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BY E-MAIL

June 11, 2020

Attention: Ms. Christine Long, Registrar and Board Secretary

Dear Ms. Long:

Re: Hydro One Networks Inc.
Custom IR Application
OEB File Number EB-2019-0082

Please find attached OEB staff's submission on the draft rate order filed by Hydro One Networks Inc.

Original Signed By

Martin Davies
Project Advisor, Rates
Electricity Distribution: Major Rate Applications & Consolidations

2020 - 2022 ELECTRICITY TRANSMISSION CUSTOM IR APPLICATION

Hydro One Networks Inc.

EB-2019-0082

ONTARIO ENERGY BOARD

STAFF SUBMISSION ON DRAFT RATE ORDER

June 11, 2020

INTRODUCTION

Hydro One Networks Inc. (Hydro One) filed a three-year custom incentive rate-setting (Custom IR) application with the Ontario Energy Board (OEB) on March 21, 2019 under section 78 of the *Ontario Energy Board Act, 1998*[1], seeking approval for changes to its transmission revenue requirement to be effective January 1, 2020 to December 31, 2022 (the Application). Hydro One also sought an amendment to the Ontario Uniform Transmission Rates (UTRs) to allow for recovery of the proposed revenue requirement.

On May 28, 2020, Hydro One filed a draft rate order (DRO) pursuant to the Decision and Order (Decision and Order) dated April 23, 2020.

The OEB, in the Decision and Order, found that the effective date of Hydro One's approved revenue requirement would be January 1, 2020 and stated that it planned to update the UTRs to be effective July 1, 2020.

OEB staff's comments on the DRO follow.

Capital Reductions and In-Service Additions

Background

In the Decision and Order, the OEB found that a reduction of $400 million should be made to Hydro One's proposed capital expenditure budget for the 2020-2022 period. This reduction consisted of $390.0 million in System Renewal, $5.7 million in System Service, and $4.3 million in General Plant.

The OEB required Hydro One to provide a preliminary estimate of the breakdown of the $400 million reduction over the 2020-2022 period along with the corresponding rate impacts, as part of the draft revenue requirement/charge determinant process.[2]

Hydro One proposed to implement the $390 million System Renewal reduction by decreasing the proposed capital expenditures in this category by $55.1 million

[1] S.O. 1998, c.15 (Schedule B)
[2] Decision and Order, p. 87.

for 2020, $120.4 million for 2021, and $214.5 million for 2022. Hydro One implemented the $5.7 million reduction to System Service and the $4.3 million reduction to General Plant for the 2020 test year.

To comply with the OEB's finding that the non-service component of other post-employment benefits (OPEB) costs shall be recognized as operation, maintenance and administration (OM&A) costs, Hydro One removed the capitalized OPEB costs from the proposed capital expenditures in the amounts of $21.0 million for 2020, $22.9 million for 2021 and $23.3 million for 2022.

Hydro One reduced the proposed in-service additions over the 2020-2022 period by $364 million, including a $53.2 million reduction over the three-year period related to the removal of the non-service component of the OPEB costs.

Discussion and Submission

OEB staff has summarized its understanding of the adjustments Hydro One has made to its capital expenditures and in-service additions as a result of the Decision and Order and an updated forecast.

	Capex reduction directed in the decision	**Resulting In-service reductions in DRO**	**Capex to in-service additions**	**Updated execution plan to in-service additions**	**Net adjustments to in-service additions**
	A	**B**	**C=B/A**	**D**	**E=B+D**
	($ Millions)				
Total	**($400)**	**($321.3)**	**80%**	**$10.5**	**($310.8)**
System Renewal	($390)	($311.2)	80%	$0	($311.2)
System Access	$0	$0	100%	($3.9)	($3.9)
System Service	($5.7)	($5.7)	100%	$9.5	$3.8
General Plant	($4.3)	($4.3)	100%	$4.9	$0.6

OEB staff acknowledges that for Hydro One's transmission business, it manages a capital portfolio that consists of multi-year projects. For a certain year, only a portion of the in-year capital expenditures would come into service in that year. Hydro One illustrated that for 2020 capital expenditures, 37% of the total amount would be in service in 2020, 52% would be in service in 2021, and 11% would be in service in 2022.

By implementing the $400 million capital reduction and updating the forecasted in-service additions based on the latest information, Hydro One provided an updated forecast of in-service additions at $3,302.2 million for 2020-2022. This update represents a $310.8 million reduction to in-service additions of $3,613.0 million as filed in the application, which consists of a $311.2 million reduction in System Renewal, a $3.9 million reduction in System Access, a $3.8 million increase in System Service, and a $0.6 million increase in General Plant.

