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

BY EMAIL

October 17, 2022

Nancy Marconi
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4

Dear Ms. Marconi:

Re: EB-2022-0065 Application for 2023 Rates

In accordance with Procedural Order #1, please find attached the Ontario Energy Board (OEB) staff interrogatories in the above proceeding. The applicant and intervenors have been copied on this filing.

Toronto Hydro-Electric System Limited's responses to interrogatories are due by October 28, 2022.

Any questions relating to this letter should be directed to Georgette Vlahos at georgette.vlahos@oeb.ca or at 416-544-5169. The OEB's toll-free number is 1-888-632-6273.

Yours truly,

Georgette Vlahos
Digitally signed by Georgette Vlahos
Date: 2022.10.17 10:49:21 -04'00'

Georgette Vlahos
Advisor, Electricity Distribution: Major Rate Applications & Consolidations

Encl.

OEB Staff Interrogatories
Toronto Hydro-Electric System Limited
EB-2022-0065

Please note, Toronto Hydro-Electric System Limited (Toronto Hydro) is responsible for ensuring that all documents it files with the OEB, including responses to OEB staff interrogatories and any other supporting documentation, 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*.

OEB Staff-1
Ref 1: OEB Letter, Smart Metering Charge to be Charged by Electricity Distributors from January 1, 2023 – December 31, 2027
Ref 2: Proposed Tariff of Rates and Charges (Excel)

On September 8, 2022, the OEB issued the letter in reference 1 above with regards to the Smart Metering Entity Charge (SMC) to be charged by distributors from January 1, 2023 to December 31, 2027. Effective January 1, 2023, the retail SMC to be charged and collected by electricity distributors from applicable Residential and General Service <50kW customers will be $0.42 per smart meter per month.

(a) Given that Toronto Hydro's uses a 30-day basis for fixed based rates, please provide the calculation of the SMC for Toronto Hydro.
(b) Please incorporate the updated SMC on the proposed Tariff of Rates and Charges (Excel) and Bill Impacts model, and re-file both with Toronto Hydro's responses.

OEB Staff-2
Ref: Toronto Hydro 2023 Rate Generator Model, Tab 11 – RTSR – UTRs & Sub-Tx, September 6, 2022

OEB staff notes that the OEB's Rate Generator Model was updated to reflect the current Hydro One Sub-Transmission Rates on Tab 11. OEB staff notes that certain Hydro One Sub-Transmission rates on the tab noted in the reference above do not reconcile to the applicable rates.

(a) Please update Tab 11 for the required rates and file Toronto Hydro's updated replica Rate Generator Model.

(b) If applicable, please incorporate any changes to the RTSRs on the proposed Tariff of Rates and Charges (Excel) and to the Bill Impacts model, and re-file both with Toronto Hydro's responses.

OEB Staff-3
Ref: EB-2022-0065, Updated Manager's Summary, September 6, 2022, page 4 of 15

In accordance with the OEB's direction in Toronto Hydro's Custom IR Application 2020-2024[1], two accounts (i.e., CRRRVA and the PILs and Tax Variances – CCA Changes), were approved for disposition beginning January 1, 2023.[2]

In the current application, Toronto Hydro has added these rate riders to its proposed Tariff of Rates and Charges beginning January 1, 2023. Please provide a table showing the calculation of rate riders for all applicable rate classes for these accounts.

OEB Staff-4
Ref 1: Toronto Hydro 2023 Rate Generator Model, Tab 16 – Rev2Cost_GDPIPI
Ref 2: EB-2022-0065, Tab 6, Schedule 1 – Current Tariff of Rates and Charges

OEB staff notes that the current monthly fixed charge for the Standby Power rate class does not reconcile between the Rate Generator Model and Toronto Hydro's current Tariff of Rates and Charges. The Rate Generator Model has a charge of $253.70, while Toronto Hydro's Tariff has a charge of $254.48.

Please correct the Rate Generator Model and ensure any changes are reflected on the proposed Tariff of Rates and Charges (Excel).

OEB Staff-5
Ref 1: EB-2022-0065, Updated Manager's Summary, September 6, 2022, page 3 of 15
Ref 2: Toronto Hydro 2023 Rate Generator Model, Tab 16 – Rev2Cost_GDPIPI

The Rate Generator Model filed adopts the OEB's 2022 Inflation Factor as a proxy. Toronto Hydro proposes to update the model with the 2023 Inflation Factor.

