Ontario Energy Board | Commission de l'énergie de l'Ontario

BY EMAIL

October 30, 2026

Ritchie Murray
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4
Registrar@oeb.ca

Dear Ritchie Murray:

Re: Ontario Energy Board (OEB) Staff Submission
Hydro Hawkesbury Inc.
2027 Distribution Rate Application
OEB File Number: EB-2026-0048

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

Yours truly,

Kelli Benincasa

Kelli Benincasa
Analyst, Incentive Rates

Encl.



ONTARIO ENERGY BOARD

OEB Staff Submission

Hydro Hawkesbury Inc.

2027 Distribution Rate Application

EB-2026-0048

October 30, 2026

Application Summary

Hydro Hawkesbury Inc. (Hydro Hawkesbury) filed an incentive rate-setting mechanism (IRM) application with the Ontario Energy Board (OEB) on August 10, 2026 (and an updated version on August 12, 2026), under section 78 of the *Ontario Energy Board Act, 1998* seeking approval for changes to its electricity distribution rates to be effective January 1, 2027.

As part of its application, Hydro Hawkesbury requested:

- An annual adjustment of 3.00% applied uniformly across all rate classes despite over earning
- An adjustment to electricity distribution Retail Transmission Service Rates (RTSRs)
- An update to its Low Voltage (LV) Service Rates
- The disposition of a Group 1 deferral and variance account (DVA) balance in a credit amount of $1,038,004

OEB staff has updated Hydro Hawkesbury's 2027 Rate Generator Model to reflect the Time-of-Use pricing and Ontario Electricity Rebate values released by the OEB on October 16, 2026.

OEB staff's submissions on the following are included below:

- Price Cap Adjustment and Over Earning
- Update to RTSRs
- Update to LV Service Rates
- Group 1 DVAs

OEB Staff Submission

Price Cap Adjustment and Over Earning

Background

Hydro Hawkesbury applied a Price Cap Incentive Rate-setting annual adjustment using the latest values for the inflation factor[1] and its assigned stretch factor of 3.00%[2] and 0.00%, respectively. The resulting 3.00% Price Cap Index value is used in the 2027 Rate Generator Model. However, Hydro Hawkesbury's achieved Return on Equity (ROE) is 19.03% versus a deemed ROE of 9.25%, resulting in an over earning of 978 basis points (678 basis points above the 300-basis point dead band). The filing requirements[3] state that distributors who have over earned above the 300-basis point dead band must refrain from requesting a Price Cap adjustment, otherwise they should substantiate why they over earned and why they are seeking the rate adjustment.

Hydro Hawkesbury stated in its Manager's Summary[4] that the reason for over earning in 2025 was largely driven by an unusually low level of Operating, Maintenance and Administration (OM&A) expenditures, approximately $307,000 less than forecast during a period of management absence and transition. Hydro Hawkesbury also noted that a portion of the related work was deferred rather than eliminated, that it does not consider the 2025 results to be indicative of its expected earnings on an ongoing basis, and that savings[5] in OM&A was not a result from savings in employee compensation.

Through interrogatories,[6] OEB staff requested that Hydro Hawkesbury provide a forecasted ROE for 2026. Hydro Hawkesbury stated that it was not in a position to provide a reliable, forecasted ROE for 2026 as a number of supplier invoices were outstanding and year-end accounting entries and adjustments have not yet been completed.

Hydro Hawkesbury also stated[7] that based on the information currently available, it expects its 2026 ROE to be somewhat above the OEB approved ROE of 9.25%. Given the outstanding invoices and year-end adjustments, Hydro Hawkesbury does not believe that providing a specific ROE estimate at this time would result in a sufficiently reliable forecast.

[1] OEB Letter, 2027 Inflation Parameters, issued June 11, 2026
[2] Empirical Research in Support of Incentive Rate-Setting: 2025 Benchmarking Update, Report to the Ontario Energy Board, August 2026, Table 5
[3] Chapter 3 – Filing Requirements for Electricity Distribution Rate Applications, issued July 14, 2026
[4] Manager's Summary, August 12, 2026, pp. 20 - 21
[5] Staff Interrogatory Response 4(c)
[6] Staff Interrogatory Response 4(a)
[7] Staff Interrogatory Response 4(c)

Hydro Hawkesbury stated[8] that it does not believe that the 2025 ROE result reflects an ongoing level of earnings. If it did, it would not have applied for a Price Cap adjustment and is now working to catch up on that work while also managing its normal operating, maintenance and capital requirements.