OEB staff notes that Hydro One's proposed translation of capital expenditures reductions to in-service additions is approximately 80% which is in keeping with historical trends. As a result, subject to the comments below, OEB staff accepts Hydro One's proposed reductions to reflect the Decision and Order. However, OEB staff has the following comment with regard to the implementation of the Decision and Order reductions and the update to the forecast of in-service additions that Hydro One has also included in this DRO. Had the changes to System Service and General Plant noted above been more material, they could have raised an issue as they result in an increase to the rate base and therefore rates, when the OEB's direction was to reduce the proposed capital and hence rates. In the current case, where the changes are minimal, OEB staff submits that this concern does not arise.

OEB staff makes submissions on each of the investment category in the following sections.

System Renewal

With respect to the $390 million capital expenditure reduction in System Renewal, Hydro One applied $340 million (87%) of the reduction to the transmission lines sub-category and $50 million (13%) to the transmission stations sub-category.

With respect to transmission lines, Hydro One explained that a $312 million reduction was applied to the overhead conductor replacement projects (SR-19 and SR-20) that are currently in the planning stage and not in execution.

OEB staff notes that this $312 million reduction represents approximately 58% of the proposed $535.7 million[3] of capital expenditures for these projects. The remaining $28 million was applied to ancillary transmission line assets such as wood structure replacements and insulator replacements.

OEB staff submits that Hydro One's implementation of the $340 million reduction to transmission lines has addressed the OEB's concern about the increased pacing of replacing transmission lines as proposed.[4]

OEB staff notes that although the Decision and Order stated that "The OEB finds that, with the exception of transmission lines, the proposed expenditures for the other sub-categories seem reasonable",[5] Hydro One implemented a $50 million reduction to the transmission stations sub-category.

OEB staff submits that it would be helpful to the OEB in determining the reasonableness of Hydro One's proposed capital reductions if Hydro One explains, in its reply submission, what project(s) the $50 million reduction to transmission stations was (were) applied to and how it appropriately reflects the OEB's findings.

OEB staff notes that Hydro One forecasted the impact of the $390 million reduction in the System Renewal category as a reduction of $311.2 million to in-service additions for the 2020-2022 period, which indicates that Hydro One forecasted that 79.8% of the capital reduction in System Renewal would be realized over the three test years and the remaining 20.2% would be realized beyond 2022.

OEB staff agrees with Hydro One that in-service additions generally lag behind capital expenditures for multi-year transmission projects. OEB staff however believes that the question that needs to be determined is whether Hydro One has appropriately translated the OEB-directed capital expenditure reductions into reductions in in-service additions.

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[3] Exhibit B-1-1, TSP Section 3.3, Table 6.
[4] Decision and Order, pp. 84-85.
[5] *Ibid*, p. 85.

OEB staff believes that in determining the in-service reductions, Hydro One would have had to identify specific projects to implement the OEB's capital reduction so as to determine the impacts on in-service additions. As such, OEB staff submits that it would be helpful to the OEB if Hydro One provides additional information as to how it made the $50 million reduction to the transmission stations sub-category.

System Access

The OEB approved the proposed capital expenditures for System Access as submitted at $47.8 million for 2020-2022. In the DRO, Hydro One forecasted a decrease of $3.9 million over 2020-2022 in capital additions compared to the application as filed. Hydro One explained that the change is attributable to delays in project timing, such as the delay of the Seaton transformer station project.

OEB staff takes no issue with this proposed change.

System Service

The OEB ordered a reduction of $5.7 million to the Kapuskasing Area Reinforcement (KAR) project expenditures in the System Service category. In the DRO, Hydro One forecasted an increase of $3.8 million over 2020-2022 in capital additions compared to the application as filed. This $3.8 million increase is after the reduction of $5.7 million to the KAR project, which indicates that there is a $9.5 million increase in the forecasted capital additions (from non-KAR projects) in the DRO compared to the application as filed.

Hydro One identified delays in two projects as the driver of this change, these being the Wataynikaneyap Line at Pickle Lake project (SS-02) and the Barrie Area Transmission Upgrade project (SS-09).

OEB staff notes that the in-service dates for these projects are Q4 2020 and Q2 2022 respectively.[6]

[6] Exhibit B-1-1, TSP Section 3.3, ISD-SS-02 and ISD-SS-09.

OEB staff submits that Hydro One should explain why delays in those projects result in an increase in capital additions in its reply submission.

General Plant

The OEB determined that a reduction of $4.3 million to the new Integrated System Operating Centre (ISOC) project in the General Plant category should be made. In the DRO, Hydro One forecasted an increase of $0.6 million over 2020-2022 in capital additions compared to the application as filed.

OEB staff notes that Hydro One stated that this $0.6 million increase is after the disallowance of $4.3 million for the ISOC project. This indicates that there is a $4.9 million increase in the forecasted in-service general plant capital additions (from non-ISOC projects) in the DRO compared to the application as filed.

