and cost eligibility for CCC, SEC and VECC.

The application was supported by pre-filed written evidence and customized Excel models, and as required during the proceeding, Hydro One updated and clarified the evidence.

On October 31, 2025, Hydro One responded to interrogatories from OEB staff, CCC, SEC, and VECC. As part of its interrogatory responses, Hydro One requested confidential treatment in response to Interrogatory I-01-11, Interrogatory I-02-08, and Interrogatory I-05-13, pursuant to the OEB's *Practice Direction on Confidential Filings* (Practice Direction)⁵. OEB staff and the intervenors did not file any submissions regarding this confidentiality request.

Final submissions on the application were filed by OEB staff, CCC, SEC, VECC, and Hydro One.

⁵ Ontario Energy Board, Practice Direction on Confidential Filings, Revised February 17, 2021

3. DECISION OUTLINE

Each of the following issues is addressed in this Partial Decision and Order, together with the OEB's findings.

- Confidentiality
- Custom Revenue Cap Index Adjustment
- Annual Adjustment Mechanism
- Retail Transmission Service Rates
- Group 1 Deferral and Variance Accounts
- Group 2 Deferral and Variance Accounts
- Lost Revenue Adjustment Mechanism Eligible Amounts
- Wheeling Adjustments
- Retail Service and Specific Service Charges
- Z-factor

Instructions for implementing Hydro One's new rates and charges are set out in the final section of this Partial Decision and Order.

4. DECISION ON CONFIDENTIALITY

In the application, Hydro One requested confidential treatment of billing quantities⁶ for two Orillia Power Generation Corporation (OPGC) generation stations. Hydro One stated that this information is presumptively confidential under Appendix B, part 3 of the OEB's *Practice Direction on Confidential Filings* (Practice Direction)⁷, as information that would disclose load profiles, energy usage and billing information of a specific customer that is not personal information. More particularly, Hydro One submitted that disclosure could prejudice OPGC's economic interests and competitive position in future negotiations and reveal load profiles and energy usage of a specific customer. Hydro One submitted that this information should be protected under Appendix A (Considerations in Determining Requests for Confidentiality), parts (a) – potential harm that could result from the disclosure of the information; and (b) – whether the information consists of a trade secret or financial, commercial, scientific, or technical material that is consistently treated in a confidential manner by the person providing it to the OEB.

On October 31, 2025, Hydro One filed its interrogatory responses and requested confidential treatment of three interrogatory responses⁸ pursuant to the OEB's *Practice Direction on Confidential Filings*.

In response to Interrogatory I-01-11 part (a), Hydro One submitted hourly output data for two generation stations and stated that disclosure would reveal a specific customer's load profiles and energy usage, which is presumptively confidential under Appendix B, Part 3 of the Practice Direction and could prejudice OPGC's economic interest and competitive position when negotiating future agreements. In response to Interrogatory I-01-11 part (b), Hydro One sought confidentiality for system peak data, stating that disclosure could reveal load profile characteristics and prejudice Hydro One's competitive position and adversely affect Hydro One's competitive position during M&A activities. In response to Interrogatory I-01-11 part (c), Hydro One argued that providing generator output as a percentage of capacity could allow reverse engineering of individual generator outputs, which is presumptively confidential and could prejudice the competitive position of Swift Rapids GS and Minden GS when negotiating future agreements. Hydro One submitted that the three items should be protected under Appendix A, Parts (a) (i), (iii), (iv), and (b) of the Practice Direction.

⁶ Exhibit A-04-07, Table 1 and 2, Attachment 1-3

⁷ Ontario Energy Board, Practice Direction on Confidential Filings, Revised February 17, 2021

⁸ Hydro One Interrogatory Responses I-01-11, part (a)-(c); Hydro One Interrogatory Responses I-02-08; Hydro One Interrogatory Responses I-05-13

In response to Interrogatory I-02-08, Hydro One requested confidential treatment for its 2025 forecast Return of Equity stating that it is non-public and forward-looking financial information of a publicly traded company. Hydro One stated the information is commercially sensitive and presumptively confidential under Appendix B, Part 9 of the Practice Direction, as disclosure could create liability under Ontario securities law.

In response to Interrogatory I-05-13, Hydro One requested confidentiality for third-party and mutual aid partners' regular and overtime labour hours related to Z-factor. Hydro One stated that disclosure could reveal average hourly costs under its contracts, prejudicing future negotiations and collective bargaining, and potentially causing significant financial impacts. Hydro One submitted that this information should be confidential under Appendix A, Parts (a) (iii) and (iv) of the Practice Direction.

OEB staff and Intervenors did not provide submissions on the confidentiality request.

Findings

The OEB finds that the information that is the subject of Hydro One's confidentiality request will be maintained in confidence, with access subject to the provisions of section 6 of the Practice Direction. The OEB notes that no party to this proceeding filed any objection or contradictory evidence in this regard.

The OEB accepts Hydro One's request for confidentiality in respect of the billing quantities for the two OPGC generation stations. The OEB agrees with Hydro One's submission that information that would disclose load profiles and energy usage of specific customers is presumptively confidential under Appendix B, Part 3 of the Practice Direction, and that its disclosure could prejudice OPGC's economic interests and competitive position when negotiating future agreements. Similarly, with regard to the provision of generator output as a percentage of capacity, the OEB agrees that this could allow reverse engineering of individual generator outputs and could prejudice the competitive position of Swift Rapids GS and Minden GS when negotiating future agreements.

The OEB is also satisfied that disclosure of system peak data could reveal load profile characteristics and prejudice Hydro One's competitive position and adversely affect Hydro One's competitive position during M&A activities.

The OEB accepts Hydro One's request to treat confidentially the 2025 forecast Return on Equity as non-public and forward-looking financial information of a publicly traded company, the disclosure of which could give rise to liability under Ontario securities law. As Hydro One noted, information of this kind is considered presumptively confidential,

and as noted above, the OEB did not receive objections to the proposed confidential treatment of this or any other material included in the confidentiality request.

Finally, the OEB accepts Hydro One's request to treat the regular and overtime labour hours of third-party and mutual aid partners related to the Z-factor proposal as confidential. Such data related to third party and mutual aid partners is commercially sensitive. The OEB agrees with Hydro One that disclosure of this data could reveal average hourly costs under its contracts, potential impacting the third parties and prejudicing future negotiations and collective bargaining. No party to this application filed any objection or contradictory evidence in the above matter.

