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BY EMAIL

November 20, 2024

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. (Hydro One)
Application for 2025 Distribution Rates
OEB File Number: EB-2024-0032**

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

Yours truly,

Original Signed By

Abla Nur
Case Manager

Encl.



ONTARIO ENERGY BOARD

OEB Staff Submission

**Hydro One Networks Inc. (Hydro One)
Application for 2025 Distribution Rates**

EB-2024-0032

November 20, 2024

Application Summary

Hydro One Networks Inc. (Hydro One) filed a 2025 Custom Incentive Rate-setting (IR) Annual Update application with the OEB seeking approval for changes to its electricity distribution rates and other charges to be effective January 1, 2025.

On November 29, 2022, the OEB approved a 5-year Custom IR framework for Hydro One that covers the years 2023 to 2027 (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.

As part of its interrogatory responses, Hydro One updated relevant spreadsheets, including incorporation of the OEB's 2025 preliminary Uniform Transmission Rates (UTRs).

This document outlines OEB staff's submissions on the following topics based on a review of the evidence submitted by Hydro One:

- Custom RCI Adjustment
- Cost Allocation and Rate Design
- Retail Transmission Service Rates and Sub Transmission Rates
- Group 1 Deferral and Variance Accounts (DVAs)
- Wheeling Credits

1. Revenue Cap Incentive Rate-setting Adjustment

Hydro One is requesting OEB approval of an adjustment to its distribution revenue requirement determined using the custom RCI methodology approved 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.

On June 20, 2024, the OEB issued the inflation factors to be used to set rates for certain electricity transmitters and distributors for 2025 rate applications beginning January 1, 2025. Hydro One's current application reflects the updated 3.6% inflation factor for distributors calculated by the OEB.

Table 1 summarizes the component and results of the RCI for 2025:

Table 1: 2025 Revenue Cap Index (RCI)

Custom RCI By Component	2025
Inflation Factor (I)	3.60%
Productivity Factor (X)	0.45%
Custom Capital Factor (C)	0.85%
Total RCI = I - X + C	4.00%

Hydro One provided a detailed calculation of the Custom Capital Factor (C) as part of its application. The calculation includes the increase in capital-related revenue requirement, the relative percentage increase to the previous year's total, and adjustments for inflation and stretch factor.

Hydro One calculated the 2025 total revenue requirement of \$1,892.6M as shown in

Table 2 below, before deductions for external revenues:

Table 2: 2025 Total Revenue Requirement (\$M)

Year	Formula	Base Revenue Requirement
2024	OEB-approved 2024 total revenue requirement	\$1,819.8
2025	2025 total revenue requirement = 2024 total revenue requirement x 2025 RCI	\$1,892.6

Submission

OEB staff supports Hydro One's calculation of the distribution revenue requirement for 2025. The adjustment is in accordance with the RCI methodology and parameters set by the OEB in the JRAP Decision.

2. Cost Allocation and Rate Design

Cost Allocation And Rate Design

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 2025 rate year.

Hydro One provided a table with the associated customer and load forecast by rate class as approved by the OEB in the JRAP Decision.

Chapleau Public Utilities Corporation Acquisition and Bill Impacts

On April 18, 2024, the OEB approved the sale of Chapleau Public Utilities Corporation's (Chapleau Public Utilities) distribution system assets to Hydro One. On August 2, 2024, Hydro One notified the OEB that the sale and integration of Chapleau Public Utilities was completed. Former Chapleau Public Utilities customers have been mapped to corresponding Hydro One rate classes. As part of this acquisition decision¹, Hydro One's current rate riders will not apply to former Chapleau Public Utilities customers at this time. In addition, Hydro One will provide a credit to limit the total monthly bill impacts to no more than 10% for all former Chapleau Public Utilities non-residential customers.

As part of the application evidence, Hydro One provided bill impacts for former Chapleau Public Utilities customers before bill mitigation, which were less than 10% for residential customers but amounted to a bill increase of \$81.27 per month for General Service (GSe) customers consuming less than 50 kW.

