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BY EMAIL AND RESS

November 24, 2023

Ms. Nancy Marconi
Registrar
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON M4P 1E4

Dear Ms. Marconi,

EB-2023-0030 – Hydro One Networks Inc. – Application for 2024 Distribution Rates – Reply Submission

In accordance with Procedural Order No.1 issued October 3, 2023, please find enclosed Hydro One's Reply Submission in support of its Application for 2024 Distribution Rates and the supporting attachments.

An electronic copy of the Reply Submission has been submitted using the Board's Regulatory Electronic Submission System.

Sincerely,



Elise Andrey

ONTARIO ENERGY BOARD

IN THE MATTER OF the Ontario Energy Board Act, 1998;
S.O.1998, c.15 (Schedule B);

AND IN THE MATTER OF an Application by Hydro One Networks Inc., for an Order or Orders made pursuant to section 78 of the Ontario Energy Board Act, 1998 approving just and reasonable rates and other charges for the distribution of electricity, to be effective January 1, 2024.

**REPLY SUBMISSION
HYDRO ONE NETWORKS INC.**

November 24, 2023

1 **INTRODUCTION**

2 On August 5, 2021, Hydro One Networks Inc. (Hydro One) filed a Custom Incentive Rate-
3 setting (Custom IR) application (EB-2021-0110) seeking approval of its distribution
4 revenue requirement and the associated rates and charges from January 1, 2023 to
5 December 31, 2027. The Ontario Energy Board (OEB) released its Decision and Order
6 for Hydro One's Custom IR application on November 29, 2022. The OEB approved the
7 proposed Custom IR methodology and determined that this framework would be used to
8 establish Hydro One's distribution revenue requirement for the years 2024 through to 2027
9 inclusive.¹

10
11 On August 17, 2023, Hydro One submitted this Application for distribution rates and
12 charges effective January 1, 2024 (2024 Annual Update). This Application was made
13 pursuant to section 78 of the *Ontario Energy Board Act, 1998* (the OEB Act).

14
15 In this Application, Hydro One hereby applies to the OEB for an Order approving:

- 16
17 a) The 2024 distribution rates and charges, to be effective on January 1, 2024, by
18 way of an update to: (i) the base revenue requirement (after deducting for external
19 revenues) of \$1,775.9 million; (ii) the associated customer and load forecast by
20 rate class as approved by the OEB in the 2023-2027 Custom IR Application; and
21 (iii) the disposition of Group 1 Deferral and Variance Accounts (DVAs) of \$13.1
22 million;²
- 23
24 b) The 2024 Retail Transmission Service Rates (RTSR), the Specific Service
25 Charges and Retail Service Charges in effect for January 1, 2024; and
- 26
27 c) Other items or amounts that may be requested by Hydro One in the course of this
28 proceeding, and as may be granted by the OEB.

¹ Decision on Settlement Proposal and Order on Rates, Revenue Requirement and Charge Determinants, EB-2021-0110, Hydro One Networks Inc., November 29, 2022

² The Group 1 DVA balances proposed for disposition are as of December 31, 2022, adjusted for dispositions during 2023, along with projected carrying charges to December 31, 2023.

1 This is Hydro One's reply submission in respect of the 2024 Annual Update application
2 (Reply Submission). Hydro One submits that the proposed 2024 distribution rates and
3 charges are reasonable and that the Application should be approved as filed and as further
4 revised during the proceeding.³

5
6 Hydro One does not take issue with OEB staff's submissions supporting Hydro One's
7 proposals on the following matters:

- 8 • Custom RCI Adjustment
- 9 • Cost Allocation and Rate Design
- 10 • 2024 RTSR and ST Rates
- 11 • Other Matters, including Effective Date of January 1, 2024 and Request for Interim
12 Rate Order in the event the proposed 2024 rates cannot be approved in time for
13 implementation on January 1, 2024

14
15 In this Reply Submission, Hydro One will address the outstanding aspects of OEB staff's
16 submission on the disposition of Group 1 DVAs, which consist of the following six topics:

- 17 1. DVA Overview
- 18 2. Adoption of Accounting Guidance and Review of Balances – Accounts 1588 and
19 1589
- 20 3. Systemic Issues – Accounts 1588 and 1589
- 21 4. Accounting Error – DVAs Approved for Disposition in 2018 Custom IR
- 22 5. Allocated DVA Balances
- 23 6. Establishment of Forgone Revenue DVA

24 25 **DISPOSITION OF GROUP 1 DVA ACCOUNTS**

26 **1. DVA OVERVIEW**

27 Hydro One requests disposition of December 31, 2022 Group 1 DVA balances amounting
28 to a debit of \$13.1 million on a final basis. The balance is proposed to be disposed over a
29 one-year period, effective January 1, 2024. Although the consolidated Group 1 DVA
30 balances do not exceed the pre-set disposition threshold of \$0.001/kWh, Hydro One has

³ Hydro One updated its the proposed RTSRs, ST rates that are based on RTSRs, and projected 2023 interest amounts during interrogatories.

1 requested to dispose of the Group 1 DVA balances for all rate zones (including Hydro One
2 Distribution's balances in the current Application) since the disposition threshold for the
3 Peterborough Rate Zone (RZ) has been met. This is consistent with the expectations set
4 out in the 2023 Peterborough and Orillia RZ IRM Decision⁴ and is consistent with past
5 practice, where the OEB has accepted Hydro One's disposition approach to establish the
6 total Group 1 balance and seek disposition of all allocated balances for Hydro One
7 Distribution and its acquired utilities of the same rate year.⁵ In addition, this approach will
8 minimize intergenerational inequities, as the 2021 and 2022 balances have not yet been
9 disposed.

