OEB Staff-1

Ref: Rate Generator Model, Tab 3, Continuity Schedule

Preamble:

On September 14, 2026, the OEB published Q4 2026 prescribed accounting interest rates applicable to the carrying charges of deferral, variance and construction work in progress (CWIP) accounts of natural gas utilities, electricity distributors and other rate-regulated entities.

Question(s):

a) Please update Tab 3 (Continuity Schedule) as necessary to reflect the Q4 2026 OEB-prescribed interest rate of 2.87%.

HHI response: Tab 3 has been updated with the rate of 2.87% for the fourth quarter.

OEB Staff-2

Ref: OEB Accounting Guidance Related to Commodity Pass-Through Accounts 1588 & 1589 (Accounting Guidance), April 28, 2025

Ref: Updated Illustrative Commodity Model, April 28, 2025

Preamble:

The OEB issued final updates to the Accounting Guidance and the updated illustrative Commodity Model related to the implementation of the Independent Electricity System Operator (IESO)'s Market Renewal Program (MRP), effective May 1, 2025. Page 11 of Reference 1 states that:

In Tab "Variances in ac 1588" of the updated Illustrative Commodity Model, two new tables are added to quantify the energy variances that are included in Account 1588 for records-keeping purposes. While the quantification tables are not required to be filed with the OEB at this time, these tables assist the distributors in explaining the 1% threshold test in Account 1588.

Reference 2 introduced two new reconciliation tables under the "Variances in ac 1588" tab to quantify energy cost variances arising from the implementation of MR. In Page 11 of Reference 1, the OEB stated that these tables are intended for record-keeping purposes and are not required to be filed with the OEB. However, these two reconciliation tables may assist the distributors in explaining the 1% threshold test in Account 1588 where applicable.

Question(s):

a) Has Hydro Hawkesbury utilized Table 42 and/or 43 of Ref. 2 to track or quantify the MRP-related energy variances recorded in Account 1588?

i. If so, please explain whether the variances recorded in Table 42 and Table 43 were material in 2025, respectively. Please provide the corresponding quantum of the variances if the variance(s) are material.

ii. If not, please explain why not.

HHI response:

i. N/A

ii. HHI has not utilized Tables 42 and/or 43 to quantify the MRP-related energy variance recorded in Account 1588.

Given that the remaining difference is below the 1% threshold, HHI considers the variance immaterial and does not believe that further analysis using Tables 42 and 43 is warranted at this time.

HHI currently uses external accounting support to assist with the account 1588 reconciliation, and any additional analysis results in additional costs. Over the next year, HHI will look at incorporating Tables 42 and 43 into its reconciliation process so that, if this information is required going forward, it can be included in next year's reconciliation.

OEB Staff-3

Question(s):

a) In the instance the OEB releases any updated rates/charges (e.g., 2027 preliminary Uniform Transmission Rates) before Hydro Hawkesbury provides its responses to OEB staff's questions, please update the Rate Generator Model, as applicable. If any updates are made, please identify the rate and/or charge that have been updated.

HHI response: HHI commits to updating the UTR or HONI should they be published before the decision is issued.

OEB Staff-4

Ref: Managers Summary Pages 20-22

Preamble:

Hydro Hawkesbury's achieved Return On Equity (ROE) of 19.03% is 978 basis points higher than the deemed ROE of 9.25%, and 678 basis points above the threshold. Hydro Hawkesbury noted in its Manager's Summary that the reason for the over-earning in 2025 was largely driven by an unusually low level of Operating, Maintenance and Administration ($307,000 less than forecasted) expenditures during a period of management absence and transition. Hydro Hawkesbury also noted that a portion of the related work was deferred rather than eliminated, and that it does not consider the 2025 results to be indicative of its expected earnings on an ongoing basis.

Question(s):

a) Please provide a forecasted ROE for 2026.

b) Please provide a copy of the 2025 RRR 2.1.5.6 that was filed.

c) Please explain whether the employee's absence (i.e. was the employee paid during their sick leave) has impacted the OM&A in 2025. If so, please quantify the amount based on the actual data and provide a breakdown of the expenditures.

HHI response:

a) Hydro Hawkesbury is not currently in a position to provide a reliable forecasted ROE for 2026. At this stage of the year, a number of supplier invoices remain outstanding and year-end accounting entries and adjustments have not yet been completed. These items could have a material impact on the final 2026 results.

