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BY EMAIL AND RESS

June 11, 2020

Ms. Christine E. Long
Board Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON M4P 1E4

Dear Ms. Long:

EB-2018-0242: Hydro One Networks Inc. MAAD s.86 Application for Peterborough Distribution Inc. – Draft Rate Order Reply Submission

In accordance with the Ontario Energy Board's (OEB) Decision and Order, dated April 30, 2020, regarding Hydro One's approval to amalgamate Peterborough Distribution Inc. and Peterborough Utilities Services Inc. and to transfer the electricity distribution system to Hydro One Networks Inc., Hydro One is filing a Reply Submission to comments received from OEB Staff and the School Energy Coalition ("SEC") in respect of Hydro One's Draft Rate Order and Draft Accounting Order Submission.

Please see the attached files.

An electronic copy of this has been filed through the Ontario Energy Board's Regulatory Electronic Submission System (RESS).

Sincerely,

A handwritten signature in black ink, appearing to read "Joanne Richardson".

Joanne Richardson

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

AND IN THE MATTER OF an application to
amalgamate Peterborough Distribution Inc. and
Peterborough Utilities Services Inc. and sell the
amalgamated electricity distribution system to Hydro One
Networks Inc.

HYDRO ONE NETWORKS INC.

**DRAFT RATE ORDER and DRAFT ACCOUNTING ORDER
REPLY SUBMISSION**

OEB File No. EB-2018-0242

June 11, 2020

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1 **1 INTRODUCTION**

2
3 This is Hydro One Networks Inc.'s ("Hydro One") reply submission to those received
4 from OEB Staff and the School Energy Coalition ("SEC") in respect of Hydro One's
5 Draft Rate Order and Draft Accounting Order Submission. These submissions are
6 organized to address the following topics raised by OEB Staff and SEC:

- 7 i. Implementation of the 1% reduction to base distribution delivery rates;
8 ii. Draft Accounting Order USGAAP; and
9 iii. Year 11 Upper Goal Post.

10
11 **2 PROPOSED TARIFF AND IMPLEMENTATION OF 1% RATE**
12 **REDUCTION**

13
14 No substantive concerns were raised by OEB staff or SEC with regards to the proposed
15 Tariff of Rates and Charges included in the Draft Rate Order. As requested in SEC's
16 submission, Hydro One confirms that it intends to implement the 1% rate reduction as of
17 the date of closing of the transaction which is planned to be August 1, 2020.

18
19 OEB staff had no concerns with the proposed Tariff of Rates and Charges included in the
20 Draft Rate Order, however in summarizing the content of the proposed Tariff they
21 indicated that Hydro One had "updated specific service charges to align with those
22 approved by the OEB for Hydro One (EB-2017-0049)". This is not correct. As noted in
23 the Draft Rate Order, Hydro One has updated the existing PDI specific service charges in
24 accordance with the OEB Rate Order issued on March 14, 2019 (EB-2017-0183), which
25 eliminated or revised certain customer service charges (e.g. Install/Remove load control
26 device). The existing PDI approved specific service charges will continue to be used until
27 the date of integration into Hydro One's billing system at which time Hydro One will

1 start applying its approved specific service charges¹. This change will be requested as
2 part of a future application to the Board.

3
4 **3 DRAFT ACCOUNTING ORDER USGAAP**

5
6 OEB Staff submitted on page 3 of their submission of the DRO that the description of the
7 account provided by Hydro One does not align with OEB Staff's understanding of how it
8 is intended to operate based on the Decision. OEB Staff requested Hydro One to
9 confirm that at the end of the deferred rebasing period, the balance in the account will
10 reflect the cumulative difference between the closing net PPE calculated using PDI's
11 existing accounting policies and the closing net PPE calculated using Hydro One's
12 policies. OEB Staff suggested revised accounting names and descriptors be used in the
13 Draft Accounting Order. SEC wrote that their understanding was that Hydro One should
14 record each year the difference in depreciation and capitalization and therefore the
15 difference in closing rate base for PPE, between the depreciation rates and capitalization
16 policies used by PDI prior to the transaction (which should be the same as those at the
17 time of the Decision), and the depreciation rates and capitalization policies used by
18 Hydro One after the transaction. SEC illustrated this by commenting if "the IFRS-based
19 rate of depreciation for a particular asset was 20% per year, and the USGAAP-based rate
20 of depreciation for the same asset is 10% per year, the difference of 10% of the cost of
21 the asset is recorded in the account each year, because it represents higher rate base than
22 the PDI accounting policies would have caused."

23
24 Hydro One has clarified the mechanics of the account in the revised draft accounting
25 order.

26
27 OEB Staff also commented on Hydro One's interpretation of the OEB's *Accounting*
28 *Procedure Handbook – Frequently Asked Questions July 2012* where Hydro One

¹ Exhibit I, Tab 1, Schedule 33

1 suggested no interest or carrying charges or a rate of return was permitted in this account.
2 OEB Staff informed Hydro One that this guidance was superseded by a subsequent letter
3 in 2013, whereby the OEB stated that upon disposition a rate of return component shall
4 be applied to the balance of Account 1576.

5
6 Hydro One has referenced the appropriate guidance with respect to carrying charges on
7 Account 1576 in the revised draft accounting order.

8 9 **4 YEAR 11 UPPER GOAL POST**

10
11 Hydro One in its DRO sought clarification on certain parameters that would be used to
12 calculate the Year 11 status quo forecast. Hydro One stated that it would update the
13 following parameters in setting Year 11 rates with then-current information: cost of
14 capital, corporate tax and low voltage charges. OEB Staff acknowledged that it is
15 reasonable for Hydro One to update its Year 11 status quo forecast as proposed, as in the
16 absence of the transaction customers of PDI would have had their distribution rates
17 calculated using these updated parameters. OEB Staff also noted that cost of capital and
18 tax rates are outside Hydro One's direct control and that Low Voltage charges are outside
19 the control of PDI. Therefore, OEB Staff supported allowing the parameter updates as
20 proposed by Hydro One and provided expectation that any calculations would be
21 provided in Hydro One's rate application to rebase the PDI rate zone. SEC also agreed
22 with Hydro One's proposal but with two exceptions. First they said that the tax rates to
23 be applied should be those applicable to a utility like PDI, not those applicable to Hydro
24 One (e.g. the rates should reflect the size and nature of PDI). Second, SEC had concerns
25 over Hydro One's reference to "any other tax changes that impact utility customers",
26 saying that that definition was too nebulous to be included in the DRO.

27
28 Hydro One agrees that in its application to set Year 11 rates for PDI customers, that it
29 will provide all calculations used to determine the upper goal post calculation to
30 determine the upper goal post revenue requirement. On SEC's second point, Hydro

1 One's clarifies that its proposal is to update the Year 11 upper goal post tax calculation to
2 incorporate any new tax law, regulations or administrative practice changes that were
3 implemented during the 10-year deferral period, by any government body. These are
4 changes that would have been applicable to PDI in absence of the transaction.

1 The following outlines the proposed accounting entries for this deferral account.

2	USofA #	Account Description
3	<i>DR/CR: 1576</i>	<i>Accounting Policy Changes</i>
4	<i>CR/DR: 4305/4310</i>	<i>Regulatory Debit/Regulatory Credit</i>

5

6 *To record the annual difference between the net PPE balances calculated using PDI's*
7 *accounting policies and the net PPE balances calculated using Hydro One's accounting*
8 *policies.*