5. CUSTOM REVENUE CAP INDEX ADJUSTMENT – HYDRO ONE DISTRIBUTION

The OEB approved a five-year Custom IR plan with the revenue requirement to be adjusted annually through a custom revenue cap index (RCI). The approved formula for the Custom IR for the test year (t+1) is equal to the revenue in year t inflated by the RCI. Hydro One's approved custom RCI formula is $I - X + C$, where:

- **I** is the Inflation Factor, and is updated annually as determined by the OEB. The application reflects the 3.7% Inflation Factor for electricity distributors calculated by the OEB for 2026 applications, effective January 1, 2026.
- **X** is the Productivity Factor, that is equal to the sum of Hydro One's Custom Industry Total Factor Productivity measure and Hydro One's 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.

The components of the RCI adjustment formula are set out in Table 5.1. They result in a total RCI of 5.21%.

Table 5.1: 2026 Custom RCI by Component

Custom Revenue Cap Index by Component	2026
Inflation Factor ⁹ (I)	3.70%
Productivity Factor (X)	0.45%
Custom Capital Factor (C)	1.96%
Total RCI = I – X + C	5.21%

Hydro One's total revenue requirement for the 2026 rate year is then determined by applying the RCI of 5.21% to Hydro One's OEB-approved 2025 total revenue

⁹ OEB Letter, 2026 Inflation Parameters, June 11, 2025

requirement. The result is a 2026 total revenue requirement of \$1,991.2 million, as shown in Table 5.2.

Table 5.2: Hydro One's Total Revenue Requirement by Year

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

The 2025 load forecast approved in the Custom IR Decision,¹⁰ including the Acquired Utilities¹¹, by rate class is summarized in the following table:

Table 5.3: 2025 Load Forecast by Rate Class

Rate Classification	Number of Customers	GWh	kW
Distributed Generation – DGen	1,748	32	225,089
General Service Demand Billed – GSd	5,487	2,148	6,883,345
General Service Energy Billed – GSe	88,970	1,922	
Residential Medium Density – R1	557,928	5,106	
Residential Low Density – R2	421,733	4,729	
Sub Transmission – ST	931	15,050	30,763,864
Urban General Service Demand Billed – UGd	1,775	872	2,259,183
Urban General Service Energy Billed – UGe	18,720	537	
Residential Urban Density – UR	254,909	2,049	

¹⁰ EB-2021-0110, Decision on Settlement Proposal and Order on Rates, Revenue Requirement and Charge Determinants, November 29, 2022, Attachment 2, Schedule 2.0 pp. 1 – 3

¹¹ Norfolk Power Distribution Inc., Haldimand County Hydro Inc. and Woodstock Hydro Services Inc.

Street Lighting – STL	5,615	81	
Sentinel Lighting – Sen LGT	18,439	10	
Unmetered Scattered Load – USL	5,869	33	
Residential Acquired Mixed Density – AR	39,591	330	
Acquired Mixed Density General Service Energy Billed – AGSe	4,193	114	
Acquired Mixed Density General Service Demand Billed – AGSd	311	225	629,258
Residential Acquired Urban Density – AUR	15,690	120	
Acquired Urban Density General Service Energy Billed – AUGe	1,416	42	
Acquired Urban Density General Service Demand Billed – AUGd	208	119	334,742
Total	1,443,532	33,519	41,095,481

Findings

The OEB approves Hydro One's 2026 revenue requirement of \$1,991.2 M.

The OEB finds that the adjustment to revenue requirements under the Custom IR framework is in accordance with the parameters established by the OEB's approval of Hydro One's Custom IR plan in 2022.

6. ANNUAL ADJUSTMENT MECHANISM – ORILLIA AND PETERBOROUGH RATE ZONE

Hydro One has applied to change its rates for the Orillia and Peterborough Rate Zones, effective January 1, 2026. The proposed rate change is based on a mechanistic rate adjustment using the OEB-approved **inflation minus X-factor** formula applicable to IRM applications. The adjustment applies to distribution rates (fixed and variable) uniformly across all customer classes.¹²

The components of the Price Cap IR adjustment formula applicable to Hydro One's Orillia and Peterborough Rate Zones are set out in the tables below. Inserting these components into the formula results in a 3.40% increase to the Orillia Rate Zone's rates: **3.40% = 3.70% - (0.00% + 0.30%)**, and 3.25% increase to the Peterborough Rate Zone's rates: **3.25% = 3.70% - (0.00% + 0.45%)**.

Table 6.1: Orillia Rate Zone Price Cap IR Adjustment Formula

Components		Amount
Inflation factor ¹³		3.70%
Less: X-factor	Productivity factor ¹⁴	0.00%
	Stretch factor (0.00% to 0.60%) ¹⁵	0.30%

¹² The adjustment does not apply to the following components of delivery rates: rate riders, rate adders, low voltage service charges, retail transmission service rates, wholesale market service rate, smart metering entity charge, rural or remote electricity rate protection charge, standard supply service – administrative charge, transformation and primary metering allowances, loss factors, specific service charges (other than the Wireline Pole Attachment charge), and microFIT charge.

¹³ OEB Letter, 2026 Inflation Parameters, issued June 11, 2025

¹⁴ Report of the Ontario Energy Board – “Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario’s Electricity Distributors” EB-2010-0379, December 4, 2013

¹⁵ Report to the Ontario Energy Board – “Empirical Research in Support of Incentive Rate-Setting: 2024 Benchmarking Update”, prepared by Pacific Economics Group LLC., August 18, 2025

Table 6.2: Peterborough Rate Zone Price Cap IR Adjustment Formula

Components		Amount
Inflation factor ¹⁶		3.70%
Less: X-factor	Productivity factor ¹⁷	0.00%
	Stretch factor (0.00% to 0.60%) ¹⁸	0.45%

An inflation factor of 3.70% applies to all IRM applications for the 2026 rate year. The X-factor is the sum of the productivity factor and the stretch factor. It is a productivity offset that varies among different groupings of distributors. Subtracting the X-factor from inflation ensures that rates decline in real, constant-dollar terms, providing distributors with a tangible incentive to improve efficiency or else experience declining net income. The productivity component of the X-factor is based on industry conditions over a historical study period and applies to all IRM applications for the 2026 rate year. The stretch factor component of the X-factor is one of five stretch factor groupings established by the OEB, ranging from 0.00% to 0.60%. The stretch factor assigned to any distributor is based on the distributor's total cost performance as benchmarked against other distributors in Ontario.