OEB staff submits that Hydro One should identify the key projects that drive this change in capital additions in its reply submission.

Transmission Scorecard

Background

In the Decision and Order, the OEB made the following finding regarding the transmission scorecard:[7]

> The new Capital Program Accomplishment (composite index) metric proposed by Hydro One covers only six programs under the System Renewal budget which represent a small fraction of that budget.
>
> The OEB finds that it would be beneficial for Hydro One to add one more metric which measures the System Renewal program accomplishment at a portfolio level for the remainder of the System Renewal program. Given all the issues raised in this proceeding about the planning and execution of the System Renewal program (transmission lines in particular), the OEB finds that this measure should be designed to demonstrate the degree to which Hydro One is able to complete its planned program within the approved budget for this work category.

[7] EB-2019-0082 *Decision and Order,* p.56.

In its DRO, Hydro One stated that in addressing the OEB's concern regarding the composition of the Capital Program Accomplishment (composite index) (CPAI) measure, it had revised the existing CPAI measure to include an additional eleven components from the System Renewal program and revised the name to the Transmission Capital Accomplishment Index (TCAI).

Hydro One observed that as a result of the Decision and Order, the System Renewal category will represent 79% of the total approved capital budget over the 2020-2022 application term and that its proposed TCAI measure will represent 81% of the OEB-approved System Renewal program over the application term. Hydro One also noted that while the CPAI measure, as originally proposed, would have represented approximately 13% of the total proposed capital portfolio, the enhanced TCAI metric covers approximately 64% of the approved capital portfolio over the test years.

Hydro One stated that the TCAI metric is one element which can demonstrate the degree to which it is able to complete the planned capital program within the approved budget for the System Renewal category, and that this measure is meant to be evaluated in the context of other measures presented in the Transmission scorecard, the capital program performance report, and with the understanding that the measure itself is a blend of programs and projects. Hydro One also noted that the methodology for the calculation of the TCAI measure is consistent with the calculation for the CPAI measure.

Discussion and Submission

OEB staff submits that Hydro One should provide clarifications in a couple of areas with respect to the TCAI metric in its reply submission.

First, OEB staff notes that while Hydro One has stated that its proposed TCAI measure will represent 81% of the OEB-approved System Renewal program over the application terms, the Decision and Order had stated that the additional metric should cover the remainder of the System Renewal program as referenced above. OEB staff submits that Hydro One should explain why it was unable to design a metric to cover the entire program as directed by the OEB.

Second, OEB staff notes that Hydro One provided the calculation of the new metric as shown below:[8]

Table 9 – TCAI Calculation Methodology

Investment (n)	Budget	Budget Weighting (n)	Units Planned	Units Installed	Completion	Weighted Index (n)
SR – (n)	A	C = A/B	D	E	F = E/D	C x F
Total Budget	**B**					

$$TCAI = \frac{\sum^{n} Weighting\ Index\ (n)}{\sum^{n} Budget\ Weighting\ (n)} \times 100\%$$

OEB staff notes that the calculation of the TCAI involves each System Renewal project or program having a weighted index that is calculated by the taking the ratio of installed units (“E” in the above table) to planned units (“D” in the above table) and multiplying this by a weighting factor (“C” in the above table) that is proportional to its respective System Renewal project or program’s budget. OEB staff is unclear how projects or programs will be divided or subdivided into units planned and units installed and submits that Hydro One should provide additional clarification regarding this matter in its reply submission.

Taxes

Regarding the regulatory tax calculations provided in Exhibit 1.5 of the DRO, OEB staff submits that clarification is required for the areas discussed below:

i. Capital Expenditure Reduction

Background

Hydro One indicated that the OEB’s reduction in capital expenditures, resulting in Hydro One’s proposed in-service capital additions in Table 5 of the DRO, has led to an increase in regulatory taxes for 2020 to 2022. Hydro One provided accelerated capital cost allowance (CCA) calculations in Exhibit 1.5.2 of the DRO.

[8] EB-2019-0082, *Draft Rate Order,* p. 35.

Discussion and Submission

OEB staff notes that for the purposes of calculating CCA, the 2020 opening undepreciated capital cost (UCC) in Exhibit 1.5.2 is $7,221.3 million, which is different from the $7,257.1 million shown in the CCA calculation to update for accelerated CCA in response to an OEB staff interrogatory.[9]

OEB staff believes the change in the 2020 opening UCC from the interrogatory response to the DRO is to true-up forecasted to actual opening UCC. OEB staff requests that Hydro One confirm whether this is the case, and if not confirmed, to provide an explanation for the change.

