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BY E-MAIL

November 18, 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 submission 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

Hydro One Networks Inc.

EB-2020-0030

ONTARIO ENERGY BOARD

**STAFF SUBMISSION ON 2018-2022
DISTRIBUTION RATE APPLICATION – 2021
ANNUAL RATE UPDATE**

November 18, 2020

INTRODUCTION

On August 30, 2020, Hydro One Networks Inc. (Hydro One) filed its 2018-2022 Distribution Rate Application – 2021 Annual Rate Update under section 78 of the *Ontario Energy Board Act, 1998*,¹ seeking approval for 2021 distribution rates to be effective January 1, 2021.

The application seeks:

- a) Approval of the 2021 distribution rates and charges, effective January 1, 2021, by way of an update to: (i) the revenue requirement currently approved by the OEB; (ii) the associated customer and load forecast by rate class as approved by the OEB for 2021; and (iii) the disposition of deferral and variance accounts;
- b) Approval of the 2021 Retail Transmission Service Rates (RTSR), effective January 1, 2021;
- c) Approval of updated Specific Service Charges for 2021 per EB-2017-0049 and EB-2015-0304 (specific charge for access to power poles – telecom).

On October 9, 2020, Procedural Order No. 1 established the process for this proceeding which included the filing of interrogatories by Ontario Energy Board (OEB) staff and intervenors and submissions by parties.

This submission reflects observations and concerns which have arisen from OEB staff's review of the record of this proceeding and are intended to assist the OEB in evaluating the application and in setting just and reasonable rates.

Group 1 Deferral and Variance Accounts

Summary

Hydro One is requesting final disposition of its 2015 to 2019 Group 1 deferral and variance account (DVA) balances,² where the Account 1589 balance is a credit of \$27.4M and the remaining 2019 Group 1 DVA balances total is a debit of \$1.2M. Based on the evidence on record in this proceeding, OEB staff submits that Group 1 balances should be disposed on an interim basis, unless Hydro One

¹ S.O. 1998, c.15 (Schedule B)

² OEB Staff IRR #1

addresses the two matters outlined below in section 1. If Hydro One is able to do so, OEB staff would support final disposition of Group 1 balances.

1. Accounting Guidance Related to Commodity Pass-Through Accounts 1588 & 1589

On February 21, 2019, the OEB issued *Accounting Guidance Related to Commodity Pass-Through Accounts 1588 & 1589*³ (Accounting Guidance). The Accounting Guidance was effective January 1, 2019 and was to be implemented by August 31, 2019. The section below discusses OEB staff's views of the Accounting Guidance and its application to the 2019 balances Hydro One is requesting for disposition in this proceeding.

Consideration of Accounting Guidance in Context of Historical Balances

Background

The February 21, 2019 letter⁴ accompanying the Accounting Guidance states:

The OEB expects that distributors will consider the accounting guidance in the context of their historical balances (i.e. pre January 1, 2019 that have not been disposed on a final basis). If any distributor is of the view that there may be systemic issues with their RPP settlement and related accounting processes that may give rise to material errors or discrepancies, or if the OEB has identified issues with balances, those distributors are expected to correct those balances before filing for disposition in an annual rate application.

Hydro One has indicated that it has not implemented the Accounting Guidance, but is exploring technology solutions and accounting considerations that may allow it to obtain the necessary data from its billing system and the Meter Data Management Repository system.

Hydro One further indicated that it intends to adopt the Accounting Guidance on a prospective basis, once a solution to implement the Accounting Guidance has been determined.⁵

³ Accounting Procedures Handbook - Accounting Guidance Related to Commodity Pass-Through Accounts 1588 & 1589, February 21, 2019

⁴ OEB letter regarding Accounting Guidance related to Accounts 1588 RSVA Power, and 1589 RSVA Global Adjustment

Discussion and Submission

Based on the evidence on the record of this proceeding, it is unclear to OEB staff why Hydro One has not considered the Accounting Guidance in the context of historical balances.

