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BY EMAIL AND RESS

November 24, 2020

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

Dear Ms. Long:

EB-2017-0049– Hydro One Networks' 2018-2022 Distribution Rate Application – 2021 Annual Rate Update (EB-2020-0030) – Reply Submission

In accordance with Procedural Order No.1 and OEB's letter dated October 23, 2020 in this proceeding, please find enclosed Hydro One Networks Inc.'s reply submission.

An electronic copy has been submitted using the Board's Regulatory Electronic Submission System.

Sincerely,

Frank D'Andrea

Frank D'Andrea

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

AND IN THE MATTER OF an Application by Hydro One Networks Inc. for an Order or Orders approving just and reasonable rates and other charges for electricity distribution to be effective January 1, 2021.

REPLY SUBMISSION OF
HYDRO ONE NETWORKS INC.

November 24, 2020

INTRODUCTION

On March 31, 2017, Hydro One Networks Inc. ("Hydro One or Hydro One Distribution") filed a Custom Incentive Rate application (EB-2017-0049) (the "Application") seeking approval of its distribution rates from January 1, 2018 to December 31, 2022. The Ontario Energy Board (the "OEB") released its decision on March 7, 2019 (the "Decision") which Hydro One implemented through a draft rate order and proposed Tariff of Rates and Charges dated April 5, 2019 ("DRO Submission") and a subsequent draft rate order reply submission dated May 9, 2019 ("DRO Reply Submission"). The OEB approved Hydro One's 2019 distribution rates on an interim basis on June 6, 2019 ("Interim Order") and issued a correction on June 11, 2019 ("Revised Interim Order").

Rates are interim until the conclusion of the EB-2020-0246 proceeding regarding the Seasonal Class and the implementation of tax savings determination by the Ontario Divisional Court in EB-2020-0194. On August 30, 2019, Hydro One submitted EB-2019-0043 - an Application for 2020 distribution rates and charges ("2020 Annual Update"). The application was updated to reflect the new inflation factor issued by the OEB for 2020 on November 8, 2019 and was subsequently approved by the OEB on December 17, 2019.

On August 31, 2020, Hydro One submitted this application for 2021 distribution rates and charges ("2021 Annual Update"). This application is made pursuant to section 78 of the *Ontario Energy Board Act, 1998* (the "OEB Act") and the directions in the OEB's Decision and Rate Order.

As indicated in the 2021 Annual Update application, Hydro One requests:

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); and
d) Such other items or amounts that may be requested by Hydro One during the course of the proceeding, and such other relief or entitlements as the OEB may grant.

This is Hydro One's reply submission in respect of the 2021 Annual Update application. Hydro One submits that the proposed 2021 distribution rates and charges are reasonable and that the Application should be approved as filed and as further updated during the proceeding. This reply submission is organized to address the following aspects consistent with the structure of the OEB staff submission:

1. Disposition of Group 1 Deferral and Variance Accounts
2. Disposition of the Earnings Sharing Mechanism Deferral Account
3. Capacity Based Recovery ("CBR") Class B Volumetric Rider
4. Inflation and Other Adjustments and the Custom IR Framework
5. Interim Rates
6. Cost Allocation and Rate Design

In addressing the responses from OEB staff and intervenors, Hydro One has focused its arguments on the issues within the scope set out in the OEB's Procedural Order No. 1[1] CME, SEC, AMPCO and CCC made arguments outside the scope of the procedural order, which essentially amount to a request to re-open and re-litigate the capital factor approved by the OEB in EB-2017-0049 to include entirely new methodology despite the fact that the capital factor ("c-factor") has been approved by the OEB for the duration of the Custom IR period. Hydro One addresses these arguments in section 4.2 but notes the appropriate forum to re-litigate the approved c-factor is the company's next rebasing application. Accordingly, Hydro One's submissions focus on the areas identified in the OEB's Procedural Order No. 1[2] namely, the request to dispose of balances in the deferral and variance accounts and the Earning Sharing Mechanism ("ESM") account.

1. DISPOSITION OF GROUP 1 DEFERRAL AND VARIANCE ACCOUNTS

Hydro One requests disposition of a $26.2 million credit balance in the Group 1 regulatory accounts as detailed in Table 1 below to be refunded to ratepayers. The disposition balance is based on actual audited Regulatory Account values as at December 31, 2019, plus forecast interest accrued in 2020. Hydro One proposes to dispose of this balance over a one-year period, effective January 1, 2021.