The OEB previously found that the OEB's Price Cap Index formula would use an efficiency cohort factor of 0.30% for the Orillia Rate Zone¹⁹ and 0.45% factor for the Peterborough Rate Zone²⁰, to be applied for the period 2026 through 2030.

Findings

The OEB approves Hydro One's request for rate increases of 3.40% for the Orillia Rate Zone and 3.25% for the Peterborough Rate Zone, effective January 1, 2026. Hydro One's proposal is in accordance with the OEB's approval of the Price Cap IR adjustment formula for the Orillia and Peterborough Rate Zones.

¹⁶ OEB Letter, 2026 Inflation Parameters, issued June 11, 2025

¹⁷ Report of the Ontario Energy Board – "Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors" EB-2010-0379, December 4, 2013

¹⁸ Report to the Ontario Energy Board – "Empirical Research in Support of Incentive Rate-Setting: 2024 Benchmarking Update", prepared by Pacific Economics Group LLC., August 18, 2025

¹⁹ EB-2018-0279, Decision and Order, issued April 30, 2020

²⁰ EB-2018-0242, Decision and Order, Issued April 30, 2020

7. RETAIL TRANSMISSION SERVICE RATES

Hydro One is billed by the Independent Electricity System Operator (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. On October 9, 2025, the OEB announced preliminary UTRs effective January 1, 2026.²¹

Hydro One updated its RTSRs based on the preliminary UTRs. The OEB sets the UTRs based on the approved revenue requirements for multiple transmitters. Preliminary UTRs are based on those revenue requirements that have already been approved for 2026. These preliminary UTRs are to be used for the setting of RTSRs to minimize the accumulation of variances in Retail Settlement Variance Accounts 1584 (Retail Transmission Network Charge) and 1586 (Retail Transmission Connection Charge). The cost consequences of any future adjustments to 2026 UTRs to reflect remaining approvals to a transmitter's revenue requirement will be tracked in these accounts and recovered over time.

As a result of its proposed update of RTSRs for 2026, Hydro One also updated the proposed 2026 Sub Transmission (ST) rates, including high voltage distribution station (HVDS)-high charge, HVDS-low charge and the Common ST line charge to reflect the proposed 2026 ST RTSR for Transformation Connection.

On March 31, 2025, the OEB issued a report on the design of a new Electric Vehicle Charging Rate (EVC Rate), *Electric Vehicle Charging Rate Overview – Final Report*. The EVC Rate reduces the RTSRs that participating electric vehicle charging stations pay. The report requires electricity distributors to begin offering the EVC Rate to eligible customers in 2026, once their OEB-approved 2026 distribution rates become effective.

Findings

The OEB approves Hydro One's proposed 2026 RTSRs and ST rates for the Hydro One Distribution rate zone, as well as for the Orillia and Peterborough Rate Zones. Hydro One updated both the RTSRs and ST rates to reflect the preliminary 2026 UTRs set by the OEB on November 1, 2025.

In accordance with the OEB's March 31, 2025 report, Hydro will provide eligible electric vehicle charging station customers in all three subject rate zones with the option to elect the RTSRs on the basis of the EVC Rate.

²¹ EB-2025-0232, OEB Letter "2026 Preliminary Uniform Transmission Rates and Hydro One Sub-Transmission Rates", issued October 9, 2025

8. GROUP 1 DEFERRAL AND VARIANCE ACCOUNTS

In each year of an IRM (or Custom IR update) term, the OEB will review a distributor's Group 1 deferral and variance accounts (DVAs) to determine whether those balances should be disposed of. OEB policy states that Group 1 account balances should be disposed of if they exceed, on a net basis (as a debit or credit), a pre-set disposition threshold of \$0.001 per kWh, unless a distributor can justify why balances should not be disposed of.²² If the net balance does not exceed the threshold, a distributor may still request disposition.²³

The 2024 year-end net balance for Hydro One's consolidated Group 1 accounts eligible for disposition, including interest projected to December 31, 2025, is a credit of \$94.9 million, reflecting Hydro One Distribution, Chapleau, the Orillia Rate Zone, and the Peterborough Rate Zone. This credit amount of \$94.9 million pertains to variances accumulated during the 2023 and 2024 calendar years for Accounts 1588 and 1589 for Hydro One Distribution, the Orillia Rate Zone, and the Peterborough Rate Zone, as well as the balance in Account 1595 (2021), representing the 2021 rate year for Hydro One Distribution. This amount also pertains to variances accumulated during the 2024 calendar year for the remaining Group 1 DVA balances for Hydro One Distribution, the Orillia Rate Zone, and Peterborough Rate Zone, and includes 2023 and 2024 calendar year Group 1 DVA balances for Chapleau.

The credit amount of \$94.9 million represents total claims of the following \$ per kWh, which exceed the pre-set disposition threshold of \$0.001 per kWh:²⁴

- Hydro One Consolidated credit of \$0.002 / kWh
- Hydro One Distribution credit of \$0.002 / kWh
- Hydro One Orillia Rate Zone credit of \$0.005 / kWh
- Hydro One Peterborough Rate Zone credit of \$0.002 / kWh
- Hydro One Chapleau debit of \$0.003 / kWh

Hydro One has requested disposition of the credit amount of \$94.9 million over a one-year period on a final basis.

²² Report of the OEB – "Electricity Distributors' Deferral and Variance Account Review Initiative" (EDDVAR), EB-2008-0046, July 31, 2009

²³ OEB letter, "Update to the Electricity Distributors' Deferral and Variance Account Review ("EDDVAR Report"), released July 2009 (EB-2008-0046)", issued July 25, 2014

²⁴ Exhibit A, Tab 4, Schedule 5, Page 6, August 28, 2025

Included in the Group 1 accounts are certain variances related to costs that are paid for by a distributor's customers. Customers pay different costs, depending on their classification. "Class A" customers, who participate in the Industrial Conservation Initiative, pay for Global Adjustment (GA) charges based on their contribution to the five highest Ontario demand peaks over a one-year period. "Class B" customers pay for GA charges based on their monthly consumption, either as a standalone charge or embedded in the Regulated Price Plan (RPP).²⁵ A similar mechanism applies to Class A and Class B customers for Capacity Based Recovery (CBR) charges.²⁶ The balance in the GA variance account is attributable to non-RPP Class B customers and is disposed of through a separate rate rider. The balance in the CBR Class B variance account is attributable to all Class B customers.