OEB staff also notes differences in the net additions used to calculate CCA in Exhibit 1.5.2 as compared to the in-service additions provided in Table 5 of the DRO. The differences are shown in the table below:

Additions ($M)

	2020	**2021**	**2022**
Exhibit 1.5.2 - Net additions	848.8	966.3	1,171.1
Table 5 - In-service additions*	938.9	1,078.0	1,285.2
Difference	(90.1)	(111.7)	(114.1)

*Total after adjustments not including OPEB

OEB staff is unclear on the adjustments made to in-service additions to derive net additions for tax purposes and whether these adjustments have changed from the pre-filed evidence.[10] OEB staff requests that Hydro One explain how the net additions in Exhibit 1.5.2 are derived from the in-service additions in Table 5.

[9] Exhibit I-1-OEB-208
[10] Exhibit F/Tab 7/Schedule 2/Attachment 2A

ii. Capitalized Overhead Costs

Background

In Exhibit 1.5.1 of the DRO, Hydro One provided the calculation of regulatory taxes. In the calculation, there are adjustments of $34.7 million, $35.7 million, and $36 million to deduct capitalized overhead from regulatory net income before taxes for 2020, 2021 and 2022 respectively. These adjustment amounts have not changed from the pre-filed evidence[11] and the relevant interrogatory response.[12]

Discussion and Submission

In the Decision and Order, the OEB reduced capital expenditures.[13] As a result, OEB staff's expectation would have been for the capitalized overhead adjustment for regulatory tax purposes to have also been reduced to reflect the impact of the Decision and Order. OEB staff is unclear as to whether the update to the capitalized overhead adjustment is material, and therefore invites Hydro One to comment on this matter.

iii. Other Post-Employment Benefits (OPEB)

Background

Hydro One indicated in the DRO that the total tax impact on revenue requirement as a result of removing the non-service component of OPEB costs from capital and recognizing this component as an OM&A expense (including the disbursal of the OPEB Cost Deferral Account) is an increase in regulatory tax of $10.3 million, $10.4 million and $10.5 million for 2020, 2021 and 2022 respectively.

Discussion and Submission

OEB staff notes that the increase in regulatory taxes is directionally in line with the OEB's direction to recognize the non-service component of OPEB costs as OM&A. In the calculation of regulatory taxes, Hydro One's starting point for the

[11] Exhibit F/Tab 7/Schedule 2, Attachment 1, filed June 19, 2019
[12] Exhibit I-1-OEB-208
[13] Decision and Order, page 3

calculation is regulatory net income before taxes.[14] The financial accounting OPEB expense[15] is a deduction used in deriving regulatory net income before tax. However, only the OPEB payments made[16] are deductible for tax purposes. Therefore, regulatory net income before taxes is adjusted for OPEBs in calculating regulatory taxable income. Specifically, the financial accounting OPEB expense is added back to regulatory net income before taxes (to remove the impact of OPEB expense) and OPEB payments made are deducted. As a result, assuming no changes to OPEB payments made (which is the case as per Hydro One's DRO), the increase in OM&A would result in higher regulatory taxable income, and therefore, higher regulatory taxes.

Hydro One provided in the DRO[17] the calculation of regulatory taxes. The OPEB expense adjustments have been updated from the pre-filed evidence[18] and interrogatory responses.[19] There were no changes to the adjustments for OPEB payments made. The OPEB expense adjustments were updated as follows:

OPEB Expense Adjustment ($M)

	2020	**2021**	**2022**
Exhibit 1.5.1 of DRO	49.6	50.3	50.2
Appendix F and IRR	21.1	21.5	21.1
Change	28.5	28.8	29.1

In its application, Hydro One proposed the following amounts for OPEB recovery for 2020: $16 million of OM&A, $18 million of capital and $21 million in the OPEB cost deferral account.[20] The OEB allowed the recovery of the OPEB amount requested by Hydro One for 2020.[21] Hydro One was directed to adjust test year OM&A and update its variance account in the DRO. In the DRO, Hydro One increased 2020 OM&A by $21 million to reflect this finding.

[14] Exhibit 1.5.1
[15] The financial accounting OPEB expense recognizes the cost of OPEBs as an employee's service is rendered and the benefit is earned. The OPEB payments made are employer contributions made to the OPEB plan as calculated through an actuarial funding valuation.
[16] *Ibid.*
[17] Exhibit 1.5.1
[18] Exhibit F/Tab 7/Schedule 2, Attachment 1, filed June 19, 2019
[19] Exhibit I-1-OEB-208
[20] Page 144-145 of the Decision and Order
[21] *Ibid*

OEB staff therefore expected the change in the OPEB expense adjustment from the pre-filed evidence/interrogatories to the DRO to be approximately an increase of $21 million. However, the change as shown in the table above, is an increase of $28.5 million. OEB staff is unclear on how the increase of $28.5 million correlates to the $21 million increase in OM&A. In addition, OEB staff expected the regulatory tax impact of the change to be approximately $5.6 million ($21 million*26.5% tax rate) for 2020, instead of the $10.3 million indicated by Hydro One.

