Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416- 481-1967
Facsimile: 416- 440-7656
Toll free: 1-888-632-6273

Commission de l'énergie de l'Ontario
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone: 416- 481-1967
Télécopieur: 416- 440-7656
Numéro sans frais: 1-888-632-6273

Ontario

BY E-MAIL

February 5, 2018

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: Halton Hills Hydro Inc.
Application for Rates
OEB File Number EB-2017-0045
OEB Staff Interrogatories

In accordance with Procedural Order No. 1, please find attached OEB staff's interrogatories in the above noted proceeding. Halton Hills Hydro has been copied on this filing.

Halton Hills Hydro's responses to interrogatories are due by February 19, 2018.

Yours truly,

Original Signed By

Marc Abramovitz
Advisor, Major Applications

Encl.

Halton Hills Hydro Inc. Price Cap IR Application (EB-2017-0045)
OEB Staff Questions

OEB Staff Question #1

References: GA Analysis Workform – Reconciliation items 1a and 1b
2018 Rate Generator Model – Tab 3 Continuity Schedule
(Years 2015 and 2016)

In booking expense journal entries for Charge Type 1142 (formerly 142), and Charge Type 148 from the IESO invoice, please confirm which of the following approaches is used:

a) Charge Type 1142 is booked into Account 1588. Charge Type 148 is pro-rated based on RPP/non-RPP consumption and then booked into Account 1588 and 1589, respectively[1].
b) Charge Type 1142 is booked into Account 1588. In relation to Charge Type 148, the non-RPP quantities multiplied by the GA rate is booked to account 1589 and the remainder of Charge Type 148 is booked to account 1588.
c) Charge Type 148 is booked into Account 1589. The portion of Charge Type 1142 equaling RPP-HOEP for RPP consumption is booked into Account 1588. The portion of Charge Type 1142 equaling GA RPP is credited into Account 1589.
d) If another approach is used, please explain in detail.

OEB Staff Question #2

References: GA Analysis Workform – Reconciliation items 1a and 1b
2018 Rate Generator Model – Tab 3 Continuity Schedule
(Years 2015 and 2016)

With regards to the amount being requested for disposition of USoA 1589 account balance as at Dec. 31, 2016, all components that flow into Account 1589 (i to iv in table below) should be based on actuals in the 2018 Rate Generator Model – Tab 3 Continuity. Please complete the following table to:

a) Indicate whether each of the components are based on estimates or actuals at year end, and

[1] Note, the following in all references in OEB Staff questions relating to amounts booked to accounts 1588 and 1589. Amounts are not booked directly to accounts USoA 1588 and 1589 relating to power purchase and sale transactions, but are rather booked to the cost of power USoA 4705 Power Purchased/4707 Charges - Global Adjustment and the respective Energy Sales USoA accounts, respectively. However, accounts 1588 and 1589 are impacted the same way as accounts 4705/4707 are for cost of power transactions, and the same way as the Energy Sales accounts are for revenue transactions.

b) Quantify the adjustment amount pertaining to each component that is trued-up from estimate to actual.

	Component	Estimate or Actual	Notes/Comments	Quantify True Up Adjustment $ Amount
i	Revenue (i.e. is an unbilled revenue true-up adjustment reflected in the balances being requested for disposition?)			
ii	Expenses - GA non-RPP: Charge Type 148 with respect to the quantum dollar amount (i.e. is expense based on IESO invoice at year end)			
iii	Expenses - GA non-RPP: Charge Type 148 with respect to the RPP/non-RPP kWh volume proportions.			
iv	Credit of GA RPP: Charge Type 142 if the approach under Staff Question 1c is used			

c) For each item in the table above, please confirm that the GA Analysis Workform for 2016 and the 2018 Rate Generator Model Tab 3 Continuity Schedule for 2016 have been adjusted for settlement true-ups where settlement was originally based on estimate and trued up to actuals subsequent to 2016.

OEB Staff Question #3

References: 2018 Rate Generator Model – Tab 3 Continuity Schedule

With regards to the amount being requested for disposition of USoA 1588 account balance as at Dec. 31, 2016, all components that flow into Account 1588 (i to iv in table below) should be all based on actuals at year end. Please complete the following table to:

a) Indicate whether the component is based on estimates or actuals at year end, and
b) Quantify the adjustment pertaining to each component that is trued-up from estimate to actual

	Component	**Estimate or Actual?**	**Notes/Comments**	**Quantify True Up Adjustment $ Amount**
i	Revenues (i.e. is an unbilled revenue true-up adjustment reflected in the balances being requested for disposition?)			
ii	Expenses – Commodity: Charge Type 101 (i.e. is expense based on IESO invoice at year end)			
iii	Expenses - GA RPP: Charge Type 148 with respect to the quantum dollar amount (i.e. is expense based on IESO invoice at year end)			
iv	Expenses - GA RPP: Charge Type 148 with respect to the RPP/non-RPP kWh volume proportions.			
v	RPP Settlement: Charge Type 142 including any data used for determining the RPP/HOEP/RPP GA components of the charge type			

c) For each item in the table above, please confirm that the 2018 Rate Generator Model Tab 3 Continuity Schedule for 2016 has been adjusted for settlement true-ups where settlement was originally based on estimate and trued up to actuals subsequent to 2016.

