



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

BY EMAIL

November 10, 2023

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

Dear Ms. Marconi:

**Re: Ontario Energy Board (OEB) Staff Submission
Hydro One Networks Inc.
Application for 2024 Distribution Rates
OEB File Number: EB-2023-0030**

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

Yours truly,

Daniel Kim
Advisor, Distribution Policy & Compliance

Encl.

cc: All parties in EB-2023-0030



ONTARIO ENERGY BOARD

OEB Staff Submission

Hydro One Networks Inc.

2024 Rates Application

EB-2023-0030

November 10, 2023

Application Summary

Hydro One Networks Inc. (Hydro One) filed a 2024 Custom Incentive Rate-setting (IR) Annual Update application with the OEB¹ seeking approval for changes to its electricity distribution rates and other charges to be effective January 1, 2024.

On November 29, 2022, the OEB approved a 5-year Custom IR framework for Hydro One that covers the years 2023 to 2027² (JRAP Decision). For Hydro One's Custom IR framework, the JRAP Decision approved rates for 2023 which were to be adjusted mechanistically through a custom Revenue Cap Index (RCI) adjustment for each of the ensuing four (adjustment) years. In each of the adjustment years, Hydro One was required to file an application to implement the approved framework as set out in the JRAP Decision.

Hydro One's approved custom RCI formula is $I - X + C$, where:

- **I** is an adjustment for inflation based on the OEB's methodology and updated annually.
- **X** is the productivity factor, which is equal to the sum of Hydro One's custom industry total factor productivity measure and a 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 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.

As part of the JRAP Decision, the OEB approved the methodology for adjusting Hydro One's distribution revenue requirement for the years 2024 to 2027 by the RCI.

On June 29, 2023, the OEB issued the inflation factors to be used to set rates for certain electricity transmitters and distributors for 2024 rate applications beginning January 1, 2024³. Hydro One's current application reflects the updated 4.8% inflation factor for distributors calculated by the OEB.

Hydro One also requested an update to its Retail Transmission Service Rates (RTSRs) to recover the wholesale transmission rates charged by the Independent Electricity System Operator (IESO) and its Sub-Transmission (ST) rates to be recovered from embedded distributors.

¹ Under section 78 of the *Ontario Energy Board Act, 1998* (OEB Act).

² EB-2021-0110, Decision on Settlement Proposal and Order on Rates, Revenue Requirement and Charge Determinants ([JRAP Decision](#)), November 29, 2022.

³ OEB [Letter](#) 2024 Inflation Parameters, June 29, 2023.

As part of its interrogatory responses, Hydro One updated relevant spreadsheets,⁴ including incorporation of the OEB's 2024 preliminary Uniform Transmission Rates (UTRs)⁵.

This submission reviews the following topics:

- Custom RCI Adjustment
- Cost Allocation and Rate Design
- RTSRs and ST Rates
- Group 1 Deferral and Variance Accounts (DVAs)
- Other Matters

⁴ Hydro One is using its own custom spreadsheets to accommodate the unique features of its approved Custom Incentive Rate-setting plan for 2024-2027.

⁵ EB-2023-0222, OEB [Letter](#), September 28, 2023.

OEB Staff Submission

Custom RCI Adjustment

Background

Hydro One stated that the 2024 distribution revenue requirement of \$1,819.8M has been determined formulaically, using the Custom IR framework approved by the OEB in the JRAP Decision. 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. As noted above, the inflation factor and the custom capital factor will be updated annually. Hydro One stated that, consistent with the JRAP Decision, the productivity factor of 0.45% will not be updated over the 2024-2027 period. Hydro One provided the following table⁶ summarizing the approved components of the RCI for 2024 from the JRAP Decision.

Custom RCI By Component	2024
Inflation Factor (I)	4.80%
Productivity Factor (X)	0.45%
Custom Capital Factor (C)	1.01%
Total RCI = I – X + C	5.36%

In response to staff interrogatories⁷, Hydro One confirmed that in the current application the calculation of the 1.01% capital factor is the same as that undertaken in the JRAP Decision, and that the supplemental stretch factor of 0.20% has been included in the capital factor calculation. Hydro One also provided a modified table summary of its distribution revenue requirement components from the JRAP Decision that incorporated an additional column for the current 2024 rate application.

Submission

OEB staff submits that Hydro One has calculated the proposed 2024 distribution revenue requirement in accordance with the JRAP Decision.

Cost Allocation and Rate Design

Cost Allocation

Hydro One stated that in accordance with the JRAP Decision it has not updated the cost allocation model over the 2023-2027 term and has not performed any revenue-to-cost ratio adjustments for the 2024 rate year.

⁶ Exhibit A, Tab 4, Schedule 1, Table 3, Page 4, August 17, 2023.

⁷ OEB Staff Interrogatory #2 Response, October 27, 2023.

Rate Design

Transition to Fully Fixed Rates

Hydro One calculated its 2024 fixed and volumetric rates using the approved 2024 forecast number of customers and load as approved in the JRAP Decision. In a previous decision, the OEB directed Hydro One to implement the transition to fully fixed rates for the residential rate classes using the methodology in accordance with the OEB's Revenue Requirement Workform.⁸ Hydro One noted in this application that the transition to all-fixed distribution rates is now complete for all residential rates classes. Hydro One also noted that the OEB approved the elimination of the seasonal rate class in an earlier decision and that Hydro One's R2 rate class will continue to have a declining volumetric rate until 2032 as a mitigation measure for those low-volume seasonal customers that would otherwise see total bill impacts greater than 10 percent⁹.