10
11 OEB staff supported disposing of the December 31, 2022 Group 1 DVAs, excluding
12 Accounts 1588, 1589 and 1595, pending Hydro One's reply submission regarding
13 allocated Group 1 DVA balances.⁶ OEB staff also submitted that Hydro One should
14 conduct a further review of Accounts 1588, 1589, and 1595 and submit the findings in
15 Hydro One's next annual update application, prior to requesting final disposition of the
16 balances.⁷

17
18 Hydro One submits that the request to dispose of all Group 1 DVA balances remains
19 appropriate. Further reviews on Accounts 1588 and 1589 are not required as these
20 accounts reflect audited balances and have already been reviewed. No further issues
21 were identified based on the reviews conducted. OEB staff's request regarding a review
22 of Account 1595 was not specified in any detail, but in any case, would not be required as
23 the issues were already resolved in Hydro One's 2021 Custom IR proceeding (EB-2020-
24 0030). As such, Hydro One requests final disposition of all Group 1 DVA accounts based
25 on the following reasons:

- 26
27 1. Hydro One has reviewed all related data and processes to ensure alignment with
28 the adoption of the Accounting Guidance as of January 1, 2021 and believes that
29 the reviews conducted to date are sufficient to confirm accuracy of Accounts 1588

⁴ Decision and Order, EB-2022-0040, December 8, 2022, pp. 7 and 13

⁵ Application, Exhibit A-04-01, p. 7

⁶ OEB Staff Submission, pp. 9, 10, 15

⁷ OEB Staff Submission, pp. 9, 15

1 and 1589 to be disposed on a final basis in this proceeding. Further details of Hydro
2 One's adoption of the Accounting Guidance are provided below in Section 2 of this
3 Reply Submission.

4

5 2. There are no outstanding systemic issues with Hydro One's accounting process
6 which should raise concerns over the accuracy of the pre-2021, 2021 and 2022
7 Account 1588 and 1589 balances. Hydro One addressed the Accounting Guidance
8 with OEB staff in 2020 as part of the 2021 Custom IR proceeding.⁸ The OEB then
9 directed Hydro One to adopt the Accounting Guidance in a modified manner
10 prospectively beginning January 1, 2021, as the adoption could only occur on a
11 prospective basis.⁹

12

13 Hydro One submits that the modified approach remains appropriate. Upon all the
14 reviews and internal controls implemented, Hydro One has not identified any
15 further issues aside from the isolated reclassification adjustments with respect to
16 embedded distributors, which have now been rectified. Details on these issues are
17 provided below in Section 3.

18

19 3. Hydro One has addressed OEB staff's concerns regarding the accuracy of Account
20 1595 (2019) balance to be disposed in this proceeding. The \$38 million of the
21 under-collected amount was approved for disposition as part of the 2015-2019
22 audited balances in the 2021 Custom IR proceeding (EB-2020-0030) and any
23 residual balance captured in 1595 (2021) will be brought forward for disposition in
24 a future proceeding, once the account is eligible for disposition. Additional details
25 are provided below in Section 4.

26

27 4. The allocation of the Group 1 DVAs for 2021 and 2022 have been reconciled with
28 the DVA Continuity Schedules, in response to OEB staff's request in Section 5.

⁸ EB-2020-0030, Reply Submission, pp. 5-7

⁹ EB-2020-0030, Hydro One Distribution, 2021 Custom IR Update, Decision and Rate Order, December 17, 2020, Revised: February 18, 2021, pp. 17-18

1 For these reasons, which are detailed in the following sections, Hydro One submits that
2 the request to dispose of all Group 1 DVA balances on a final basis is appropriate.

3
4 **2. ADOPTION OF ACCOUNTING GUIDANCE AND REVIEW OF BALANCES –**
5 **ACCOUNTS 1588 AND 1589**

6
7 **(A) IMPLEMENTATION OF ACCOUNTING GUIDANCE IN A MODIFIED MANNER**
8 **SINCE JANUARY 1, 2021**

9 Hydro One's adoption of the Accounting Guidance in a modified manner was approved by
10 the OEB in the 2021 Custom IR Decision. In the OEB's decision in the 2021 Custom IR
11 proceeding, the OEB agreed with Hydro One that:

12
13 "...changes to its technology framework at this time in order to implement
14 the new Accounting Guidance could be costly and can only be applied on
15 a prospective basis. Therefore, the OEB accepts Hydro One's proposal to
16 adopt the new Accounting Guidance in a modified manner until the OEB
17 otherwise directs Hydro One."¹⁰ (emphasis added)

18
19 OEB staff presented the following concerns regarding the Account 1588 and Account 1589
20 balances:

- 21 i. OEB staff believes that there are significant adjustments that give rise to
22 concerns that there may be systemic problems with Hydro One's accounting,
23 especially in light of the fact that Hydro One has not fully adopted the
24 accounting guidance.¹¹
- 25
26 ii. OEB staff is unclear of the full impact of 2021 and 2022 reclassification
27 adjustments, as the Accounting Guidance was implemented in a modified
28 manner and Hydro One is using a select approach to reflect 1588 and 1589
29 adjustments.¹²

¹⁰ EB-2020-0030, Hydro One Distribution, 2021 Custom IR Update, Decision and Rate Order, December 17, 2020, Revised: February 18, 2021, pp. 17-18

¹¹ OEB Staff Submission, pp. 9, 12

¹² OEB Staff Submission, pp. 9, 10, 15

1 iii. OEB staff is unclear whether there are further adjustments to pre-2021 and
2 post-2021 balances because there are ongoing systemic issues that remain
3 unresolved.¹³

4
5 Each of these concerns are addressed below.

6
7 Concern i), OEB staff believes that there are significant adjustments that give rise to
8 concerns that there may be systemic problems with Hydro One's accounting, especially
9 in light of the fact that Hydro One has not fully adopted the accounting guidance.¹⁴

10
11 Hydro One does not agree with OEB staff's views that use of the modified approach to
12 adopt the Accounting Guidance is yielding systemic issues.

13
14 The reclassification adjustments of \$24.8 million (2021) and \$20.9 million (2022) between
15 Accounts 1588 and 1589 were a one-time, isolated issue relating only to the embedded
16 distributors' settlement process for the Accounting Guidance starting in 2021.¹⁵ The
17 reclassification was necessary because when Hydro One was setting up the new process
18 for the new accounting guidance, it incorrectly mapped the entry for embedded
19 distributors.

20
21 There are no historical issues that arise as a result from this point-in-time oversight. Since
22 the issue has been rectified, there are no systemic issues. Hydro One therefore disagrees
23 with OEB staff's position that there may be systemic issues.