According to Hydro Hawkesbury, 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 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 work that was deferred.[9]

Hydro Hawkesbury also stated in its interrogatory responses[10] that it is important to recognize that the impact of denying the Price Cap adjustment is not limited to a single year. Hydro Hawkesbury would carry that lost adjustment through the remaining four-year period before its next rebasing and for a small utility, the cumulative impact is significant.

Lastly Hydro Hawkesbury noted that it 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, Hydro Hawkesbury expects its earnings to move back toward a more normal level.[11]

Review of Hydro Hawkesbury's scorecard reporting also confirms that the distributor's achieved ROE has otherwise not been above the prescribed 300 basis point dead band, except in 2025, as noted in the table below.

Table 1: Hydro Hawkesbury's Historical ROE

Year	Approved ROE	Achieved ROE	Over (Under) Earned
2025	9.25%	19.03%	9.78%
2024	9.00%	5.20%	(3.80%)
2023	9.00%	0.64%	(8.36%)
2022	9.00%	10.41%	1.41%
2021	9.00%	4.58%	(4.42%)

[8] Staff Interrogatory Response 5(a)
[9] Staff Interrogatory Response 5(a) and (b)
[10] Staff Interrogatory Response 5(b)
[11] Staff Interrogatory Response 5(c)

Submission

OEB staff does not object to Hydro Hawkesbury's proposed Price Cap adjustment. Hydro Hawkesbury has confirmed that the over earning in 2025 was temporary in nature and likely not to recur. Due to the size of the distributor, circumstances such as those experienced by Hydro Hawkesbury in 2025 would have a higher impact on ROE when compared to a larger distributor.

OEB staff notes that the OEB has previously approved Price Cap adjustments for Chapleau Public Utilities Corporation (Chapleau Public Utilities) during its 2023[12] and 2024[13] IRM applications, even though its ROE was above the 300-basis point dead band. In Chapleau Public Utilities' 2023 IRM application, it noted that its 2021 ROE was 24.43%, or 1,545 basis points greater than its deemed ROE of 8.98%. Chapleau Public Utilities attributed the over-earning to three drivers:

1. An increase in 2021 Other Revenues of $46,944 due to a 'one time' administrative fee charged to a Hydro One Networks Inc. (Hydro One) mining customer who hired Chapleau Public Utilities to administer the transfer of pole attachments to Hydro One upgraded poles.

2. A temporary decrease in OM&A costs of $52,695 due to an operations employee taking an unpaid leave of absence.

3. Not having any debt instruments in 2021 compared to the deemed interest collected through rates and based on the deemed cost of capital parameters.

OEB staff supported Chapleau Public Utilities' request for a Price Cap adjustment, given that the first two main drivers causing the over earning appeared to be one-time in nature and were non-recurring.[14] In its Decision and Rate Order, the OEB found that Chapleau Public Utilities' over earnings were the result of two extenuating events that were unlikely to be repeated and, therefore, no further action was required.[15]

In its 2024 IRM application, Chapleau Public Utilities reported an ROE of 12.99%, or 401 basis points greater than its deemed ROE of 8.98%. OEB staff did not support the approval of a Price Cap adjustment, but invited Chapleau Public Utilities to demonstrate, in its reply submission, that the adjustments were one-time in nature or out of the control of the distributor. In its reply, Chapleau Public Utilities clarified that the main driver for the over earning was due to a temporary decrease in OM&A of $40,251

[12] EB-2022-0021
[13] EB-2023-0011
[14] EB-2022-0021, OEB Staff Submission, January 26, 2023
[15] EB-2022-0021, Decision and Rate Order, March 23, 2023

as the General Manager was working on a part-time, instead of a full-time, basis for the entire year of 2022. Chapleau Public Utilities also confirmed that the over earning was not expected to continue in 2023. In its Decision and Rate Order, the OEB determined that the over earning was one-time in nature and due to circumstances beyond Chapleau Public Utilities' control.[16]

OEB staff also notes that the OEB approved the Price Cap adjustment for Hearst Power Distribution Co. Ltd. (Hearst Power) in its 2026 IRM application, even though its ROE was above the 300-basis point dead band. In 2024, Hearst Power's ROE was 13.96%, or 562 basis points greater than its deemed ROE of 8.34%. Hearst Power attributed the over earning to being engaged as a sub-contractor to assist other utilities and third-party organizations with fulfilling locate requests submitted through the Ontario Call Before You Dig system – most notably during peak periods of increased activity associated with major projects in Northern Ontario (e.g., road and highway expansions, and new broadband installations).[17]

Hearst Power stated that it considered the large sub-contracting requests for locate services to be an isolated and non-recurring factor. In response to interrogatories, Hearst Power confirmed that the locate requests were neither permanent nor guaranteed and that the locate requests from its sub-contracting activity would likely be lower in 2026.[18] In this proceeding, OEB staff did not object to Hearst Power's proposed Price Cap adjustment, even though it over earned.