Hydro One also calculated its 2024 fixed and volumetric distribution charges for non-residential rate classes using the methodology approved in the JRAP Decision.

Hopper Foundry and Transformer Cost Allowance Rate Adders

Hydro One stated that its proposed 2024 Hopper Foundry¹⁰ rate adder reflects the proposed 2024 General Service Demand (GSd) rates and that the forecast lost revenue related to Hopper Foundry is \$96,468 and results in a rate adder of \$0.0137 per kW. Hydro One further stated that this adder is included in the volumetric rate for the GSd rate class.

Hydro One stated that the Customer Supplied Transformer Allowance rate adders for the GSd, UGd, DGen, AUGd and AGSd rate classes¹¹ will remain unchanged at their currently approved values.

Bill Impacts Exceeding 10 Percent

In response to a staff interrogatory¹², Hydro One confirmed that total bill impacts exceed 10 percent for approximately 230 unmetered load customers, which includes unmetered scattered load, streetlights and sentinel light rate classes, of the acquired service areas of Norfolk, Haldimand and Woodstock. Hydro One stated that as per the JRAP

⁸ EB-2017-0049, [Decision and Order](#), Page 141, March 7, 2019.

⁹ EB-2020-0246, [Decision and Order](#), Pages 6 to 8, November 10, 2021.

¹⁰ The OEB's [Decision and Order](#) approved until April 30, 2010 an existing rate structure for Hopper Foundry in Hydro One's EB-2007-0681 cost of service rates proceeding. In Hydro One's EB-2009-0096 rates proceeding, the OEB's [Decision and Order](#) directed Hydro One to grandfather the rate structure for Hopper Foundry and permitted Hydro One to recover the revenue shortfall from ratepayers. The OEB also noted that if there is a material change in the circumstances related to this issue, then it should be brought by Hydro One to the OEB at that time.

¹¹ Urban General Service Demand (UGd), Distributed Generation (DGen), Acquired Urban Density General Service Demand (AUGd) and Acquired Mixed Density General Service Demand (AGSd).

¹² OEB Staff Interrogatory #5 Response, October 27, 2023.

Decision¹³ it continues to apply a mitigation credit to these customers to limit their total impact to be no more than 10 percent.

Submission

OEB staff accepts Hydro One’s evidence on these matters.

RTSRs and ST Rates

Background

Hydro One is billed by the IESO at each of its transmission delivery points for the transmission of power. The IESO charges the UTRs approved by the OEB.

To recover its transmission costs, in its original application Hydro One requested approval to adjust the RTSRs that it charges its customers based on the current OEB-approved UTRs¹⁴. Hydro One noted that once the 2024 UTRs are issued by the OEB, it will update and submit the revised 2024 RTSRs, ST rates (specifically HVDS-High, HVDS-Low and Common ST Line) and corresponding bill impacts.

On September 28, 2023, the OEB issued a letter¹⁵ regarding 2024 preliminary UTRs and Hydro One’s 2024 proposed ST rates. The OEB determined that it would use preliminary UTRs to calculate 2024 RTSRs. This would improve regulatory efficiency, allowing for this data to feed into rate applications (including annual updates for electricity distributors) on a timelier basis. The OEB also directed distributors to update their 2024 rate applications with Hydro One’s proposed host RTSRs.

As part of its interrogatory responses, Hydro One filed updated 2024 RTSR calculations reflecting the 2024 preliminary UTRs. As a result of the updated 2024 RTSRs, Hydro One also filed updated ST rates.

Submission

OEB staff accepts the updated proposed 2024 RTSRs and ST rates filed by Hydro One.

¹³ EB-2021-0110, Settlement Proposal, Page 102, October 24, 2022.

¹⁴ EB-2023-0101, [Decision and Rate Order](#), June 1, 2023.

¹⁵ EB-2023-0222, OEB [Letter](#), September 28, 2023.

Group 1 Deferral and Variance Accounts (DVAs)**DVA Overview****Background**

Hydro One requested the disposition of its December 31, 2022 Group 1 DVA balances in the amount of \$13,119,794 on a final basis.¹⁶ These balances pertain to variances accumulated during the 2021 and 2022 calendar years. Hydro One is requesting the disposition of these balances over a 12-month period, beginning January 1, 2024.¹⁷ The components of this balance are shown in Table 1.

Table 1: Group 1 DVA Balances

Account Name	Account Number	Principal Balance (\$) A	Interest Balance (\$) B	Total Claim (\$) C=A+B
Low Voltage Variance Account	1550	3,538,602	438,618	3,977,220
Smart Metering Entity Charge Variance Account	1551	(4,520,751)	(293,349)	(4,814,100)
RSVA - Wholesale Market Service Charge	1580	52,288,039	3,179,486	55,467,525
Variance WMS – Sub-account CBR Class B	1580	(9,534,050)	(1,023,896)	(10,557,946)
RSVA - Retail Transmission Network Charge	1584	38,671,078	2,365,312	41,036,390
RSVA - Retail Transmission Connection Charge	1586	(15,327,760)	(2,013,660)	(17,341,421)
RSVA - Power	1588	(36,205,397)	(2,928,036)	(39,133,434)
RSVA - Global Adjustment	1589	(19,918,340)	(1,818,511)	(21,736,851)
Disposition and Recovery/Refund of Regulatory Balances (2019) – HONI	1595	9,026,160	(2,803,749)	6,222,411
Totals for Group 1 accounts		18,017,581	(4,897,785)	13,119,794

¹⁶ Exhibit A, Tab 4, Schedule 1, Page 10, August 17, 2023; Hydro One Distribution DVA Continuity Schedule, I-01-01-02, October 27, 2023.