OEB staff notes that Hydro One has identified differences between its Regulated Price Plan (RPP) settlement methodology and that in the Accounting Guidance.⁶ Hydro One's RPP settlements are based on invoiced consumption while the Accounting Guidance requires RPP settlements to be based on actual calendar month consumption. OEB staff acknowledges that this difference primarily results in a timing lag for RPP settlements as all actual consumption will eventually be invoiced. However, this difference results in different RPP settlement amounts due to:

- i) Hydro One is settling based on retail consumption adjusted for line losses⁷ rather than allocated wholesale consumption, as required by the Accounting Guidance, and
- ii) Hydro One is settling costs based on a proxy for invoiced consumption that spans across two or more months, rather than utilizing actual consumption in each month to derive the associated costs.

In its interrogatory responses,⁸ Hydro One stated that the OEB previously issued an audit report on Hydro One's RPP settlement process for the period of January to December 2017 (Inspection Report) which concluded that Hydro One's RPP settlement process complied with current regulatory requirements.

Although Hydro One has noted differences in its RPP settlement methodology, Hydro One has not indicated whether it has identified any other systemic issues or material adjustments relating to its accounting processes as required in the February 21, 2019 letter accompanying the Accounting Guidance.⁹

In OEB staff's view, the record of this application needs to be clear with respect to whether Hydro One is capable of assessing the impact on historical balances arising from the RPP settlement differences between its method and the method

⁵ OEB Staff IRR #1

⁶ Pre-filed evidence, p.15-17

⁷ OEB Staff IRR #14

⁸ OEB Staff IRR #8

⁹ *Ibid.*

established by the OEB's Accounting Guidance, or any other systemic issues. If Hydro One is not able to perform this exercise, it should clearly explain why that is the case, and how the application of the Accounting Guidance to historical balances is not a practical exercise Hydro One can undertake. In this case, OEB staff would be prepared to accept this position and would support final disposition, subject to Hydro One confirming that it does not anticipate any material revisions on a retrospective basis, following final disposition.

Final Disposition

Background

OEB staff notes that the 2019 Account 1589 balance is a credit of \$27.4M and the remaining 2019 Group 1 DVA balances total is a debit of \$1.2M, representing the fact that different ratepayer groups will be impacted differently upon disposition. The balances represent an accumulation of 2015 to 2019 transactions.

Discussion and Submission

Given the number of years the balances have accumulated, OEB staff supports disposition of Group 1 balances to avoid a widening intergenerational gap between ratepayers responsible for the origination of these variances and those that are now responsible for recovering (or returning) them. OEB staff submits that disposition should be approved on an interim basis unless Hydro One, through its reply submission, is able to address the two items noted above and reproduced below, in which case OEB staff would be supportive of final disposition:

- i. Hydro One provides in its reply submission the reasons why Hydro One has not considered the Accounting Guidance in the context of historical balances. This should include a clear explanation for any practicalities or limitations it faces in being able to do so, as applicable.
- ii. Hydro One provides confirmation that, in its opinion, the approach taken by Hydro One to derive the 2015 to 2019 account balances requested for disposition is unlikely to necessitate a material adjustment on a retrospective basis following final disposition.

OEB staff's position is informed by the OEB's approach to retroactive adjustments that may be required in the future for balances that have been disposed on a final basis.

In its October 31, 2019 [letter](#) the OEB stated the following, regarding *Adjustments to Correct for Errors Distributor "Pass-Through" Variance Accounts After Disposition*:

Where an accounting or other error is discovered after the balance in one of the above listed variance accounts [Group 1 Accounts] has been cleared by a final order of the OEB, the OEB will determine on a case-by-case basis whether to make a retroactive adjustment based on the particular circumstances of each case... Consistent with the OEB's past practice, an asymmetrical approach to the correction of the error may be appropriate.

OEB staff submits that if Hydro One receives final disposition of its 2019 Group 1 balances and subsequently identifies any errors in its balances Hydro One must bring this matter to the attention of the OEB for its consideration.

OEB staff understands and appreciates that Hydro One remains committed to identifying the most appropriate solution and course of action to implement the Accounting Guidance on a go forward basis and encourages maintaining an open dialogue with OEB staff on how best to do that.