(a) If announced by the OEB and available at the time of filing Toronto Hydro's interrogatory responses, please update the Rate Generator Model for the 2023 inflation factor and file the updated model.
(b) Please also file an updated Bill Impacts model reflecting the updates.

[1] EB-2018-0165
[2] *Ibid*, Draft Rate Order, Updated February 12, 2020, Page 20 of 32

OEB Staff-6
Ref 1: EB-2022-0065, 2023 Rate Generator Model, Tab 3
Ref 2: EB-2022-0065, Update of Evidence Letter to the OEB, September 6, 2022
Ref 3: EB-2014-0116, 2015 Custom IR, Revised Draft Rate Order filed January 26, 2016, page 17 and 21

In the current proceeding, Toronto Hydro is requesting the disposition of Account 1595, Disposition and Recovery/ Refund of Regulatory Balances (2016).

Toronto Hydro confirmed that the "Disposition and Recovery/ Refund of Regulatory Balances (2016 and pre-2016)" account referenced in the 2023 Rate Generator Model relates only to the 2016 sub-account of Account 1595. Toronto Hydro further stated that while these 2016 sub-account amounts relate to the 2015 Custom IR proceeding, the balances were transferred to Account 1595 in March of 2016.[3]

In cell G31 of the 2023 Rate Generator Model, Tab 3, Toronto Hydro has recorded a credit of $45,304,160 for OEB-Approved Disposition during 2016 (for principal) and in cell L31 a credit of $131,074 (for carrying charges).

However, in the 2015 Custom IR proceeding, the evidence is not clear what was approved by the OEB for the disposition of Group 1 and Group 2 Deferral and Variance Accounts (DVAs). Page 17 and page 21 of the Draft Rate Order of the 2015 Custom IR proceeding show different DVA balances. For example, a credit of $23.3 million of "POEB Tax Savings" is shown on page 21, but not page 17. OEB staff is unable to locate a DVA continuity schedule to support what was disposed in the 2015 Custom IR proceeding. As a result, OEB staff is not clear what has been disposed.

Regarding Account 1595 (2016) amounts in the 2023 Rate Generator Model, OEB staff also notes that the amount of carrying charges of a credit of $1,007,173 being requested for clearance in the current proceeding is high, compared to the debit principal balance of $1,851,187, as well as opposite signs (credit versus debit).

(a) Please explain whether the principal (credit of $45,304,160) and interest (credit of $131,074) amounts included in the 2023 Rate Generator Model for Account 1595, Disposition and Recovery/ Refund of Regulatory Balances (2016) OEB-Approved Disposition during 2016 are correct. If not, please update the relevant evidence as applicable.

[3] Toronto Hydro noted that this transfer was in alignment with the March 1, 2016 rates implementation approved in that application. Toronto Hydro confirmed that this sub-account contains no balances from the 2015 or any prior-year sub-accounts.

(b) Please provide a reconciliation between the principal and interest amounts included in the 2023 Rate Generator Model and the amounts approved by the OEB in the 2015 Custom IR proceeding and refer to the relevant evidence filed in the 2015 Custom IR proceeding.
(c) Regarding Account 1595 (2016), please explain the high credit balance of $1,007,173 for carrying charges, as compared to the debit principal balance of $1,851,187, as well as being opposite signs (credit versus debit).

OEB Staff-7
Ref 1: EB-2022-0065, 2023 Rate Generator Model, Tab 3
Ref 2: EB-2017-0077, 2018 Custom IR Update, Decision and Rate Order, December 14, 2017, page 12 & 15

In the current proceeding, Toronto Hydro is requesting the disposition of Account 1595, Disposition and Recovery/ Refund of Regulatory Balances (2018).

In cell AA33 of the 2023 Rate Generator Model, Toronto Hydro has recorded a debit of $83,532,293 for OEB-Approved Disposition during 2018 (for principal) and in cell AF23 a credit of $121,812 (for carrying charges).

However, in the 2018 Custom IR Update proceeding, a credit of $89,120,982 for principal and a credit of $1,225,388 were approved by the OEB for the disposition of Group 1 DVAs. Also, a debit of $6,569,357 (including carrying charges of $121,812) for Account 1568 LRAMVA was approved for disposition.