¹⁷ Exhibit A, Tab 4, Schedule 1, Page 20, August 17, 2023.

Despite the above-noted Group 1 account balances not exceeding the OEB's \$0.001/kWh threshold for disposition, Hydro One believes that the disposition of these balances will minimize intergenerational inequities, as the 2021 and 2022 balances have not yet been disposed.¹⁸ The OEB most recently approved the disposition of Hydro One's Group 1 account balances on a final basis, as of December 31, 2020, as part of its 2023 Custom IR proceeding.¹⁹

Hydro One also noted that the disposition threshold for the Peterborough rate zone has been met, although the adjustments to rates for 2024 in the Peterborough and Orillia rate zones are being addressed in a separate proceeding.²⁰ Hydro One believes it is appropriate to dispose of the Peterborough rate zone, Orillia rate zone, and Hydro One Distribution Group 1 DVA balances together in the respective 2024 rate applications, as this approach to dispose of the consolidated Group 1 DVA balances is consistent with past practice.²¹ Hydro One further stated that disposition of balances below the threshold is consistent with section 3.2.6 of the OEB's Chapter 3 Filing Requirements.²²

Submission

OEB staff supports the disposition of Hydro One's December 31, 2022 Group 1 DVA balances on a final basis, excluding Accounts 1588 and 1589, and Account 1595, pending Hydro One's reply submission regarding allocated Group 1 DVA balances (as discussed below).

OEB staff further submits that the noted accounts should not be approved at this time, pending a further review of Accounts 1588 and 1589 balances being conducted by Hydro One, as well as a review of a \$38 million impact on Account 1595. The results of Hydro One's review should be filed in the distributor's 2025 Custom IR Update application.

If the OEB determines that Hydro One has not adequately addressed OEB staff's concerns regarding allocated DVA balances discussed later in this submission, OEB staff submits that all of the Group 1 DVA balances should not be disposed, given that there are issues with the allocated DVA balances. These issues should be addressed instead in Hydro One's next rate application for 2025 rates.

¹⁸ Exhibit A, Tab 4, Schedule 1, Page 10 & 11, August 17, 2023.

¹⁹ EB-2021-0110, Settlement Proposal, Page 46, October 24, 2022.

²⁰ EB-2023-0059.

²¹ Exhibit A, Tab 4, Schedule 1, Page 10 & 11, August 17, 2023.

²² CME Interrogatory #1 Response, October 27, 2023.

Adoption of Accounting Guidance and Review of Balances – Accounts 1588 and 1589

Background

On February 21, 2019, the OEB issued *Accounting Guidance Related to Commodity Pass-Through Accounts 1588 & 1589* (Accounting Guidance).²³ The Accounting Guidance was effective January 1, 2019 and was to be implemented by August 31, 2019. However, in a response to an interrogatory in its 2021 Custom IR Update proceeding, Hydro One indicated that it intended to adopt the Accounting Guidance on a prospective basis, once a solution to implement the Accounting Guidance was determined, citing computer technology issues.²⁴

In Hydro One's 2021 Custom IR Update decision, the OEB made the following findings, also addressing a commitment made by Hydro One:²⁵

The OEB accepts Hydro One's proposal to dispose of its 2019 Group 1 DVA balances on a final basis. The OEB agrees with Hydro One that changes to its technology framework at this time in order to implement the new Accounting Guidance could be costly and can only be applied on a prospective basis. Therefore, the OEB accepts Hydro One's proposal to adopt the new Accounting Guidance in a modified manner until the OEB otherwise directs Hydro One. The OEB notes Hydro One's commitment to bring errors identified after disposing of the DVA balances on a final basis, if any, to the OEB's attention (including any balances allocated to the Acquired rate zones). The OEB further notes that any revisions proposed by Hydro One may be subject to the OEB's October 31, 2019 letter regarding Adjustments to Correct for Errors in Electricity "Pass-Through" Variance Accounts After Disposition.

In the current proceeding, Hydro One confirmed its view that since the Accounting Guidance was applied on a prospective basis (beginning January 1, 2021), the historical balances approved on a final basis prior to 2021 were not impacted.²⁶ OEB staff notes that the OEB approved the adoption "in a modified manner", as opposed to a full adoption.

²³ Accounting Procedures Handbook Update - Accounting Guidance Related to Commodity Pass-Through Accounts 1588 & 1589, February 21, 2019; Note that this guidance was further updated on May 23, 2023.

²⁴ EB-2020-0030, OEB Staff Interrogatory #1 Response, October 30, 2020.

²⁵ EB-2020-0030, Hydro One Distribution, 2021 Custom IR Update, Decision and Rate Order, December 17, 2020, Revised: February 18, 2021, Page 17 & 18.

²⁶ OEB Staff Interrogatory #6 Response, October 27, 2023.

Hydro One further stated that no historical balances for the pre-2021 period have been considered in the context of the Accounting Guidance. Hydro One further stated that no further review was performed for pre-2021 balances, for the following reasons:

- The pre-2021 Regulated Price Plan (RPP) settlement methodology was audited by the OEB and determined to result in reasonable balances that were disposed on a final basis.²⁷
- Pre-2021 balances underwent thorough monthly reviews and adhered to Hydro One's control processes.
- Hydro One did not identify any systemic errors from the past transactions.

In an interrogatory, OEB staff suggested that if Hydro One is not able to perform a review of the balances, it should clearly explain why that is the case, and how the application of the Accounting Guidance to historical balances is not a practical exercise Hydro One can undertake.²⁸ Hydro One responded by stating that such an exercise is not applicable, given that the OEB audited Hydro One's methodology at the time. Hydro One also suggested that the OEB agreed with Hydro One implementing the Accounting Guidance prospectively, as of January 1, 2021 (as per its 2021 Custom IR Update decision).