24
25 Hydro One's modified approach relies on the same methodology as the Accounting
26 Guidance with the exception of the data used for RPP settlements. These data limitations
27 are not systemic, but rather a technology system limitation, which the OEB accepted in
28 Hydro One's 2021 Custom IR proceeding. As quoted above, from the OEB's decision in
29 the 2021 Custom IR proceeding:

¹³ OEB Staff Submission, pp. 9, 10, 15

¹⁴ OEB Staff Submission, pp. 9, 12

¹⁵ Response to OEB Staff Interrogatory 7 f)

1 “changes to its technology framework at this time in order to implement the
2 new Accounting Guidance could be costly and can only be applied on a
3 prospective basis”¹⁶

4
5 “the OEB accepts Hydro One’s proposal to adopt the new Accounting
6 Guidance in a modified manner”¹⁷

7
8 This is further discussed in Section 3 of this Reply Submission.

9
10 Concern ii), OEB staff is unclear of the full impact of 2021 and 2022 reclassification
11 adjustments, as the Accounting Guidance was implemented in a modified manner and
12 Hydro One is using a select approach to reflect 1588 and 1589 adjustments.

13
14 Hydro One disagrees with OEB staff’s assertion that the implementation of the Accounting
15 Guidance, in a modified manner, should question whether the full impact of 2021 and 2022
16 reclassification adjustments remain unquantified.

17
18 Hydro One submits that the full impact of the 2021 and 2022 reclassification adjustments
19 have been confirmed on the record and the full impact is reflected in the final balances
20 requested for disposition.¹⁸ In response to interrogatories, Hydro One confirmed that the
21 pre-2021 balances did not require a further review, as the pre-2021 RPP settlement
22 methodology was audited by the OEB and was determined to result in appropriate
23 balances that were subsequently disposed on a final basis. In addition, Hydro One did not
24 identify any errors relating to pre-2021 transactions.¹⁹ With respect to the 2021 and 2022
25 balances, these balances have been already examined and do not require any further
26 adjustments.

27
28 Hydro One also disagrees with OEB staff that it is using a select approach to reflect 1588
29 and 1589 adjustments. Hydro One is using a consistent approach to reflect 1588 and 1589
30 reclassification adjustments on the DVA Continuity Schedule based on audited actuals.

¹⁶ EB-2020-0030, Hydro One Distribution, 2021 Custom IR Update, Decision and Rate Order, December 17, 2020, Revised: February 18, 2021, pp. 17-18

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

¹⁸ Application, Exhibit A-04-01, Table 8; Response to OEB Staff Interrogatory 7 h)

¹⁹ Response to OEB Staff Interrogatory 6 c)

1 This approach is consistent with historical practice, which anchors the disposition of
2 requested balances on the DVA Continuity Schedule to its audited balances and audited
3 financial statements. Specifically, the two principal adjustments captured on the DVA
4 Continuity Schedule are reclassification adjustments related to the audited balances
5 between the two specific accounts only.²⁰ The reconciliation items on the GA Analysis
6 Workform are primarily related to timing differences and are captured in the following
7 year's closing balances on the DVA Continuity Schedule and the audited balances
8 requested for disposition in future proceedings.²¹

9
10 Concern iii), OEB staff is unclear whether there are further adjustments to pre-2021 and
11 post-2021 balances because there are ongoing systemic issues that remain unresolved.

12
13 There are no ongoing systemic issues that remain unresolved.

14
15 Hydro One has reviewed all related data and processes to ensure alignment with the
16 adoption of the Accounting Guidance as of January 1, 2021. The reviews conducted to
17 date are sufficient to confirm the accuracy of Accounts 1588 and 1589.²² Hydro One
18 reiterates that the impact of the reclassification adjustments is limited to 2021 and 2022
19 balances, which is the period when Hydro One adopted the Accounting Guidance.²³

20
21 Pre-2021 balances remain unaffected for the reasons that follow. Prior to adopting the
22 Accounting Guidance, Hydro One split the RPP settlements as Charge Type 142 on the
23 IESO invoice between Accounts 1588 and 1589, where:

- 24 • the portion related to the difference between RPP consumption at RPP rate and
25 RPP consumption (at HOEP rate) was recorded in Account 1588; and
- 26 • the portion related to RPP consumption (at GA rate) was recorded in Account
27 1589.

²⁰ Response to OEB Staff Interrogatory 11 c) and d)

²¹ Response to OEB Staff Interrogatory 11 c)

²² Response to OEB Staff Interrogatory 6 c) and f)

²³ Response to OEB Staff Interrogatory 6 b) and 7h)

1 The illustrative example filed on August 29, 2023 demonstrates that the pre-2021
2 accounting treatment for embedded distributors' RPP settlements were accurately
3 recorded and the net impact to Accounts 1588 and 1589 were nil.²⁴ As such, no
4 adjustments were required for the pre-2021 balances, as Hydro One had yet to adopt the
5 Accounting Guidance. It was only after adoption of new Accounting Guidance when the
6 reclassification adjustments were required.

7
8 To ensure this was an isolated issue, Hydro One performed a detailed review of the
9 processes and the related data, including:²⁵

- 10 • a detailed transaction-level review of all the customer billing including embedded
11 distributor and revenue general ledger recordings;
- 12 • a detailed transaction-level review of IESO invoice settlements for Hydro One
13 Distribution including the embedded distributor components;
- 14 • an assessment of monthly/quarterly/yearly reviews and control processes to align
15 with the Accounting Guidance; and
- 16 • a validation exercise to ensure that all billing system generated reports used for
17 the IESO's RPP settlement calculations are aligned with the Accounting Guidance.

18
19 **(B) NO MATERIAL ADJUSTMENTS ON RETROSPECTIVE BASIS AFTER FINAL**
20 **DISPOSITION**

21 In OEB staff's submission, OEB staff indicated that in the event that Hydro One supports
22 disposition of Account 1588 and 1589 balances in the current proceeding, Hydro One
23 should confirm whether there would be any material adjustments on a retrospective basis
24 following final disposition.²⁶ If that were the case, OEB staff recommended that the OEB's
25 approach set out in the October 2019 letter, where an asymmetrical approach to correcting
26 errors regarding pass-through amounts, should apply.