OEB Staff Question #4

Reference: GA Analysis Workform – Consumption Data Excluding for Loss Factor – Box E
GA Analysis Workform – Analysis of Expected GA Amount

a) The calculated value from the GA Analysis Tab (2015 year) for "F59/D26" = 1.00975 and Halton Hills Hydro's OEB approved total loss factor is 1.0560. Please reconcile this difference.
b) The calculated value from the GA Analysis Tab (2016 year) for "F59/D26" = 1.0223 and Halton Hills Hydro's, OEB approved total loss factor is 1.0560. Please reconcile this difference

OEB Staff Question #5

Reference: 2015 GA Analysis Workform – Reconciling Items

The net change in principal balance in the GL of $319,559 does not match the transaction recorded in the continuity schedule for account 1589 for the 2015 year.

Please reconcile the difference and update the GA workform if necessary.

OEB Staff Question #6

Reference: GA Analysis Workform – Reconciling Items

a) For 2015, please provide an explanation for reconciling items 1b and 3b.
b) For 2016, please provide an explanation for reconciling items 1a, 1b, 3a and 3b.

Halton Hills Hydro Inc. Pay Equity Z-Factor Application (EB-2017-0045)
OEB Staff Questions

OEB Staff Question #7

Reference: Z-factor Rate Rider Application/Appendix E

In reference to the table provided in Appendix E, Halton Hills Hydro documents amounts related to the z-factor claim for calendar years 2012 to March 31, 2021. It appears to OEB staff that the matters related to pay equity were only settled in 2017.

a) For which periods have the costs been audited by an external auditor?
b) Please provide all external audit reports.
c) Halton Hills Hydro filed its application on December 1, 2017. It appears to OEB staff that forecasted estimates would be for the period December 1, 2017 to March 31, 2021.
    i. Clearly identify the period for forecasted estimates.
    ii. Please provide the methodology used to forecast the amounts in Appendix E. Indicate all parameters used (e.g.: annual inflation rate) and identify all external sources used for such parameters.

OEB Staff Question #8

Reference: Z-factor Rate Rider Application/pages 5, 6 and 12

2018 IRM Application/page 4

On page 6 of the Z-factor application, Halton Hills Hydro states that it filed a Notice of Intent to file a Z-factor application with the OEB on June 29, 2017. On page 12, Halton Hills Hydro requests that the Z-factor application be heard jointly with the 2018 IRM application and the separate depreciation-related DVA application. Through Procedural Order #1, the OEB has combined the applications.

On page 4 of its 2018 IRM application, Halton Hills Hydro states that it was not applying for Z-factor approval in the IRM application.

Halton Hills Hydro indicates that the pay equity adjustments were finalized by February 2017.

a) Please file a copy of the June 29, 2017 Notice of Intent.
b) Please explain why Halton Hills Hydro was unable to file the Z-factor application as part of the 2018 IRM application filed on September 25, 2017 or provide any indication that it would file the Z-factor application, in particular with reference to the request for the OEB to hear the IRM, depreciation expense DVA and Z-factor applications together.

OEB Staff Question #9

Reference: EB-2015-0074/Exhibit 4/Tab 1/Schedule 1/pages 18-19

a) On pages 18-19 of Exhibit 4/1/1 of its 2016 CoS application, Halton Hills Hydro documents various Government policies that influence its operating resource allocation and the associated costs. OEB staff notes that the *Pay Equity Act* (PEA) is not mentioned. In Appendix C of its Z-factor application, Halton Hills Hydro documents its Pay Equity Agreement from 1990. In Appendix D it provides the Terms of Reference for the 2012 Joint Pay Equity Committee.
Since the formation of the Pay Equity Committee in late 2012 and 2013, when was the OEB informed about this matter? Please provide all copies of documents that indicate communication between Halton Hills Hydro and the OEB on the pay equity issue.
b) Please explain why Halton Hills Hydro considers the pay equity matter to be an extraordinary factor outside of normal business that should qualify for Z-factor treatment?
c) Does Halton Hills Hydro consider compliance with the PEA a factor that influences business decisions on resource allocation and associated costs?