2. Impact of Errors regarding 2013 Disposed Deferral and Variance Balances

Background

Hydro One indicated that its Group 1 2013 audited balances were approved for disposition in its 2015-2017 rate application.^{10,11} Hydro One's 2014 Group 1 audited balances were approved for disposition in its 2018-2022 rate application.¹² Hydro One indicated that the 2013 balances approved for disposition were not removed from the 2014 balances that were subsequently approved for disposition. As a result, Hydro One asserts that it collected

¹⁰ OEB Staff IRR #2

¹¹ EB-2013-0416.

¹² EB-2017-0049

approximately \$38M less than it should have had it appropriately removed the 2013 previously approved dispositions from the 2014 approved balances claimed. OEB staff notes that, in its review of the continuity schedules affected by this error, (\$36.1M) of the 2013 Group 1 balances were approved for disposition,¹³ and therefore, Hydro One would have under-collected by \$36.1M rather than the \$38M noted above. OEB staff invites Hydro One to confirm this in its reply submission. OEB staff further notes that Group 2 balances approved for disposition in that proceeding totaled \$69.4M.¹⁴

Discussion and Submission

OEB staff is unclear whether the error similarly affected the Group 2 balances that were approved for disposition in Hydro One's 2018-2022 rate application. If the error did affect Group 2 accounts, Hydro One would have over-collected Group 2 balances by \$69.4M. OEB staff invites Hydro One to comment on this matter in its reply submission. If Group 2 balances have been affected by this issue, OEB staff submits that the impact on those accounts should be addressed in Hydro One's next rebasing application, when the affected Group 2 accounts are brought forth for disposition.

3. Allocation of Balances to Acquired Utilities

Background

Hydro One has allocated its consolidated Group 1 balances to Hydro One Distribution and Acquired Utilities using the audited allocation methodology.¹⁵

Discussion and Submission

OEB staff takes no issue with the allocations calculated from the application of the audited allocation methodology to the balances requested for disposition.

¹³ Draft Rate Order, Exhibit 1.7, EB-2013-0416, April 10, 2015,

¹⁴ *Ibid.* Total Group 1 and 2 balances approved for disposition was \$33.3M.

¹⁵ Composed of the former Norfolk Power Distribution Inc., Haldimand County Hydro Inc., and Woodstock Hydro Services Inc.

Earnings Sharing Mechanism

Background

Hydro One has proposed to dispose a credit of \$21.7M including forecasted interest in its Earnings Sharing Mechanism (ESM) account pertaining to 2018 and 2019 on a final basis.¹⁶

Discussion and Submission

OEB staff submits that the ESM balance should be disposed on an interim basis and brought forth for final disposition in its next rebasing application. In addition to the lack of clarity in the ESM calculation that OEB staff identifies below, an interim disposition would be consistent with OEB staff's interpretation of the Decision and Order¹⁷ for Hydro One's 2018-2022 rate application which stated:

This account will be reviewed for 2018 and 2019 earnings with the annual update application for 2021 rates, to determine whether any amount should be refunded to customers. The account balance will also be reviewed for disposition with Hydro One's next rebasing application. As noted by OEB staff, a final review will be required once financial results for 2022 are finalized.

OEB staff notes that Hydro One did not provide its ESM calculations in its pre-filed evidence, but rather, as part of its interrogatory responses.¹⁸ OEB staff submits that further discovery is required to test the reasonableness of the ESM calculation. In particular, OEB staff is of the view that the aspects discussed below of Hydro One's ESM calculation require further clarification before final disposition should be approved. OEB staff is of the view that this final review for the 2018 and 2019 ESM, as well as the 2020 and 2021 ESM can be done at the time of Hydro One's next cost-based rate application for 2023-2027 rates. A final review for the 2022 ESM can be done once the financial results for 2022 are finalized, consistent with the Decision and Order as noted above.