27
28 Hydro One reviewed the relevant data to confirm accuracy of the 2021 and 2022 Account
29 1588 and 1589 balances and confirms there will be no material adjustments on a

²⁴ Please refer to Hydro One's illustrative example filed August 29, 2023, rows 13 and 14 under section "*Before OEB Accounting Guidance Change H1 Dx's practice.*"

²⁵ Response to OEB Staff Interrogatory 7 c)

²⁶ OEB Staff Submission, p. 11

1 retrospective basis, following the final disposition in this Application.²⁷ With respect to OEB
2 staff's submission for an asymmetrical approach to correcting errors based on the October
3 31, 2019 letter, Hydro One submits that no further direction on this matter is required, as
4 the October 31, 2019 guidance is clear.²⁸

5
6 **3. SYSTEMIC ISSUES – ACCOUNTS 1588 AND 1589**
7 **(A) IMPLICATIONS OF RECLASSIFICATION ADJUSTMENTS ON PRE-2021**
8 **BALANCES**

9 During the course of this proceeding, Hydro One confirmed that previously approved
10 balances were unaffected by the reclassification adjustments that were performed on the
11 2021 and 2022 balances.

12
13 In OEB staff's submission, OEB staff remained concerned with the implications of the
14 reclassification adjustments. Despite Hydro One's assertions that the previously approved
15 Account 1588 and 1589 balances remain unaffected, OEB staff is of the view that pre-
16 2021 balances were also impacted, as it is unlikely that Hydro One only switched to
17 incorrectly account for the revenues from the embedded distributors.²⁹ Further, OEB staff
18 believes that the quantification of the misallocation error could be material, and would not
19 be difficult to produce as the quantification would not be bound by the technology
20 limitations noted in the 2021 Custom IR proceeding.³⁰

21
22 On page 14 of OEB staff's submission, OEB staff attempts to rationalize why it believes
23 that pre-2021 are impacted and could potentially be material. OEB staff do not provide
24 any grounds for their assertion that there could be misallocation errors for pre-2021
25 balances or that these errors could be material. OEB staff's position fundamentally
26 neglects to address the evidence that Hydro One has provided outlining that this was a
27 one-time, isolated issue for 2021 and 2022 Account 1588 and 1589 balances.

²⁷ Response to OEB Staff Interrogatory 6 and 7

²⁸ Adjustments to Correct for Errors in Electricity Distributor "Pass-Through" Variance Accounts After Disposition, October 31, 2019

²⁹ OEB Staff Submission, p. 14

³⁰ OEB Staff Submission, p. 14

1 **(B) TWO EXISTING SYSTEMIC ISSUES RAISED IN 2021 PROCEEDING**

2 OEB staff submitted that there are two systemic issues raised in the 2021 Custom IR
3 proceeding affecting the pre-2021, 2021 and 2022 balances that remain unresolved.

4 These systemic issues were characterized as follows:

- 5 i. Meter reading calendarization calculations are not conducted when settling
6 with the IESO on a monthly basis; and
- 7 ii. RPP settlement is occurring and IESO GA Charge Type 148 is being split
8 between Accounts 1588 and 1589 based on retail loss adjusted consumption,
9 rather than wholesale consumption.

10
11 OEB staff invited Hydro One to explain why these issues are still outstanding as part of its
12 Reply Submission.

13
14 There are no ongoing systemic issues. The first issue described above is, in fact, a
15 technology system limitation that the OEB has previously acknowledged, accepted and as
16 a result, approved Hydro One's modified approach. The second issue described above is
17 not a systematic issue at all. OEB staff may have misinterpreted the way Hydro One splits
18 IESO GA Charge Type 148 between Accounts 1588 and 1589, and how it conducts RPP
19 settlements.

20
21 Each of the items are discussed below:

- 22 i. To comply with the Accounting Guidance, Hydro One was approved by the
23 OEB to adopt the Accounting Guidance in a modified manner which includes
24 the use of accrued data for RPP settlements. This is because calendarized
25 sales volume data is not received, stored nor extracted from the current
26 systems.

27
28 As reiterated in the reply submission in EB-2020-0030 (2021 Reply
29 Submission), Hydro One worked with its IT solutions team to explore options
30 to obtain calendarized sales volume data, but identified major limitations to its
31 current technology framework, including:³¹

³¹ EB-2020-0030, Reply Submission, p. 6

- 1 • not receiving or storing Meter Data Management Repository (MDMR) data
2 on a daily basis, nor on a calendar month cycle;
- 3 • only keeping monthly MDMR readings based on the billing period, which
4 is different for different sets of customers as some billing periods run mid-
5 month to mid-month (e.g., Jan 15 to Feb 14, for example); and
- 6 • not being able to sync all the MDMR data with the calendar month, which
7 would be inefficient and impractical to do for 1.5 million customers.

8
9 Without calendarized data due to the current technology limitations, the use of
10 accrued data for RPP settlements remains the best alternative to align with
11 how the IESO settles with distributors. Hydro One is concerned to see that this
12 previously identified technology system limitation is being incorrectly
13 characterized as a systemic issue and is causing concerns over the accuracy
14 of the Account 1588 and 1589 balances.

15
16 Hydro One understands OEB staff's position to promote standardization and
17 consistency across the industry in the application of the Accounting Guidance.
18 As Hydro One's modified approach relies on the same methodology as the
19 Accounting Guidance with the exception of calendarized data, Hydro One
20 submits that the lack of calendarized data to conduct calendarization
21 calculations should not be characterized as a systemic issue, but rather a
22 technology system limitation which was previously understood and accepted
23 by the OEB.

- 24
25 ii. For the second issue raised by OEB staff, Hydro One believes that there may
26 have been a misinterpretation. For the RPP settlements and the splitting of
27 IESO GA Charge Type 148, Hydro One confirms that it is using wholesale
28 consumption, but clarifies that it is using retail loss adjusted consumption to
29 apportion the wholesale volumes between the accounts, consistent with the

1 Accounting Guidance.³² As such, Hydro One submits it is incorrect for OEB
2 staff to characterise this as a systemic issue.