OEB Staff Question #10

Reference: Z-factor Rate Rider Application/page 9/Table PE2
Cost of Service Application EB-2015-0074/Ex 4/Tab 2/Sch 1/pg 45

a) In Table PE2, Halton Hills Hydro shows an amount of $35,957 in January 2017 for Pay Equity Advisory Expense. Please provide further explanation of this expense, including the account that this expense is recorded in.
b) In its 2016 CoS application, Halton Hills Hydro noted the following with respect to Account 5630 – Outside Services Employed:

   “USofA 5630- The $121,942 variance reflects the additional audit fees incurred in relation to the ERP system conversion. In addition, legal fees increased reflective of labour related issues i.e. Pay Equity”

   Please explain how the $35,957 differs in nature from expenses related to pay equity-related outside services previously recorded in Account 5630.

OEB Staff Question #11

Reference: Decision and Order EB-2011-0271/pages 17-18

2016 Scorecard for Halton Hills Hydro Inc.

Z-factor Rate Rider Application/Appendix E

The OEB, on pages 17-18 of Decision and Order EB-2011-0271 stated as its findings on OM&A:

> **Board Findings**
>
> Intervenors have submitted that HHH should be allowed (based on CGAAP valuation) an OM&A figure for the test year in the range of $5,124,500 to $5,309,510, based either on comparisons with other proceedings or taking into account decrements to the 4 main cost drivers. The Board considers the comparisons to other proceedings to be useful to consider as a general approach. However, the Board must base its determinations on the record before it in this proceeding. The Board finds that HHH has provided adequate rationale for most of its spending requirements. However, the Board also notes that HHH's actual OM&A spending in 2008 to 2010 was significantly lower than 2008 Board approved spending. Such a pattern followed by a significant increase in the test year is a potential cause for concern.
>
> The Board will approve OM&A spending using an envelope approach.
>
> The Board accepts that tree trimming has been under funded and notes that HHH will amortize the program and costs over 4 years. The Board accepts the need and the costs that have been validated by a 3rd party whose findings have not been disputed by intervenors. However, the Board agrees with intervenors that ratepayers should not be required to pay for the entire deferred incremental tree trimming costs necessary to remedy the under-funded budget during the IRM term, particularly when overall OM&A spending during the IRM period has been lower than the 2008 Board approved level.
>
> HHH submitted that its wages and benefits have also been under funded for the past few years and must be increased. The Board notes that HHH held off on hiring additional staff; however, the evidence indicates that some of the 2008 approved budget could have funded those additions.
>
> Given the adjustments outlined above and accounting for growth in the customer forecast, the Board has determined that the forecast OM&A envelope will be $5.9 M.

> This is based on a sharing of 2.5% year over year escalation of 2008 approved levels notwithstanding the lower actual expenditures levels during the IRM period. This figure also includes the provision for $286k in MIFRS transition costs which the Board finds is beyond HHH's control and was uncontested.
>
> The Board will not direct specific spending cuts, as these are matters for HHH to manage within the spending envelope approved by the Board. The Board expects that HHH will be able to prioritize its business activities and implement planned spending within the envelope approved.

For every year, the amount related to the pay equity adjustment for both salary and OMERs is below Halton Hills Hydro's materiality threshold of $50,000. The maximum would be for 2015, with $24,125 incremental wages plus $3,128 OMERs expense, for a total of $27,253.

Halton Hill Hydro's 2016 Scorecard is publicly available on the OEB's website. Net Income and dividend payments to Halton Hills Hydro's shareholder are documented in the annual Audited Financial Statements. OEB staff has prepared the following table summarizing key financial statistics:

Year		**2012**	**2013**	**2014**	**2015**	**2016**
Regulatory Return on Equity [(1)]	Approved (in Rates)	9.12%	9.12%	8.82%	8.82%	9.19%
	Achieved	13.30%	14.97%	12.91%	6.70%	6.76%
Net Income, net movement in regulatory balances, total comprehensive income [(2)]	Actual	$2,490,960	$3,623,607	$3,419,317	$3,067,551	$1,350,087
Dividends [(2)]	Actual	$1,077,592	$1,295,344	$1,296,560	$1,297,000	$1,297,000

[(1)] Source: 2016 Scorecard

[(2)] Sources: Audited Financial Statements

a) Please confirm or correct the data provided in the table.
b) Halton Hills Hydro documents an approved ROE of 8.82% for 2014 and 2015. This does not correspond with the issued ROE for any year under the OEB's current methodology, under EB-2009-0084, for calculating and updating the cost of capital parameters. Please explain the source or derivation of this number.
c) If possible, please provide a calculation based on 2017 year-end data. Please identify the factors contributing to material over- or under-earnings for these years.
d) For 2012 - 2015, please explain why Halton Hills Hydro believes that the pay equity amounts for each year should be treated outside of the envelope of OM&A expenses recovered through approved distribution rates, as expected by the OEB in its Decision and Order. Please demonstrate how the costs for which

recovery is sought in this Z-factor application are incremental to those already being recovered in rates as part of ongoing business exposure risk.

e) Halton Hills Hydro over-earned relative to its approved ROE for the period 2012 to 2014. Please explain why Halton Hills Hydro believes that incremental pay equity expenses for these years should be borne by ratepayers given the utility's over-earnings in these years.