[1] Procedural Order No. 1 (EB-2020-0030) October 9, 2020

[2] Procedural Order No. 1 (EB-2020-0030) October 9, 2020

Table 1 – Deferral and Variance Accounts for Hydro One Distribution (in $millions)

			A	B	C	D=A-B+C
Account name	Account Number		2019 Audited Balances (Interest and Principal)	2020 Approved Disposition (Interest and Principal)	2020 Forecast (Interest)	2021 Balances (Interest and Principal)
Group 1 (Principal as of Dec 31, 2019)						
LV Variance Account	1550		8.8		0.1	8.9
Smart Metering Entity Charge Variance Account	1551		(2.1)		(0.0)	(2.2)
RSVA-Wholesale Market Service Charge Variance Account (not including CBR Class B)	1580		(64.1)		(0.9)	(65.0)
RSVA-Wholesale Market Service Charge Variance Account (CBR Class B)	1580		(0.7)		(0.0)	(0.7)
RSVA-Retail Transmission Network Charge Variance Account	1584		(49.6)		(0.6)	(50.2)
RSVA-Retail Transmission Connection Charge Variance Account	1586		102.1		1.4	103.4
RSVA-Power-Sub-Account-Power Variance Account	1588		13.4		0.2	13.5
RSVA-Power-Sub Account-Global Adjustment Variance Account	1589		(27.0)		(0.4)	(27.4)
1595 Disposition and Recovery/Refund of Regulatory Balances Account (2015)	1595		(6.4)		(0.1)	(6.5)
Total (Group 1)			**(25.8)**		**(0.4)**	**(26.2)**
Earnings Sharing Mechanism (ESM) Deferral Account	2435		(21.4)		(0.3)	(21.7)
Total (Group 1 and ESM)			**(47.2)**		**(0.7)**	**(48.0)**

A credit balance of $21.7 million in the ESM deferral account is also proposed for disposition to ratepayers, as further discussed under Section 2. Taken together with the Group 1 Accounts balance described above, Hydro One is proposing a total disposition credit of $48.0 million to ratepayers, on a final basis.

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

1.1.1 Background on the New Accounting Guidance

On February 21, 2019, OEB staff issued a new Accounting Guidance related to Accounts 1588 Power, and 1589 RSVA Global Adjustment ("Accounting Guidance"). The Accounting Guidance is effective January 1, 2019 and OEB staff proposed that it be implemented by August 31, 2019. On March 4, 2019, the OEB issued the results of its audit of Hydro One's Regulated Price Plan ("RPP") settlement process for Group 1 DVAs (the "Audit Report").[3] The Audit Report concluded that Hydro One's RPP settlement process complied with regulatory requirements.

The Accounting Guidance introduced a new settlement methodology that differed from Hydro One's. The current Hydro One technology framework does not allow it to implement the

[3] "Inspection of the Compliance of the RPP Settlement Process and Assessment of the DVA Allocation Methodology for the Acquired Utilities in 2015 and 2016", March 4, 2019

Accounting Guidance. To implement the Accounting Guidance, Hydro One would need to modify its current technology framework which would require an investment in the amount of approximately $1.5 million to $2.0 million.[4] Once the modifications are complete, Hydro One will only be able to implement the Accounting Guidance on a prospective basis.

Hydro One has shared these facts with various members of OEB staff since August 2019 through a combination of formal proceedings, in-person meetings, phone calls and email exchanges. Hydro One appreciates the opportunity to include the substance of these communications on-the-record.

On August 30, 2019, Hydro One submitted its 2020 Annual Update (EB-2019-0043). During the course of that proceeding, Hydro One explained that it was exploring technology solutions and accounting considerations that would allow it to obtain the necessary data from its billing system and the IESO's Meter Data Management Repository ("MDMR") system to allow it to adopt the Accounting Guidance. Hydro One also stated its commitment to working with OEB staff to identify a compliant and cost-effective solution.

Since then, Hydro One participated in two in-person meetings in November and December 2019 followed by a series of emailed questions and responses between December 2019 and January 2020 which included significant analysis and detail. OEB staff re-engaged on the matter in August 2020 and Hydro One participated in four formal meetings with OEB staff between August and November, and engaged in a series of emailed questions and responses which again included significant analysis and detail. As part of the ongoing discussions, the following items were reviewed and addressed with OEB staff:

- Hydro One detailed its current settlement process and how it differs from the Accounting Guidance including system limitations (current process is based on actual invoiced retail volume);

[4] Based on an initial assessment and subject to refinement through the course of the second phase of the OEB's consultation