In response to staff interrogatories², Hydro One provided bill impacts after mitigation which were reduced to \$37.48 or 10% for GSe customers. In addition, as part of the acquisition decision for Chapleau Public Utilities, the OEB approved the creation of "Account 1508 – Other Regulatory Assets, Sub Account Bill Impact Mitigation Deferral Account - non-residential customers" to track all expenses associated with the bill mitigation credits for non-residential Chapleau Public Utilities customers.³ Hydro One states that it will start tracking the mitigation costs in 2025 and will bring forward the balances for the OEB's review in its next rebasing application.⁴ Hydro One also confirmed that the 2023 Group 1 balances proposed for disposition in the current application are not impacted by the mitigation measures for Chapleau Public Utilities.⁵

¹ EB-2023-0328

² OEB Staff IR-4b.

³ EB-2023-0328, Decision and Order, Section 4.4.1

⁴ OEB Staff IR-4b.

⁵ Ibid.

Hopper Foundry and Transformer Cost Allowance Rate Adders

Hydro One stated that its proposed 2025 Hopper Foundry rate adder reflects the proposed 2024 General Service Demand (GSd) rates and that the forecast lost revenue related to Hopper Foundry is \$100,536 and results in a rate adder of \$0.0145 per kW. Hydro One further stated that this adder is included in the volumetric rate for the GSd rate class.

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

Submission

OEB staff submits that the load forecast is consistent with the OEB-approved values in the JRAP Decision.

OEB staff agrees that the bill mitigation plan for former Chapleau Public Utilities customers is consistent with the OEB's acquisition decision.

OEB staff has no concerns with the proposed updated Hopper Foundry rate adders.

3. Retail Transmission Service Rates (RTSR) and Sub-transmission (ST) Rates

Hydro One is billed by the IESO at each of its transmission delivery points for the transmission of power. The IESO charges the Uniform Transmission Rates (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 2025 UTRs are issued by the OEB, it will update and submit the revised 2025 RTSRs, Sub-transmission rates (specifically HVDS-High, HVDS-Low and Common ST Line) and corresponding bill impacts.

On November 1, 2024, the OEB issued a letter⁶ regarding 2025 preliminary UTRs and Hydro One's 2025 proposed ST rates. The OEB determined that it would use preliminary UTRs to calculate 2025 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 2025 rate applications with Hydro One's proposed host RTSRs.

As part of its interrogatory responses, Hydro One filed updated 2025 RTSR calculations reflecting the 2025 preliminary UTRs.

Submission

OEB staff has no concerns with the updated proposed 2025 RTSRs and ST rates filed by Hydro One.

⁶ EB-2024-0244 - 2025 Preliminary Uniform Transmission Rates and Hydro One Sub Transmission Rates, November 1, 2024.

4. Group 1 Deferral and Variance Accounts (DVAs)

Background

Hydro One requested the disposition of its December 31, 2023 Group 1 DVA balances in the amount of a credit of \$93,151,828 on a final basis.⁷ These balances pertain to variances accumulated during the 2023 calendar year, with an exception made for certain wheeling adjustments (that encompass the 2021 to 2023 calendar years), as discussed in section 5. Hydro One is requesting the disposition of these balances over a 12-month period, beginning January 1, 2025.⁸ The components of this balance are shown in Table 3.