   Based on the information currently available, Hydro Hawkesbury expects that its 2026 ROE will be somewhat above the Board-approved ROE of 9.25%. However, given the outstanding invoices and year-end adjustments noted above, Hydro Hawkesbury does not believe that providing a specific ROE estimate at this time would result in a sufficiently reliable forecast.

b) Filed with these responses

c) Hydro Hawkesbury would like to clarify that the lower OM&A expenditures in 2025 were not primarily the result of reduced salary costs associated with the General Manager's absence.

   Hydro Hawkesbury is a small utility with only two members of its executive team. The General Manager is responsible for coordinating and overseeing a significant portion of the utility's capital, operating and maintenance activities. During the (now retired) General Manager's absence, a number of planned activities and related expenditures were deferred because the work could not be coordinated and completed as originally anticipated.

   Accordingly, the impact on 2025 OM&A resulted primarily from planned work not being undertaken, and the associated costs therefore not being incurred, rather than from savings in employee compensation. As noted in the Manager's Summary, this work was deferred rather than eliminated and Hydro Hawkesbury does not consider the resulting 2025 OM&A level to be representative of its ongoing operating requirements.

OEB Staff-5

Ref: Manager's Summary, Pages 20-22

Ref: Chapter 3 of 2027 Filing Requirements, Pages 18-19

Preamble:

Chapter 3 of the Filings Requirements for Electricity Distributor Rate Applications states that a distributor whose earnings exceed the 300 basis points dead band is expected to refrain from seeking an adjustment to base rates through the Price Cap IR or Annual IR Index method. If a distributor whose earnings exceed the dead band nevertheless applies for such an adjustment, the OEB expects it to substantiate its reasons for doing so.

A distributor is expected to file its achieved regulated ROE as reported in RRR 2.1.5.6. If the distributor considers that its achieved ROE has been affected by out-of-period or other items (e.g., non-recurring items), it may propose adjustments to normalize its achieved regulated ROE consideration by the OEB. The distributor should anticipate that the level of earnings may be raised as an issue in the proceeding.

Hydro Hawkesbury states that the primary reason for the over-earning was attributable to temporary circumstances that arose in 2025 and are not reflective of the utility's normal operating requirements or expected future earnings. Hydro Hawkesbury continues to seek a price-cap adjustment.

Question(s):

a) Please explain further why Hydro Hawkesbury should be eligible for a price-cap adjustment.

b) Please explain the impact on Hydro Hawkesbury's distribution system plan and any other impacts if the price cap adjustment is not approved by the OEB.

c) Please file a proposal to normalize Hydro Hawkesbury's ROE.

HHI response:

a) Hydro Hawkesbury was aware when it filed the application that its 2025 ROE would be above the OEB's 300 basis point threshold. That is why the application included a detailed explanation of what happened in 2025 and why Hydro Hawkesbury does not believe that year is representative of its normal operations or expected earnings going forward.

Had Hydro Hawkesbury believed that the 2025 result reflected an ongoing level of earnings, it would not have applied for a Price Cap IR adjustment.

As explained in the Manager's Summary, the higher ROE was largely the result of unusually low OM&A spending during a period of management absence and transition. A portion of the work that would normally have been completed in 2025 was deferred, not eliminated, and Hydro Hawkesbury is now working to catch up on that work while also managing its normal operating, maintenance and capital requirements.

Hydro Hawkesbury also believes it is important to look at the 2025 result in the context of the Price Cap IR framework. Costs do not occur evenly from year to year. Utilities need to be able to manage the timing of their work and expenditures in response to changing operational circumstances. An underspend in one year does not necessarily mean that the utility's ongoing costs have permanently decreased, just as an unusually high level of spending in one year would not necessarily mean that its base rates should increase.

In this case, the lower spending in 2025 was driven by a specific and temporary set of circumstances, and the work still needs to be completed. Denying the following year's Price Cap IR adjustment would effectively turn a temporary timing difference into an ongoing reduction in revenues at the same time that Hydro Hawkesbury is trying to catch up on the work that was deferred.

For these reasons, Hydro Hawkesbury believes the 2025 results should be viewed in the context provided in the application and that it remains appropriate for the utility to receive its normal Price Cap IR adjustment.

b) Hydro Hawkesbury has operated for many years as one of the lowest-cost distributors in Ontario. It has maintained a very lean organization while continuing to provide good service and maintain its distribution system. There is simply not a significant amount of discretionary spending built into the utility's operations.