Furthermore, OEB staff notes that the 2020 OPEB OM&A of $16 million and the non-service component of OPEB costs of $21 million recognized in OM&A, total $37 million. The $37 million would represent the financial accounting OPEB expense. OEB staff is unclear as to why this amount is different from the $49.6 million of OPEB expense shown in Exhibit 1.5.1 that is added back to regulatory net income before taxes.

OEB staff submits that Hydro One should clarify how the adjustment for OPEB expense for 2020 to 2022 is derived, including further details on how the disbursal of the OPEB Cost deferral account impacted regulatory taxes. In particular, OEB staff believes it would be helpful to the OEB to understand how the $49.6 million OPEB expense for 2020 is derived in relation to the approved OPEB OM&A amount, and how the $28.5 million change in OPEB expense from the pre-filed evidence to the DRO correlates to the $21 million recognition of OM&A for the non-service component of OPEB costs.

Deferral and Variance Accounts

i. Customer Connection and Cost Recovery Agreements True-Up and Earnings Sharing Mechanism

Background

The OEB approved the establishment of the Customer Connection and Cost Recovery (CCRA) True-Up Variance Account and an asymmetrical Earnings Sharing Mechanism (ESM) Deferral Account. Hydro One filed draft accounting orders for these accounts in its pre-filed application,[22] but did not file any updated draft accounting orders in the DRO.

Discussion and Submission

OEB staff submits that Hydro One should file the final draft accounting orders for the two accounts in its reply submission.

OEB staff submits that for further clarity as to the account mechanics, the ESM draft accounting order should be updated from that filed to include language that reflects pages 41 and 42 of the Decision and Order in the description of the account. This would include references to:

i) sharing with customers, on a 50:50 basis, any earnings that exceed the approved regulatory return on equity by more than 100 basis points
ii) earnings will be adjusted for tax impacts
iii) the calculation of actual return on equity will use the OEB approved mid-year rate base to avoid double counting with amounts proposed in the Capital In-Service Additions Variance Account (CISVA)
iv) the account disposition will be at the time of next rebasing

ii. Integrated System Operating Centre Asymmetrical Variance Account

Background

The OEB approved the establishment of an asymmetric variance account for the transmission portion of the ISOC, where in the case that the revenue requirement at the actual cost is lower than the revenue requirement at the forecast cost, Hydro One will return the difference to ratepayers.

Discussion and Submission

OEB staff has the following two concerns with Hydro One’s draft accounting order for this account:

[22] Exhibit H/Tab1/Schedule 2, Attachment 3 (ESM) and 4 (CCRA), filed June 19, 2019.

First, the draft accounting order states as follows:[23]

> The balance captured in this ISOC variance account shall be adjusted from the calculation of the Transmission Capital In-Service Additions variance account to ensure the revenue requirement impact is only captured in one of the accounts.

OEB staff is unclear as to how the adjustment to the ISOC Asymmetrical Variance Account will be calculated to avoid any double counting with the Transmission CISVA. OEB staff notes that Hydro One's accounting order for the Distribution ISOC variance account states that the balance captured in the ISOC variance account shall not be factored into the calculation of the Distribution CISVA. OEB staff is of the view that the same treatment would be appropriate for the Transmission ISOC Asymmetrical Variance Account and Transmission CISVA.

OEB staff invites Hydro One to clarify how the adjustment to the ISOC Asymmetrical Variance Account is proposed to be calculated and to explain how the adjustment would avoid double counting in the two accounts.

OEB staff's second concern is that in the draft accounting order, Hydro One proposed the journal entry be recorded in Account 2405 - Other Regulatory Liabilities or Credit, Sub-Account ISOC Asymmetrical Variance Account with an offset to Account 4050 - Revenue Adjustment.

OEB staff submits that Account 4050 is not the appropriate account to use. In the Accounting Procedures Handbook (APH),[24] the account falls under sales of electricity and the account description states "This account will include both unbilled revenue adjustments and prior year billing adjustments." The ISOC Asymmetrical Variance Account is to record the revenue requirement difference between the forecasted and actual cost of the ISOC. This does not have any correlation to Account 4050 which relates to sales of electricity and billing adjustments.

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[23] DRO, Exhibit 3.0, p. 1.
[24] *Accounting Procedures Handbook for Electricity Distributors*, effective January 1, 2012 is applicable to transmitters as per transmitters' licenses.