Hydro One Distribution DVA Rate Design

Hydro One Distribution had one or more Class A customers during the period in which variances accumulated so it has applied to have the balance of the CBR Class B variance account disposed of through a separate rate rider for Class B customers to ensure proper allocation between Class A and Class B customers.

During the period in which variances accumulated, Hydro One Distribution had one or more customers transition between Class A and Class B. Under the general principle of cost causality, customer groups that cause variances that are recorded in Group 1 accounts should be responsible for paying the debits (or receiving credits) for their disposal. Hydro One Distribution has proposed to allocate a portion of the GA and CBR Class B balances to its transition customers, based on their customer-specific consumption levels.²⁷ The amounts allocated to each transition customer are proposed to be recovered/refunded by way of 12 equal monthly installments charges/payments.

Hydro One Orillia Rate Zone DVA Rate Design

Hydro One had one or more Class A customers in its Orillia Rate Zone during the period in which variances accumulated so it has applied to have the balance of the CBR Class B variance account disposed of through a separate rate rider for Class B customers to ensure proper allocation between Class A and Class B customers.

²⁵ For additional details on the Global Adjustment charge, refer to the Independent Electricity System Operator (IESO)'s [website](#).

²⁶ All Class B customers (RPP and non-RPP) pay the CBR as a separate charge based on their monthly consumption. For additional details on the CBR for Class A customers, refer to the IESO's [website](#).

²⁷ 2026 IRM Rate Generator Model, Tab 6.1a "GA Allocation" and Tab 6.2a "CBR B_Allocation"

Hydro One Peterborough Rate Zone DVA Rate Design

Hydro One had one or more Class A customers in its Peterborough Rate Zone during the period in which variances accumulated so it has applied to have the balance of the CBR Class B variance account disposed of through a separate rate rider for Class B customers to ensure proper allocation between Class A and Class B customers.

During the period in which variances accumulated, Hydro One had one or more customers transition between Class A and Class B in its Peterborough Rate Zone. Under the general principle of cost causality, customer groups that cause variances recorded in Group 1 accounts should be responsible for paying the debits (or receiving credits) for their disposal. In its Peterborough Rate Zone, Hydro One has proposed to allocate a portion of the GA and CBR Class B balances to its transition customers, based on their customer-specific consumption levels.²⁸ The amounts allocated to each transition customer are proposed to be recovered/refunded by way of 12 equal monthly installments charges/payments.

Hydro One Chapleau DVA Rate Design

Hydro One Chapleau did not have any Class A customers during the period in which variances accumulated so it has applied to have the balance of the CBR Class B account disposed of along with Account 1580 – Wholesale Market Service Charge through the general Deferral and Variance Account rate rider.

Internal Review and Accounts 1588 and 1589

In the OEB's decisions for Hydro One's 2025 rates,²⁹ 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 of Accounts 1588, 1589 and Account 1595 (2021) for all three Rate Zones (Hydro One Distribution, and the Orillia and Peterborough Rate Zones), with the results of the review to be filed in the current proceeding.³⁰

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.³¹ Hydro One met with OEB staff a

²⁸ 2026 IRM Rate Generator Model, Tab 6.1a "GA Allocation" and Tab 6.2a "CBR B_Allocation"

²⁹ EB-2024-0032, Decision and Order, December 11, 2024, p. 19; EB-2024-0033, Decision and Rate Order, December 19, 2024, p. 8

³⁰ EB-2024-0032, Decision and Order, December 11, 2024, p. 22

³¹ EB-2024-0032, Decision and Order, December 11, 2024, p. 19

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.³² Hydro One made no changes to these balances. 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 \$26,319,169.³³

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.

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.³⁴ This modified Commodity Accounts Analysis Workform was to be filed in interrogatory responses, but was not filed by Hydro One.³⁵

Regarding the accounts that underwent the Internal Review, Hydro One is requesting disposition of the following in the current proceeding:³⁶

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

³² Exhibit A-4-6 Attachment 1, August 28, 2025; Exhibit A-4-6 Attachment 2, August 28, 2025.

³³ 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.

³⁴ Exhibit A, Tab 4, Schedule 6, Page 7, August 28, 2025

³⁵ Exhibit I, Tab 1, Schedule 18, Page 1 & 2, October 31, 2025

³⁶ HONI_Dx_IRRs_I-01-12-01 (HONI Consolidated DVA Continuity)_20251031

Overall Submissions on DVAs

OEB staff supported the disposition of Hydro One's December 31, 2024 consolidated Group 1 DVAs on a final basis, except for Accounts 1588 and 1589. For Accounts 1588 and 1589, OEB staff supported disposition on an interim basis. OEB staff also recommended that Accounts 1588 and 1589 should be cleared using separate rate riders.

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 supported the OEB declaring these balances final in this proceeding.³⁷

Hydro One accepted these OEB staff submissions.

Submissions on Accounts 1588 and 1589

OEB staff submitted 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.

Hydro One did not oppose interim disposition of Accounts 1588 and 1589, until it is able to file a modified Commodity Accounts Analysis Workform to support final disposition of the commodity balances. Hydro One stated that it will comply with the OEB's direction in EB-2023-0030, and expects to resolve the current limitations through system enhancements and process changes in its next rebasing application expected for 2028 rates.

- *Use of "Plugs"*

OEB staff maintained 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).³⁸ OEB staff submitted 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.

³⁷ OEB Staff Submission, November 13, 2025, p. 9.

³⁸ Exhibit A-4-6, Attachment 1h, Page 2, August 28, 2025

Hydro One stated that it is unable to isolate separate reconciling items related to accrued revenue estimates without calendarized meter data.³⁹

- *Lack of Modified Commodity Accounts Analysis Workform*

OEB staff opposed 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.⁴⁰

In OEB staff's view, Hydro One would have been aware of certain limitations when previously agreeing to file a modified Commodity Accounts Analysis Workform in this proceeding. Therefore, OEB staff submitted that Hydro One's argument regarding why it could not file such a modified spreadsheet in this proceeding was not reasonable.

OEB staff submitted 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 submitted 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 Guidance⁴¹ on a prospective basis.⁴²

OEB staff noted 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.⁴³ OEB staff submitted 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.⁴⁴

³⁹ Hydro One Reply Submission, November 25, 2025, p. 6.