- Hydro One outlined its settlement process from a financial statements perspective (which is on an Accrued basis factoring both actual invoiced and unbilled estimation);
- Hydro One worked with its IT solutions team to explore options for adopting the Accounting Guidance and noted the limitations of its current technology framework and the need for a significant investment for an IT system solution;
- Hydro One's position is that the IT system solution should align with the OEB's Phase 2 requirements. As such, Hydro One discussed the challenges it faces in fully adopting the new Accounting Guidance until Phase 2 is complete (e.g. Hydro One does not receive or store MDMR data on a daily basis or on a calendar month cycle. Hydro One only keeps monthly MDMR readings based on the billing period which is different for different customers (i.e. some billing periods run mid-month to mid-month, Jan 15 to Feb 14, for example); Hydro One has 1.3M customers and they cannot all sync with the calendar month, this would not be practical or efficient);
- Hydro One described how it was able to accommodate the TOU rate change in March 2020 (this was a one-time special arrangement with MDMR to send meter read data before and after the rate change. Under normal circumstances, Hydro One does not have daily MDMR data and it is not possible to efficiently replicate this process on a monthly basis for Hydro One or the MDMR);
- Hydro One described its current OER settlement process (Hydro One settles on an Accrued basis not calendar month basis);
- As part of its ongoing discussions with OEB staff, Hydro One proposed to adopt the new Accounting Guidance in a modified manner using accrued monthly meter reading data (Accrued meter reading = Reversal of Prior Month Uninvoiced Meter reading + Current Month Invoiced Meter reading + Current Month Uninvoiced Meter Reading) to allocate total purchased volumes effective January 1, 2021, until Phase 2 requirements are issued, since actual calendarized meter reading is not available. As indicated previously, this proposed solution will be on a prospective basis.

Between January 2020 and August 2020 when OEB staff re-engaged on the issue, Hydro One has continued to work to better understand how it's current technology framework would need to be modified to implement the Accounting Guidance. Hydro One understands that OEB staff intend to conduct a phase 2 consultation on this matter which may identify further procedures and data sets to be used in the new settlement methodology. Hydro One notes that it may be best to implement modifications to the IT framework after the phase 2 consultation has determined what inputs will be used in the new settlement methodology, to avoid subsequent and potentially costly re-works of the modified IT framework.

1.1.2 Addressing OEB's Requests for Clarification Regarding the New Accounting Guidance

OEB staff takes the position that Group 1 DVA balances should be disposed of on final basis provided Hydro One is able to address the following two items: [5]

(a) Application of the Accounting Guidance to Historical Balances

First, OEB staff asked whether Hydro One had considered the Accounting Guidance in the context of historical balances.[6] While Hydro One will be able to apply the Accounting Guidance on a prospective basis, it does not have the historical data required to apply the Accounting Guidance on a retrospective basis. One of the primary differences between the data used in the Accounting Guidance and Hydro One's current methodology is that the Accounting Guidance assumes that data is available on a "calendarized" basis – in other words, that data is available from the first of the month to the last day of the month. In contrast, Hydro One collects raw meter data on billing cycles that do not necessarily align with the first and last day of the month. Some bills, for example, are on a mid-month cycle (i.e. the billing cycle runs from January 15 to February 14, for example) and the raw meter data is collected in this format, provided to the IESO's MDMR in this format, and returned to Hydro One once a month (per customer) in a format aligned with each customer's

[5] Staff Submission p 4.
[6] Staff Submission p 4.

billing cycle. Hydro One simply does not have the historical data necessary to apply the Accounting Guidance to historical balances.

(b) Will Material Adjustments be Required to the 2015 to 2019 Balances

Second, OEB staff asked whether Hydro One believes the current approach for settlement used to derive 2015 to 2019 balances will require a material adjustment on a retrospective basis following final disposition.[7] As stated above, the Accounting Guidance can only be adopted on a prospective basis. As such, no adjustments or restatements to prior balances will be necessary.

The current method Hydro One used to determine the 2015 to 2019 balances is reasonable and appropriate for the following reasons:

- As required by Section 3.2.5.2 of the OEB's Filing Requirements for Electricity Distribution Rate Applications, a distributor must provide support of its Global Adjustment ("GA") claims with a description of its settlement process with the IESO. The settlement method was presented historically in Hydro One's evidence including the current evidence in the 2021 Annual Update. No issues have been identified by OEB staff or intervenors with respect of the settlement process.
- The same settlement process has been subject of the OEB audit on HONI's regulated price plan ("RPP") settlement process for Group 1 DVAs.[8] The Audit Report concluded that HONI's RPP settlement process complies with current regulatory requirements.
- Hydro One submitted the GA Analysis Workform for 2015 to 2019 years which validates the RSVA GA balances. This further reflects the accuracy of its settlement process.
- Lastly, Hydro One is disposing of audited balances which should provide the OEB with an additional comfort as to the accuracy of those balances.

