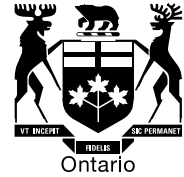


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**BY E-MAIL**

October 15, 2020

Attention: Ms. Christine Long, Registrar

Dear Ms. Long:

**Re: Hydro One Networks Inc.  
2018-2022 Distribution Rate Application – 2021 Annual Rate Update  
Ontario Energy Board File Number: EB-2020-0030**

Please find attached OEB staff's interrogatories on the above referenced application filed by Hydro One Networks Inc. on August 31, 2020.

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

Ontario Energy Board Staff Interrogatories  
2021 Distribution Update Rate Application  
Hydro One Networks Inc. (Hydro One)  
EB-2020-0030  
October 16, 2020

### 3. DEFERRAL AND VARIANCE ACCOUNTS

#### 3.1-Staff-1

Ref: p.10 and p. 14 of Chapter 3 Filing Requirements for Electricity Distribution Rate Applications, 2020 Edition for 2021 Rate Applications, May 14, 2020

Hydro One is requesting disposition of its December 31, 2019 Group 1 DVA balances.

- a) Please clarify if Hydro One is requesting interim or final disposition of Group 1 balances.
- b) If Hydro One is requesting final disposition, please explain the rationale for this given that Hydro One has not fully implemented the Feb. 21, 2019 accounting guidance<sup>1</sup> for Account 1588 and Account 1589.

#### 3.1-Staff-2

Ref: Exhibit 1.0 – DX DVA Continuity Schedule

In Hydro One Distribution's DVA Continuity Schedule, the amounts in the "Opening Principal Amounts" column for 2015 (i.e. closing 2014 principal balance) equal the amounts in the "OEB Approved Disposition During 2019" column for the approved disposition of 2014 principal balances.<sup>2</sup> Hydro One Distribution was also approved to dispose of 2012 balances in its 2015 rate application.<sup>3</sup> The corresponding amounts are shown in the "OEB Approved Disposition During 2015" column of Hydro One Distribution's DVA Continuity Schedule.

OEB staff does not expect the "Opening Principal Amounts" for 2015 to equal to "OEB Approved Disposition During 2019" because typically, the ending 2014 principal balance would have included the 2012 balance (as disposition is not recorded until 2015) while the ending 2014 principal balance that was approved for disposition would have

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<sup>1</sup> <https://www.oeb.ca/sites/default/files/Accounting-Guidance-Commodity-Accounts-20190221.pdf>

<sup>2</sup> EB-2017-0049, Draft Rate Order, Page 18, Table 7, Filed April 5, 2019

<sup>3</sup> EB-2013-0416

excluded the 2012 balance that had already approved for disposition in the 2015 rate application.

- a) Please confirm that the 2012 balance approved for disposition was removed from the 2014 balance approved for disposition. If not confirmed, please explain why this was the case and how Hydro One has treated the 2012 balance approved for disposition in subsequent years.
- b) Please explain the treatment of the 2012 balance approved for disposition, in the context of OEB staff's expectation of the 2015 opening balance stated above.
- c) Please confirm that the 2012 balance approved for disposition has not been double-counted for disposition purposes.

### **3.1-Staff-3**

Ref: p.10

Ref: Exhibit 1.2 Allocation of Consolidated Balance

Ref: Exhibit 1.4 GA Analysis Workform

On page 10, Hydro One indicated that in its 2019 rate application,<sup>4</sup> Group 1 balances as at December 31, 2014 and 50% of a \$121.8M IESO credit recorded in Account 1589 were approved for disposition.

- a) Please discuss Hydro One's final treatment of the \$121.8M IESO credit, including whether there were any revisions to the credit amount, the accounts in which it was recorded and when it was recorded in the general ledger. If there were revisions, please provide further details.
- b) It appears that Hydro One has excluded the remaining (\$60.9M) in Account 1589 that has not been disposed in the allocation of the consolidated balance to Hydro One Distribution and Acquired Utilities, but has included this credit for disposition in 2017 in Hydro One Distribution's DVA Continuity Schedule. Please confirm.
  - i. If not confirmed, please explain what is Hydro One's proposed treatment for the remaining IESO credit.
- c) In Exhibit 1.2, 2015 to 2018 includes footnotes to indicate that the consolidated balance to be allocated, excludes adjustments to Account 1589 of \$12.6M for

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<sup>4</sup> EB-2017-0049

2015, \$35.7M for 2016 and (\$60.9M) for 2017, which was specific to Hydro One Distribution. These amounts are allocated specifically to Hydro One Distribution.