Regarding Account 1595 (2018), OEB staff also notes that the amount of carrying charges of a credit of $688,065 being requested for clearance in the current proceeding is high, compared to the credit principal balance of $239,757.

(a) Please explain whether the principal (debit of $83,532,293) and interest (credit of $121,812) amounts included in the 2023 Rate Generator Model for Account 1595, Disposition and Recovery/ Refund of Regulatory Balances (2018) OEB-Approved Disposition during 2018 are correct. If not, please update the relevant evidence as applicable.
(b) Regarding Account 1595 (2018), please explain the high credit balance of $688,065 for carrying charges, as compared to the credit principal balance of $239,757.

OEB Staff-8
Ref 1: EB-2022-0065, 2023 Rate Generator Model, Tab 3

Ref 2: EB-2018-0071, 2019 Custom IR Update, Decision and Rate Order, December 13, 2018, page 15, 17, 18

In the current proceeding, Toronto Hydro is requesting the disposition of Account 1595, Disposition and Recovery/ Refund of Regulatory Balances (2019).

In cell AK34 of the 2023 Rate Generator Model, Toronto Hydro has recorded a credit of $7,836,356 for OEB-Approved Disposition during 2019 (for principal) and in cell AP34 a $0 balance (for carrying charges).

However, in the 2019 Custom IR proceeding, a credit of $4,748,128 for principal and a debit of $108,827 were approved by the OEB for the disposition of Group 1 DVAs. Also a debit of $12,343,396 (including carrying charges of $295,181) for Account 1568 LRAMVA was approved for disposition.

(a) Please explain whether the principal (credit of $7,836,356) and interest (nil) amounts included in the 2023 Rate Generator Model for Account 1595, Disposition and Recovery/ Refund of Regulatory Balances (2019) OEB-Approved Disposition during 2019 are correct. If not, please update the relevant evidence as applicable.

OEB Staff-9
Ref 1: EB-2022-0065, 2023 Rate Generator Model, Tab 6.1 GA and 6.2 CBR B
Ref 2: EB-2022-0065, Tab 2, Schedule 1, Page 8

Toronto Hydro has generated rate riders in Tab 6.1 GA for Account 1589, RSVA - Global Adjustment, and Tab 6.2 CBR B for Account 1580, Variance WMS – Sub-account CBR Class B.

Toronto Hydro stated that the balances in Account 1589 are allocated to non-RPP Class B customers only.

OEB staff notes that both of the above-noted accounts should only be cleared to Class B customers and not Class A customers. However, OEB staff requires further clarification because some rate classes, such as the large use rate class, contain allocations of Account 1589, RSVA - Global Adjustment and Account 1580, Variance WMS – Sub-account CBR Class B.

(a) Please confirm that all rate classes that are allocated rate riders for Account 1589, RSVA - Global Adjustment, and Account 1580, Variance WMS – Sub-account CBR Class B, include only Class B customers and exclude any Class A customers.

(b) If this is not the case, please explain and update the relevant evidence as applicable.

OEB Staff-10
Ref 1: EB-2022-0065, 2023 GA Analysis Workform
Ref 2: EB-2022-0065, 2023 Rate Generator Model, Tab 3

Regarding Account 1589, Toronto Hydro has recorded principal adjustments of a credit of $12,259,095 for 2020 and a debit of $368,714 for 2021, in the “Principal Adjustments” tab of the GA Analysis Workform. These amounts reconcile to the values reported in the 2023 Rate Generator Model.

However, these principal adjustments do not reconcile to the values shown in Tab GA 2020 and Tab GA 2021 of the GA Analysis Workform.

OEB staff also notes in Tab GA 2020 and Tab GA 2021 of the GA Analysis Workform, it is not clear what numbers are principal adjustments, versus reconciling items (i.e., not principal adjustments).

(a) Please explain and revise the GA Analysis Workform to address all of OEB staff’s observations noted in the preamble to this interrogatory, regarding Tab GA 2020, Tab GA 2021, and Tab Principal Adjustments of the GA Analysis Workform.
(b) Please update Tab 3 of the Rate Generator Model, if applicable.
(c) After addressing part a) of this interrogatory, if cell C93 (i.e., Unresolved Difference as % of Expected GA Payments to IESO) of each of Tab GA 2020 and Tab GA 2021 is greater than the threshold of +/- 1%, please explain.