⁴⁰ OEB Staff Submission, November 13, 2025, p. 10.

⁴¹ 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.

⁴² 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.

⁴³ Exhibit A, Tab 4, Schedule 6, Page 1, August 28, 2025.

⁴⁴ OEB Staff Submission, November 13, 2025, p. 11.

Hydro One submitted that it should not be directed to identify reconciling items for any billing adjustments, IESO settlement adjustments, or other adjustments in the modified Commodity Accounts Analysis Workform, as it is normal for utilities to report on specific reconciling items that are deemed to be material on the Commodity Accounts Analysis Workform. Hydro One submitted that it is more appropriate to continue investigating the breakdown of these adjustments (where feasible) and report any material reconciling items. Hydro One noted that it had reviewed certain historical data and stated that any potential adjustments will be identified as reconciling items to the GA variance, if they have a significant impact.

Hydro One stated that it had made its best efforts to produce a modified Commodity Accounts Analysis Workform, but that it was unable to complete the appropriate level of verification and reviews within the timeframes of this proceeding. Hydro One noted that it had reviewed the data provided by its IT team, but determined that there was no readily available approach or IT solution to produce the calendarized data for this proceeding.

Hydro One stated that it prefers filing a modified Commodity Accounts Analysis Workform as part of its 2028 rebasing application.⁴⁵ Hydro One noted that this approach would allow parties to concurrently assess the plan to adopt the Accounting Guidance along with the modified Commodity Accounts Analysis Workform, streamlining the review of the workform in one rate proceeding, rather than two adjacent proceedings.

- *Adoption of Accounting Guidance*

Although OEB staff agreed with Hydro One that the OEB's direction in EB-2023-0030 was for adoption on a prospective basis, OEB staff was of the view that 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 submitted that the OEB should dispose of the Account 1588 and 1589 balances on an interim basis at this time. OEB staff submitted that a benefit of interim disposition is reducing the risk of intergenerational inequity issues, as well as the risk of an asymmetrical approach to the retroactive correction of any adjustments to DVA balances that may be approved on a final basis.

Hydro One stated that it intends to meet with OEB staff in 2026 to: (i) confirm the approach to calendarize the data prior to implementation, and (ii) inform and validate the approach to develop the modified Commodity Accounts Analysis Workform.

⁴⁵ Hydro One Reply Submission, November 25, 2025, p. 8.

Hydro One reiterated that it did not take issue with the interim disposition of Accounts 1588 and 1589. However, Hydro One noted that reproducing the 2023 and 2024 GA reasonability tests using calendarized data in the modified Commodity Accounts Analysis Workform departs from the OEB's direction to adopt the Accounting Guidance on a prospective basis.

Submissions on 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.⁴⁶ OEB staff submitted that it would be appropriate to generate a separate rate rider for Hydro One Distribution's Account 1595 (2021) in the current proceeding.

Hydro One stated that the establishment of a separate rider for Account 1595 (2021) is not required and provided reasons. One key reason was that the incremental effort associated with creating separate rate riders would result in regulatory inefficiencies.⁴⁷

Findings

The balances proposed for disposition reconcile with the amounts reported as part of the OEB's *Electricity Reporting and Record-Keeping Requirements*.

The OEB approves the disposition of a credit balance of \$94,863,881 as of December 31, 2024, for Hydro One Consolidated, including interest projected to December 31, 2025, for Group 1 accounts on a final basis, except for Accounts 1588 and 1589. The 2023 and 2024 balances related to Accounts 1588 and 1589 are approved on an interim basis. The OEB also approves on a final basis the December 31, 2023 balances that were previously disposed on an interim basis in Hydro One's 2025 rates proceedings.⁴⁸

⁴⁶ Exhibit A, Tab 4, Schedule 6, Page 3, August 28, 2025; Exhibit A-4-6, Attachment 2, Page 2, August 28, 2025.

⁴⁷ Hydro One Reply Submission, November 25, 2025, pp. 9 & 10. Other reasons cited by Hydro One were that:

- Account 1595 balances are typically included in the disposition of Group 1 DVA balances through the "general" Group 1 DVA rate rider, unless a specific circumstance warrants a different approach.
- The approach used for Accounts 1588 and 1589 is not comparable to Account 1595 (2021).
- Significant time and testing procedures are required to set up new rate riders. There is a risk that any additional rate riders will not be implemented by January 1, 2026.

⁴⁸ EB-2024-0032, Decision and Order, December 11, 2024, p. 23; EB-2024-0033, Decision and Rate Order, December 19, 2024, p. 9

The OEB approves the disposition of the Account 1588 and 1589 balances on an interim basis using separate rate riders for each account. The OEB agrees with OEB staff that interim approval mitigates the intergenerational equity impacts and the risk of an asymmetrical approach to the future correction of any adjustments to DVA balances that may have been approved on a final basis.

The OEB directs Hydro One to file the modified Commodity Accounts Analysis Workform and finds that this requirement does not depart from the Accounting Guidance on a prospective basis. Hydro One was able to produce a Commodity Accounts Analysis Workform but without the appropriate level of review and verification due to the challenges of calendarizing the data. Hydro One shall file the modified Commodity Accounts Analysis Workform with the 2027 CIR application, also including the breakdown of separate reconciling items for any billing adjustments, IESO settlement adjustments, or other adjustments. Hydro One shall ensure data verification on a best efforts basis.

Disposition of all other Group 1 DVAs (i.e., other than Accounts 1588 and 1589) is approved on a final basis, including Account 1595 (2021). The OEB finds it appropriate to consolidate all the DVAs being disposed on a final basis in the general Group 1 DVA rate rider.

Table 8.1, Table 8.2, Table 8.3, Table 8.4, and Table 8.5 identify the principal and interest amounts, which the OEB approves for disposition for Hydro One Consolidated, Distribution, Chapleau, the Orillia Rate Zone, and the Peterborough Rate Zone, respectively.

Table 8.1 – Group 1 DVA Consolidated Account Balances (including Hydro One Distribution, Orillia Rate Zone, Peterborough Rate Zone, and 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	2,276,944	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 8.2 – Group 1 DVA Account Balances 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)

Table 8.3 – Group 1 DVA Account Balances 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 8.4 – Group 1 DVA Account Balances for Orillia Rate Zone

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		(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 8.5 – Group 1 DVA Account Balances for Peterborough Rate Zone

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	(12,73)	(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)

The balance of each of the Group 1 accounts approved for disposition shall be transferred to the applicable principal and interest carrying charge sub-accounts of Account 1595. Such transfer shall be pursuant to the requirements specified in the *Accounting Procedures Handbook for Electricity Distributors*.⁴⁹ The date of the transfer must be the same as the effective date for the associated rates, which is generally the start of the rate year.