1. OEB staff notes that Hydro One stated that the 2018 RRR 2.1.5.6 Return on Equity (ROE) calculation which it had done did not consider the outcomes arising from the 2018-2022 Decision and Draft Rate Order and

¹⁶ OEB Staff IRR #17

¹⁷ March 7, 2019, EB-2017-0049

¹⁸ OEB Staff IRR #17

therefore, a comparison between Hydro One's ESM calculation presented in this proceeding and the 2018 RRR 2.1.5.6 ROE is not appropriate.¹⁹ However, the ESM calculation provided in the interrogatory responses does not show whether any adjustments specific to Hydro One's circumstances (i.e. beyond the typical adjustments that form part of the RRR 2.1.5.6 ROE calculation) have been made to the 2018 ESM calculation provided in this proceeding. OEB staff submits that there is insufficient clarity on how the 2018 ESM was calculated and how the methodology compares with the OEB's typical RRR 2.1.5.6 ROE calculation.

2. In reviewing Hydro One's RRR 2.1.5.6 ROE²⁰ calculation filed with the OEB, OEB staff notes that a number of utility-specific adjustments were made to the ROE calculation. For example, regulated net income is adjusted by \$2.8M for "2019 HONI Distribution Pension Envelope Cut – 2018 Impact". OEB staff notes that \$17M of 2018 Operation Maintenance and Administration (OM&A) expenses relating to pensions was not approved in the Decision and Order for the 2018-2022 rate application. OEB staff is unclear as to how the \$2.8M adjustment in the ESM calculation is derived in relation to the \$17M OM&A reduction. Furthermore, there is a \$14.1M adjustment to the Current Tax Provision for the "2018 DTA Sharing Adjustment". OEB staff is unclear as to whether this adjustment pertains to the sharing of the future tax savings resulting from Hydro One's share sale, and how this adjustment was quantified. OEB staff is also unclear whether the ESM calculation will be affected by the results of the Remittal of Future Tax Savings Issue proceeding²¹ and how Hydro One has or will account for this. OEB staff submits that there is insufficient evidence available at this time regarding the utility-specific adjustments made in calculating the 2019 ESM. OEB staff is of the view that Hydro One must provide detailed explanations on these adjustments prior to requesting final disposition of the ESM account.
3. OEB staff is unclear on whether there is a misalignment between the 2018 approved and achieved ROE given that 2018 rates were effective May 1, 2018. Hydro One was approved an annual ROE for 2018, whereby earnings would be associated with this ROE commencing May 1, 2018.

¹⁹ *Ibid.*

²⁰ OEB staff notes that Hydro One provided a reconciliation between its 2019 RRR 2.1.5.6 ROE calculation and the 2019 ESM presented in this proceeding in OEB Staff IRR#17.

²¹ EB-2020-0194

Therefore, if Hydro One included January to April 2018 earnings in its ESM calculation, the comparison to the annual approved ROE may be misaligned.

4. In the ESM calculation filed in this proceeding, Hydro One used approved rate base rather than actual rate base. OEB staff submits that actual rate base should be used in the ESM calculation as actual ROE is being calculated. This would also be consistent with the OEB's ROE calculation as outlined in RRR 2.1.5.6. OEB staff notes that in the difference in rate base does not result in a material impact on the ROE.²² However, it is unknown whether there will be a material impact to ESM calculations for future years if Hydro One continues to use approved rate base in its ESM calculations going forward.
5. Hydro One indicated that 2019 taxes included in the ESM calculation exclude accelerated Capital Cost Allowance (CCA) impacts as it is income neutral and there is no impact to ROE.²³ OEB staff interprets this to mean that incremental CCA resulting from the Accelerated Investment Incentive Program has been excluded from the calculation of 2019 ROE because accelerated CCA was not reflected in the approved 2019 revenue requirement, as Hydro One was directed to record the impact of accelerated CCA in Account 1592. OEB staff invites Hydro One to confirm this in its reply submission. If confirmed, OEB staff has no concerns with excluding the impacts of the accelerated CCA.

OEB staff submits that the 2019 ESM balance should be disposed on an interim basis, with final disposition addressed in its next rebasing application once there has been an opportunity for sufficient discovery and testing of the ESM calculations.

Capacity Based Recovery (CBR) Class B volumetric riders

Background

Hydro One noted that the calculated 2021 CBR Class B volumetric riders for the rate classes UR, R1, R2, Seasonal, GSe, UGe, Streetlight, Sentinel light and

²² *Ibid.*

²³ OEB Staff IRR #15, footnote 1

USL fall below the OEB's materiality threshold as defined in the Filing Requirements (i.e. rounds to zero in the fourth decimal place).