OEB Staff-11
Ref 1: EB-2022-0065, Tab 1, Schedule 1, Page 2
Ref 2: Filing Requirements For Electricity Distribution Rate Applications - 2022 Edition for 2023 Rate Applications Chapter 2 Cost of Service, April 18, 2022, page 64 & 65

Toronto Hydro requested that the OEB make its rate order effective January 1, 2023, notwithstanding that the OEB’s decision and order approving its rates and other charges may not be delivered until after that date.

In the alternative, Toronto Hydro requested the establishment of an interim order making Toronto Hydro's current distribution rates and charges effective on an interim basis as of January 1, 2023. Toronto Hydro also requested the establishment of an account to recover any differences between the interim rates and the actual rates effective January 1, 2023, based on the OEB's decision and order.

OEB staff notes that in certain previous proceedings,[4] the OEB has approved a rate rider to capture forgone revenue resulting from an implementation date for approved new rates that were subsequent to the effective date of such rates, rather than establishing a DVA to capture such impacts.

(a) Please provide Toronto Hydro's viewpoint regarding the use of foregone revenue rate riders rather than the establishment of a new account to capture the foregone revenue.
(b) If Toronto Hydro would like to keep the same proposal (i.e. establish a DVA), please provide the following:
   i. File a draft accounting order for this new DVA.
   ii. Discuss the causation, materiality, and prudence criteria required when requesting the establishment of a new DVA, in accordance with the OEB's direction in its filing requirements.

OEB Staff-12
Ref 1: EB-2022-0065, Tab 2, Schedule 1, Page 4
Ref 2: EB-2018-0165, Decision and Order, December 19, 2019, page 177 & 178
Ref 3: EB-2018-0165, Decision and Rate Order, February 20, 2020, page 4

Toronto Hydro stated that in the 2020-2024 Custom IR decision, the OEB approved the disposition of Group 2 DVA balances and Other Amounts on a forecast basis. In the 2020 rate order, the OEB directed Toronto Hydro to true-up any variance between the forecast principal and interest amounts and the actual principal and interest amounts, and to dispose of these amounts in the year that the underlying account is disposed.

Toronto Hydro further stated that two accounts, CRRRVA and PILs and Tax Variances – CCA Changes, were approved for disposition starting on January 1, 2023 and are therefore subject to true-up as part of the current application.

OEB staff notes that the 2020 Custom IR decision and rate order stated the following:

[4] For example, EB-2021-0016, E.L.K. Energy Inc., Decision and Rate Order, June 30, 2022, p. 5

For DVAs and Other Amounts to be disposed after March 1, 2020, the OEB finds that it is appropriate to true-up any variance between both the principal and interest amounts and the actual amounts in Account 1595. The OEB also finds it appropriate to dispose of the Account 1595 true-up in the year that the underlying account is disposed.

(a) In accordance with the 2020 Custom IR decision and rate order, please clarify how the true-up will occur for the two accounts, CRRRVA and PILs and Tax Variances – CCA Changes, that were approved for disposition starting on January 1, 2023 and are subject to true-up as part of the current application.

For example, is Toronto Hydro proposing that any true-up adjustment to the above noted two accounts that were approved for disposition starting on January 1, 2023 would be transferred to Account 1595, Disposition and Recovery/Refund of Regulatory Balances (2023), or a different sub-account of Account 1595? Please specify and explain.

OEB Staff-13
Ref 1: EB-2022-0065, Tab 2, Schedule 1, page 5
Ref 2: EB-2008-0046, **Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR), July 31, 2009, page 13**

Toronto Hydro provided a table in its application, Table 2, that shows the difference between the forecasted and actual Group 2 balances that will be disposed starting January 1, 2023.

Specifically, Table 2 shows a "Total True-up Variance" of a credit of $2.4 million for the CRRRVA account and a credit of $0.7 million for the PILs and Tax Variances – CCA Changes account, which sum to a credit of $3.1 million.

Toronto Hydro stated that "the true up balance of $3.1 million is a credit in Toronto Hydro's favour."