Submission

The significant adjustments that Hydro One has made to the balances in Accounts 1588 and 1589 (as shown in the below Table 2) give rise to concerns that there may be systemic problems with Hydro One's commodity accounting, especially in light of the fact that Hydro One has not yet fully adopted the OEB's Accounting Guidance.

OEB staff does not support Hydro One's request for the disposition of the balances in Accounts 1588 and 1589, given that OEB staff is unclear of the full impact of 2021 and 2022 reclassification adjustments (described below), as well as other issues pertaining to pre-2021 balances and post-2021 balances (please also refer to the section below titled "Systemic Issues – Accounts 1588 and 1589"). OEB staff is of the view that Hydro One should conduct a further review of the impact of the noted issues in this submission on Account 1588 and Account 1589.

²⁷ EB-2021-0110, OEB Staff Interrogatory #G-Staff-311 Response, November 29, 2021, "Inspection of the Compliance of the RPP Settlement Process and Assessment of the DVA Allocation Methodology for the Acquired Utilities, Hydro One Networks Inc., March 4, 2019."

²⁸ OEB Staff Interrogatory #6 Response, October 27, 2023.

Although Hydro One’s RPP settlement methodology was inspected by the OEB, the inspection report was dated March 4, 2019, which is shortly after the Accounting Guidance was issued by the OEB.²⁹ Therefore, the Accounting Guidance was not included as part of the inspection criteria. Furthermore, the OEB’s cover letter to the inspection report stated that Hydro One “is expected to comply with this Accounting Guidance”, although OEB staff also notes that the 2021 Custom IR Update decision allowed adoption of the Accounting Guidance in a modified manner, until the OEB otherwise directs Hydro One.³⁰

Hydro One is using a select approach in reflecting Accounts 1588 and 1589 principal adjustments on the GA Analysis Workform and the DVA Continuity Schedule, as opposed to a consistent approach.³¹ Hydro One should comply with the OEB’s requirements relating to the GA Analysis Workform and the DVA Continuity Schedule, as set out in the OEB’s Chapter 3 filing requirements, as well as the OEB’s instructions related to the GA Analysis Workform and DVA Continuity Schedule.³²

The results of the review suggested by OEB staff should be filed with Hydro One’s next rate application, after completion of the internal review. In this next rate application, Hydro One should confirm that the balances in Accounts 1588 and 1589 that are being requested for disposition are accurate, conform to the Accounting Guidance, and have been adjusted accordingly based on the result of the internal review. Hydro One should also explain whether any systemic issues were noted. OEB staff submits that Hydro One should quantify the adjustments made to Accounts 1588 and 1589 and provide supporting calculations and explanations for each adjustment. Sufficient detail should be filed with the OEB to support balances proposed for disposition in Hydro One’s next application, after completion of the internal review.

In its next rate application, Hydro One should also satisfy the OEB’s requirements regarding any potential adjustments to DVA balances that were previously approved by the OEB on a final basis.³³

²⁹ EB-2021-0110, OEB Staff Interrogatory #G-Staff-311 Response, November 29, 2021, “Inspection of the Compliance of the RPP Settlement Process and Assessment of the DVA Allocation Methodology for the Acquired Utilities, Hydro One Networks Inc., March 4, 2019.”

³⁰ EB-2020-0030, Hydro One Distribution, 2021 Custom IR Update, Decision and Rate Order, December 17, 2020, Revised: February 18, 2021, Page 17 & 18.

³¹ OEB Staff Interrogatory #11 Response, October 27, 2023.

³² Filing Requirements for Electricity Distribution Rate Applications - 2023 Edition for 2024 Rate Applications, Chapter 3, Incentive Rate-Setting Applications, June 15, 2023, section 3.2.6; Instructions for Completing GA Analysis Workform – 2024 Rates, June 23, 2023; IRM Rate Generator – DVA Tabs Instructions - 2024 Rates, July 18, 2023.

³³ OEB’s letter issued October 31, 2019, regarding Adjustments to Correct for Errors in Electricity Distributor “Pass-Through” Variance Accounts after Disposition; Filing Requirements for Electricity

Hydro One is encouraged to initiate a dialogue with OEB staff before the filing of its next rate application, in the event that OEB staff can assist Hydro One.

Now, all that said, if Hydro One is of the view that Accounts 1588 and 1589 balances should be disposed in the current proceeding, Hydro One should also provide confirmation that, in its opinion, the approach taken by Hydro One to derive the 2021 to 2022 account balances requested for disposition is unlikely to necessitate a material adjustment on a retrospective basis following final disposition. In this case, OEB staff recommends that should the OEB accept Hydro One's position, the OEB's approach set out in its October 2019 letter where an asymmetrical approach to correcting errors regarding pass through amounts should apply.³⁴

Systemic Issues – Accounts 1588 and 1589

Background

In Table 8 of its pre-filed evidence, Hydro One submitted that the following adjustments should be made for both principal and interest relating to Accounts 1588 and 1589:³⁵

**Table 2: Reclassification Adjustments for
Hydro One Distribution's Embedded Distributors (Pre-filed Evidence Table 8)**

	Principal	Interest	Total
2021			
Account 1588 – RSVA Power	24,748,877	67,875	24,816,752
Account 1589 – RSVA GA	(24,748,877)	(67,875)	(24,816,752)
2022			
Account 1588 – RSVA Power	20,162,335	756,256	20,918,591
Account 1589 – RSVA GA	(20,162,335)	(756,256)	(20,918,591)

Distribution Rate Applications - 2023 Edition for 2024 Rate Applications, Chapter 3, Incentive Rate-Setting Applications, June 15, 2023, section 3.2.6.