Table 3: Group 1 DVA Balances – Hydro One Distribution Rate Zone

Account Name	Account Number	Principal Balance (\$) A	Interest Balance (\$) B	Total Claim (\$) C=A+B
Low Voltage Variance Account	1550	1,305,825	(49,705)	1,256,120
Smart Metering Entity Charge Variance Account	1551	(2,192,385)	(112,676)	(2,305,061)
RSVA - Wholesale Market Service Charge	1580	(40,513,977)	(2,622,497)	(43,136,474)
Variance WMS – Sub-account CBR Class B	1580	937,018	98,150	1,035,168
RSVA - Retail Transmission Network Charge	1584	(21,054,871)	(1,389,005)	(22,443,876)
RSVA - Retail Transmission Connection Charge	1586	(13,616,047)	(486,221)	(14,102,268)
RSVA - Power	1588	(37,816,545)	(2,281,719)	(40,098,264)
RSVA - Global Adjustment	1589	25,819,272	3,295,878	29,115,150
Disposition and Recovery/Refund of Regulatory Balances (2021)	1595	(5,032,770)	2,560,447	(2,472,323)
Totals for Group 1 accounts		(92,164,480)	(987,348)	(93,151,828)

⁷ Hydro One Distribution DVA Continuity Schedule, A-04-01-10, November 11, 2024.

⁸ Exhibit A, Tab 2, Schedule 1, Page 2, August 30, 2024.

As the OEB pre-set disposition threshold of \$0.001 per kWh has been exceeded for all Hydro One Distribution and Orillia and Peterborough rate zones, Hydro One has requested disposition of the Group 1 balances on a final basis in this proceeding.⁹

The OEB most recently approved the disposition of Hydro One's Group 1 balances on a final basis, as of December 31, 2022, including interest projected to June 30, 2024, as part of its 2024 Custom IR Update proceeding.¹⁰

Submission

OEB staff supports the disposition of Hydro One's December 31, 2023 Group 1 balances on an interim basis due to OEB staff's submission on certain wheeling adjustments, as discussed in section 5, below. However, this is subject to Hydro One's clarification of several matters in its reply submission relating to Accounts 1588, 1589, and Account 1595 (2021).

If the OEB determines that Hydro One has not adequately addressed OEB staff's concerns discussed below, OEB staff submits that the balances in Accounts 1588, 1589, and 1595 (2021) balances should not be disposed of, given that there may be systemic issues with these balances. These issues should be addressed instead in Hydro One's next rate application for 2026 rates, and Hydro One could request the disposition of these Group 1 balances at that time.

Matters to be Clarified Relating to Accounts 1588 and 1589 – Reversal of Principal Adjustments

In interrogatories,¹¹ Hydro One was asked to explain why it had not reversed in the current proceeding certain amounts recorded in its 2023 general ledger and 2021/2022 principal adjustments (as per the GA Analysis Workform and DVA Continuity Schedule filed in its 2024 rates proceeding).¹² Specifically, OEB staff asked why these 2021/2022 amounts were not reversed as 2023 principal adjustments in the current proceedings' GA Analysis Workform and DVA Continuity Schedule (i.e., for 2025 rates). These amounts are the equal and offsetting reclassification adjustments to the 2021 and 2022

⁹ Exhibit A, Tab 4, Schedule 1, Page 13, August 30, 2024.

¹⁰ EB-2023-0030, Decision and Rate Order, June 13, 2024, p. 4.

¹¹ Exhibit I, Tab 1, Schedule 6, November 11, 2024. Please note that in this submission, OEB staff has corrected a typographical mistake made in its interrogatories submitted on October 31, 2024. In interrogatories, OEB staff inquired why reversing adjustments were not made as 2024 principal adjustments, when it should have referred to 2023 principal adjustments. This was in relation to the equal and offsetting reclassification adjustments to the 2021 and 2022 balances in Accounts 1588 and 1589 of \$24,748,877 for 2021 and \$20,162,335 for 2022.

¹² EB-2023-0030, GA Analysis Workform, May 24, 2024; DVA Continuity Schedule, May 24, 2024.

balances in Accounts 1588 and 1589 of \$24,748,877 for 2021 and \$20,162,335 for 2022.

In response, Hydro One stated that:

- It does not consider a reversal of these adjustments appropriate in the current application.
- The adjustments have already been reflected in 2021 and 2022 DVA Continuity Schedules and were recorded in the 2023 general ledger.
- The amounts form part of the "Net Change in Principal Balance in the GL" amount of \$23.4 million in the GA Analysis Workform.
- No reversal is required since this was a one-time correction on the DVA Continuity Schedule.