- i. Please confirm the three amounts are all related to the \$121.8M IESO credit.
  - ii. If so, please explain why the absolute sum of the three amounts does not total \$121.8M
  - iii. Please explain why the adjustment is a debit for 2015 and 2016, and a credit for 2017 and 2018. Please explain how it reconciles to the total credit of \$121.8M.
  - iv. Please indicate in which years, and for what corresponding amounts, the credit was recorded in the general ledger.
  - v. If part i is not confirmed, please explain what each of the adjustments are for, the reason for the adjustments, the accounts impacted and the corresponding amounts recorded in each account in each year, as well as why those accounts are impacted.
- d) In the GA Analysis Workform, there are reconciling items to adjust the general ledger balance for (\$37.1M), (\$38.7M) and \$121.8M in 2015, 2016 and 2017, respectively. This suggests that the balance in the year included \$37.1M in 2015, \$38.7 in 2016 and (\$121.1.8) in 2018 that should be removed for reconciliation purposes as they do not relate to 2015, 2016 or 2017, respectively.
- i. Please confirm this understanding. If not confirmed, please explain why and how these amounts are reconciling items.
  - ii. Please explain how these reconciling items correspond to the adjustments noted in Exhibit 1.2, which implies that \$12.6M, 35.7M and (\$60.9M) were included in Account 1589 for 2015, 2016 and 2017, respectively.

### **3.1-Staff-4**

Ref: p.10

With regards to the \$121.8M IESO credit, per the information in Hydro One's 2019 rate application, the refund from the IESO was received due to a clarification of embedded

generation submissions used in the calculation of the Global Adjustment applicable to Hydro One Distribution from January 2005 through to August 2016.<sup>5</sup>

Please state whether Hydro One follows the guidance for embedded generation as outlined in the OEB’s February 21, 2019 accounting guidance related to Accounts 1588 and Account 1589 and if not, please explain.

**3.3-Staff-5**

Ref: Exhibit. 1.1 Consolidated DVA Continuity Schedule

Typically, large balances are not expected for Account 1588 as it should only hold the variance between commodity costs based on actual line losses and commodity revenues based on values for line losses approved by the OEB in the utility’s last rebasing application.

Based on RRR data filed for Hydro One Distribution and Acquireds (where available) for Account 4705 Cost of Power, OEB staff calculates the annual net activity (i.e. transactions plus principal adjustments) from the DVA Continuity Schedule as a percentage of annual Account 4705 to be as follows:

	<b>Net Activity in Account 1588 (\$)</b>	<b>Account 4705 (\$)</b>	<b>% of net activity compared to Account 4705</b>
2019	(4,999,818)	512,373,616.78	(1.0%)
2018	(27,734,062)	664,302,318.10	(4.2%)
2017	23,676,456	388,880,263.70	6.1%
2016	(2,941,619)	438,107,535.95	(0.7%)
2015	24,604,718	644,455,590.39	3.8%
Cumulative	12,605,675	2,648,119,325	0.5%

- a) Please confirm this calculation or provide a revised calculation.
- b) For year(s) where the percentage is greater than +/-1%, please provide an explanation as to why the Account 1588 activity would be high in consideration of line losses.

<sup>5</sup> EB-2017-0049, OEB Staff Submission, page 159, August 3, 2018

### **3.3 – Staff-6**

#### Ref: Exhibit 1.2 Allocation of Consolidated Balances

The second table of the 2015 tab calculates the Post-Integration Consolidated Transactions as i) Consolidated Transactions minus ii) Norfolk Power service area's 2014 Closing Balance, minus iii) Pre-integration utility specific transactions.

The same approach is used in 2016, where the Post-Integration Consolidated Transactions are calculated as i) Consolidated Transactions minus ii) Haldimand County Hydro service area and Woodstock Hydro service area's 2015 closing balances, minus iii) Pre-integration utility specific transactions for Haldimand County Hydro service area and Woodstock Hydro service area, as well as the January to August 2016 transactions for Hydro One Distribution and Norfolk Power service area.

- a) Please explain why closing balances (i.e. 2014 for Norfolk Power service area, 2015 for Haldimand County Hydro service area and Woodstock Hydro service area) need to be deducted from the 2015 and 2016 allocation calculations when the starting point of the calculation is consolidated transactions.
- b) Please state whether pre-integration utility-specific transactions include the closing balances for each utility.
  - i. If so, please explain whether there is any double counting of Norfolk Power/Haldimand County Hydro/Woodstock Hydro service areas' transactions in the allocation of consolidated balances in Exhibit 1.2.