³⁴ OEB's letter issued October 31, 2019, regarding Adjustments to Correct for Errors in Electricity Distributor "Pass-Through" Variance Accounts after Disposition.

³⁵ Exhibit A, Tab 4, Schedule 1, Table 8, Page 13, August 17, 2023.

Hydro One explained that in early 2023, it identified an issue for the post-January 1, 2021 period related to the accounting in its general ledger of the invoices issued to the embedded distributors (i.e., on the revenue side). To address this issue, Hydro One proposed reclassification adjustments to the 2021 and 2022 principal balances, as shown in the above Table 8.³⁶

OEB staff notes that embedded distributors submit RPP declaration forms to Hydro One. Hydro One then submits similar forms to the IESO and invoices the same amounts back to the embedded distributors. As such, the embedded distributors' RPP declaration forms, Hydro One's RPP declaration forms, invoices issued by Hydro One to the embedded distributors, and the invoices issued by the IESO to Hydro One should have flowthrough impacts on Hydro One and should not have a net impact on Hydro One's Accounts 1588 and 1589.

Hydro One provided an illustrative example³⁷ showing Hydro One's practice prior to January 2021 (when Hydro One adopted the OEB's Accounting Guidance in a modified manner), corrected accounting treatment based on the Accounting Guidance, and the calculation of the reclassification adjustments. OEB staff notes from the illustrative example that Hydro One accounts for the IESO invoices as expenses and accounts for Hydro One's invoices to the embedded distributors as revenues. It appears that the proposed reclassification adjustments in 2021 and 2022 are needed because of Hydro One's inconsistent accounting treatments between the revenue side and the expense side.

OEB staff notes that there are no rate-retroactivity concerns regarding the reclassification adjustments to 2021 and 2022 Accounts 1588 and 1589 balances proposed by Hydro One in the current proceeding. This is because these balances relate to variances accumulated during the 2021 and 2022 calendar years that have not yet been disposed by the OEB. However, the need for these adjustments raises concerns that there may be systemic issues with Hydro One's accounting as noted above.

Regarding the accounting for the IESO invoice on the expense side, Hydro One confirmed that no correction is needed as it has correctly recorded the credit RPP portion of IESO Charge Type (CT) 142 related to global adjustment (GA) in Account 1588, which offsets the debit RPP portion of IESO GA CT 148 also recorded in Account 1588.³⁸

³⁶ OEB Staff Interrogatory #6 Response, October 27, 2023.

³⁷ OEB Staff Question #7 Response, Excel Spreadsheet, August 29, 2023.

³⁸ OEB Staff Interrogatory #7 Response, October 27, 2023.

Regarding the accounting for the embedded distributor invoice on the revenue side (and whether it reverses that described directly above), Hydro One confirmed that it incorrectly recorded the debit RPP portion of IESO CT 142 related to GA in Account 1589 (instead of Account 1588), thereby not offsetting the credit RPP portion of IESO GA CT 148 recorded in Account 1588.³⁹

The impact of this accounting error has resulted in the misallocation of commodity revenues and GA revenues and consequently resulted in the reclassification adjustments in 2021 and 2022 in Table 2 above.

OEB staff asked Hydro One to quantify the impacts prior to 2021 regarding the above-noted systemic issue. Hydro One responded stating that there were no errors or impacts affecting these balances.⁴⁰

Further to all of this, OEB staff is concerned that certain issues raised in the 2021 Custom IR proceeding regarding conformity with the Accounting Guidance remain unresolved. Despite proposing to make the reclassification adjustments to the 2021 and 2022 principal balances in the current proceeding, as shown in the above pre-filed evidence Table 8, two additional systemic issues remain unrectified by Hydro One. These issues were confirmed to be outstanding in both the current proceeding and 2021 Custom IR Update proceeding interrogatory responses. These two additional systemic issues are:

1. Meter reading calendarization calculations are not conducted when settling with the IESO on a monthly basis, as there is “no systematic solution.”⁴¹
2. RPP settlement is occurring and IESO GA Charge Type 148 is being split between Accounts 1588 and 1589 based on retail loss adjusted consumption, rather than wholesale consumption.⁴²

Submission

OEB staff notes that Hydro One has proposed the material reclassification adjustments in 2021 and 2022 to correct a mismatch between revenues and expenses. This is because Hydro One appears to be accounting for the IESO invoices on the expense

³⁹ OEB Staff Interrogatory #7 Response, October 27, 2023.

⁴⁰ OEB Staff Interrogatory #7 Response, October 27, 2023.

⁴¹ OEB Staff Interrogatory #11 Response, October 27, 2023; EB-2020-0030, Response to OEB Staff Interrogatory #11 a), October 30, 2020.

⁴² OEB Staff Interrogatory #7 Response, October 27, 2023; EB-2020-0030, Response to OEB Staff Interrogatory #14, October 30, 2020.

side correctly, while it appears to be accounting for the invoices to embedded distributors on the revenue side incorrectly in 2021 and 2022.

In addition to the implications on the 2021 and 2022 balances, OEB staff remains concerned about the implication of these reclassification adjustments on Hydro One, specifically the implication of this issue on pre-2021 balances, despite Hydro One stating that there were no errors or impacts affecting these balances. Hydro One has stated that (as mentioned earlier in this submission) since the Accounting Guidance was applied on a prospective basis (beginning January 1, 2021), the historical balances approved on a final basis prior to 2021 were not impacted. This is also because of Hydro One's statement that no historical balances for the pre-2021 period have been considered in the context of the Accounting Guidance. OEB staff notes that the OEB approved the adoption "in a modified manner", as opposed to a full adoption.