However, OEB staff notes that in a different interrogatory response relating to a 2021 principal adjustment of a credit of \$89,609, Hydro One proposed a different approach, by stating that:¹³

- This amount was recorded as a credit to the respective principal and interest balances in Hydro One's 2024 general ledger.
- These amounts will be reversed as debits to the respective principal and interest adjustment for the 2024 balances in the DVA Continuity Schedule as part of the 2026 annual update.

OEB staff requests that Hydro One clarify, in its reply submission, why it is proposing two different approaches to recording its principal adjustments in the GA Analysis Workform and DVA Continuity Schedule (i.e., in one interrogatory response not reversing principal adjustments but in another interrogatory response reversing them). Hydro One should also provide evidence that there has been no double-counting in the GA Analysis Workforms and DVA Continuity Schedules of the equal and offsetting reclassification adjustments in Accounts 1588 and 1589 of \$24,748,877 and \$20,162,335. OEB staff submits that the evidence currently suggests a need to reverse as a 2023 principal adjustment the equal and offsetting reclassification adjustments to the 2021 and 2022 balances in Accounts 1588 and 1589 of \$24,748,877 for 2021 and \$20,162,335 for 2022.

¹³ Exhibit I, Tab 1, Schedule 5, November 11, 2024.

Matters to be Clarified Relating to Account 1589 – \$22.5 million Credit Reconciling Item

In the consolidated GA Analysis Workform, tab “GA 2023”, Hydro One shows a credit of \$22,461,232 for Account 1589 as a reconciling item (and not a principal adjustment).¹⁴ Hydro One stated that this amount relates to “retail billed kWh at Weighted Average GA billed Rate adjustment.”

In an interrogatory response,¹⁵ Hydro One explained that “the annual Weighted Average GA Actual Rate Paid derived based on wholesale volumes is different than the rate that is derived based on retail billed volumes. As such, Hydro One has calculated the expected GA volume variance on a different basis than the calculation in the default GA Analysis Workform, which has resulted in the reconciling item of \$22,461,232.”

OEB staff requires further information on this \$22.5 million credit reconciling item given the size of this amount; the fact that it is a reconciling item (as opposed to a principal adjustment); and in light of statements made in Hydro One’s 2024 rate proceeding. In that proceeding, Hydro One confirmed that “for the RPP settlements and the splitting of IESO GA Charge Type 148, Hydro One confirms that it is using wholesale consumption, but clarifies that it is using retail loss adjusted consumption to apportion the wholesale volumes between the accounts, consistent with the [OEB’s] Accounting Guidance”.¹⁶

OEB staff requests that Hydro One explain in more detail why this \$22.5 million credit is an appropriate reconciling item, as well as in the context of its previous statements that it is using wholesale consumption for RPP settlements, but using retail loss adjusted consumption to apportion the wholesale volumes between Accounts 1588 and 1589.

Matters to be Clarified Relating to Account 1595 (2021)

In interrogatories, Hydro One was asked to explain why its requested claim is a principal amount of Account 1595 (2021) is a credit of \$5,032,770, but the carrying charge amount is a debit of \$2,543,084, instead of both components having the same sign (i.e., both credit or debit).¹⁷

In its response, Hydro One stated that the Account 1595 (2021) balance was approved for disposition in EB-2020-0030 and EB-2020-0031, which contained a combined principal amount of a credit of \$51.6 million and carrying charges of a debit of \$3.6 million. As a result, there is a credit balance for the principal amount (of \$5.0 million)

¹⁴ A-04-01-05 GA Analysis Workform, August 30, 2024 and November 11, 2024.

¹⁵ Exhibit I, Tab 1, Schedule 9, November 11, 2024.

¹⁶ EB-2023-0030, Reply Submission, November 24, 2023, pp. 13 & 14.