[7] Staff Submission p 4.

[8] "Inspection of the Compliance of the RPP Settlement Process and Assessment of the DVA Allocation Methodology for the Acquired Utilities in 2015 and 2016", March 4, 2019

OEB staff requested that in the event Hydro One disposes of its 2019 Group 1 DVA balances on a final basis and subsequently identifies any errors in its balances, it bring the errors to the OEB's attention. This approach is consistent with the October 31, 2019 OEB letter in respect of Adjustments to Correct for Errors in Electricity Distributor "Pass-Through" Variance Accounts After Disposition ("October 31, 2019 letter").[9] Hydro One agrees to OEB staff's request. Hydro One will bring errors, if any, to the OEB's attention, and will record the correcting adjustments to the affected accounts in the year in which the error, if any, is discovered.

AMPCO and CCC Supported OEB staff's submission with respect to interim disposition of Group 1 DVA balances.[10] SUP supported the position of Hydro One that Group 1 DVA balances should be approved on a final basis given that any agreed solutions are unlikely to be retroactively applied.[11] No other parties expressed concerns with regards to Hydro One's proposal to dispose of Group 1 DVA balances on a final basis.

Given that Hydro One has addressed OEB's staff's two questions, and that the OEB has an established methodology to correct errors identified after final disposition, Hydro One submits that the disposition of Group 1 DVA balances on a final basis is appropriate.

Hydro One remains committed to working with OEB staff to implement the new Accounting Guidance in a timely and cost effective manner. Hydro One notes that, from the time of the audit which concluded in 2019 to present, it has dedicated considerable time and resources to this complex issue and Hydro One welcomes a final resolution to the matter, through this proceeding and OEB staff's potential phase 2 consultation process. To the extent this panel directs or OEB staff requests solutions that have material costs associated with them, Hydro One respectfully requests an account to track costs for recovery at Hydro One's next rebasing application.

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[9] Adjustments to Correct for Errors in Electricity Distributor "Pass-Through" Variance Accounts After Disposition, October 31, 2019
[10] AMPCO Submission p 2., CCC Submission p 2.
[11] SUP Submission p 2-3.

1.2 Impact of 2013 Disposed Deferral and Variance Accounts Balances

With respect to OEB approved disposition in EB-2017-0049 for Group 1 DVA balances as of December 31, 2014, OEB staff requested a clarification from Hydro One as to the under-collection noted in response to OEB staff IR #2.[12] Hydro One clarifies that the $38 million as stated in the IR response reflects an approximated interest-improved total (up to the end of 2020) of the $36.1 million which is consistent with the calculation provided by OEB staff.[13] Furthermore, as indicated in response to OEB staff IR #2, the Group 1 DVA audited balances as of December 31, 2019 requested for disposition in the current application are not impacted and are appropriately calculated.

OEB staff requested that Hydro One confirm whether the OEB-approved disposition in EB-2017-0049 had a similar impact on Group 2 DVA balances as it had on Group 1 DVA balances discussed above. As stated in the current 2021 Distribution Annual Update application[14], in EB-2017-0049, Hydro One disposed of Group 2 DVA principal balances as of December 31, 2016. As such, the 2016 audited balances already incorporate the disposition of the 2013 audited balances, which occurred in 2015. As such, Hydro One confirms that the Group 2 balances were not impacted.

1.3 Allocation of Consolidated RSVA Balances

OEB staff, in its submissions, takes no issue with the proposed allocation of consolidated Retail Settlement Variance Account ("RSVA") balances between Hydro One and Norfolk Power Distribution Inc. ("NPDI"), Haldimand County Hydro Inc. ("HCHI") and Woodstock Hydro

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[12] Staff Submission p 6.
[13] Staff Submission p 6.
[14] 2021 Annual Update p 10.

Services Inc. (“WHSI”).[15] No other parties expressed concerns with regards to Hydro One’s proposed allocation methodology.

2. DISPOSITION OF THE EARNINGS SHARING MECHANISM DEFERRAL ACCOUNT

In EB-2017-0049, the OEB approved an ESM that will share regulated earnings on a 50:50 basis between Hydro One and its distribution customers for all earnings in excess of 100 basis points of the OEB-approved return on equity. A deferral account was established for Hydro One to record any amounts to be shared during the rate period. The ESM calculation methodology utilized by Hydro One is similar to what is outlined in the annual RRR 2.1.5.6 filing.[16] The ESM credit balance requested for disposition reflects 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. Hydro One is requesting final disposition of the audited 2019 balance in the ESM deferral account including interest forecast for 2020, consistent with the Decision[17] for a total credit of $21.7M. The 2018 and 2019 ESM calculations appropriately reflect the respective revenue amounts for 2018 and 2019 including the foregone revenue, and Hydro One does not anticipate any further adjustments to either 2018 or 2019 calculations.