### **3.4-Staff-7**

#### Ref: Exhibit 1.3 Account 1595 Workform

Per the rate rider analysis in the Account 1595 Workform, the majority of the variance (credit \$4.2M out of credit \$6.5M) in Account 1595 is due to the Sub-Transmission Service Classification rate class for both the "Group 1 and 2 excluding Global Adjustment" rate rider and the Global Adjustment rate rider. The main variance for this rate class is due to the differences in forecasted and billed volumes from the volumetric "Group 1 and 2 excluding Global Adjustment" rate rider.

Please explain the variance in Account 1595 attributable to this rate class in greater detail.

### **3.6-Staff-8**

Ref: p.15

On February 21, 2019, the OEB issued accounting guidance related to Account 1588 and Account 1589. This accounting guidance was effective January 1, 2019 and was to be implemented by August 31, 2019. Distributors are expected to consider this accounting guidance in the context of pre-2019 historical balances that have yet to be disposed of on a final basis

- a) In section 3.6 of the pre-filed evidence, Hydro One discusses the RPP settlement process in regards to the Feb. 21, 2019 accounting guidance. In Hydro One's review of pre-2019 historical balances in the context of the Feb. 21, 2019 accounting guidance, has Hydro One identified any other systemic issues?
- b) If so, please discuss each systemic issue. Please also discuss the action Hydro One has taken to address each systemic issue.
- c) Has Hydro One made any material adjustments to account balances as a result of the Feb. 21, 2019 accounting guidance?
- d) If so, for each adjustment, please discuss the nature the adjustment, the amount of the adjustment and the reason for the adjustment.

### **3.6- Staff-9**

Ref: Exhibit 1.4 – GA Analysis Workform

In the GA Analysis Workform, there is a reconciling item of \$2.3M for "Norfolk integrated balance" for 2015. There is also a reconciling item of (\$0.6M) for the "Woodstock and Haldimand integrated balance for 2016".

- a) Please confirm that the consumption data used to calculate the expected GA balances for 2015 and 2016 exclude the consumption data prior to integration for Norfolk Power service area in 2015, and Woodstock Hydro service area and Haldimand County Hydro service area in 2016.
- b) If confirmed, please explain how the reconciling item is calculated. In particular, please explain why it does not equal the sum of the ending balance in the year of integration plus the pre-integration utility-specific transactions in the integration year as shown in Exhibit 1.2 (for example, \$3.7M for Norfolk Power service area = \$2.5M +\$1.2M as per Exhibit 1.2).

- c) If part a) is not confirmed, please explain what the reconciling items for the Acquired's integrated balances are for and why they are needed as reconciling items.

### **3.6- Staff-10**

Ref: Exhibit 1.4 – GA Analysis Workform

Ref: Exhibit 1.1 – Consolidated DVA Continuity Schedule

In the GA Analysis Workform for 2017, the “Net Change in Principal Balance in the GL” under Note 5 is (\$149,940,135). In the consolidated DVA Continuity Schedule, the transactions for Account 1589 for 2017 is (\$88,634,742). The difference is \$61,305,394.

- a) Please explain the reason for the difference.
- b) If the difference pertains to the adjustment made relating to the \$121.8M credit, please explain how it relates and how the reconciling item of \$121.8M in the GA Analysis Workform is appropriate.

### **3.6- Staff-11**

Ref: Exhibit 1.4 – GA Analysis Workform

Ref: Exhibit 1.1 – Consolidated DVA Continuity Schedule

Ref: p. 15

In the GA Analysis Workform for 2015 to 2019, reconciling items 1a and 1b for CT 148 true-ups, and 2a and 2b for unbilled to actual revenue true-ups are identified.

- a) As Hydro One states that it is still exploring technology solutions that may allow it to obtain the necessary data from its billing system and the Meter Data Management Repository system, please explain how Hydro One has quantified the reconciling items for 1a, 1b, 2a and 2b.
- b) Reconciling items 1a, 1b, 2a and 2b are identified as principal adjustments for Account 1589 in each of the 2015 to 2019 GA Analysis Workform tabs. However, these principal adjustments do not appear as principal adjustments in the “Principal Adjustment” column of the consolidated, Distribution or Acquired DVA Continuity Schedules.
  - i. Please explain why these principal adjustments are not included for disposition in the DVA Continuity Schedules. Please revise the evidence as needed.