¹⁷ Exhibit I, Tab 1, Schedule 12, November 11, 2024.

and a debit balance for carrying charges (of \$2.5 million) in the residual balance of Account 1595 (2021).

OEB staff was unable to reconcile Hydro One's stated "combined principal amount of a credit of \$51.6 million and carrying charges of a debit of \$3.6 million" to its EB-2020-0030 and EB-2020-0031 evidence. OEB staff requests that Hydro One clarify, in its reply submission, how these numbers were calculated by Hydro One and also provide a reconciliation to the specific EB-2020-0030 and EB-2020-0031 evidence.

5. Wheeling Credits

Hydro One is requesting approval to recover and allocate credits in accordance with wheeling agreements related to two Orillia Power Generation Corporation (OPGC) generation stations embedded in Hydro One's distribution system, Swift Rapids GS and Minden GS. These amounts are for the years 2021-2023 and will result in a credit to the Orillia Rate Zone and a corresponding debit to the Hydro One Distribution rate zone. The wheeling agreements define the settlement terms for the transmission of power generated at Minden GS and Swift Rapids GS through Hydro One's network to customers within the former Orillia Power Distribution Corporation (OPDC) service territory, currently Hydro One Orillia Rate Zone.

A summary of the credits to the Orillia Rate Zone and debits to the Hydro One Distribution Rate Zone embedded in the columns "Transactions Debit/ (Credit) During 2023" and "Interest Jan 1 to Dec 31, 2023" of the DVA Continuity Schedules is shown in Table 4 below, which was provided in an interrogatory response.¹⁸ OEB staff notes that the aggregated amounts from 2021 to 2023 were incorporated into the above-noted columns relating to 2023 balances, as opposed to separating the 2021 and 2022 components as 2023 principal adjustments.

Table 4 – Summary of Wheeling Credits Allocated to Hydro One Distribution and Hydro One Orillia Rate Zones

Account Name	Account Number	2021 - Principal (A)	Interest for 2021 (A1)	Interest for 2022 (A2)	Interest for 2023 (A3)	2022 - Principal (B)	Interest for 2022 (B1)	Interest for 2023 (B2)	2023 - Principal (C)	Interest for 2023 (C1)	Total Principal (A+B+C)	Total Interest (A1+A2+A3+B1+B2+C1)
RSVA - Wholesale Market Service Charge	1580	\$101,158	\$577	\$1,937	\$5,103	\$113,085	\$2,166	\$5,705	\$211,494	\$10,670	\$425,737	\$26,158
Variance WMS – Subaccount CBR Class B	1580	\$18,153	\$103	\$348	\$916	\$20,873	\$400	\$1,053	\$24,769	\$1,250	\$63,795	\$4,069
RSVA – Retail Transmission Network Charge	1584	\$210,727	\$1,201	\$4,035	\$10,631	\$389,431	\$7,458	\$19,647	\$416,950	\$21,035	\$1,017,108	\$64,007
RSVA – Retail Transmission Connection Charge	1586	\$161,591	\$921	\$3,094	\$8,152	\$260,916	\$4,997	\$13,163	\$303,672	\$15,320	\$726,179	\$45,648
Total		\$491,629				\$784,306			\$956,885		\$2,232,819	\$139,882
Total Impact												\$2,372,701

OEB staff has prepared Table 5 below, separating the sum of the 2021 and 2022 amounts only.

¹⁸ Exhibit I, Tab 1, Schedule 2, November 11, 2024.