OEB Staff Question #12

Reference: 2012 – 2016 Audited Financial Statements

In its 2016 CoS application (EB-2015-0074), Halton Hills Hydro filed its Audited Financial Statements (AFS) for the fiscal calendar years 2012, 2013 and 2014. These were provided in Exhibit 1/Appendix 1-D.

Halton Hills Hydro also files its AFS annually in accordance with section 2.1.6 of the Electricity Reporting and Record Keeping Requirements. A review of the AFS, including the Notes, for these years does not identify any potential financial risk related to pay equity documented in the AFS from 2012 to 2016.

a) Has Halton Hills Hydro' external auditor been apprised of any potential liability with respect to the pay equity issue since the Pay Equity Committee was formed in late 2012?
b) If yes to a), please indicate the external auditor's views on the risk.
c) In the Notes to the 2016 AFS, on page 27 the following is documented:

17. Commitments and contingencies:

General

> From time to time, the Company is involved in various litigation matters arising in the ordinary course of its business. The Company has no reason to believe that the disposition of any such current matter could reasonably be expected to have a materially adverse impact on the Corporation's financial position, results of operations or its ability to carry on any of its business activities.

Does the pay equity issue fall under this matter? Please explain.

OEB Staff Question #13

Reference: Chapter 3 Filing Requirements for Electricity Distributors

Section 3.2.8 of Chapter 3 of the Filing Requirements states:

3.2.8 Z-factor Claims

Price Cap IR applicants have the ability to include in their application a request to recover costs associated with unforeseen events that are outside the control of a distributor's ability to manage. The cost to a distributor must be material and its causation clear. Costs are to be recorded in Account 1572, Extraordinary Events Costs. To recover these amounts, a distributor must follow the guidelines discussed in section 2.6 of the Board's Report on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors – July 14, 2008. The materiality thresholds, described in the OEB's Policy Manual, must be met on an individual event basis in order for the distributor to apply for recovery of the relevant costs.

3.2.8.1 Z-factor Filing Guidelines

A distributor must submit evidence that the costs incurred meet the three eligibility criteria.

A distributor must also:

- Notify the OEB promptly by letter to the Board Secretary of all Z-factor events. Failure to notify the OEB within six months of the event may result in disallowance of the claim.
- Apply to the OEB for any cost recovery of amounts recorded in the OEB-approved deferral account claimed under Z-factor treatment. This will allow the OEB and any affected distributor the flexibility to address extraordinary events in a timely manner. Subsequently, the OEB may review and prospectively adjust the amounts for which Z-factor treatment is claimed.
- Provide a clear demonstration that the management of the distributor could not have been able to plan and budget for the event and that the harm caused by extraordinary events is genuinely incremental to their experience or reasonable expectations.
- Demonstrate that the costs are incremental to those already being recovered in rates as part of ongoing business exposure risk.

a) Halton Hills Hydro notes that management representatives participated on the Pay Equity Committee from 2012 to 2017 and, thus, provided input in the process. Please explain how Halton Hills Hydro considers the pay equity issue to be exogenous and outside the control of a distributor's ability to manage.
b) Given the time frame involved from 2012 to 2017 and management's active role on the Pay Equity Committee, please explain:

i. Why Halton Hills Hydro would not have been able to plan and budget for the event (i.e., final resolution of any pay equity issue resulting from the findings of the Pay Equity Committee)
ii. Why the pay equity matter is an extraordinary event and genuinely incremental to Halton Hills' experience or reasonable expectations (given that compliance with applicable legislation, including the PEA, is expected for any incorporated and licensed distributor).

OEB Staff Question #14

Reference: Z-factor Application/page 9/Table PE2

In Table PE2, Halton Hills Hydro shows an opening principle balance of $107,000 for December 2016. The footnote states that this is the "December 31, 2016 USoA 1572 estimated accrual". In January 2017, the amount is reversed and an amount of $107,713 for 2012-2016 Pay Equity Adjustments have been entered.

When did Halton Hills Hydro begin accruing a balance in Account 1572 related to the pay equity matter?