However, Hydro One stated that consistent with the OEB's approval to use five decimal places in establishing riders for Haldimand County Hydro Inc.'s USL rate class and for Woodstock Hydro Services Inc.'s residential rate class, it proposed to use five decimal places for these rate classes' 2021 CBR Class B volumetric riders.

Discussion and Submission

OEB staff notes that Hydro One's currently approved tariff only includes rate riders to four decimal places and that the riders for which Hydro One is proposing to use five decimal places all fall below the OEB's materiality threshold. OEB staff accordingly submits that Hydro One's proposal to use five decimal places to incorporate these riders should not be accepted by the OEB.

OEB staff further notes in this context that the OEB's Chapter 3 Filing Requirements for Electricity Distribution Rate Applications²⁴ require that in the event the CBR Class B rate rider rounds to zero at the fourth decimal place in one or more rate classes, the entire Account 1580 – Variance WMS, Sub-account CBR Class B balance should be added to Account 1580 - RSVA Wholesale Market Service Charge to be disposed through the general purpose Group 1 DVA rate riders. OEB staff submits that Hydro One should follow this approach.

Inflation and Other Adjustments

Background

OEB staff notes that the OEB issued a letter²⁵ on 2021 Inflation Parameters and the options available to utilities, which required that "Utilities that have filed applications for January 1, 2021 rates must make their election by November 19, 2020 by filing a letter on the record of their 2021 rates proceeding."

²⁴ p. 15 of Chapter 3 Incentive Rate-Setting Applications, Filing Requirements for Electricity Distribution Rate Applications - 2020 Edition for 2021 Rate Applications, May 14, 2020

²⁵ November 9, 2020.

Hydro One noted in its evidence²⁶ that the 2021 tariff schedule includes the applicable Specific Service Charges for the 2021 rate year described in its previous cost of service application.²⁷ Hydro One stated that the retailer service charges and the specific charge for access to power poles - telecom would be adjusted for inflation, in accordance with OEB policy²⁸ after the OEB issues the 2021 inflation factor in the course of this proceeding.

Discussion and Submission

OEB staff submits that Hydro One should make any necessary adjustments to this application by way of its reply submission that may arise from its election with respect to the 2021 inflation parameters.

With respect to the specific service, retail service and pole attachment charges, while OEB staff has no concerns with the tariff as proposed, OEB staff would expect that Hydro One would follow the direction contained in any subsequent OEB generic decisions related to retail service charges and the pole attachment charge, should they result in a change in these rates.

Interim Rates

Background

Hydro One requested that in the event the OEB's decision approving 2021 rates is delivered or implemented after January 1, 2021, an Interim Order be issued making its current distribution rates and charges effective on an interim basis as of January 1, 2021 and establishing an account to recover any differences between the interim rates and the actual rates effective January 1, 2021 based on the OEB's Decision and Order.

Discussion and Submission

OEB staff notes that its Decision on Hydro One's 2020 distribution rates, the OEB established Hydro One's rates as interim as described below:²⁹

²⁶ P. 24.

²⁷ EB-2017-0049, Exhibit H1, Tab 2, Schedule 3.24

²⁸ EB-2015-0304 *Report of the Ontario Energy Board - Wireline Pole Attachment Charges*, March 22, 2018.

²⁹ EB-2019-0043 *Decision and Order*, p. 13.

As the seasonal rates matter is considered in a separate proceeding, for the 2019 rate year, the OEB found it appropriate for Hydro One's rates to remain as interim for the purpose of establishing an effective date for the elimination of seasonal rates. The seasonal rates proceeding is still in progress, and as such, the OEB will maintain Hydro One's rates as interim for the 2020 rate year for the same reason as noted above. (footnotes removed)

OEB staff submits that as Hydro One's rates are already interim and have been for some time due to the seasonal rates matter, it is not necessary for the OEB to issue the Interim Order requested by Hydro One. OEB staff further submits that the OEB should maintain Hydro One's rates as interim for the 2021 rate year for the same reason and that the approved 2021 tariff of rates and charges should include reference to it being approved on an interim basis.

- All of which is respectfully submitted-