Table 5 – Summary of Wheeling Credits Allocated to Hydro One Distribution and Hydro One Orillia Rate Zones – 2021 and 2022 Amounts Only

Account Name	Account Number	2021 - Principal (A)	Interest for 2021 (A1)	Interest for 2022 (A2)	2022 - Principal (B)	Interest for 2022 (B1)	Total Principal (A+B)	Total Interest (A1+A2 +B1)
RSVA - Wholesale Market Service Charge	1580	\$101,158	\$577	\$1,937	\$113,085	\$2,166	\$214,243	\$4,680
Variance WMS – Subaccount CBR Class B	1580	\$18,153	\$103	\$348	\$20,873	\$400	\$39,026	\$851
RSVA – Retail Transmission Network Charge	1584	\$210,727	\$1,201	\$4,035	\$389,431	\$7,458	\$600,158	\$12,694
RSVA – Retail Transmission Connection Charge	1586	\$161,591	\$921	\$3,094	\$260,916	\$4,997	\$422,507	\$9,012
Total		\$491,629			\$784,306		\$1,275,935	\$27,237
Total Impact								\$1,303,172

Hydro One explained that although the 2024 rate applications (Orillia and Peterborough rate zones, Hydro One Distribution rate zone) did dispose of accumulated balances for 2021 and 2022, the impact of the Wheeling Credits was not included as part of the allocated balances for 2021 and 2022.¹⁹ Instead, Hydro One included the impact for the period since integration (2021, 2022 and 2023) in the current application (2025 Application). Hydro One further stated that this is its first annual update application where it proposed to provide these benefits to be provided to the Orillia rate zone customers and as such it was shown under 2023 transactions.²⁰

In its application, Hydro One states that the original wheeling agreements were established in the early 1990's, between Ontario Hydro (now Hydro One) and the Orillia Water, Light, and Power Commission. This agreement was later amended to reflect changes in ownership and operational structures, transitioning from Ontario Hydro to Hydro One Networks and from the Orillia Water, Light, and Power Commission to OPGC and OPDC. These agreements were further amended following a share

¹⁹ Exhibit I, Tab 1, Schedule 1, November 11, 2024

²⁰ Exhibit I, Tab 1, Schedule 2, November 11, 2024

purchase agreement in 2016, where Hydro One acquired OPDC, referred to in this submission as integration. The wheeling credits include RTSR amounts and WMSC amounts and affect RSVA accounts 1580, 1584, and 1586.

In response to staff interrogatories, Hydro One explained the pre-integration application and calculation of wheeling credits as follows:²¹

- **Wholesale Market Service Charge (WMSC):** Hydro One calculated a monthly WMSC credit based on the generation output from Minden GS. This credit was applied to OPGC's bills, and OPGC would then transfer this credit to OPDC, where it was recorded in OPDC's WMSC variance account (Account 1580). OPDC customers benefited from these credits when OPDC's variance accounts were disposed of.
- **Retail Transmission Service Rate (RTSR):** Hydro One deducted the generator output from OPDC's RTSR billing quantities, resulting in a lower RTSR charge on OPDC's bills. This was reflected in OPDC's RTSR variance accounts (Accounts 1584 and 1586), and OPDC customers received the benefit when these accounts were disposed of.

After the integration of OPDC, Hydro One no longer issues a bill and the calculated credit amounts are added to the Group 1 DVA balances allocated to Orillia Rate Zone and equivalent debit amounts are added to the Group 1 DVA balances allocated to Hydro One Distribution.

The credit calculation as described by Hydro One in response to interrogatories²² is as follows:

- **WMSC Credit Calculation:**
Billing Units: Monthly generation output (kWh) is required per generation station. This is available directly from the generator station's meter readings.

Rates: Applicable WMSC (minus IESO fees) and the Rural and Remote Rate Protection (RRRP) Charge are applied to the above-mentioned units to derive the WMSC wheeling credit amounts.
- **RTSR Credit Calculation:**
Billing Units: Monthly RTSR billing units are required (kW) per generation station for Network and Connection charges. These inputs are stipulated in the updated Wheeling Agreements.
Rates: Applicable RTSR Network and Connection charges are applied to the

²¹ Exhibit I, Tab 1, Schedule 1, November 11, 2024

²² Exhibit I, Tab 1, Schedule 1, November 11, 2024

above- mentioned billing units to derive the RTSR wheeling credit amounts.