Halton Hills Hydro Inc. Depreciation Expense DVA Application (EB-2017-0045)
OEB Staff Questions

OEB Staff Question #15

Reference: EB-2015-0074 – 2016 Cost of Service Application

In the depreciation DVA application, Halton Hills Hydro is applying for a DVA and recovery back to May 1, 2016 for a variance in the depreciation expense.

Page 12 of the Settlement Proposal in EB-2015-0074 states:

> (e) Depreciation: Subject to the adjustments to rate base as noted herein, the Parties accept the evidence of HHHI that its forecast depreciation/amortization expenses are appropriate and reflect the useful lives of the assets and have been correctly determined in accordance with Board accounting policies and practices.

The Settlement Proposal was accepted by the OEB in its Decision and Rate Order EB-2015-0074 on the basis of the record.

Examination of the record of Halton Hills Hydro's 2016 application indicates that the application was filed on August 28, 2015. Revised application evidence was filed on September 9, 2015 and again on October 2, 2015. Interrogatory responses were filed on January 18, 2016. The Settlement Proposal was filed on March 1, 2016. Table 1 from the Settlement Proposal documents the changes in the revenue requirement and key components during the processing of the Application, and is reproduced below.

Table 1 – Revenue Requirement

Revenue Requirement	Application (A)	Interrogatories (B)	Variance (C) = (B) - (A)	Settlement (D)	Variance (E) = (D) - (B)
OM&A Expenses	6,754,806	6,789,289	34,483	6,007,592	- 781,697
Property Taxes	104,440	104,440	-	104,440	-
Amortization Expenses	2,356,442	1,528,052	- 828,390	1,508,054	- 19,998
Regulated Return On Capital	3,477,714	3,388,753	- 88,961	3,293,050	- 95,703
PILs	- 220,666	-	220,666	-	-
Service Revenue Requirement	**12,472,736**	**11,810,534**	**- 662,202**	**10,913,135**	**- 897,398**
Less: Revenue Offsets	1,210,681	1,282,841	72,160	959,144	- 323,697
Base Revenue Requirement	**11,262,055**	**10,527,693**	**- 734,362**	**9,953,991**	**- 573,702**
Revenue at Existing Rates	9,052,472	8,993,676	- 58,796	9,162,101	168,425
Revenue Deficiency	**2,209,583**	**1,534,017**	**- 675,566**	**791,890**	**- 742,127**

Depreciation expense forecasted for 2016 in the original application was $2,356,442. As a result of interrogatory responses, this was reduced to $1,528,052 related to computer hardware and software. There was a further adjustment per the Proposed Settlement for an amount of $1,508,054. This corresponds with the net depreciation under 2016 Board-approved in Table A1.

Depreciation expense documented in Halton Hills Hydro's 2016 AFS, filed per section 2.1.6 of the Electricity Reporting and Record Keeping Requirements, documents a depreciation expense for the year of $2,045,279. This is different than either the original OEB-approved amount of $1,508,054 or the proposed corrected amount of $1,847,446.

a) The settlement proposal referenced above was accepted by the OEB and was signed by Halton Hills Hydro, SEC, VECC and Energy Probe. The OEB relied on the accuracy and compliance with OEB accounting policies and practices per page 12 of the Settlement Proposal.

   Please explain why Halton Hills Hydro believes that they should be able to recover the incremental adjustment retroactive to May 1, 2016.

b) The record suggests that the error in Halton Hills Hydro's depreciation model dates back to the preparation of the 2016 application in the summer of 2015. Halton Hills Hydro documents that the error was discovered in 2017 (between January and April), when Halton Hills Hydro was closing its books for 2016. This would mean that the error was in place for approximately 18 months before it was discovered.

   Please confirm or correct OEB staff's understanding above.
c) From when the error was discovered, did Halton Hills Hydro communicate this error with the other signatories to the Settlement Proposal in EB-2015-0074? If yes, please provide copies of any correspondence. Otherwise, please explain why not.
d) From when the error was discovered, did Halton Hills Hydro communicate this error with the OEB or OEB staff prior to filing of the Depreciation Expense DVA Application on October 24, 2017? If yes, please provide copies of any correspondence.

OEB Staff Question #16

In the Depreciation Expense DVA Application, Halton Hills Hydro is requesting approval of an accounting order to authorize Halton Hills Hydro to establish a new deferral and variance account (the "**Depreciation DVA**")".

Please provide the draft Accounting Order that Halton Hills Hydro is seeking approval for.

OEB Staff Question #17

Please provide detailed calculations showing the derivation of the numbers shown in Table A1. If available, please provide a Microsoft Excel spreadsheet showing the data and calculations.