3

4 **(C) NEW SYSTEMIC ISSUE RAISED IN 2024 PROCEEDING**

5 OEB staff indicated that there is a new systemic issue raised in the current proceeding
6 (regarding a reclassification error between Accounts 1588 and 1589) that is not barred by
7 Hydro One's computer technology limitations.³³

8

9 As noted earlier under Section 2 (Concerns i and iii), the 2021 and 2022 reclassification
10 adjustments are an isolated item that occurred after the Accounting Guidance was
11 implemented. Therefore, it is not appropriate for OEB staff to characterize the
12 reclassification adjustments as a new systemic issue that remains unrectified. Hydro One
13 has consistently confirmed throughout this proceeding that the reclassification
14 adjustments only affect 2021 and 2022 balances and that this item has been rectified.

15

16 **(D) REQUEST TO FULLY ADOPT ACCOUNTING GUIDANCE AS OF JANUARY 1,**
17 **2023**

18 OEB staff submitted that Hydro One should be directed to fully adopt the Accounting
19 Guidance, effective January 1, 2023, given that it has been over three years since the
20 systemic issues were raised in the 2021 Custom IR proceeding, with no solution
21 implemented to-date by Hydro One.³⁴ Additionally, OEB staff asked Hydro One to provide
22 more detail in its reply submission regarding any computer technology limitations of this
23 full adoption, effective January 1, 2023. If there were concerns, Hydro One should advise
24 of a date when it would be possible to fully implement the Accounting Guidance.³⁵

³² Accounting Procedures Handbook Update - Accounting Guidance Related to Commodity Pass-through Accounts 1588 & 1589, February 21, 2019, pp. 9 and 20

³³ OEB Staff Submission, p. 15

³⁴ OEB Staff Submission, p. 14

³⁵ OEB Staff Submission, pp. 14-15

1 Hydro One disagrees with OEB staff's position for the following reasons:

- 2
- 3 • The OEB has already agreed, after considerable discussion and collaboration with
4 Hydro One, to permit Hydro One to adopt the Accounting Guidance in a modified
5 manner and on a prospective basis.³⁶ This decision was made in consideration of
6 the costs (borne by customers) and the benefits to significantly modify its existing
7 technology framework to fully comply with the Accounting Guidance.³⁷
8
 - 9 • Hydro One has already revamped its RPP settlement processes and procedures
10 to comply with the Accounting Guidance starting in 2021. Given the technology
11 framework limitations that exist, the adoption of the Accounting Guidance in a
12 modified manner was an acceptable solution developed in consultation with OEB
13 staff and was accepted by the OEB.³⁸ In the 2021 Reply Submission, Hydro One
14 outlined the steps it undertook with OEB staff over the 2019 and 2020 period to
15 arrive at this solution, including in-person and virtual meetings, email questions
16 and responses, and formal submissions (see Appendix A for details).³⁹
17
 - 18 • Based on discussions with OEB staff in 2019 and 2020, Hydro One understood
19 that the OEB's Phase 2 Consultation was forthcoming to identify further
20 procedures and data sets to be used in the new settlement methodology. As such,
21 Hydro One believed that it would be best to implement further modifications to its
22 IT framework after the Phase 2 consultation was completed to determine the inputs
23 used in the new settlement methodology. That would avoid duplicative and
24 potentially costly re-works to the modified IT framework, and this was previously
25 accepted by the OEB.⁴⁰

³⁶ EB-2020-0030, Hydro One Distribution, 2021 Custom IR Update, Decision and Rate Order, December 17, 2020, Revised: February 18, 2021, pp. 17-18

³⁷ EB-2020-0030, Reply Submission, p. 5

³⁸ Between 2019 and 2020, Hydro One worked with various OEB staff to arrive at an acceptable solution to implement the Accounting Guidance, given the technology framework limitations that exist.

³⁹ EB-2020-0030, Reply Submission, pp. 4-7

⁴⁰ EB-2020-0030, Hydro One Distribution, 2021 Custom IR Update, Decision and Rate Order, December 17, 2020, Revised: February 18, 2021, pp. 17-18

1 In response to OEB staff's request to provide more detail regarding any computer
2 technology limitations of this full adoption and to further advise of a date when it would be
3 possible to fully implement the Accounting Guidance if there were any concerns, Hydro
4 One submits the following:

5
6 1. The timeframe to implement changes to the current IT framework would be
7 considerable. Hydro One would need to conduct a thorough reassessment of the
8 current IT framework and impacts with all affected business units to determine the
9 full scope and appropriate implementation timelines.

10
11 2. Hydro One cannot fully adopt the Accounting Guidance retroactively. This position
12 was accepted by the OEB in the 2021 Custom IR proceeding. Once modifications
13 are made to the system, changes to the data are made on a go-forward basis.
14 Historical data cannot be reproduced out of the system for the purposes of
15 assessing the Accounting Guidance on historical balances. Therefore, the
16 adoption of the Accounting Guidance as of January 1, 2023 is simply not possible.
17 Hydro One notes that this rationale was accepted by the OEB in the 2021 Custom
18 IR Decision.⁴¹ Given previous OEB rulings, Hydro One is unsure why OEB staff is
19 taking a different view in this proceeding.

20
21 In the event there is no Phase 2 consultation, Hydro One submits that the implementation
22 of the Accounting Guidance in a modified manner, as approved by the OEB, continues to
23 remain appropriate. With the exception of the use of calendarized data for RPP
24 settlements, Hydro One has already updated its settlement processes and procedures as
25 of January 1, 2021. This included modifying its existing system reports and revamping the
26 entire RPP settlement processes and procedures to comply with the Accounting
27 Guidance.

28
29 Should the OEB determine that it is necessary for Hydro One to fully adopt the Accounting
30 Guidance, Hydro One reiterates that it will only be able to do so on a prospective basis,

⁴¹ EB-2020-0030, Hydro One Distribution, 2021 Custom IR Update, Decision and Rate Order, December 17, 2020, Revised: February 18, 2021, pp. 17-18

1 after the technology solution around the calendarized data is implemented. Additionally, if
2 this were the case, Hydro One requests that a deferral account be approved in this
3 proceeding to capture costs related to modifications and enhancements to its technology
4 framework for recovery at Hydro One's next rebasing application.