The OEB approves these balances to be disposed of through interim and final rate riders, charges, or payments, as calculated in the Rate Generator Models, based on the findings above. The interim and final rate riders, charges, and payments, as applicable, will be in effect over a one-year period from January 1, 2026 to December 31, 2026.⁵⁰

⁴⁹ Article 220, Account Descriptions, *Accounting Procedures Handbook for Electricity Distributors*, effective January 1, 2012

⁵⁰ 2026 IRM Rate Generator Model Tab 6.1 GA, Tab 6.1a GA Allocation, Tab 6.2 CBR B, Tab 6.2a CBR B_Allocation and Tab 7 Calculation of Def-Var RR

9. GROUP 2 DEFERRAL AND VARIANCE ACCOUNTS

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, 2025.⁵¹ Hydro One is requesting the disposition of this balance over a 12-month period, beginning January 1, 2026, on a final basis.⁵²

The Hydro One Distribution 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 that under-earnings are not recorded. In accordance with the OEB's Custom IR Decision, Hydro One Distribution is requesting disposition of the ESM balances for 2021-2024 in the current proceeding.⁵³

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.⁵⁴ The 2020 ESM balance was disposed of on a final basis in the Custom IR Decision.⁵⁵

OEB staff noted 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. This is in accordance with the OEB's October 31, 2019 Letter⁵⁶ on correcting for retroactive adjustments.

Hydro One noted in its pre-filed evidence that the October 31, 2019 OEB Letter⁵⁷ does not apply in this instance, 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.⁵⁸

⁵¹ HONI A-05-01_01_Gr 2 Dx DVA_ESM Continuity_20250911_v2

⁵² Exhibit A, Tab 2, Schedule 1, Page 2 & 3, August 28, 2025.

⁵³ EB-2021-0110, Decision and Order, November 29, 2022, Settlement Proposal, Pages 13 & 26, October 24, 2022.

⁵⁴ Exhibit A, Tab 5, Schedule 1, Page 1, August 28, 2025.

⁵⁵ EB-2021-0110, Decision and Order, November 29, 2022, Settlement Proposal, Page 47, October 24, 2022.

⁵⁶ OEB Letter, Adjustments to Correct for Errors in Electricity Distributor "Pass-Through" Variance Accounts After Disposition, October 31, 2019

⁵⁷ OEB Letter, Adjustments to Correct for Errors in Electricity Distributor "Pass-Through" Variance Accounts After Disposition, October 31, 2019

⁵⁸ Exhibit A, Tab 5, Schedule 1, Page 6, August 28, 2025

OEB staff supported Hydro One's request to dispose of its ESM credit balance of \$66,768,985, on a final basis.

OEB staff did not take issue with the retroactive adjustment of a material credit of \$2.2 million that was incorporated into the credit balance of \$66,768,985. OEB staff agreed 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, particularly since it is to the benefit of customers. OEB staff submitted that Hydro One's proposed refund to its customers in this proceeding is appropriate. OEB staff also noted that in Hydro One's decision on 2025 rates, the OEB allowed certain retroactive adjustments.⁵⁹

Hydro One accepted OEB staff's submissions on the disposition of ESM balances for the 2021-2024 period, as well as the retroactive adjustment to the ESM balance of \$2.2 million (relating to the 2020 balance), on a final basis.

Findings

The OEB approves the disposition of ESM balances for the period 2021-2024, representing a total credit of \$66,768,985, on a final basis.

The total includes a credit of \$2.2 M for 2020 which was identified in 2021. As noted above, the 2020 ESM balance was disposed of on a final basis in the Custom IR decision. Given that the amount represents a credit to customers, the OEB finds the retroactive disposition appropriate. The circumstances surrounding the request are consistent with those contemplated in the OEB's letter of October 31, 2019 on correcting for retroactive adjustments. While this letter pertained to the Group 1 DVAs, Hydro One submitted that the criteria in the letter were suitable for the proposed adjustment.

⁵⁹ EB-2024-0032, Decision and Order, December 11, 2024, pp. 27 & 28

10. LOST REVENUE ADJUSTMENT MECHANISM VARIANCE ACCOUNT

The OEB has historically used a Lost Revenue Adjustment Mechanism (LRAM) Variance Account (LRAMVA) to capture implications for a distributor's revenues which arise from differences between actual and forecast Conservation and Demand Management (CDM) savings included in its last OEB-approved load forecast. The use of the LRAMVA is no longer the default approach for CDM activities. The OEB has issued guidelines to electricity distributors related to non-wires solutions.⁶⁰ In accordance with these guidelines, a distributor may request the use of an LRAMVA for distribution-rate funded non-wires solutions, and this may include traditional CDM activities or Local Initiatives Program activities, with need to be determined on a case-by-case basis.

Distributors delivered CDM programs to their customers through the Conservation First Framework (CFF) that began on January 1, 2015 and ran until March 20, 2019, when the CFF was revoked.⁶¹

Distributors that do not have a confirmed zero balance in the LRAMVA are required to seek disposition as part of their IRM application, with supporting information, or provide a rationale for not doing so.⁶²

Distributors are also eligible to make an LRAMVA request relating to persisting impacts of conservation programs until their next rebasing. The OEB previously provided direction for distributors to seek approval of LRAM-eligible amounts for 2023 onward on a prospective basis, and a rate rider in the corresponding rate year, to address amounts that would otherwise be recorded in the LRAMVA for all years until their next rebasing application.⁶³

The Orillia Rate Zone and Peterborough Rate Zone had LRAM-eligible amounts for future years approved on a prospective basis in a previous year. For the 2026 rate year, the rate zones were approved for prospective LRAM-eligible results in the amounts of \$30,049 for the Orillia Rate Zone and \$32,867 for the Peterborough Rate Zone in 2025 dollars.⁶⁴ Prospective LRAM amounts are to be adjusted mechanistically by the approved inflation minus X-factor applicable to IRM applications in effect for a given

⁶⁰ *Non-Wires Solutions Guidelines for Electricity Distributors*, March 28, 2024

⁶¹ On March 20, 2019, the Minister of Energy, Northern Development and Mines (now the Minister of Energy and Mines) issued separate Directives to the OEB and the IESO.