OEB Staff Question #18

Reference: October 23, 2017 Depreciation DVA Evidence, page 1
Filing Requirements For Electricity Distribution Rate Applications - 2015 Edition for 2016 Rate Applications, July 16, 2015, Chapter 1, page 3

Halton Hills Hydro has requested approval from the OEB to establish a depreciation deferral and variance account (the Depreciation DVA). Halton Hills Hydro is proposing to account for and remedy an error made in the calculation of depreciation expense in its most recent cost-of-service re-basing application, which established the rates that took effect on May 1, 2016[2] (the 2016 Rate Year Application).

OEB staff notes that the onus is on the applicant to ensure that the evidence it files in support of its application is complete and accurate. This is clearly stated in the 2016 Filing Requirements for Electricity Distribution Rate Applications, as follows:

> The OEB's examination of an application and its subsequent decision are based on the evidence filed in that case… A complete and accurate evidentiary record is essential.[3]
>
> and
>
> Applications must be accurate, and information and data presented must be consistent across all exhibits, appendices and models.[4]

OEB staff notes that it is therefore Halton Hills Hydro's responsibility to present accurate evidence based on which the OEB will make its decision.

[2] EB-2015-0074
[3] Filing Requirements For Electricity Distribution Rate Applications - 2015 Edition for 2016 Rate Applications, July 16, 2015, Chapter 1, page 3
[4] Ibid

a) Please state whether or not Halton Hills Hydro agrees that it is the distributor's responsibility to present accurate evidence based on which the OEB will make its decision.
b) If Halton Hills Hydro does not agree, please explain.
c) Please describe in more detail why Halton Hills Hydro did not take the necessary steps to ensure accurate evidence was presented in its most recent cost-of-service rebasing application.

OEB Staff Question #19
Reference: EB-2012-0130 April 4, 2013 IRM Decision and Order, page 7 & 8

In the 2013 Incentive Rate Mechanism (IRM) Decision and Order[5], it was noted that with respect to the OEB's decision for Halton Hills Hydro's 2012 cost of service application[6], the OEB required the OEB's Regulatory Audit and Accounting group to conduct an audit review of an audit filed by KPMG LLP (KPMG) in the Fall of 2012 of Halton Hills Hydro's Account 1575 PP&E deferral account balance. The OEB voiced concerns that numerous updates were made to the Account 1575 balance during the 2012 cost of service proceeding. For example, one of these updates reflected the results of Halton Hills Hydro finalizing its 2011 capital expenditures and depreciation during its 2011 year-end audit process with KPMG. In particular, this update involved Halton Hills Hydro reducing its CGAAP depreciation from an amount of $2,741,106 to an amount of $2,115,000, generating a material difference of $626,106.

OEB staff is unclear why Halton Hills Hydro had not provided for more rigorous controls, review, and diligence of depreciation numbers reported to the OEB, when the OEB had ordered an audit of the Account 1575 balance in its 2012 cost of service decision. The audit of Account 1575 balance would have included a review of Halton Hills Hydro's deprecation values.

a) OEB staff notes that the OEB requested an OEB audit of Account 1575 in a prior proceeding, with the scope of the audit likely including deprecation values. Please provide a detailed explanation as to why Halton Hills Hydro has not put in place more rigorous controls, review, and diligence regarding the recording of its regulatory depreciation values reported to the OEB, considering the prior OEB direction.
b) Please explain why the OEB should approved revised regulatory depreciation values in this application, when the OEB had noted concerns in the past regarding Halton Hills Hydro's deprecation values reported to the OEB.

[5] EB-2012-0130
[6] EB-2011-0271

OEB Staff Question #20
Reference: October 23, 2017 Depreciation DVA Evidence, page 1 & 2

Relating to the proposed Depreciation DVA, Halton Hills Hydro is requesting approval as follows:

(a) an accounting order to authorize Halton Hills Hydro to establish the Depreciation DVA

(b) the annual allocation of $330,259 for correctly calculated depreciation amounts (as described below) for the years 2016 to 2021 (or the next Cost of Service year, whichever comes first)

(c) the clearance of the Depreciation DVA balance in the amount of $660,519 for the years 2016 and 2017 commencing May 1, 2018 for a twelve month period; and

(d) the annual clearance of the account from 2019 up to and including the next Cost of Service year.

Halton Hills Hydro also proposes that the Depreciation DVA have an effective date of May 1, 2016. However, OEB staff notes that Halton Hills Hydro is requesting an annual allocation (12 months instead of 8 months) of $330,259 for the depreciation amounts to be recorded in the Depreciation DVA for the 2016 fiscal year.

a) Please provide an explanation as to why the OEB should approve a full 12 months of depreciation adjustments to be recorded in the Depreciation DVA for the 2016 fiscal year, instead of 8 months, when Halton Hills Hydro stated on page 2 of its application that it “proposes that the Depreciation DVA have an effective date of May 1, 2016”?