5
6 **(E) SCOPE OF REVIEWS SUGGESTED BY OEB STAFF**

7 OEB staff recommended a detailed scope of review for Accounts 1588 and 1589 to ensure
8 accuracy of these account balances.⁴² OEB staff further recommended that Hydro One be
9 directed to perform a further review of Account 1588 and 1589, including (i) addressing
10 and (ii) quantifying the outstanding systemic issues and the new systemic issue. As part
11 of this review, OEB staff submitted that Hydro One should assess the impact of the
12 reclassification error on pre-2021 balances and file the quantification and action plan in
13 the 2025 rate application.⁴³

14
15 Hydro One respectively submits that no further reviews of Accounts 1588 and 1589 are
16 required to support the disposition of the balances on a final basis. The record is clear that
17 there are no outstanding systemic issues that have not already been addressed with the
18 approval to implement the Accounting Guidance, in a modified manner, since January 1,
19 2021. Over the course of this proceeding, Hydro One has addressed OEB staff's questions
20 on several occasions, including (i) over an informal discussion on August 28, 2023, (ii)
21 filing of written responses to OEB staff questions on August 29, 2023, (iii) filing of
22 interrogatory responses on October 27, 2023 (which confirmed the reviews conducted to
23 ensure alignment of the Accounting Guidance) and (iv) as part of this Reply Submission.

24
25 As noted under Section 2 (Concern iii), Hydro One has not identified any issues that would
26 have impacted pre-2021 balances. Furthermore, the pre-2021 methodology was audited
27 by the OEB.⁴⁴ There were monthly reviews and controls in place to ensure accuracy of the
28 transactions, and to date, Hydro One has not identified any issues that would impact the
29 pre-2021 balances.⁴⁵

⁴² OEB Staff Submission, p. 10

⁴³ OEB Staff Submission, p. 15

⁴⁴ "Inspection of Compliance of the RPP Settlement Process and Assessment of DVA Allocation Methodology to Assign Group 1 Balances to the Acquired Utilities", March 4, 2019

⁴⁵ Response to OEB Staff Interrogatory 6

1 In addition, through the course of this proceeding, Hydro One has confirmed that the
2 reclassification adjustments associated with embedded distributors' RPP settlements are
3 limited to 2021 and 2022, only after Hydro One switched its RPP settlement accounting
4 treatment and adopted the Accounting Guidance as of January 1, 2021. As noted under
5 Section 2 (Concern iii), Hydro One has conducted detailed reviews to ensure the issue
6 was isolated to only 2021 and 2022 balances.

7
8 Hydro One submits that it has reviewed all related data and processes to ensure alignment
9 with the Accounting Guidance as of January 1, 2021, and believes that the reviews
10 conducted to date are sufficient to confirm accuracy of Accounts 1588 and 1589 to be
11 disposed in this proceeding. Hence, Hydro One submits that no further reviews for
12 Accounts 1588 and 1589 are required and questions the additional value that further
13 reviews and quantification plans would bring to confirm accuracy of the Account 1588 and
14 1589 balances.

15
16 **4. ACCOUNTING ERROR – DVAS APPROVED FOR DISPOSITION IN 2018 CUSTOM**
17 **IR**

18 OEB staff does not support the disposition of \$6.2 million in Account 1595 (2019) until
19 there is greater clarity on amounts transferred into this account. In the following sections,
20 Hydro One provides clarity on OEB staff's concerns regarding:

- 21 a) the recovery of \$38 million in relation to DVA balances approved for disposition in
22 Hydro One's 2018 Custom IR Update proceeding, and
23 b) the disposition of GA transferred amounts through Account 1589.

24
25 **(A) RECOVERY OF \$38 MILLION APPROVED IN 2021 PROCEEDING**

26 OEB staff seeks clarity on whether the \$38 million of under-collected amounts were
27 included in Account 1595 (2019) thereby affecting the current disposition claim for this
28 Application, or whether the amounts were included in Account 1595 (2021) for disposition
29 in a future proceeding. As such, OEB staff has requested Hydro One to clarify if, when
30 and how it is proposing to recover the \$38 million and how the amounts were accounted
31 for as between the Hydro One rate zones. OEB staff further requested that Hydro One
32 confirm that when it seeks disposition of the debit balance of \$38 million in a future
33 proceeding, Hydro One will address the OEB's October 31, 2019 letter regarding

1 adjustments to correct for errors after disposition, and the requirements outlined in the
2 Chapter 3 Filing Requirements.⁴⁶

3
4 Hydro One submits that this issue has been raised and resolved in the 2021 Custom IR
5 proceeding. Below is a recap of the record:⁴⁷

- 6 • In the 2015-2017 Distribution Application (EB-2013-0416) where 1595 (2015) was
7 established, Hydro One was approved to dispose of 2013 audited balances as of
8 December 31, 2013.
- 9
10 • In the 2018-2022 Distribution Application (EB-2017-0049) where 1595 (2019) was
11 established, Hydro One was approved to dispose of 2014 audited balances as of
12 December 31, 2014, consistent with the Decision and Order.⁴⁸ When the amount
13 was established for disposition, the 2013 balances approved for disposition were
14 not removed from the final balance approved for disposition. The disposition of the
15 2013 balance commenced in 2015 and was recorded in Hydro One's financials in
16 2015. This resulted in an under-collection of \$38 million.
- 17
18 • In the 2021 Custom IR Application (EB-2020-0030) where 1595 (2021) was
19 established, Hydro One was approved to dispose of 2015-2019 audited balances.
20 Hydro One confirmed that the 2015-2019 balances approved for disposition
21 already included the under-collected amount of \$38 million as it was captured in
22 the final audited balances requested for disposition as of December 31, 2019.
- 23
24 • In the OEB's decision approving the disposition of the 2015-2019 Group 1
25 balances in the 2021 Custom IR proceeding, the OEB found that no further
26 adjustments to the \$38 million were required:

27
28 "The OEB agrees with Hydro One's estimate of \$38 million as the
29 amount under-collected for the 2013 Group 1 DVA balances. This
30 is consistent with OEB staff's estimate of \$36.1 million plus
31 estimated interest up to the end of 2020. The OEB finds that Hydro
32 One's explanation as to why this error does not impact the Group 2

⁴⁶ OEB Staff Submission, p. 16

⁴⁷ EB-2020-0030, Response to Staff Interrogatory 2

⁴⁸ Decision and Order, EB-2017-0049, Hydro One Networks, March 7, 2019, p. 167

1 DVA balances to be reasonable. As a result, the OEB also finds that
2 no adjustments pertaining to this error are required.⁴⁹ (emphasis
3 added)
4

5 Following this decision, Hydro One proceeded to recover this amount and established
6 Account 1595 (2021) as per the normal course. As the OEB's determinations on the under-
7 collected amount of \$38 million was already decided in the 2021 Custom IR proceeding
8 when Hydro One was approved to dispose of the 2015-2019 balances, Hydro One thereby
9 submits that the requirements of the October 31, 2019 letter do not apply. As such, Hydro
10 One submits that the proposal to address this issue in the context of the October 31, 2019
11 letter is not applicable and should be dismissed.