SUP supported Hydro One’s proposal for final disposition.[18] OEB staff, CME and AMPCO submitted that the disposition of the ESM deferral account should be on an interim basis. SEC expressed no issues with the final disposition of the ESM deferral account but requested a recalculation of the 2018 balance. Hydro One addresses each of these submissions below.

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[15] Staff Submission p 6.

[16] Response to OEB Staff IR #17

[17] Decision at p. 40

[18] SUP Submission p 3.

2.1 Disposition on an Interim vs Final Basis

OEB staff, CME, AMPCO and CCC submit that the ESM deferral account balances for 2018 and 2019 should be disposed on an interim and not final basis. They rely on one main point to support their position. Namely, the wording of the Decision. OEB staff also relies on the process, which they say is insufficient to properly test the ESM calculation.

In respect of the first point, the Decision includes the following language:

> 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.[19]

OEB staff suggests the Decision requires that 2018, 2019, 2020 and 2021 be brought forth together for final disposition at Hydro One's next rebasing. In fact, the Decision does not make any reference to the interim disposition of 2018 and 2019 balances. Instead, the Decision breaks the disposition of the ESM into three natural parts that facilitate the timely refund of any overearnings to customers. First, 2018 and 2019 are to be disposed of as part of this annual update. Second, 2020 and 2021 are to be disposed of at the next rebasing. Third, 2022 results, which won't be available at the time of the next rebasing, are to be reviewed sometime after. It does not make sense to suggest that the Decision requires four years to be brought together for final disposition at the next rebasing when the fifth year will need to be dealt with separately in any event, on a final basis.

In respect of the second point that the process is insufficient to properly test the ESM calculation, Hydro One notes two things. Hydro One responded to all interrogatories and responds in this reply to all additional questions and requests for clarification made by OEB staff and SEC. As well, this hearing is convened before a panel of the OEB rather than by delegation to a staff member for the

[19] Decision at pp. 40-41

specific purpose of addressing the disposition of the ESM account. It cannot have been the intention of the original panel to add this additional procedural requirement to the annual update, only to have all the accounts disposed of on an interim basis and all the same issues re-litigated at Hydro One's next rebasing. This panel has the authority to order disposition on a final basis and in Hydro One's submission, such an order would be appropriate in light of Hydro One's further complete responses below and for the sake of regulatory efficiency.

2.2 Supplementary Responses to OEB Staff and SEC

In their submissions, OEB staff requested clarity on five aspects of the ESM calculation. Each of these requests are addressed below. SEC also requested clarity on two similar aspects of the ESM calculation, which are dealt with at the same time as the similar points made by OEB staff.

(1) OEB staff requested clarity in respect of how the 2018 ESM was calculated compared to the OEB's typical RRR 2.1.5.6 ROE calculation.[20]

Due to the timing of the Hydro One Distribution 2018-2022 Decision and DRO process (which was approved in June 2019), the RRR 2.1.5.6 calculation did not consider the outcomes arising from the Decision and DRO process. The Decision and subsequent draft rate order (DRO) fundamentally altered the RRR 2.1.5.6 calculation submitted in 2018.

The comparison calculation for 2018 ESM is provided in Table 2 below:

[20] Staff Submission p 7-8.

Table 2 – 2018 ESM Calculation (in $millions)

	RRR 2.1.5.6 Filing	ESM Calculation	Difference	Explanation
Regulated Net Income	252.0	307.3	55.3	**Note 1**
Rate Base	7,804.4	7,636.9	(167.5)	**Note 2**
Common Equity %	40%	40%		
Achieved ROE	8.1%	10.1%		

Note 1 Mainly due to add back of the 2018 foregone revenues arising from the receipt of the Hydro One Distribution Decision for 2018-2022.

Note 2 The ESM calculation of the ROE is based on OEB approved mid-year rate base while the RRR 2.1.5.6 Filing uses actual rate base.