⁶² Chapter 3 Filing Requirements, section 3.2.7.1

⁶³ EB-2021-0106, *Conservation and Demand Management Guidelines for Electricity Distributors*, December 20, 2021, p. 27

⁶⁴ EB-2024-0033, *Decision and Order*, December 19, 2024

year and recovered through a rate rider in the corresponding rate year.⁶⁵ Applying the approved 2026 inflation minus X-factor adjustments to the previously approved prospective balances for the 2026 rate year, results in an amount of \$31,071 for the Orillia Rate Zone and \$33,935 for the Peterborough Rate Zone.⁶⁶

Findings

The OEB approves the disposition of the mechanistically adjusted LRAM-eligible amounts for the 2026 rate year of \$31,071 for the Orillia Rate Zone and \$33,935 for the Peterborough Rate Zone.⁶⁷ The OEB also confirms the previously approved LRAM-eligible amounts, which have been mechanistically adjusted to 2026 dollars by applying the approved inflation minus X-factor, as set out in Tables 10.1 and 10.2 below.⁶⁸

Table 10.1 LRAM-Eligible Amounts for Prospective Disposition (Orillia Rate Zone)

Year	LRAM-Eligible Amount (in 2025\$)	LRAM-Eligible Amount (in 2026\$) ⁶⁹
2027	23,815	24,625
2028	19,035	19,682
2029	12,846	13,283

Table 10.2 LRAM-Eligible Amounts for Prospective Disposition (Peterborough Rate Zone)

Year	LRAM-Eligible Amount (in 2025\$)	LRAM-Eligible Amount (in 2026\$) ⁷⁰
2027	6,724	6,943
2028	(12,602)	(13,012)
2029	(34,351)	(35,467)

⁶⁵ Chapter 3 Filing Requirements, section 3.2.7.1

⁶⁶ Calculated as: (previously approved 2026 LRAM-eligible amount in 2025 dollars) x (2026 approved inflation minus X-factor).

⁶⁷ Calculated as: (previously approved 2026 LRAM-eligible amount in 2025 dollars) x (2026 approved inflation minus X-factor).

⁶⁸ EB-2024-0033, Decision and Order, December 19, 2024

⁶⁹ Calculated as: (approved LRAM-eligible amount for a given rate year in 2025 dollars) x (2026 approved inflation minus X-factor).

⁷⁰ Calculated as: (approved LRAM-eligible amount for a given rate year in 2025 dollars) x (2026 approved inflation minus X-factor).

11. Wheeling Adjustments

In Hydro One's application for 2025 rates⁷¹, it requested approval to recover and allocate credits in accordance with Wheeling Agreements related to two OPGC generation stations, Swift Rapids GS and Minden GS, embedded in Hydro One's distribution system. As stated in the 2025 Application, these amounts are for the years 2021-2023 and will result in a credit to the Orillia Rate Zone and a corresponding debit to the Hydro One Distribution Rate Zone (Wheeling Amounts). Hydro One stated that the original Wheeling Agreements were established in the early 1990's, between Ontario Hydro (now Hydro One) and the Orillia Water, Light, and Power Commission. These agreements were later amended to reflect changes in ownership and operational structures, transitioning from Ontario Hydro to Hydro One Networks and from the Orillia Water, Light, and Power Commission to OPGC and Orillia Power Distribution Corporation (OPDC). These agreements were further amended following a share purchase agreement in 2016, where Hydro One acquired OPDC. The Wheeling Amounts include an RTSR and WMSC amount and affect RSVA accounts 1580, 1584, and 1586.

In the Decision on Hydro One's 2025 rates⁷², the OEB permitted the Wheeling Adjustments for the year 2021-2023 on an interim basis and directed Hydro One to address 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. First, Hydro One did not provide evidence to support its claim, aside from an unverified statement that post-2016 billing quantities aligned with those in the existing Wheeling Agreements. Second, the OEB was unclear as to how Hydro One determined the billing quantities, given that it removed the necessary measurement facilities after integrating OPDC and had not updated billing quantities in the amended Wheeling Agreements since 2016. Finally, the OEB was 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 the OEB's direction and concerns, Hydro One provided 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 in the current application. 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 stated that the RTSR billing quantities

⁷¹ EB-2024-0032

⁷² EB-2024-0032, Decision and Rate Order, December 11, 2024, p. 27

stipulated and agreed upon by both parties in the Wheeling Agreement continue to be appropriate. Hydro One requested that the 2021-2023 balances previously approved on an interim basis be approved on a final basis.

In response to an OEB staff interrogatory⁷³, Hydro One 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 arise in the future, Hydro One will initiate discussions with OPGC to explore options to amend these Wheeling Agreements in accordance with the provisions contained therein.

Hydro One also seeks approval for 2024 Wheeling Adjustments as part of the application. The table below summarizes the Wheeling Adjustments in the allocation of 2024 transactions, and 2021 to 2023 Wheeling Adjustments which remain the same as in the 2025 Application.

Table 11.1: 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

⁷³ Hydro One Interrogatory Responses I-01-10 (a)

In its submission, OEB staff supported the disposition of 2021-2023 Wheeling Adjustments, and 2024 Wheeling Adjustments on a final basis. OEB staff considered Hydro One's calculation of 2021–2023 RTSR benefits, based on average monthly billing quantities from 2016–2021, to be reasonable. The 1.95% variance between deemed and actual billing quantities confirms that any discrepancy is immaterial. OEB staff submitted that Hydro One has addressed the direction and concerns from the 2025 Decision.

Intervenors did not make any submissions on Wheeling Adjustments.

Findings

The OEB approves the disposition of 2021-2023 Wheeling Adjustments on final basis. The 2021-2023 Wheeling Adjustments were previously disposed of on an interim basis in Hydro One's 2025 rates.

The OEB accepts the staff submission that Hydro One's calculation of 2021-2023 RTSR benefits based on average monthly billing quantities (as opposed to using actual monthly billing quantities) to be materially appropriate.

The OEB also approves the 2024 Wheeling Adjustments for disposition on a final basis.

12. RETAIL SERVICE AND SPECIFIC SERVICE CHARGES

The OEB issued a report on energy Retail Service Charges (RSCs) on November 29, 2018. This report amended the RSCs effective May 1, 2019 and provided for increases by the OEB's inflation factor on January 1 of each year starting on January 1, 2020. On June 19, 2025, the OEB issued a decision establishing the 2026 RSCs, effective January 1, 2026.⁷⁴ Hydro One's 2026 Tariff of Rates and Charges has not reflected the new RSCs.