12
13 In response to OEB staff's request for clarification, Hydro One notes that the 1595 (2021)
14 account was allocated to Hydro One Distribution. Additionally, there are no further
15 amounts that remain unrecovered, and no further determinations from the OEB are
16 required. Hydro One will dispose of the residual balance captured in Account 1595 (2021)
17 in a future proceeding, once the account is eligible for disposition.

18
19 **(B) DISPOSITION OF GA TRANSFERRED AMOUNTS THROUGH ACCOUNT 1589**

20 OEB staff indicated that Hydro One incorrectly transferred a credit of \$3.2 million from
21 Account 1595 (2021) to Account 1589 for disposition in this proceeding and noted that this
22 transfer was inconsistent with how the OEB treated similar cases for errors that are global
23 adjustments in nature. OEB staff suggested that Hydro One apply for a new sub-account
24 of Account 1595 (2021) to return the credits to non-RPP customers.⁵⁰

25
26 Hydro One does not agree with OEB staff's assertion that Hydro One's approach of
27 transferring the credit of \$3.2 million to Account 1589 from Account 1595 (2021) is
28 incorrect. There are circumstances in this Application that are unique to Hydro One, which
29 were not included in OEB staff's submission.

⁴⁹ Decision and Rate Order, EB-2020-0030, Hydro One Distribution, December 17, 2020, Revised February 18, 2021, p. 19

⁵⁰ OEB Staff Submission, p. 17

1 Hydro One notes that the circumstances of this Application differ from the example
2 provided by OEB staff for Oshawa PUC Networks Inc. (Oshawa PUC). In the case of
3 Oshawa PUC's 2023 distribution rate application, the 1595 sub-account allowed the
4 balance to be disposed to the affected customers with no delay in the disposition, as the
5 1595 sub-account was eligible for disposition in that rate proceeding. If the same
6 accounting treatment implemented by Oshawa PUC was adopted for Hydro One, the
7 refund will be delayed by at least one year and further exacerbate the intergenerational
8 inequity issues, as Account 1595 (2021) is not eligible for disposition until 2025 at the
9 earliest.⁵¹

10
11 Under Hydro One's proposed approach which transfers the \$3.2 million credit from
12 Account 1595 (2021) to Account 1589 as part of its 2022 transactions and its financials,
13 the under-refunded GA amounts are returned to the applicable non-transition customers
14 as soon as possible. As such, Hydro One submits that the proposed approach continues
15 to be in the customers' best interest.

16 17 **5. ALLOCATED DVA BALANCES**

18 As noted in Section 1 above, OEB staff supported the disposition of December 31, 2022
19 Group 1 DVAs, excluding Accounts 1588, 1589 and 1595, pending Hydro One's reply
20 submission regarding allocated Group 1 DVA balances.

21
22 In response to interrogatories, Hydro One stated it had reviewed all relevant models and
23 numbers and confirmed that all amounts are correct and do not require updates.⁵²

24
25 In OEB staff's submission, OEB staff was unclear whether the "Allocation of Group 1
26 DVAs" spreadsheet⁵³ showed incorrect numbers, given that the closing balances indicated
27 in the "Allocation of Group 1 RSVA Balances" spreadsheet (filed August 17, 2023) did not
28 reconcile with the Consolidated DVA Continuity Schedule (filed October 27, 2023). As a
29 result, OEB staff compiled Tables 3 and 4 in its submission and asked Hydro One to

⁵¹ Response to OEB Staff Interrogatory 14

⁵² Response to OEB Staff Interrogatory 8

⁵³ In OEB staff's submission, the "Allocation of Group 1 DVAs" excel spreadsheet referenced by OEB staff is the "Allocation of Group 1 RSVA Balances" (Exhibit A-04-01, Attachment 2) filed on August 17, 2023.

1 explain whether it agrees with OEB staff's calculations and values in both tables. In
2 addition, OEB staff requested that Hydro One review all relevant models and numbers
3 again, update the evidence as required, and provide the results of its review as part of its
4 Reply Submission.⁵⁴

5
6 In response to OEB staff's request, Hydro One has reviewed all relevant models and
7 numbers again using the appropriate comparisons and confirms that the models and
8 numbers are correct. The results of Hydro One's Review of Allocated DVA Balances is
9 filed in Attachment 1 to this Reply Submission, which demonstrates that the "Allocation of
10 Group 1 RSVA Balances" spreadsheet reconciles to the DVA Continuity Schedules.

11
12 Further to OEB staff's request to confirm the calculations in Tables 3 and 4 of its
13 submission, Hydro One clarifies that the correct comparison between the DVA Allocation
14 File and DVA Continuity Schedules is transactions. However, there is an exception for
15 2021 because this is the year of integration for Orillia and Peterborough. Thus, the closing
16 balances in the DVA Allocation File and DVA Continuity Schedules should be compared
17 for 2021, while transactions are used for comparative purposes in 2022.

18
19 As shown in the "Allocation of Group 1 RSVA Balances (Updated)"⁵⁵ spreadsheet
20 (Attachment 2 to this Reply Submission), 2021 is a combination of pre-integration life-to-
21 date (LTD) (pre-June 1, 2021) and post integration consolidated transactions (June to
22 December 2021). Since the pre-integration LTD balances were brought forward to the
23 integration date, the closing balances for 2021 should be used in the comparison between
24 the DVA Allocation File and DVA Continuity Schedules to reflect total 2021 activity.

25
26 Accordingly, Hydro One does not agree with Table 3 in OEB staff's submission, as it
27 inadvertently compared 2022 transactions in the DVA Allocation File with 2022 closing
28 principal amounts in the DVA Continuity Schedules. However, Hydro One agrees with
29 OEB staff's calculations in Table 4 in its OEB staff's submission.