OEB staff submits the appropriate account to use is Account 4110 - Transmission Services Revenue instead of Account 4050.

iii. Depreciation Expense (Asset Removal Costs) Asymmetrical Cumulative Variance Account

Background

The OEB approved the establishment of an asymmetrical cumulative variance account to record differences between the asset removal cost forecasts that have been included in the proposed depreciation expense for 2020 to 2022 and the actual asset removal costs incurred in each of those years, where differences would be calculated and booked to the account net of tax impact. In the draft accounting order, Hydro One proposed the journal entry be recorded in Account 2405 - Other Regulatory Liabilities or Credit, Sub-account Asset Removal Costs Asymmetrical Cumulative Variance Account with an offset to Account 4305 – Regulatory Debits.

Discussion and Submission

OEB staff notes that this account is to record revenue requirement impacts and therefore, Account 4110 – Transmission Services Revenue would be the more appropriate account to use instead of Account 4305. The use of Account 4110 would also be consistent with OEB staff’s submission under the ISOC Asymmetrical Variance Account.

iv. Capital In-Service Additions Variance Account

Background

The OEB approved the continuation of the CISVA to record the net cumulative variance over 2020 to 2022 between the OEB-approved in-service capital additions forecasts and the actual amounts. The OEB further approved a modification of the account to allow for i) a 98% threshold on forecasted in-service additions in the calculation of the amount to be recorded in the account, and ii) an adjustment to the account for identifiable productivity improvements.

In the CISVA draft accounting order, Hydro One proposed a further modification to the approved modified account in response to the uncertainties arising from COVID-19. Hydro One proposed that the normal CISVA calculation for 2020, which compares the actual in-service addition to 98% of the forecasted in-service addition, not be performed. The normal CISVA calculation will continue to be done on a cumulative basis for 2021 and 2022 (e.g. 2021 is calculated based on 2020 and 2021 in-service actual and forecasted additions).

Discussion and Submission

OEB staff supports the modification of the account as proposed by Hydro One. Due to the timing of the proceeding, COVID-19 considerations were not reflected in the application.[25] OEB staff notes it is not typical to address a proposed modification to the Decision and Order in the DRO stage, however, OEB staff submits that it would allow for regulatory efficiency in that Hydro One would not have to submit another application to address this issue.

OEB staff notes that the impact of COVID-19 is uncertain at this time and is beyond Hydro One's control. OEB staff agrees with Hydro One that Hydro One should not be penalized if it underspends on its forecasted in-service capital additions in 2020 as a result of delayed capital investments due to the COVID-19 situation. Foregoing the 2020 CISVA calculation but calculating the cumulative CISVA amount for 2021 and 2022 will still hold Hydro One accountable for underspending of in-service additions on a cumulative basis.

OEB staff agrees that Hydro One should provide an update on actual in-service capital additions in its 2022 Annual Update so that the OEB is kept informed.

v. Foregone Revenue

Background

In the DRO, Hydro One indicates that in the event that the OEB chooses to proceed with any of the UTRs implementation alternatives, Hydro One will

[25] Hydro One's reply argument was filed on January 17, 2020. The Government of Ontario declared a state of emergency on March 17, 2020.

require a Foregone Transmission Revenue Deferral Account. Hydro One therefore re-submitted its request for the OEB's approval to establish this account.

Discussion and Submission

As a result of OEB staff's submission on the UTRs implementation in the Implementation section below, OEB staff supports the establishment of the account. The draft accounting order for the Foregone Transmission Revenue Deferral Account states that the proposed account will record the foregone revenue from January 1, 2020 to the date when the approved rates revenue requirement and load forecast are reflected in an update to current interim UTRs.

That said, OEB staff has two concerns with this draft accounting order:

The first concern is that in the draft accounting order, Hydro One proposed to use Account 1508 - Other Regulatory Assets, Sub-account Foregone Revenue Transmission Deferral Account. OEB staff notes that in the its April 29, 2020 accounting order,[26] the OEB clarified that Account 1509 – Impacts Arising from the COVID-19 Emergency, Sub-account Lost revenues, which is to record lost revenues resulting from the COVID-19 emergency, is applicable to transmitters.

In the DRO, Hydro One proposed alternatives to the implementation date for the UTRs, as a result of the OEB's language in the decision in relation to COVID-19 and UTRs implementation. Also, OEB staff notes that the OEB indicated Account 1509 should be used to record temporarily foregone revenues for electricity distributors that chose to delay implementation of May 1, 2020 rates approved in decisions and orders relating to incentive rate-setting mechanism applications.[27] Therefore, OEB staff submits that any foregone revenue would be due to COVID-19 considerations and the appropriate account to use would be Account 1509, and not Account 1508.

[26] Accounting Order for the Establishment of Deferral Accounts to Record Impacts Arising from the COVID-19 Emergency for Ontario Power Generation Inc. and Electricity Transmitters
[27] Letter regarding *Initial Implementation Guidance to Incentive Rate-setting Decisions for May 1, 2020 Rates for Postponing Distributors*, April 17, 2020

OEB staff's second concern is that Hydro One has proposed that interest be recorded on the balance in the account under Account 6035 – Other Interest Expense.