OEB staff is of the view that it is unlikely that Hydro One only switched to incorrectly accounting for its revenues (related to invoices issued to its embedded distributors) beginning in 2021. Rather, it is likely that pre-2021 balances were also impacted. OEB staff is also of the view that the quantification of the misallocation error on pre-2021 balances is important because of its materiality. In addition, the quantification would not be bounded by Hydro One's technology limitations that were mentioned in its 2021 Custom IR Update proceeding, given that the charge types on the IESO invoices and the invoices to embedded distributors can be compiled without substantial effort, in OEB staff's view.

OEB staff is also concerned that the two additional systemic issues described above remain ongoing (for balances prior to 2021, during 2021, and after 2021), despite Hydro One's assertion that it reviewed all related data and processes and ensured alignment with the Accounting Guidance as of January 1, 2021.⁴³ OEB staff is not clear why these two issues have not yet been resolved, given that these issues were brought to the OEB's attention over three years ago. OEB staff invites Hydro One to explain in more detail why these issues are still outstanding in its reply submission.

OEB staff submits that the OEB should direct Hydro One to fully adopt the Accounting Guidance effective January 1, 2023, given that it has been over three years since the first two systemic issues were raised in the 2021 Custom IR Update proceeding, with no solution implemented to-date by Hydro One. Hydro One should provide more detail in its reply submission regarding any computer technology limitations of this full adoption, effective January 1, 2023. If there are any concerns, Hydro One should advise of a date

⁴³ Exhibit A, Tab 4, Schedule 1, Page 13, August 17, 2023. OEB Staff Interrogatory #6 Response, October 27, 2023.

where it would be possible for Hydro One to fully implement the Accounting Guidance.

Furthermore, the new systemic issue that was raised in the current proceeding (regarding a reclassification error between Accounts 1588 and 1589) is not barred by Hydro One's computer technology limitations, given that simple journal entries were required as a remedy. Hydro One's external auditor would also have the capability to assess any journal entries required for balances prior to 2021.

To satisfy OEB staff's concerns, OEB staff reiterates its submission made above (in the section "Adoption of Accounting Guidance and Review of Balances – Accounts 1588 and 1589") that the OEB should direct Hydro One to perform a further review of all of its balances, including addressing and quantifying the two additional outstanding systemic issues (that were raised in both the 2021 Custom IR proceeding and the current proceeding) and the new systemic issue brought forward in the current proceeding.

OEB staff submits that Hydro One should assess the impact of the reclassification error on pre-2021 balances (as well as the quantification on all balances of the two additional outstanding systemic issues) and file the quantification and action plan from its review of the issues noted above in its next rate application.

Accounting Error – DVAs Approved for Disposition in 2018 Custom IR

Background

Hydro One has requested disposition of a debit balance of \$6,222,411 in Account 1595, Disposition and Recovery/Refund of Regulatory Balances (2019), which relates solely to the Hydro One Distribution rate zone.⁴⁴ In response to an interrogatory, Hydro One confirmed that Account 1595 (2019) – HONI relates to DVAs approved for disposition in Hydro One Distribution's 2018 Custom IR proceeding, as the decision and order in that proceeding was issued on March 7, 2019.⁴⁵

In the same interrogatory response, Hydro One provided an Excel spreadsheet that showed further drivers of this balance requested for disposition.⁴⁶ Specifically, in the new Excel spreadsheet, Hydro One showed the "OEB-Approved Disposition During 2019" amounts that were transferred to Account 1595 (2019) of \$54.5 million, the sum of principal and interest.

⁴⁴ Hydro One Distribution DVA Continuity Schedule, I-01-01-02, October 27, 2023.

⁴⁵ OEB Staff Interrogatory #15, October 27, 2023.

⁴⁶ OEB Staff Interrogatory #15, October 27, 2023; Hydro One Distribution Account 1595 (2019), I-01-01-10, October 27, 2023.

Submission

OEB staff does not support the disposition of Hydro One's December 31, 2022 Account 1595 (2019) debit balance of \$6,222,411 on a final basis.

Further to the provision of a new Excel spreadsheet in the current proceeding, OEB staff requires greater clarity regarding the amounts that were transferred to Account 1595 (2019), given the OEB's decision in Hydro One's 2021 Custom IR Update proceeding. In that proceeding, the OEB agreed with Hydro One's estimate of \$38 million as the amount that was under-collected, relating to DVA balances that were approved for disposition in its 2018 Custom IR proceeding.⁴⁷ \$38 million was under-collected due to an accounting error made by Hydro One. However, OEB staff notes that the OEB did not provide direction in the 2021 Custom IR Update decision as to:

- How to account for the \$38 million; or
- Whether the \$38 million should be recovered from ratepayers – either in part or in full.

OEB staff submits that in its reply submission, Hydro One should clarify if, when, and how it is proposing to recover the \$38 million that was under-collected relating to its 2018 Custom IR proceeding, and how this amount has been accounted for (including whether 100% was allocated to the Hydro One Distribution rate zone, as opposed to dividing the amount by the three different rate zones, also including the Peterborough and Orillia rate zones). OEB staff assumes that Hydro One has recorded this amount of \$38 million as a debit in Account 1595 (2021), given that the error was brought to the OEB's attention in Hydro One's 2021 Custom IR Update proceeding. OEB staff also assumes that Hydro One will request the recovery of the \$38 million in a future proceeding, but asks Hydro One to confirm or correct these assumptions in its reply submission.