Specific service charges (SSCs) are charges for certain extra miscellaneous services such as special meter reads, late payment interest and reconnections. In the settlement proposal approved in the Custom IR Decision, the parties agreed that Hydro One would maintain its SSCs at 2022 levels for the 2023-2027 period. Accordingly, Hydro One has not updated the SSCs for 2026.⁷⁵ The SSCs approved in the Custom IR Decision are maintained in the 2026 Tariff of Rates and Charges.

The OEB issued a decision to establish the 2026 Wireline Pole Attachment Charge, effective January 1, 2026.⁷⁶ Hydro One's proposed 2026 Tariff of Rates and Charges does not reflect the new charge of \$40.59 per attachment, per year, per pole.

Findings

The OEB finds that the maintenance of Hydro One's SSCs as established pursuant to the Custom IR Decision is consistent with the settlement proposal approved in the Custom IR Decision.

Hydro One is directed to apply the OEB-approved 2026 RSCs and Wireline Pole Attachment Charge. The OEB directs Hydro One to update the 2026 Tariff of Rates and Charges with the OEB-approved RSCs and the Wireline Pole Power Attachment Charge.

⁷⁴ EB-2025-0199 Decision and Order, June 19, 2025

⁷⁵ EB-2021-0110 Decision and Order, November 29, 2022 – the OEB-approved settlement proposal is part of, Schedule A to the Decision and Order, and the provision regarding maintenance of SSCs at 2022 levels for the 2023-2027 period is at p. 104 of 117.

⁷⁶ EB-2025-0200 Decision and Order, June 19, 2025

13. Z-factor

As part of its application, Hydro One submitted a Z-factor claim of \$69.4 Million to recover costs incurred in restoring services due to severe freezing rain and ice accumulation impacting Hydro One's distribution system in early 2025.

Findings

The OEB has decided not to issue a determination on the Z-factor with this Partial Decision and Order. A decision regarding the Z-factor claim will be issued in early 2026.

14. IMPLEMENTATION

Pursuant to the approval by the OEB of this Decision and Rate Order, the new rates are effective January 1, 2026 and to be implemented on January 1, 2026.

The Tariff of Rates and Charges for each Rate Zone incorporates the rates set out in the following table.

Table 14.1: Regulatory Rates and Charges

Rates	per kWh (\$)
Rural or Remote Electricity Rate Protection (RRRP)	0.0006
Wholesale Market Service (WMS) billed to Class A and B Customers	0.0041
Capacity Based Recovery (CBR) billed to Class B Customers	0.0006

Each of the rates is a component of the “Regulatory Charge” on a customer’s bill and established separately by the OEB. The RRRP and WMS rates were set by the OEB on December 11, 2025.⁷⁷

The Smart Metering Entity Charge is a component of the “Distribution Charge” on a customer’s bill, established by the OEB through a separate order. The Smart Metering Entity Charge was set by the OEB on September 8, 2022.⁷⁸

In the *Report of the Board: Review of Electricity Distribution Cost Allocation Policy*,⁷⁹ the OEB indicated that it will review the default province-wide microFIT charge annually to ensure it continues to reflect actual costs in accordance with the established methodology. On November 27, 2025, the OEB issued a letter advising electricity distributors that the microFIT charge shall be \$5.00 for the duration of the 2026 rate year (January 1 to December 31, 2026).⁸⁰

⁷⁷ EB-2025-0299, Decision and Order, December 11, 2025

⁷⁸ EB-2022-0137, Decision and Order, September 8, 2022

⁷⁹ EB-2010-0219, Report of the Board “Review of Electricity Distribution Cost Allocation Policy”, March 31, 2011

⁸⁰ OEB Letter, “Review of Fixed Monthly Charge for microFIT Generator Service Classification”, issued November 27, 2025

15. ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. Hydro One Networks Inc. shall file with the OEB and forward to intervenors a draft Rate Order with a proposed Tariff of Rates and Charges attached for each Rate Zone that reflects the OEB's findings in this Partial Decision and Order, no later than December 19, 2025. Hydro One Networks Inc. shall also include customer rate impacts and detailed information in support of the calculation of final rates in the Draft Rate Order.
2. Intervenors and OEB staff shall file any comments on the Draft Rate Order with the OEB, and forward to Hydro One Networks Inc., no later than December 22, 2025.
3. Hydro One Networks Inc. shall file with the OEB, and forward to intervenors, responses to any comments on its Draft Rate Order no later than December 23, 2025.

Parties are responsible for ensuring that any documents they file with the OEB, such as applicant and intervenor evidence, interrogatories and responses to interrogatories or any other type of document, **do not include personal information** (as that phrase is defined in the *Freedom of Information and Protection of Privacy Act*), unless filed in accordance with rule 9A of the OEB's [Rules of Practice and Procedure](#).

Please quote file number, **EB-2025-0030** for all materials filed and submit them in searchable/unrestricted PDF format with a digital signature through the [OEB's online filing portal](#).

- Filings should clearly state the sender's name, postal address, telephone number and e-mail address.
- Please use the document naming conventions and document submission standards outlined in the [Regulatory Electronic Submission System \(RESS\) Document Guidelines](#) found at the [File documents online page](#) on the OEB's website.
- Parties are encouraged to use RESS. Those who have not yet [set up an account](#), or require assistance using the online filing portal can contact registrar@oeb.ca for assistance.

- Cost claims are filed through the OEB's online filing portal. Please visit the [File documents online page](#) of the OEB's website for more information. All participants shall download a copy of their submitted cost claim and serve it on all required parties as per the [Practice Direction on Cost Awards](#).

All communications should be directed to the attention of the Registrar and be received by end of business, 4:45 p.m., on the required date.

With respect to distribution lists for all electronic correspondence and materials related to this proceeding, parties must include the Case Manager, Lizzie Zhang, at Lizzie.Zhang@oeb.ca, and OEB Counsel, James Sidlofsky, at James.Sidlofsky@oeb.ca.

Email: registrar@oeb.ca

Tel: 1-877-632-2727 (Toll free)

DATED at Toronto, December 17, 2025

ONTARIO ENERGY BOARD

Ritchie Murray
Acting Registrar