Toronto Hydro also stated that clearance of the $3.1 million would result in rate riders above the $0.0001/kWh materiality threshold, as per the *Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative*.

Toronto Hydro stated that it proposes to transfer the true-up amount to Account 1595 as a residual balance for the 2023 year, consistent with the recent treatment of other Group 2 true-up amounts resulting from 2020-2024 Custom IR decision.

(a) Please clarify that the amounts shown in Table 2 should be reflected as debits and not credits, given Toronto Hydro's statement the $3.1 million is in "Toronto Hydro's favour", as well as the forecasted credit being larger than the actual credit. Please update Table 2 accordingly.
(b) If this is not the case, please explain.
(c) As Toronto Hydro stated that the $3.1 million true-up would result in rate riders above the $0.0001/kWh materiality threshold, would Toronto Hydro be agreeable to a separate rater rider clearing this balance in the current proceeding? This rate rider would be implemented rather than transferring the balance to Account 1595, Disposition and Recovery/Refund of Regulatory Balances (2023), or any other sub-account of Account 1595 (as per the above interrogatory where OEB staff is seeking clarification).
(d) If a rate rider is to be established, please provide a table showing the calculation of the rate rider for all applicable rate classes for this account**.**

OEB Staff-14
Ref 1: EB-2022-0065, Tab 2, Schedule 1, page 6
Ref 2: EB-2018-0165, 2020 Custom IR, Draft Rate Order, February 12, 2020, page 20

Toronto Hydro provided a table in its application, Table 3, that shows the differences between some of the forecasted and actual Group 2 balances that were disposed starting March 1, 2020.

Specifically, Table 3 shows a "Total True-up Variance" of a credit of $1.7 million for the Operating Centres Consolidation Program (OCCP) account and a nil balance for the "Gain on Sale 50/60 Eglinton Avenue" account.

Toronto Hydro stated that "for the OCCP account the forecast overestimated the amount owed to customers by $1.7 million."

Toronto Hydro also stated that in its 2021 Custom IR application it proposed to defer the true-ups for these two accounts that were disposed over 2020-2021.

Regarding the OCCP account, Toronto Hydro stated that the actual amount paid to customers through the 2015-2019 rate rider was higher than estimated, due to lagging payment amounts that were not accounted for in the forecast.

Toronto Hydro further stated that as the disposition of these accounts is now complete, the variance has been captured in the respective Account 1595 sub-account. However, OEB staff notes that the sub-account itself has not been identified.

(a) Please clarify that the amounts shown in Table 3 should be reflected as debits and not credits, given Toronto Hydro's statement that its forecast had overestimated the amount owed to customers by $1.7 million. Please update Table 3 accordingly.
(b) If this is not the case, please explain.
(c) Regarding the OCCP account, please explain why Toronto Hydro is referring to a "2015-2019 rate rider", when the title of its Table 3 suggests that this balance was disposed starting March 1, 2020, as well as Toronto Hydro's statement that these two accounts were disposed over 2020-2021 and also reflected in its 2020 Custom IR draft rate order.
(d) Please explain and clarify to which sub-account (i.e., to which rate year) of Account 1595, Disposition and Recovery/Refund of Regulatory Balances, that Toronto Hydro is proposing to transfer the $1.7 million amount.

OEB Staff-15
Ref 1: EB-2018-0165, Decision and Order, December 19, 2019, page 146
Ref 2: EB-2022-0065, Tab 2, Schedule 1, Page 11

In Toronto Hydro's 2020-2024 Custom IR decision, the OEB directed Toronto Hydro to file, in the next rebasing application, either its annual useful lives reviews to demonstrate that no change is required to the useful lives, or a new depreciation study.

In the current proceeding, Toronto Hydro stated that the latter option is more appropriate, since the last depreciation study was undertaken more than a decade ago.

In the current proceeding, Toronto Hydro also stated:

> In preparation for the 2025 rebasing application, a third-party depreciation study is currently underway. The final results of the study are expected at the end of 2022 and Toronto Hydro intends to implement the revised useful lives as of January 1, 2023. Although the study is still in progress, preliminary results indicate changes in financial useful lives that will likely lead to an overall net decrease to the depreciation expense for 2023 and 2024, the remaining two years of the current rate period. As a result Toronto Hydro expects there will be a material variance, to the benefit of customers, in the approved versus actual

depreciation expense that underlies the 2023 and 2024 CPCI [Custom Price Cap Index].