⁵⁴ OEB Staff Submission, p. 19

⁵⁵ Hydro One has revised the "Allocation of Group 1 RSVA Balances" spreadsheet to update the title of the columns in Tab 2022 from "Closing Principal Balance and Interest Amounts as of December 2022" to "Total 2022 Transactions and Interest". Additionally, table titles were added for ease of reference.

1 **6. ESTABLISHMENT OF FORGONE REVENUE DVA**

2 Hydro One requested the use of a Forgone Revenue Deferral Account to recover any
3 differences between the interim rates and final rates effective January 1, 2024.

4
5 In response to interrogatories, Hydro One supported the use of a rate rider that would be
6 approved as part of this Application to capture any forgone revenue resulting from
7 approved 2024 rates that would be implemented subsequent to the effective date of the
8 2024 rates.

9
10 OEB staff agreed with Hydro One that the use of forgone revenue rate rider is an
11 acceptable alternative to the establishment of a new DVA to capture forgone revenue,
12 should it be required. Therefore, both Hydro One and OEB staff agree on the use of a rate
13 rider to capture any forgone revenue resulting from approved 2024 rates that would be
14 implemented, subsequent to the effective date of the 2024 rates.

15
16 OEB staff further invited Hydro One to advise of the date by which it would require a final
17 Tariff of Rates and Charges to be able to implement rates effective January 1, 2024.⁵⁶ In
18 response to OEB staff's request, Hydro One submits that a Final Tariff of Rates and
19 Charges issued by the OEB by December 14, 2023 would provide reasonable time to
20 implement rates effective January 1, 2024. In the event the OEB is unable to issue a final
21 decision and rate order by December 14, 2023, Hydro One will appreciate the opportunity
22 to work with OEB staff to come to a mutually agreed-upon date.

23
24 **CONCLUSION**

25 Based on the foregoing, it is Hydro One's submission that its proposed 2024 distribution
26 rates and charges are reasonable and that the Application should be approved as filed.

27
28 **ATTACHMENTS**

- 29
- Attachment 1: Hydro One Review of Allocated DVA Balances
 - Attachment 2: Allocation of Group 1 RSVA Balances (Updated)
- 30

⁵⁶ OEB Staff Submission, p. 21

1 **APPENDIX A**

2 The following is an excerpt from Hydro One's 2021 Reply Submission outlining the steps
3 it undertook with OEB staff over the 2019 and 2020 period.

4
5 Reference: EB-2020-0030, Reply Submission, pp. 5-7

6
7 On August 30, 2019, Hydro One submitted its 2020 Annual Update (EB-2019-0043).
8 During the course of that proceeding, Hydro One explained that it was exploring
9 technology solutions and accounting considerations that would allow it to obtain the
10 necessary data from its billing system and the IESO's Meter Data Management Repository
11 ("MDMR") system to allow it to adopt the Accounting Guidance. Hydro One also stated its
12 commitment to working with OEB staff to identify a compliant and cost-effective solution.

13
14 Since then, Hydro One participated in two in-person meetings in November and December
15 2019 followed by a series of emailed questions and responses between December 2019
16 and January 2020 which included significant analysis and detail. OEB staff re-engaged on
17 the matter in August 2020 and Hydro One participated in four formal meetings with OEB
18 staff between August and November, and engaged in a series of emailed questions and
19 responses which again included significant analysis and detail. As part of the ongoing
20 discussions, the following items were reviewed and addressed with OEB staff:

- 21 • Hydro One detailed its current settlement process and how it differs from the
22 Accounting Guidance including system limitations (current process is based on
23 actual invoiced retail volume);
- 24
25 • Hydro One outlined its settlement process from a financial statements perspective
26 (which is on an Accrued basis factoring both actual invoiced and unbilled
27 estimation);
- 28
29 • Hydro One worked with its IT solutions team to explore options for adopting the
30 Accounting Guidance and noted the limitations of its current technology framework
31 and the need for a significant investment for an IT system solution;

- 1 • Hydro One's position is that the IT system solution should align with the OEB's
2 Phase 2 requirements. As such, Hydro One discussed the challenges it faces in
3 fully adopting the new Accounting Guidance until Phase 2 is complete (e.g. Hydro
4 One does not receive or store MDMR data on a daily basis or on a calendar month
5 cycle. Hydro One only keeps monthly MDMR readings based on the billing period
6 which is different for different customers (i.e. some billing periods run mid-month
7 to mid-month, Jan 15 to Feb 14, for example); Hydro One has 1.3M customers and
8 they cannot all sync with the calendar month, this would not be practical or
9 efficient);
10
- 11 • Hydro One described how it was able to accommodate the TOU rate change in
12 March 2020 (this was a one-time special arrangement with MDMR to send meter
13 read data before and after the rate change. Under normal circumstances, Hydro
14 One does not have daily MDMR data and it is not possible to efficiently replicate
15 this process on a monthly basis for Hydro One or the MDMR);
16
- 17 • Hydro One described its current OER settlement process (Hydro One settles on
18 an Accrued basis not calendar month basis);
19
- 20 • As part of its ongoing discussions with OEB staff, Hydro One proposed to adopt
21 the new Accounting Guidance in a modified manner using accrued monthly meter
22 reading data (Accrued meter reading = Reversal of Prior Month Uninvoiced Meter
23 reading + Current Month Invoiced Meter reading + Current Month Uninvoiced
24 Meter Reading) to allocate total purchased volumes effective January 1, 2021, until
25 Phase 2 requirements are issued, since actual calendarized meter reading is not
26 available. As indicated previously, this proposed solution will be on a prospective
27 basis.

28
29 Between January 2020 and August 2020 when OEB staff re-engaged on the issue, Hydro
30 One has continued to work to better understand how it's current technology framework
31 would need to be modified to implement the Accounting Guidance.

1 **All of which is respectfully submitted on November 24, 2023.**

2

3

By its counsel,

4

5



6

7

Raman Dhillon

1 **HYDRO ONE REVIEW OF ALLOCATED DVA BALANCES**

2

3 This exhibit has been filed separately in MS Excel format.

1 **ALLOCATION OF GROUP 1 RSVA BALANCES (UPDATED)**

2

3 This exhibit has been filed separately in MS Excel format.