OEB staff notes that as the account is to record foregone revenues, any interest recorded will be interest income. Therefore, OEB staff submits that the appropriate account to record this interest income would be Account 4405 – Interest and Dividend Income and not Account 6035. Using Account 4405 would be consistent with the APH. OEB staff notes that Article 490 – Retail Services and Settlement Variances of the APH shows that interest income on deferral and variance accounts is recorded in Account 4405.

Revenue Requirement by Rate Pool

Background

The OEB approved Hydro One's cost allocation methodology for the 2020 test year and accepted Hydro One's plan of not re-running the cost allocation model for 2021 and 2022.

Hydro One provided the revenue requirement by rate pool for the 2020 test year in Exhibit 2.2 of the DRO.

Discussion and Submission

OEB staff notes that the percentage splits of total revenue requirement by rate pool presented in the DRO reconcile with the allocation results filed in the application.[28] Further, OEB staff submits that Hydro One has accurately allocated revenue offset items to the rate pools. Specifically, the export revenue is 100% allocated to the Network rate pool, the wholesale meter service and low voltage switchgear revenues are 100% allocated to the Transformation Connection rate pool, and the external revenue and Deferral and Variance Account balances are allocated based on the percentage splits of total revenue requirement.

[28] Exhibit I1-5-1, page 2.

Export Transmission Service Rates

Background

The OEB approved the export transmission service (ETS) rate as proposed at $1.85 per MWh. The ETS revenue was also approved as proposed at $35.9 million for 2020 and 2021 and $36.3 million for 2022.

Discussion and Submission

There is no change in ETS revenue for 2020-2022 in the DRO. OEB staff takes no issues with the amount of ETS revenues included in Hydro One's revenue requirement for setting UTRs.

UTRs Schedules

Background

Hydro One, in preparing its UTRs schedules has retained Niagara Reinforcement Limited Partnership's (NRLP) interim revenue requirement of $9,389,914,[29] per the interim UTRs Rate Order of December 19, 2019, in calculating UTRs.

On April 9, 2020, the OEB issued its Decision and Order on NRLP's 2020-2024 revenue requirement.[30]

On June 4, 2020, the OEB issued its Revenue Requirement and Charge Determinant Order on NRLP's 2020 revenue requirement. In that order the OEB, among other things, approved an NRLP base revenue requirement of $8,662,167.[31]

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[29] See, for example, Exhibit 2.6.1
[30] EB-2018-0275
[31] EB-2018-0275 Revenue Requirement And Charge Determinant Order, June 4, 2020, p. 8, orders 1, 2 and 4

Discussion and Submission

OEB staff submits that Hydro One should recalculate the UTRs and make necessary adjustments to all related schedules to reflect NRLP's final approved revenue requirement.

OEB staff notes that, since NRLP recovers its revenue requirement solely as part of the Network pool, only the Network rate is affected. The calculations for the Line Connection and Transformation Connection UTRs should remain unchanged.

Implementation

Background

The OEB made the following statement concerning the implementation of the Decision and Order:[32]

> The severity and duration of the current COVID-19 emergency, which has occurred after the close of the record in this proceeding, and its impact on electricity utilities (i.e., transmitters) and customers alike, is uncertain. At this time, the OEB does not expect that the pandemic will impact the implementation of the Decision and Order, or its ability to update UTRs to be effective July 1, 2020, but the OEB will continue to closely monitor this situation.

Hydro One observed in the DRO that should the OEB choose to update the UTRs effective July 1, 2020, directly-connected transmission customers such as Local Distribution Companies and industrial customers would experience the effects of a rate increase due to the resetting of Hydro One's revenue requirement and charge determinants reflecting the OEB-approved load forecast.

Hydro One noted that the Decision and Order had established that the implementation of its approved 2020 revenue requirement and charge determinants would occur on July 1, 2020 along with an update to the UTRs. Hydro One's January to June 2020 Foregone Revenue of $28.1 million would be collected starting July 1, 2020 over the six remaining months of the year.

[32] EB-2019-0082, Decision and Order, p. 5

Hydro One stated that given the language in the Decision and Order in relation to COVID-19 and UTRs implementation and the OEB's approach of inviting alternative proposals on the implementation of a rate rider in Enbridge Gas Inc.'s recent rates proceeding,[33] it identified three alternatives for the OEB to consider, as follows:

<u>Alternative 1</u>: Implement Hydro One's approved 2020 revenue requirement and charge determinants in an update to UTRs on July 1, 2020 but defer collection of Hydro One's January to June 2020 Foregone Revenue of $28.1 million to January 1, 2021 over a period of one year.