(2) OEB staff requested clarification on two utility specific adjustments made in the Hydro One's 2019 RRR 2.1.5.6 ROE calculation: (i) the first, a regulated net income adjustment of $2.8M was made for "2019 HONI Distribution Pension Envelope Cut – 2018 Impact"; and (ii) second, a $14.1M adjustment was made to the Current Tax Provision for the "2018 DTA Sharing Adjustment".[21]

With respect to the $2.8 million adjustment to the regulatory income, in 2019, pending the outcome of Hydro One's motion to review and vary the OEB's decision in EB-2017-0049 relating to the recovery of employer pension costs (EB-2019-0122), Hydro One reflected a portion of 2018 and 2019 pension costs incurred in the pension cost differential account. On December 19, 2019, the OEB affirmed its earlier decision and Hydro One derecognized $13 million as a reversal of revenues, $2.8 million of the $13 million was related to 2018. The $2.8 million derecognized in 2019 was adjusted out of 2019 regulated income as it related to 2018. This is further described in Hydro One Networks Distribution Business financial statements as follows:

[21] Staff Submission p 8.

> Variances between the pension cost recognized and the cost embedded in rates as part of the rate-setting process for the Distribution Business were recognized as a regulatory asset or regulatory liability, as the case may be, prior to January 1, 2018. Variances that were recognized after January 1, 2018 have since been derecognized based on the March 7, 2019 OEB decision. In March 2019, the OEB approved the disposition of the distribution business portion of the balance as at December 31, 2016, including accrued interest, and the balance was transferred to the 2019-2020 Rate Rider. On March 26, 2019, the Company filed a motion to review and vary the OEB's decision as it relates to rates revenue requirement recovery of employer pension costs. Concurrently, the Company filed an appeal with the Ontario Divisional Court. The appeal was held in abeyance pending the outcome of the motion made before the OEB. During the year, the Company reflected a portion of pension costs incurred in the Distribution Business' Pension Cost Differential regulatory account, pending the outcome of the motion before the OEB. On December 19, 2019, the OEB affirmed its earlier decision with respect to recovery of the revenue requirement associated with pension costs. **As a result, for the Distribution Business, the Company derecognized the portion relating to pension costs charged to operations as a reversal of revenues of $13 million as this amount is no longer probable for recovery.** Hydro One Networks also transferred to property, plant and equipment and intangible assets the portion attributable to capital expenditures in the amount of $37 million. Hydro One has decided to discontinue its appeal of the OEB decision with the Ontario Divisional Court. In the absence of rate-regulated accounting, there would have been no impact to revenue (2018 - revenue would have been higher by $25 million).[22]

With respect to the $14.1 million normalization adjustment to the Current Tax provision, OEB staff requested three clarifications: (i) whether the adjustment pertains to the sharing of the future tax savings; (ii) how this adjustment was quantified; and (iii) whether the ESM calculation will be affected by the results of the Remittal of Future Tax Savings Issue proceeding. Hydro One confirms that: (i) the $14.1 million normalization adjustment represents the 2018 deferred tax asset sharing amounts recorded into net income in 2019. This adjustment is net income neutral and the offset is embedded in the foregone revenue normalization adjustment: (ii) the net tax benefit of $14.1 million, corresponds to the deferred tax sharing returned to ratepayers of $19.3 million ($14.1 million/0.735) for Hydro One Distribution in

[22] 2019 Hydro One Networks Distribution Business financial statements, page 20

2018 after accounting for the tax gross-up; [23] and (iii) Hydro One confirms that the results of the Remittal of Future Tax Savings Issue proceeding EB-2020-0194 does not impact the ESM deferral account calculations as the deferred tax asset sharing amounts are net income neutral.

(3) OEB staff requested clarity on how the 2018 approved ROE and achieved ROE aligned, given that 2018 rates were effective May 1, 2018.[24] SEC requested the Hydro One provide an updated ESM calculation for 2018 to reflect an effective date of May 1, 2018.[25]

In Hydro One's view, the ESM deferral account should be calculated from January 1, 2018 for the following reasons:

- The ESM deferral account is effective January 1, 2018.[26]
- Reasonably allocating the full year OEB approved ROE to 8 months of the year is significantly challenging due to the seasonality of revenues and expenses.
- The 2018 ESM deferral account already considers 2018 actual normalized net income (which includes the 2018 foregone revenues commencing May 1, 2018) and the calculation uses the OEB approved mid-year rate base for the year.[27] It is appropriately compared to the OEB approved 2018 ROE for the year.

In the event the OEB disagrees, Table 3 below provides Hydro One's best estimate of the 2018 achieved ROE from May 1, 2018 – December 31, 2018 which reflects several assumptions as discussed below:

[23] EB-2020-0194, Exhibit A, Tab 1, Schedule 1, page 7 of 20
[24] OEB Staff Submission p 8-9.
[25] SEC Submission p 7.
[26] EB-2017-0049, Exhibit F1, Tab 3, Schedule 1, Page 10 of 12
[27] EB-2017-0049, Exhibit A, Tab 3, Schedule 2, Page 9 of 12 – "The calculation of the actual ROE for a test year will use the Board approved mid-year rate base for that period."