(a) Further to Toronto Hydro's statements that its last depreciation study was undertaken more than a decade ago and that it expects there will be a material variance to the benefit of customers, please provide more detail why Toronto Hydro has chosen to implement the revised useful lives effective January 1, 2023 (i.e., outside the context of a rate rebasing application). Please also explain given that the OEB's directive was for "Toronto Hydro to file either the annual useful lives reviews to demonstrate that no change is required to the useful lives or a new depreciation study."
(b) Please provide an update on the anticipated completion date of the depreciation study. If the study is not received until late in 2022, what steps will Toronto Hydro be using to ensure implementation of the new depreciation rates as of January 1, 2023?
(c) If available, please file a high level summary of the study, indicating the asset classes affected and the changes in useful lives (i.e., from what Toronto Hydro currently uses to what Toronto Hydro proposes to use based on this new deprecation study.)

OEB Staff-16
Ref 1: EB-2022-0065, Tab 2, Schedule 1, Page 12
Ref 2: Filing Requirements For Electricity Distribution Rate Applications - 2022 Edition for 2023 Rate Applications Chapter 2 Cost of Service, April 18, 2022, page 64 & 65
Ref 3: EB-2014-0116, 2015 Custom IR, Decision and Rate Order, Appendix E, March 1, 2016, page 11

Toronto Hydro has proposed to separately track the difference in revenue requirement impacts of the existing and updated depreciation rates over 2023 and 2024 in a sub-account of its existing Capital-Related Revenue Requirement Variance Account (CRRRVA).

Toronto Hydro stated that as the CRRRVA is asymmetrical in favour of customers, the new depreciation-related sub-account would also be asymmetrical.

OEB staff notes that the CRRRVA was established in Toronto Hydro's 2015 Custom IR proceeding. The Accounting Order in the 2015 Custom IR proceeding suggested that the CRRRVA will record the variance between the cumulative 2015 to 2019 capital related revenue requirement included in rates, and the actual capital in-service additions related revenue requirement over the period.[5]

(a) Please confirm that the scope of the CRRRVA established in Toronto Hydro's 2015 Custom IR proceeding did not include the revenue requirement impact from the update of Toronto Hydro's depreciation study.
(b) If confirmed, please clarify that a new DVA should be established, rather than establishing a sub-account under the existing CRRRVA.
(c) Regarding the new DVA, please discuss the causation, materiality, and prudence criteria required when requesting the establishment of a new DVA, in accordance with the OEB's direction in its filing requirements.
(d) Please clarify whether Toronto Hydro would be agreeable to establishing a new sub-account of Account 1508, Other Regulatory Assets, to track the above-noted impacts, rather than using a sub-account of the CRRRVA. If this is not the case, please explain.
(e) If this is not the case, please provide the relevant evidence as per the 2015 Custom IR proceeding.
(f) Whether or not Toronto Hydro agrees to establish a new sub-account of Account 1508, Other Regulatory Assets, to track the above-noted impacts, or use sub-account of the CRRRVA, please explain whether the new sub-account will be cumulative in nature (as the CRRRVA is cumulative in nature), or recorded on an annual basis (and not cumulative). For example, if there is a decrease in the above-noted impact in 2023 and an increase in the above-noted impact in 2024, would Toronto Hydro propose that the 2024 increase be applied against the 2023 decrease, or recorded separately on an annual basis (i.e., maintaining the 2023 decrease recorded in the account)?
(g) If the OEB establishes the new depreciation-related sub-account as a separate variance account or as a sub-account included in the CRRRVA, would Toronto Hydro propose the same treatment of the new account/sub-account under the existing CRRRVA? If not, why not.

OEB Staff-17
Ref: EB-2022-0065, Tab 2, Schedule 1, Page 12

[5] Toronto Hydro was to record the variance on a cumulative basis to ensure that it had the flexibility to optimize the implementation of its capital investment strategy, which may involve shifting the timing of project spending within the Custom IR period.

Toronto Hydro has proposed to separately track the difference in revenue requirement impacts of the existing and updated depreciation rates over 2023 and 2024 in a sub-account of its existing CRRRVA.