OEB Staff Question #21
Reference: October 23, 2017 Depreciation DVA Evidence, Tables A1, A2, A3, B1, B2

OEB staff notes that Halton Hills Hydro has not provided the underlying Excel spreadsheets that support Tables A1, A2, A3, B1, B2.

a) Please provide the underlying Excel spreadsheets that support Tables A1, A2, A3, B1, B2.

b) If Halton Hills Hydro also includes revised tables and new tables in its interrogatory responses, please provide the underlying Excel spreadsheets that support these tables.

OEB Staff Question #22
Reference: October 23, 2017 Depreciation DVA Evidence, page 1
2016 Rate Year Application, Exhibit 2, Tab 1, Schedule 1, and Page 2 of 92, Filed: August 28, 2015, Revised: October 2, 2015
2016 Filing Requirements for Electricity Distribution Rate Applications
2016 Chapter 2 Appendices

Regarding the depreciation error that occurred in the 2016 Rate Year Application, Halton Hills Hydro stated that errors were made, particularly with respect to the impact of the transition to Modified International Financial Reporting Standards (MIFRS).

OEB staff notes that Section 2.0.4.2 of the *2016 Filing Requirements for Electricity Distribution Rate Applications* referenced the OEB's July 17, 2012 letter. This letter required distributors electing to remain on CGAAP in 2012 to implement regulatory accounting changes for depreciation expense and capitalization policies by January 1, 2013.

Halton Hills Hydro stated that in 2012 it completed a review of the useful lives of its assets, and componentized the assets for the transition to MIFRS. This review resulted in the extension of the useful lives for several asset classes, causing an adjustment to the remaining useful lives for some assets.

Halton Hills Hydro outlined that an error was made in preparing the 2016 Rate Year Application. In particular, its depreciation expense excel model assumed that the opening 2015 undepreciated cost reflected the total revised extended useful lives, rather than the revised extended useful lives that were remaining as at January 1, 2015.

Halton Hills Hydro indicated that this error resulted in an understatement of depreciation in the 2016 Rate Year Application. Halton Hills Hydro discovered this error in 2017 when finalizing the 2016 year-end and compared the 2016 year-end results with the 2016 Rate Year Application.

OEB staff notes that the following was stated in the 2016 Rate Year Application[7] and this quote also references the 2012 cost of service rate year application[8] (the 2012 Rate Year Application)

> In its 2012 Cost of Service Rate Application (EB-2011-0271), HHHI adopted the Revised CGAAP basis of reporting beginning January 1, 2012. As part of the change-over to Revised CGAAP in 2012, HHHI changed its depreciation rates and capitalization policy. HHHI also adjusted the CGAAP book value of its assets based on new useful lives provided in the HHHI specific Kinectrics report. The book value variance of assets between original CGAAP and Revised CGAAP was recorded in Deferral and Variance account 1575 and amortized from 2012 to 2016. The implementation of Revised CGAAP, the new useful lives of assets and capitalization policy were approved by the Board in HHHI's 2012 Cost of Service Rate Application (EB-2011-0271).

OEB staff also notes that the 2016 Chapter 2 Appendices filed by Halton Hills Hydro in the 2016 Rate Year Application indicate that Halton Hills Hydro made the required change to the capitalization and depreciation policy changes effective January 1, 2012. OEB staff also notes that the Chapter 2 Appendices specifically alert applicants to incorporate changes impacting remaining useful lives from adopting MIFRS when calculating depreciation amounts. Specifically tab App.2-CB_NewCGAAP_DepExp_2012, line 62 of the 2016 Chapter 2 Appendices spreadsheet states:

> A recalculation should be performed to determine the average remaining life of opening balance of assets (i.e. excluding 2012 additions) under the change in policies under CGAAP. For example, Asset A had a useful life of 20 years under CGAAP without the change in policies. On January 1, 2012, the effective date of the changes in policies, Asset A was 3 years depreciated. As a result, Asset A would have a remaining service life of 17 years (20 years less 3 years) as of

[7] Exhibit 2, Tab 1, Schedule 1, Page 2 of 92, Filed: August 28, 2015, Revised: October 2, 2015
[8] EB-2011-0271

January 1, 2012. Due to making the change in policies under CGAAP, management re-assessed the asset useful lives and concluded that the revised useful life of Asset A is now 30 years. Therefore, the average remaining useful life of the opening balance of Asset A is determined to be 27 years (30 years less 3 years) under the revised CGAAP as of January 1, 2012.

OEB staff is also unclear what changed in the 2016 Rate Year Application to make such an error, when as noted by Halton Hills Hydro in its 2016 Rate Year Application, the distributor had already adjusted the book value of its assets based on new useful lives provided in the Halton Hills Hydro specific Kinectrics report in its 2012 Rate Year Application.