- ii. If Hydro One is not proposing to include the principal adjustments for disposition as per the Feb. 21, 2019 accounting guidance, please explain why Hydro One is proposing to deviate from the accounting guidance.

### **3.6- Staff-12**

Ref: Exhibit 1.4 – GA Analysis Workform

Ref: Exhibit 1.1 – Consolidated DVA Continuity Schedule

In the GA Analysis Workform, the Principal Adjustment tab does not appear to be completed for Account 1589 and Account 1588.

- a) Please complete the Principal Adjustment tab in the GA Analysis Workform.
- b) Please confirm that the CT 148 true-ups identified as reconciling items and principal adjustments for Account 1589 in the GA Analysis Workform tabs for 2015 to 2019 are also applicable to Account 1588 and are equal and offsetting to the amounts identified for Account 1589.
  - i. If not confirmed, please explain why not.
- c) There are no principal adjustments that are shown in the “Principal Adjustment” column of the consolidated, Distribution or Acquired DVA Continuity Schedules for Account 1588.
  - i. If principal adjustments are identified for Account 1588 as per part a above, please explain why they are not included for disposition in the DVA Continuity Schedules. Please revise the evidence as needed.
  - ii. If Hydro One is not proposing to include the principal adjustments for disposition as per the Feb. 21, 2019 accounting guidance, please explain why Hydro One is proposing to deviate from the accounting guidance.

### **3.6- Staff-13**

Ref: Exhibit 1.4 – GA Analysis Workform

In the GA Analysis Workform for 2018, there is a reconciling item of \$2.2M for a payment received from the IESO related to Waubaushene TS.

- a) Please further explain the reason for the payment.

- b) Please explain how the payment was recorded in the general ledger (i.e. did it impact Account 1588 or other commodity accounts).

### **3.6-Staff-14**

Ref: p.16-17

At the above reference, Hydro One states the following:

The IESO settlement amounts discussed above are also estimated based on unbilled consumption for accounting accrual purposes. These accrual amounts are not included in the monthly IESO declaration. Only the settlement amounts based on the actual invoices are declared to the IESO.

- a) Please confirm that the above statement is applicable for 2019 and prior years. If not confirmed, please explain.
- b) As noted above, settlements amounts are based on actual invoices. The settlement amount will appear as charge type 142 on the IESO invoice. Please confirm that the actual charge type 142 amount that appears on the IESO invoice is not recorded in the general ledger, as charge type 142 is recorded on an accrual basis (based on invoiced and unbilled consumption) in the general ledger for accounting purposes.
  - i. Please confirm that charge type 142 on the IESO invoice for RPP settlements is recorded fully in Account 1588. If not confirmed, please explain how charge type 142 is recorded in the general ledger.
- c) If part b above is not confirmed, please provide further explanation on how the RPP settlement amount is calculated and how the resulting charge type 142 amount invoiced is recorded in the general ledger.
  - i. Please discuss whether Hydro One has materially changed its processes for RPP settlement submissions at any point between 2014 and today's date. If so, when?
- d) Please confirm that, as settlements are done based on actual invoices only, Hydro One only performs a price variance true-up between the GA estimated price and GA actual price and no volume true-up is performed. If not confirmed, please explain.

- e) Please confirm that RPP settlement is trued-up to actuals based on wholesale volumes. If not, please confirm that the difference between retail to wholesale volumes for RPP settlement is recorded in Account 1588.

#### **4. EARNINGS SHARING MECHANISM**

##### **4-Staff-15**

Ref: p. 17

At the above reference, Hydro One stated the following:

The ESM credit balance requested for disposition to be shared with distribution customers in the current application reflects both a credit of \$1.2M in 2018 and a credit \$20.2M in 2019. Both the 2018 and 2019 amounts were recorded in 2019 due to the timing of the EB-2017-0049 Decision. In 2019, the achieved ROE was 1.9% higher than the deemed ROE of 9.0% owing to weather and achieved productivity reductions, offset in part by increased operations, maintenance, and administration expenses.

- a) Please provide the calculations supporting the 2019 ROE referenced above.
- b) Please provide a breakdown of the 2018 credit of \$1.2 million and the 2019 credit of \$20.2 million between the factors cited above and include an explanation of the reasons for each of the variances.

##### **4-Staff-16**

Ref: p. 17

At the above reference, Hydro One stated the following:

As summarized in the Hydro One Networks' 2018-2022 Distribution Rate Application – Distribution Productivity Report (“Productivity Report”) for 2018 and 2019 years, Hydro One was able to achieve additional \$4.5 million in productivity savings in 2018 and an additional \$25 million in productivity savings in 2019 relative to the forecast filed in the application.