Table 3 – 2018 ESM Calculation for 8 Months (in $millions)

	ESM Calculation	**ESM Calculation - May 1, 2018 - December 31, 2018**
Regulated Net Income	307.3	208.2
Rate Base	7,636.9	7,636.9
Common Equity %	40%	40%
Achieved ROE	10.1%	6.8%
Allowed ROE	9.0%	6.1%
Over-earnings	1.1%	0.7%
less 100 basis points	1.0%	0.7%

Note that the regulated income for the 8 months is approximately 68% of the total regulated net income for the year. The OEB allowed ROE for the year is 9.0%; therefore, it is reasonable to assume that the allowed ROE for the 8 months is approximately 6.1% (9.0% x 68%). The ESM deferral account calculation applies a 100 basis points threshold for the year; therefore, it is reasonable to assume that threshold for the 8 months is approximately 68 basis points. Considering these assumptions, the 8 months ESM calculation would yield a minimal return to ratepayers (approximately $0.3 million). Hydro One is proposing to return $1.2 million to ratepayers for 2018.

(4) OEB staff and SEC stated that Hydro One should be required to use actual rate base instead of the OEB approved mid-year rate base as part of the ESM calculation. OEB staff and SEC further acknowledged that the impact is not material to the ROE calculation as currently presented in this application. OEB staff stated that the impact could be material in the future and SEC noted that this should be considered for future applications.[28]

Hydro One disagrees. The record in regards to how the ESM calculation to be performed is clear: the calculation of the actual ROE for purposes of the ESM deferral account incorporates the use of the OEB approved mid-year rate base. This approach was proposed in the

[28] OEB Staff submission p 8., SEC submission p 7.

proceeding,[29] and was approved by the OEB in EB-2017-0049. Hydro One continues to use the actual rate base to calculate actual ROE in the annual RRR filing. A similar ESM calculation utilizing the OEB-approved rate base was also approved for Hydro One Transmission (EB-2019-0082). Given that Hydro One performed the calculation in accordance with the approved methodology and parties agree the impact is not material, Hydro One proposes that any changes in regards to the approved ESM calculation be explored as part of the next rebasing application, and should not preclude the approval of the ESM account on a final basis in this proceeding.

(5) OEB staff requested Hydro One to confirm that accelerated CCA was excluded from the ESM calculation.[30] Hydro One confirms that the accelerated CCA resulting from the Accelerated Investment Incentive Program has been excluded from the calculation of the 2018 and 2019 ROE.

As Hydro One has responded to all further inquiries in respect of the ESM account, and as the process in place was set up specifically to determine the disposition of the ESM account by a panel of the Board, Hydro One submits that disposition on final basis is reasonable and appropriate in the circumstances.

3. CAPACITY BASED RECOVERY (CBR) CLASS B VOLUMETRIC RIDERS

Hydro One established separate rate riders to dispose of its Global Adjustment (GA) and CBR Class B account balances. With respect to CBR Class B volumetric rider, Hydro One proposed to use five decimal places for any classes that fall below the OEB's materiality threshold (i.e. rounds to zero in the fourth decimal place.)[31] Hydro One's proposal is consistent with previously approved methodology for Haldimand County Hydro Inc. USL rate class (EB-2014-0244) and Woodstock Hydro Services Inc. residential rate class (EB-2018-0042).

[29] EB-2017-0049, Exhibit A, Tab 3, Schedule 2, Page 9 of 12 – "The calculation of the actual ROE for a test year will use the Board approved mid-year rate base for that period."

[30] OEB Staff submission p 9.

[31] OEB Staff IR #19

OEB staff was the only party making submissions on this matter. Specifically, OEB staff indicated that Hydro One current rate tariffs include riders to four decimal places only and that the OEB should not accept any proposals to include five decimal places.[32] Furthermore, OEB staff noted that according to Chapter 3 Filing Requirements for Electricity Distribution Rate Applications[33] 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.

Hydro One submits that it intends to reflect OEB staff's submission. Hydro One intends to submit an application update to reflect the new inflation factor as issued by the OEB and at that time it will also eliminate the volumetric rider for CBR Class B.

[32] OEB Staff Submission p 10.