The management transition has also been particularly challenging for a utility of Hydro Hawkesbury's size. The current General Manager came into the role without the benefit of an overlap or formal transition period with the previous General Manager. A considerable amount of time is therefore already being spent getting deferred work back on track, developing the necessary utility-specific knowledge and managing the day-to-day requirements of the utility.

Had the current management resources been in place throughout 2025, Hydro Hawkesbury does not believe that the same amount of work would have been deferred or that the 2025 earnings result would have occurred.

It is also important to recognize that the impact of denying the Price Cap adjustment is not limited to a single year. Hydro Hawkesbury would effectively carry that lost adjustment through the remaining four-year period before its next rebasing. For a small utility, the cumulative impact is significant.

This would mean that a temporary underspend in one year, caused by a very specific management circumstance, would translate into lower revenues for several years afterward, even though the underlying work was deferred rather than eliminated and Hydro Hawkesbury is now trying to catch up on that work.

If the Price Cap adjustment is not approved, Hydro Hawkesbury will of course manage within the revenues available to it. However, there are limited places to make further reductions in an organization that is already operating very leanly. The utility would have to review its operating, maintenance and capital plans and determine what additional work could be reduced or deferred.

Those reductions would not simply remove excess spending. They would involve work that Hydro Hawkesbury otherwise considers necessary to operate and maintain its system. Continued deferral of that work increases the risk to system safety, reliability and continuity of service.

In Hydro Hawkesbury's view, imposing a multi-year revenue consequence as a result of one unusual year would be disproportionate to the circumstances, particularly when the utility has clearly explained why the 2025 result is not representative of its ongoing operations.

c) Hydro Hawkesbury notes that ROE is ultimately the result of a formula. The utility cannot manage the ROE directly; what it can manage are the underlying revenues, costs and timing of the work.

Hydro Hawkesbury monitors its budget and actual results monthly and is actively working to catch up on the operating and maintenance work that was deferred in 2025. As that work is completed and those costs are incurred, the utility expects its earnings to move back toward a more normal level.

The difficulty is that it is challenging to plan that catch-up work when there is ongoing uncertainty as to whether the OEB will reduce the revenues available to the utility because of the very underspending it is now trying to address.

Hydro Hawkesbury believes it should be given a reasonable opportunity to manage those costs over time, complete the deferred work and allow the resulting ROE to normalize through the ordinary course of operations.

OEB Staff-6

Ref: Manager's Summary Pages 20-22

Ref: Rate Generator Model, Tab 4. Billing Det. for Def-Var

Preamble:

The Manager's Summary states that the calculated threshold test yields a debit balance of $0.0029/kWh, which exceeds the $0.001/kWh threshold established in the EDDVAR report. However, the Rate Generator Model, Tab 4. Billing Det for Def-Var indicates the threshold test yields a credit balance of $0.0071/kWh.

Question(s):

a) Please confirm if the Rate Generator Model Tab 4 is correct. If not, please explain and update the Rate Generator Model as necessary to ensure it reflects the correct value.

HHI response: The revised threshold in the version of the model filed with these responses is -0.0071 which exceeds the 0.001 threshold.

Staff Question-7

Ref: Commodity Account Analysis Workform, Tab GA 2025

Preamble:
On Tab GA 2025 in the Commodity Account Analysis Workform Hydro Hawkesbury input the kWh's reported in the first screenshot below. However, the kWh's reported in the RRR are different, please see the second screenshot below.

Screenshot 1

Year		2025		
Total Metered excluding WMP	C = A + B	145,419,218	kWh	100%
RPP	A	64,277,480	kWh	44.2%
Non-RPP	B = D + E	81,141,738	kWh	55.8%
Non-RPP Class A	D	23,505,791	kWh	16.2%
Non-RPP Class B*	E	57,635,947	kWh	39.6%

Screenshot 2

Year		2025	
Total Metered excluding WMP	C = A + B	146,355,168	kWh
RPP	A	64,906,994	kWh
Non RPP	B = D + E	81,448,175	kWh
Non-RPP Class A	D	23,337,018	kWh
Non-RPP Class B	E	58,111,156	kWh

Question(s):

a) Please confirm if the kWh's input in the Commodity Accounts Analysis Workform are correct. If they are, please update your RRR filings. Otherwise, please update your Commodity Accounts Analysis Workform and re-submit it to the OEB through RESS.

HHI response: The information in Screenshot 2 is correct. The Commodity Accounts Analysis Workform has been updated.