Please state how the additional 2018/2019 productivity savings referenced above impacted the 2018 and 2019 ESM credit amounts and provide a quantification of these impacts for each year.

#### **4.0-Staff-17**

Ref: p.17

Hydro One is proposing to dispose of the balance in the ESM account for 2018 and 2019, totaling (\$21.7M).

- a) Please provide the ESM calculations for 2018 and 2019.
- b) Please explain how the ESM amount was calculated for 2018 given that it was a rebasing year and rates were effective May 1, 2018. Please explain the assumptions used for the calculation.
- c) At the reference above, Hydro One states that “The ESM calculation methodology utilized by Hydro One is similar to what is outlined in the annual RRR 2.1.5.6 filing”.
  - i. Please explain each difference in i) the methodology and ii) adjustments made to regulatory net income in deriving the adjusted regulatory net income for ESM purposes between Hydro One’s ESM calculation and the one outlined in the RRR 2.1.5.6.
  - ii. Please explain why each of the differences in methodology and adjustments to regulatory net income were made in Hydro One’s ESM calculation.
- d) Please confirm the ESM is calculated using actual earnings and not weather normalized earnings.
- e) In the decision and order<sup>6</sup> for Hydro One’s 2020 Custom IR Update rate application, the OEB found that “The ESM deferral account is to be reviewed as part of the 2021 rate application and will also be reviewed for disposition in Hydro One’s next rebasing application”.
  - i. Please explain whether Hydro One is seeking interim disposition or final disposition of the 2018 and 2019 ESM amounts.
  - ii. Please explain whether Hydro One is agreeable to interim disposition of the 2018 and 2019 ESM amounts in the current application, and subsequently requesting final disposition in its next rebasing application,

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<sup>6</sup> Page 6, Decision and Order, December 17, 2019, EB-2019-0043

allowing for further review of the 2018 and 2019 amounts, should it be required.

## **6. RATE DESIGN**

### **6.5-Staff-18**

Ref: Exhibit 4.1 GA Transition Customers

The calculation of the percentage allocation of Account 1589 to current Non-RPP Class B customers is as follows:

Non-RPP Class B consumption excluding WMP, Class A and transition customers  
= (total Non-RPP Class B excluding WMP consumption) – (consumption of transition customer).

Please confirm that non-RPP Class A consumption is appropriately excluded in the calculated Non-RPP Class B consumption excluding WMP, Class A and transition customers amount. If not confirmed, please revise the calculation as needed.

### **6.5-Staff-19**

Ref: Exhibit 4.0 – DVA Rate Riders

Per the Chapter 3 Filing Requirements for Electricity Distribution Rate Applications<sup>7</sup>, page 15 states

However, in the event that the allocated CBR Class B amount results in a volumetric rate rider that rounds to zero at the fourth decimal place in one or more rate classes, the entire balance in Account 1580, Sub-account CBR Class B will be added to the Account 1580 WMS control account to be disposed through the general purpose Group 1 DVA rate riders.

In Exhibit 4.0, the volumetric rider for CBR Class B is zero in the fourth decimal places for some rate classes. Please confirm that Hydro One is proposing to dispose of Account 1580, Sub-account CBR Class B through a volumetric rate rider even though a rate rider is not generated for all rate classes. If not confirmed, please explain Hydro One's proposal.

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<sup>7</sup> Filing Requirements For Electricity Distribution Rate Applications - 2020 Edition for 2021 Rate Applications, May 14, 2020

## 6.9-Staff-20

Ref: p. 24

At the above reference, Hydro One stated the following:

The 2021 tariff schedule includes the applicable Specific Service Charges for the 2021 rate year described in EB-2017-0049, Exhibit H1, Tab 2, Schedule 3.24. The retailer service charges and the specific charge for access to power poles - telecom will be adjusted for inflation, in accordance with the "Report of the Ontario Energy Board - Wireline Pole Attachment Charges" issued March 22, 2018 under EB-2015-0304, after the OEB issues the 2021 inflation factor in the course of this proceeding.

- a) Please clarify whether or not the above statement means that Hydro One is updating the retailer service charges in accordance with the referenced OEB wireline pole attachment charges report, or, if not, please explain.  
.
- b) Please provide a table containing the following information:
  - (i) a listing of all specific service charges that are being adjusted in the current application and the current and proposed rate for any such charges,
  - (ii) the basis (e.g. OEB policy or other reasons) for making each proposed adjustment and how any such adjustments are being calculated.