Submission

OEB staff submits that the Orillia Rate Zone should be allowed to receive the wheeling credits for the years 2021-2023 on an interim basis, for the reasons discussed by OEB staff in the section below titled “Accuracy of Credit Amounts”. This approach acknowledges that adjustments to the final balances may be required, while ensuring Orillia Rate Zone customers recover these amounts given the materiality. Denying Orillia Rate Zone recovery of these amounts would be unfair as these credits represent a direct allocation of benefits tied to wheeling services that Orillia Rate Zone customers are entitled to. However, Hydro One should not be allowed to recover these amounts (i.e., as debits for a total of \$1,303,172) for the retroactive years 2021-2022 (since integration) for the reasons set out below.

Retroactive Adjustment

Hydro One has proposed to recover and allocate credits related to wheeling agreements for the years 2021–2023. OEB staff submits that the request for the wheeling credits for 2021 and 2022 (i.e., debits to Hydro One Distribution rate zone and credits to Hydro One Orillia Rate Zone) constitutes a retroactive adjustment to correct Hydro One’s error in failing to consider the appropriate beneficiaries of the wheeling credits. The balances in Accounts 1580, 1584, and 1586 from prior years (i.e. 2021 and 2022 balances) were already disposed of on a final basis in the 2024 rate applications for the Hydro One Orillia Rate Zone and Hydro One Distribution rate zone.²³

In response to a staff question²⁴ on how Hydro One has addressed OEB’s concerns in the October 31, 2019 letter regarding Adjustments to Correct for Errors in Electricity Distributor “Pass-Through” Variance Accounts after Disposition²⁵, Hydro One disagreed with the premise of the interrogatory that the request constitutes an adjustment of balances previously disposed. Hydro One stated that there were no accounting errors in either the tracked consolidated balances or in the allocated balances for 2021 and 2022 and as such no adjustment is required.²⁶

OEB staff does not dispute that there are no corrections to consolidated accounts since these wheeling adjustments are off-setting credits and debits for the Hydro One Orillia Rate Zone and Hydro One Distribution rate zone, respectively. However, OEB staff submits that this reasoning does not eliminate the retroactive nature of this request.

²³ EB-2023-0030 EB-2023-0059, Decision and Rate Order, June 13, 2024, p. 4.

²⁴ Exhibit I, Tab 1, Schedule 3, November 11, 2024

²⁵ OEB Letter, Adjustments to Correct for Errors in Electricity Distributor “Pass -Through” Variance Accounts After Disposition, October 31, 2019

²⁶ Exhibit I, Tab 1, Schedule 3, November 11, 2024

These amounts totaling \$1,303,172 are material and reflect a reallocation of benefits to the Hydro One Orillia Rate Zone that should have been incorporated into the 2021 and 2022 balances approved on a final basis in the 2024 rate applications. OEB staff also notes that the concept of retroactive ratemaking was explored in-depth during the 2024 rate applications. By rejecting the premise of OEB staff's interrogatory in this proceeding, OEB staff submits that Hydro One did not adequately address the OEB's October 31, 2019 Letter (the October 2019 Letter), which provides specific criteria for evaluating retroactive adjustments.

The October 2019 Letter contemplates a variety of accounting errors: "Accounting and other errors in these pass-through variance accounts can, depending on the circumstance, benefit the distributor at the expense of customers, benefit customers at the expense of the distributor, or benefit one group of customers at the expense of another group with no financial impact on the distributor." In this case, the error has benefitted customers in the Hydro One Distribution rate zone at the expense of Orillia Rate Zone customers, although on a consolidated basis, Hydro One has been unaffected.