OEB staff is uncertain if any further changes were made to the useful lives in the 2016 Rate Year Application versus the changes made to reflect the new useful lives in the 2012 Rate Year Application.

OEB staff is also uncertain if there were any errors made by Halton Hills Hydro in the 2016 Rate Year Application related to capitalization of costs.

OEB staff is also unclear of the impact of incorrect 2015 and 2016 depreciation values that were incorporated into the 2016 OEB approved rate base.

a) The Chapter 2 Appendices alert applicants to specifically incorporate changes impacting remaining useful lives from adopting MIFRS in the calculation of depreciation values. Please provide an explanation as to why Halton Hills Hydro did not take action to capture the correct changes when calculating depreciation amounts due to these alerts.
b) Please provide an explanation regarding what changed in the 2016 Rate Year Application to make the deprecation error, when as noted by Halton Hills Hydro in its 2016 Rate Year Application, the distributor had already adjusted the book value of its assets based on new useful lives provided in the Halton Hills Hydro specific Kinectrics report in its 2012 Rate Year Application.
c) Please provide an explanation and quantify the impact if any further changes were made to the useful lives in the 2016 Rate Year Application versus the changes made to reflect the new useful lives in the 2012 Rate Year Application.
d) Please provide an explanation and quantify the impact if there were any errors made by Halton Hills Hydro in the 2016 Rate Year Application related to capitalization of costs. If the impact on the revenue requirement is material, please update Tables A1, A2, A3, B1 and B2.

e) Please provide an explanation and quantify the impact relating to incorrect 2015 and 2016 depreciation values that were incorporated into the 2016 OEB approved rate base. If the impact on the revenue requirement is material, please update Tables A1, A2, A3, B1 and B2.

OEB Staff Question #23
Reference: October 23, 2017 Depreciation DVA Evidence, page 7 & 8
2016 Rate Year Application Settlement Proposal

Although Halton Hills Hydro has provided some numbers (credit of $6,262 and debit of $340,520) in Table A2 – Revenue Deficiency related to tax or PILs adjustments on the proposed depreciation changes, OEB staff is unclear on the calculations supporting these adjustments.

As per Table 1 of the 2016 Rate Year Application Settlement Proposal, OEB staff notes that $0 PILs was included in the 2016 OEB approved revenue requirement. However, OEB staff is unclear whether or not there would be a tax impact if depreciation amounts that were incorporated into the 2016 PILs proxy were understated. As the deprecation amounts are to be included as an addition to the “book-to-tax” adjustments to taxable income in determining the PILs proxy, the tax impact of the proposed changes to depreciation amounts may also need to be considered.

OEB staff is also unclear if there were errors made to the Capital Cost Allowance (CCA) amounts that were included as a deduction to the “book-to-tax” adjustments to taxable income in determining the PILs proxy.

a) Please provide an updated RRWF relating to the 2016 Rate Year Application with detailed corrections made regarding the following items, if applicable. Please provide a detailed explanation of the differences between the updated RRWF and the RRWF filed[9] with the Settlement Proposal in the 2016 Rate Year application, including explanations and references to source documents. These documents should reflect Halton Hills Hydro’s proposed corrections for depreciation expense for 2015 and 2016, rate base, return on capital, taxes/PILs (including any CCA impacts), on service and base revenue requirements and on base distribution rates for 2016.

[9] EB-2015-0074 - Filename “Settlement Proposal_Halton_Rev_Reqt_Work_Form_20160222V2.xls”

b) If the above adjustments need to be made to the proposed amounts to be included in the Deprecation DVA, please provide the dollar impact with supporting explanation, calculations and documentation. Please also provide the impact on Table A2 – Revenue Deficiency and Table A3 – Revenue Requirement.

OEB Staff Question #24
Reference: October 23, 2017 Depreciation DVA Evidence, page 9

OEB staff notes that Table B1 - 2018 IRM Revised Rate Rider Calculation shows the DVA rate rider calculations for all DVAs, including the proposed Depreciation DVA. OEB staff is unclear of the Depreciation DVA specific rate rider calculation and its separate impact.

a) Please provide a separate Depreciation DVA specific rate rider and supporting calculations, including the underlying Excel spreadsheets.

OEB Staff Question #25
Reference: October 23, 2017 Depreciation DVA Evidence, page 9

OEB staff notes that Table B2 – 2018 IRM Revised Bill Impacts[10] shows impact of all items, including the proposed Depreciation DVA. OEB staff is unclear of the specific bill impact relating to the Depreciation DVA rate rider.

a) Please provide a separate bill impact table that relates to the Depreciation DVA rate rider.

[10] EB-2017-0045