OEB staff submitted that Hearst Power experienced an over earning in 2024 that was temporary in nature largely due to unusual sub-contracting revenues after the *Ontario Underground Infrastructure Notification System Act* amendment. OEB staff noted that Hearst Power did not expect the over earning to continue into 2026. Further, OEB staff highlighted the similarities to those approved by the OEB in Chapleau Public Utilities' 2023 and 2024 IRM proceedings.

In its Decision and Order[19], the OEB accepted Hearst Power's explanation for over earning in 2024. The OEB found that the revenue in 2024 resulting from the provision of locate services was not recurring in 2025 and that the 2025 preliminary achieved ROE of 6.15%, which fell within the 300 basis-point deadband, was the more relevant indicator of current equity returns compared to the 13.96% in 2024. The OEB did note the historical variability of Hearst Power's ROE since 2020 resulting from the relatively

[16] EB-2023-0011, Decision and Rate Order, March 21, 2024
[17] EB-2025-0033, Staff Interrogatory Response - 13
[18] *Ibid.*
[19] EB-2025-0033, Decision and Order, March 31, 2026

small size of the utility, which affects the magnitude of percentage change in earnings from year to year.

OEB staff submits that the circumstances noted in Chapleau Public Utilities' 2023 and 2024 IRM applications, as well as Hearst Power's 2026 IRM application are like those of Hydro Hawkesbury in this proceeding. Hydro Hawkesbury experienced an over earning in 2025 that was temporary in nature, largely due to an unusually low level of OM&A expenditures during a period of management absence and transition. Further, as the OEB approved the Price Cap adjustment for Chapleau Public Utilities in its 2023 and 2024 IRM proceedings and Hearst Power's 2026 IRM proceeding, OEB staff does not object to Hydro Hawkesbury's proposed Price Cap adjustment in this proceeding. However, OEB staff notes that since Hydro Hawkesbury did not provide preliminary 2026 ROE results, OEB staff will not provide any commentary on 2026 ROE performance at this time.

Update to RTSRs

Background

Hydro Hawkesbury's historical costs for 2025 include Independent Electricity System Operator-invoiced costs for network and line connection.

Hydro Hawkesbury's RTSRs were based on the transmission rates available at the time of application preparation (i.e., January 1, 2026). In response to interrogatories, Hydro Hawkesbury updated its RTSRs in the 2027 IRM Rate Generator Model in accordance with the October 14, 2026 letter issued by the OEB.[20]

Submission

OEB staff does not have any concerns with Hydro Hawkesbury's updates to its RTSRs, as Hydro Hawkesbury updated the RTSRs in accordance with the letter issued by the OEB on October 14, 2026.[21]

Update to LV Service Rates

Background

LV transactions, which occur outside the wholesale electricity market, are billed to a distributor by their host distributor(s). To recover these costs, Hydro Hawkesbury seeks approval to adjust its LV Service Rates as part of this IRM application. These proposed

[20] EB-2026-0246, October 14, 2026, 2027 Preliminary Uniform Transmission Rates and Hydro One Sub Transmission Rates
[21] *Ibid.*

adjustments are based on current OEB-approved embedded distributor rates and the most recent demand data for LV transactions.

Submission

OEB staff has no concerns with Hydro Hawkesbury's proposed adjustment to its LV Service Rates as Hydro Hawkesbury has updated the 2027 Rate Generator Model appropriately. The adjustment requested aligns with the Guideline: Electricity Distribution Retal Transmission Service Rates and Low Voltage Charges.[22]

Group 1 DVAs

Background

Hydro Hawkesbury requests to dispose of its Group 1 account balances in a credit amount of $1,038,004. The total disposition claim is -$0.0071 per kWh which is above the disposition threshold of +/- $0.001 per kWh.

Submission

OEB staff supports the proposed final disposition of the Group 1 account balances as of December 31, 2025 (including interest projected to December 31, 2026) over a one-year period.

However, OEB staff submits that Hydro Hawkesbury should update its Account 1595 – 2023 Recovery Proportions[23] to align with the consumption proportions submitted in its 2023 IRM application.[24] This change would ensure consistency with the methodology used by other distributors.

~All of which is respectfully submitted~

[22] Chapter 3 – Filing Requirements for Electricity Distribution Rate Applications, Section 3.2.5 issued July 14, 2026
[23] Hydro Hawkesbury 2027 Rate Generator Model, Tab 4, Column O
[24] EB-2022-0039, Hydro Hawkesbury 2023 Rate Generator Model, Tab 5, Column C