OEB staff also requests that in its reply submission, Hydro One confirm that when it requests disposition of this debit amount of \$38 million in a future proceeding, it will address the OEB's October 31, 2019 letter, regarding adjustments to correct for errors after disposition, as well as the requirements outlined in the OEB's Chapter 3 Filing Requirements.⁴⁸ For example, the OEB outlined factors that it may consider in

⁴⁷ EB-2020-0030, Hydro One 2021 Custom IR Update, Decision and Rate Order, Page 18 & 19, December 17, 2020, Revised February 18, 2021.

⁴⁸ OEB [Letter](#), Adjustments to Correct for Errors in Electricity Distributor "Pass-Through" Variance Accounts After Disposition, October 31, 2019; Filing Requirements For Electricity Distribution Rate Applications - 2023 Edition for 2024 Rate Applications, Chapter 3, Incentive Rate-Setting Applications June 15, 2023, section 3.2.6.

determining on a case-by-case basis whether to make a retroactive adjustment based on the particular circumstances of each case.

In the event that Hydro One has incorporated this debit amount of \$38 million as part of its total DVA disposition claim in the current proceeding, OEB staff requests that Hydro One provide more detail regarding the account utilized and how it has been allocated to the three different rate zones, with rationale (with the rate zones being Hydro One Distribution, Peterborough, and Orillia). Hydro One should also address in its reply submission the requirements of the OEB's October 31, 2019 letter and Chapter 3 Filing Requirements, including the correction of errors after disposition.

In addition to all of this, Hydro One incorrectly transferred a credit of \$3.2 million to Account 1589 from Account 1595 (2021) in the 2022 transactions portion of the DVA Continuity Schedule and the GA Analysis Workform.⁴⁹ This transfer is inconsistent with how the OEB has treated similar cases regarding disposition of residual amounts.⁵⁰ In its next rate application, Hydro One should apply for a new sub-account of Account 1595 (2021) to record the credit of \$3.2 million (to be refunded only to non-RPP customers).

Allocated DVA Balances

Background

Hydro One stated that the Group 1 DVA balances are allocated to the Hydro One Distribution rate zone, the Peterborough rate zone, and the Orillia rate zone using the methodology approved in the OEB's Inspection Report,⁵¹ which is primarily based on relevant historical sales volumes.⁵² However, where possible, specific amounts were directly assigned to the appropriate rate zones.

OEB staff asked interrogatories seeking clarification on the balances allocated to each rate zone. In response, Hydro One stated that it had reviewed all relevant models and numbers and confirmed that all amounts are correct and do not require updates.⁵³

⁴⁹ OEB Staff Question #3 Response, August 29, 2023.

⁵⁰ OEB Staff Interrogatory #14 Response, October 27, 2023; EB-2022-0057, Oshawa PUC Networks Inc, Decision and Rate Order, Pages 8 & 9, December 8, 2022. This is a similar precedent where the OEB approved a sub-account of Account 1595 to be refunded only to non-RPP customers (as opposed to all customers), as it was global adjustment in nature.

⁵¹ EB-2021-0110, OEB Staff Interrogatory #G-Staff-311 Response, November 29, 2021, "Inspection of the Compliance of the RPP Settlement Process and Assessment of the DVA Allocation Methodology for the Acquired Utilities, Hydro One Networks Inc., March 4, 2019."

⁵² OEB Staff Interrogatory #8 Response, October 27, 2023.

⁵³ OEB Staff Interrogatory #8 Response, October 27, 2023.

However, despite Hydro One’s assertions, OEB staff has compiled the following Table 3 that demonstrates an example of Hydro One’s numbers remaining unreconciled. For example, for the Account 1586 closing December 31, 2022 balance there is a difference of approximately \$26.7 million between the spreadsheet that allocates the DVA balances⁵⁴ and the Hydro One Consolidated DVA Continuity schedule.⁵⁵

That said, OEB staff notes for example, the Account 1586 closing December 31, 2022 value in the Hydro One Consolidated DVA Continuity schedule summing to a credit of \$30.5 million reconciles to the sum of the underlying DVA Continuity schedules relating to the three rate zones. This reconciliation is shown in Table 4. OEB staff is unclear whether it is only the spreadsheet “Allocation of Group 1 DVAs”⁵⁶ that has the incorrect numbers (as shown in Table 3), given that the December 31, 2022 Hydro One Consolidated DVA continuity schedule⁵⁷ values equal the sum of the respective amounts shown in the DVA continuity schedules for each of the three rate zones (as shown in Table 4).⁵⁸

Table 3: Example of Unreconciled Allocated DVA Balances

Account 1586 - Closing Principal Balance and Interest Amounts as of December 31, 2022							
Hydro One Three Rate Zones A-4-1-2 20230817				Hydro One Consolidated DVA Continuity Schedule I-01-01-01 20231027			Difference
Hydro One Distribution	Hydro One Orillia	Hydro One Peterborough	Sum of Three Rate Zones OEB Staff Calculations	Hydro One Consolidated Principal	Hydro One Consolidated Interest	Hydro One Consolidated Total	
(3,660,228)	(31,772)	(66,019)	(3,758,018)	(29,709,976)	(763,551)	(30,473,527)	26,715,509

⁵⁴ Allocation of Group 1 DVAs, A-04-01-02, August 17, 2023.

⁵⁵ Hydro One Consolidated DVA Continuity Schedule, I-01-01-01, October 27, 2023.