The October 2019 Letter goes on to state that:

Where an accounting or other error is discovered after the balance in one of the above listed variance accounts has been cleared by a final order of the OEB, the OEB will determine on a case-by-case basis whether to make a retroactive adjustment based on the particular circumstances of each case, including factors such as:

- whether the error was within the control of the distributor
- the frequency with which the distributor has made the same error
- failure to follow guidance provided by the OEB
- the degree to which other distributors are making similar errors

In this case, OEB staff submit that the error was entirely within Hydro One's control.

In the October 2019 Letter, the OEB stated that "consistent with the OEB's past practice, an asymmetrical approach to the correction of the error may be appropriate."²⁷ In recommending that the Hydro One Orillia Rate Zone receive the full credit amounts from 2021 to 2023 of \$2,372,701, but that Hydro One should be able to recover only the debit amount of \$1,069,530 relating to 2023 from the Hydro One Distribution rate zone, OEB staff is recommending that the OEB apply that asymmetrical approach. OEB staff submits that customers in the Orillia Rate Zone should have received the benefit of the

²⁷ OEB Letter, Adjustments to Correct for Errors in Electricity Distributor "Pass -Through" Variance Accounts After Disposition, October 31, 2019

wheeling credits, and an adjustment is therefore appropriate. However, OEB staff submit that Hydro One (and its shareholders) should bear the responsibility for its error, and the recovery of the 2021 and 2022 amounts should not be imposed on customers.

Accuracy of Credit Amounts

In response to staff questions on how the calculation of credits currently differs from the calculation done pre-integration, Hydro One described no significant difference in the calculation of the generator outputs for the WMSC credit, however OEB staff note a change in the calculation of the RTSR credit.²⁸ Hydro One's methodology for calculating the RTSR amounts for both the Connection and Network pools of the wheeling benefit post integration relies on quantities established in the Wheeling Agreements which were last updated in 2016.²⁹ OEB staff submits that Hydro One's reliance on billing quantities (kW) established in 2016 introduces a risk of material inaccuracies. OEB staff questions how Hydro One can calculate the wheeling credits accurately when the estimates used for these calculations have not been updated since 2016.

OEB staff submits that since the estimates used for these calculations have not been updated since 2016, Hydro One should update its agreement to reflect more up-to-date data or justify why these amounts remain appropriate. This recommendation also aligns with OEB staff's above-noted submission that both the Orillia Rate Zone should be allowed to receive the wheeling credits for the years 2021-2023 and the Hydro One Distribution rate zone should be allowed to recover the wheeling adjustment (i.e., as a debit) for the year 2023 only, on an interim basis, as 2023 balances have not yet been disposed on a final basis. Such balances may be made final after the finalization of a new agreement, after any further adjustments have been made to these balances that have not yet already been disposed on a final basis.

In its findings on Hydro One's 2024 rate application for Orillia and Peterborough Rate Zones³⁰, the OEB denied Hydro One's request to update Low Voltage (LV) service rates, determining that the proposed updates were not appropriate. The OEB stated that the LV service rates would remain unchanged for 2024 unless Hydro One provided evidence to support an update for 2025. OEB staff submits that the key considerations underpinning the OEB's decision are particularly relevant to Hydro One's current wheeling credits request which relies on billing quantities (kW) established in 2016. The OEB acknowledged Hydro One's rationale for removing wholesale meters following the acquisition of Orillia and Peterborough utilities, citing cost savings as part of the broader efficiencies anticipated in the MAADs decision. However, the OEB emphasized that

²⁸ Exhibit I, Tab 1, Schedule 3, November 11, 2024

²⁹ Exhibit I, Tab 1, Schedule 3, November 11, 2024, and as part of application evidence filed in EB-2018-0270.

³⁰ EB-2023-0059, Partial Decision and Rate Order, December 19, 2023.

these meters were not redundant for purposes of determining accurate LV service rates. The removal of these meters created a gap in the ability to assess pass-through costs. OEB staff submits that the same principles should apply to the wheeling credits request.

OEB staff also questions whether there may be overlap between the Low Voltage Service Rates and the wheeling credits proposed by Hydro One.

~All of which is respectfully submitted~