<u>Alternative 2</u>: Maintain interim UTRs to the end of 2020. On January 1, 2021 implement UTRs for 2021 to reflect Hydro One's approved 2021 revenue requirement, the approved charge determinants, and collect Hydro One's January to December 2020 Foregone Revenue of $57.1 million over a period of one year.

<u>Alternative 3</u>: Maintain interim UTRs to the end of 2020. On January 1, 2021 implement UTRs for 2021 to reflect Hydro One's approved 2021 revenue requirement, the approved charge determinants, and collect Hydro One's January to December 2020 Foregone Revenue of $57.1 million over a period of two years.

Hydro One stated that its preference for implementing changes to UTRs would be to adopt Alternative 3. Hydro One explained that this was because this alternative would eliminate any transmission-related increases for both transmission and distribution customers in 2020, just as individuals and business are starting to recover from the effects of COVID-19 restrictions and also because it mitigates the impacts on customers by spreading the subsequent recovery of foregone revenue over the remaining two-year period covered by the application.

[33] EB-2019-0194, Enbridge Gas Inc. *Decision and Order,* p.25.

Discussion and Submission

OEB staff notes that in April 2020, the OEB issued a letter which stated that it would allow distributors filing Incentive Rate-setting Mechanism applications to elect to postpone the implementation of new rates for a period of six months, or possibly longer.[34]

In its letter, the OEB stated that in light of the uncertainty regarding the severity and duration of the COVID-19 emergency, and its impact on electricity utilities (i.e. distributors) and customers alike, the OEB was taking a unique approach to enable distributors to provide additional relief to their customers if they are able to do so without jeopardizing continuity and reliability of service.

The OEB further stated that in an effort to protect the interests of consumers while ensuring that electricity distributors remain financially able to continue to operate and maintain their systems and provide uninterrupted electricity service to their customers, it had decided to make the May 1, 2020 rate change optional for each of the 31 affected distributors. The OEB explained that this optional approach recognized that, while the COVID-19 emergency is having profound province-wide impacts, each distributor has its own unique circumstances that need to be factored in to a decision about what is in the best interests of customers in the immediate and longer term.

The OEB stated that distributors needing to implement a change in rates on May 1, 2020 as scheduled could do so. Alternatively, distributors had the option to postpone the change in rates to November 1, 2020. The OEB further stated that it might consider providing an opportunity for a longer postponement as November 2020 approaches.

The OEB also stated that where implementation was concerned, distributors choosing to postpone implementation of their new rates in light of the COVID-19 emergency may track any temporarily foregone distribution revenue in the deferral account established by the OEB for this purpose.

[34] Ontario Energy Board Letter, *Approaches to Incentive Rate-setting Decision for May 1, 2020 Rates*, April 16, 2020

OEB staff notes in this context that the OEB recently issued similar direction to Enbridge Gas Inc.:[35]

> The OEB notes that the severity and duration of the current COVID-19 pandemic are unknown at this time. Therefore, the implementation of the ICM rate rider approved in this Decision and Order does not take into account the COVID-19 impact. The OEB recognizes that the COVID-19 emergency is having profound province-wide impacts and it leaves the option on the timing of implementation of the rate rider to Enbridge Gas. The OEB acknowledges that each distributor has its own unique circumstances that need to be factored into its decision making process keeping in mind the best interests of customers in the immediate and longer term. While the OEB has approved the implementation of the rate rider effective July 1, 2020, the OEB will consider any alternative proposal from Enbridge Gas in the draft rate order that seeks to delay implementation of the rate rider.

In light of the OEB's recent direction to both electricity and gas distributors, OEB staff considers the alternatives submitted by Hydro One as reasonable and in line with this direction.

OEB staff agrees with Hydro One that Alternative 3 is the best choice given the current circumstances. OEB staff is of the view that Alternative 3 best responds to the current uncertainty as to the extent and duration of the current COVID-19 pandemic by first delaying the implementations of the UTRs to 2021 and then spreading out the recovery of the foregone revenue over a two-year period, thereby smoothing the magnitude of the impact on customers of this recovery.

In this context, OEB staff notes that under Alternative 3, the bill impacts for both transmission and distribution customers are zero in 2020 and below one percent in both 2021 and 2022, which OEB staff considers to be reasonable.

OEB staff would place one caveat on its support of Hydro One's implementation approach, which is that the impact on other affected transmitters be considered. OEB staff notes that Hydro One Transmission has partnership arrangements with three of the other transmitters (H1N SSM, B2MLP and NRLP). As such, Hydro One should be in a position to confirm their agreement with Alternative 3 in its reply, and OEB staff requests that Hydro One do so. OEB staff's expectation is that there would be no material impact on the other two transmitters (FNEI and

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[35] EB-2019-0194, Enbridge Gas Inc. *Decision and Order,* p.25.

CNPI) and would ask that Hydro One also provide confirmation of this in its reply submission.

- All of which is respectfully submitted-