OEB staff notes that the Account 1576, Accounting Changes Under CGAAP mechanism is intended to capture impacts of capitalization and depreciation changes from those embedded in rates at last rebasing, made during the incentive rate-setting term.

(a) As Toronto Hydro stated that it is proposing to record revenue requirement impacts of the existing and updated depreciation rates, please explain what Toronto Hydro is proposing to record in the new sub-account, when it refers to "revenue requirement differences".
(b) When capturing these revenue requirement impacts, please explain whether Toronto Hydro is proposing to apply the same methodology and mechanics as Account 1576, Accounting Changes Under CGAAP (including a return component applied to the balance). If this is not the case, please explain, including a description of the methodology that Toronto Hydro is proposing to use.
(c) Please confirm that Toronto Hydro is implementing the changes in depreciation rates for financial reporting purposes, effective January 1, 2023. If this is not the case, please explain.
(d) Please describe how Toronto Hydro plans to reflect the changes in depreciation rates for regulatory purposes.

OEB Staff-18
Ref: EB-2022-0065, Tab 4, Schedule 1, Page 1

In the current proceeding, Toronto Hydro filed a draft accounting order which is proposed to revise the CRRRVA to include a sub-account related to depreciation useful lives changes. OEB staff requires clarification on the draft accounting order.

(a) Please confirm that the effective date of the new sub-account would be January 1, 2023 and would remain in place until the effective date of its next cost-based rates proceeding. If yes, please update the draft accounting order. If no, please explain.
(b) If Toronto Hydro agrees to establish a new sub-account of Account 1508, Other Regulatory Assets, to track the above-noted impacts, rather than using a sub-account of the CRRRVA, please update the draft accounting order. If this is not the case, please explain.

(c) If Toronto Hydro agrees to capture the revenue requirement impacts related to the above-noted impacts using the same methodology and mechanics as Account 1576, Accounting Changes Under CGAAP (including a return component applied to the balance but excluding carrying charges), please update the draft accounting order, including an illustrative example. If this is not the case, please explain.
(d) If Toronto Hydro agrees to use the Account 1576 approach, please confirm that Toronto Hydro would record the cumulative difference between its net property, plant and equipment (PP&E) under its former depreciation policies and its net PP&E under the revised depreciation policies. If yes, please update the draft accounting order accordingly to reflect this approach. If no, please explain.
(e) If Toronto Hydro proposes to record the amounts in the new sub-account on an annual basis (and not cumulative), as discussed in an earlier interrogatory, please update the draft accounting order accordingly.
(f) When Toronto Hydro refers to "revenue requirement differences", please update the draft accounting order to refer what will be captured in the sub-account.
(g) Please confirm that the offset to the new sub-account would be Account 4305, Regulatory Debits, instead of Account 4080, Distribution Services Revenue, and update the draft accounting order. If this is not the case, please explain.
(h) If Toronto Hydro confirms that the new sub-account would be asymmetrical (i.e., in favour of customers), please update the sample journal entries in the draft accounting order to reflect credits to the new sub-account, instead of debits. If this is not the case, please explain.

OEB Staff-19
Ref: EB-2022-0065, Tab 2, Schedule 1, Page 11

In the current proceeding, Toronto Hydro stated that the preliminary results of the depreciation study indicate changes in financial useful lives that will likely lead to an overall net decrease to the depreciation expense for 2023 and 2024.

However, OEB staff notes that the quantification of the expected impacts was not included in Toronto Hydro's application.

(a) Please quantify the impact of the expected change in depreciation expense for 2023 and 2024, showing the differences between using the proposed depreciation rates and using existing depreciation rates, by year, as well as any other revenue requirement impacts.

(b) Please explain whether these impacts reflecting preliminary results known at this time are expected to be materially different, once the final results become available.

(c) If the preliminary results (or final results, if available) do not indicate changes in the useful lives will lead to an overall net decrease to depreciation expense for each of 2023 and 2024, as well as any other revenue requirement impacts. please explain.

(d) If the depreciation study results continue to be preliminary at this time, how certain is Toronto Hydro that the final results will lead to an overall net decrease in depreciation expense, as well as any other revenue requirement impacts, for each of 2023 and 2024? Please explain.