⁵⁶ Allocation of Group 1 DVAs, A-04-01-02, August 17, 2023

⁵⁷ Hydro One Consolidated DVA Continuity Schedule, I-01-01-01, October 27, 2023

⁵⁸ Hydro One Distribution DVA Continuity Schedule I-01-01-02 October 27, 2023; EB-2023-0059 Orillia DVA Continuity Schedule I-01-13-02 November 1, 2023; EB-2023-0059 Peterborough DVA Continuity Schedule I-01-13-03 November 1, 2023.

Table 4: Example of Reconciled DVA Balances Across DVA Continuity Schedules

Account 1586 - Closing Principal Balance and Interest Amounts as of December 31, 2022						
	Hydro One Distribution	Hydro One Orillia	Hydro One Peterborough	Sum of Three Rate Zones OEB Staff Calculations	Hydro One Consolidated	Difference
	HONI Main DVA Continuity Schedule I-01- 01-02_October 27, 2023	Orillia DVA Continuity Schedule I-01- 13-02 November 1, 2023	Peterborough DVA Continuity Schedule I-01- 13-03 November 1, 2023		HONI Consolidated DVA Continuity Schedule I-01- 01-01 October 27, 2023	
Principal	(30,182,050)	(69,447)	541,521	(29,709,976)	(29,709,976)	0
Interest	(741,027)	(8,515)	(14,009)	(763,551)	(763,551)	0
Total	(30,923,077)	(77,963)	527,512	(30,473,527)	(30,473,527)	0

Submission

OEB staff supports the disposition of Hydro One's December 31, 2022 Group 1 DVA balances on a final basis (excluding Accounts 1588, 1589, and 1595), pending Hydro One's reply submission regarding allocated Group 1 DVA balances (as discussed below).

OEB staff submits that in its reply submission, Hydro One should explain whether it agrees with OEB staff's calculations and values in both Table 3 and Table 4 and update as required.

OEB staff requests that Hydro One review all relevant models and numbers again (and not solely those described in Table 3 and Table 4) and update the evidence as required. OEB staff submits that this request is appropriate, given the analysis shown in Table 3, despite OEB staff previously asking Hydro One to perform this task in interrogatories.⁵⁹ OEB staff requests that Hydro One provide the results of its review in its reply submission.

However, if the OEB determines that Hydro One has not adequately addressed OEB staff's concerns, OEB staff submits that all of the Group 1 DVA balances should not be disposed, given that there are issues with the allocated DVA balances. These issues should be addressed instead in Hydro One's next rate application for 2025 rates.

⁵⁹ OEB Staff Interrogatory #8 Response, October 27, 2023.

Establishment of Forgone Revenue DVA

Background

Hydro One requested that the OEB's rate order for this proceeding be effective January 1, 2024.⁶⁰

In order to address the possibility that the requested rate order cannot be made effective by that time, Hydro One requested an interim rate order making its current distribution rates and charges effective on an interim basis as of January 1, 2024. Hydro One also requested the approval of a Forgone Revenue Deferral Account to recover any differences between the interim rates and final rates effective January 1, 2024, based on the OEB's decision and order.

OEB staff noted that in certain previous proceedings,⁶¹ 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.

In response to an interrogatory, Hydro One supported the use of a rate rider that would be approved as part of this application to capture any forgone revenue resulting from approved 2024 rates that would be implemented subsequent to the effective date of the 2024 rates.⁶² Hydro One supported such a rate rider, rather than the establishment of a deferral account to capture the forgone revenue.

Submission

OEB staff agrees with Hydro One that the use of forgone revenue rate riders is an acceptable alternative to the establishment of a new DVA to capture forgone revenue, should it be required, but only upon OEB approval.

OEB staff's view is that there would be regulatory efficiencies to be gained and less intergenerational inequity by utilizing forgone revenue rate riders in the current proceeding, rather than clearing a DVA in a future proceeding related to forgone revenue from the current proceeding.

⁶⁰ Exhibit A, Tab 2, Schedule 1, Page 3, August 17, 2023.

⁶¹ For example, EB-2021-0016, E.L.K. Energy Inc., Decision and Rate Order, Page 5, June 30, 2022.

⁶² OEB Staff Interrogatory #16 Response, October 27, 2023.

OEB staff invites Hydro One to advise the OEB in its reply submission of the date by which it would require a final Tariff of Rates and Charges to be able to implement rates effective January 1, 2024, subject to OEB approval.

Other Matters

OEB staff supports Hydro One's requested effective date of January 1, 2024, as well as its request for an interim rate order making its current distribution rates and charges effective on an interim basis as of January 1, 2024, if needed.

OEB staff also submits that Hydro One's proposed 2024 tariff of rates and charges reflects the OEB approved updated retail service charges⁶³ and distribution pole attachment charge⁶⁴ effective January 1, 2024.

Staff notes that Hydro One is one of eight distributors to which the Distribution Rate Protection (DRP) regulation and program applies⁶⁵. The OEB's DRP decision⁶⁶ increased the maximum base distribution charge from \$38.08 per month in 2022 to \$39.49 per month effective July 1, 2023 for eligible residential customers. Staff notes that Hydro One's updated bill impacts reflects the OEB's DRP decision.

~All of which is respectfully submitted~

⁶³ EB-2023-0193, [Decision and Order](#), September 26, 2023.

⁶⁴ EB-2023-0194, [Decision and Order](#), September 26, 2023.

⁶⁵ Section 79.3 of the OEB Act and Ontario Regulation 198/17. The Government of Ontario established the DRP program for residential customers who live in areas with higher distribution costs, funded through provincial revenues.

⁶⁶ EB-2023-0119, Decision and Order, May 30, 2023.