[33] 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

4. INFLATION AND OTHER ADJUSTMENTS AND CUSTOM IR FRAMEWORK

In the Decision, the OEB approved a Custom Incentive Rate-Setting approach for adjusting Hydro One's distribution revenue requirement and the associated rates in years 2 through 5 of the 2018 to 2022 rate period. The approved formula for the Revenue Cap IR for the test year 't+1' is equal to the revenue in year 't' inflated by the Revenue Cap Index ("RCI") set out below as:

RCI = I – X + C

Where:

- "I" is the Inflation Factor, as determined annually by the OEB.
- "X" is the Productivity Factor that is equal to the sum of Hydro One's Custom Industry Total Factor Productivity measure and Hydro One's Custom Productivity Stretch Factor.
- "C" is Hydro One's Custom Capital Factor, determined to recover the incremental revenue in each test year necessary to support Hydro One's Distribution System Plan, beyond the amount of revenue recovered in rates.

The Productivity Factor (X) and the Capital Factor (C) underlying the RCI values were approved by the OEB for the entire duration of the Custom IR period. Therefore, the only adjustment for the calculation of final 2021 revenue requirement is the 2021 Inflation Factor. Table 4 summarizes the approved components of the RCI for 2021 based on the latest inflation factor as issued by the OEB on November 9, 2020 for electricity distributors.[34]

[34] As indicated in the 2020 Annual Update on August 30, 2019 (EB-2019-0043) and in the Decision and Rate Order on December 17, 2019 (EB-2019-0043), 2021 C factors reflects the correction made in the DRO Reply Submission on May 4, 2019 (EB-2017-0049).

Table 4 – 2021 Custom Revenue Cap Index (RCI) by Component (%)

Custom Revenue Cap Index by Component (%)	2021
Inflation Factor (I)	2.20
Productivity Factor (X)	-0.45
Capital Factor (C)	1.95
Custom Revenue Cap Index Total	**3.70**

Specifically, 2021 revenue requirement is calculated as follows:

2021 Revenue Requirement = 2020 Revenue Requirement * 2021 RCI

2021 Revenue Requirement = 1,539.2[35] * 3.70% (from Table 4 above) = 1,596.2

Hydro One intends to submit an update to the application as further discussed below under section 4.1.

4.1 Inflation and Other Adjustments

OEB staff submitted that Hydro One should make the necessary adjustments to the application by way of a reply submission with respect to the 2021 inflation factor. OEB staff further noted that with respect to specific service, retail service and pole attachment charges, OEB staff expressed no concerns with the tariffs as proposed by Hydro One and indicated that Hydro One should follow the direction contained in any subsequent OEB generic decisions related to retail service charges and the pole attachment charge, should they result in any changes to these rates.[36]

Hydro One notes that it intends to submit an update to the application previously provided on August 31, 2020 to reflect the new inflation factor. Consistent with the 2021 Inflation Parameters

[35] 2020 Revenue Requirement as approved by the OEB in EB-2019-0043

[36] OEB Staff Submission p 11.

Letter, on November 19th Hydro One submitted a letter electing to adopt the inflation factor as calculated by the OEB's methodology. The updated inflation factor would impact the 2021 revenue requirement and any specific service charges which are subject to the inflation factor.[37] In respect of any subsequent changes to retail service charges and pole attachment charge, Hydro One agrees that the final rate order should reflect those updates.

4.2 Custom IR Framework

SEC, CME, AMPCO and CCC made submissions to alter the custom capital factors for 2021 and 2022 despite the fact that these capital factors were previously approved by the OEB for each year of the Custom IR period. Furthermore, intervenors also suggested that the previously approved method used to calculate the approved capital factors should be altered.[38] For the following reasons, these submission should be rejected:

- Intervenors are trying to re-litigate the Decision and rate order in EB-2017-0049. In that proceeding, the capital factor was tested and approved and has been applied consistently ever since. The appropriate forum to bring these arguments is at Hydro One's next rebasing;
- Intervenor arguments ignore the scope of this Application set out in the procedural order and in the Handbook:
    - Procedural Order No. 1 states that cost awards will be limited to "activities related to Hydro One's request to dispose of the balances in the deferral and variance accounts and the Earnings Sharing Mechanism account" and that despite broad descriptions of areas of interest in some intervention letters, "the OEB expects its review of this application to be primarily a mechanistic process. The OEB therefore expects that parties' participation will reflect the limited scope of this proceeding."[39]
    - The Handbook states: "The adjudication of an application under the Custom IR method requires the expenditure of significant resources by both the OEB and the

[37] As stated in OEB IR #20 Specific charge for access to power poles – telecom is impacted by inflation factor
[38] SEC Submission p 2-8., CME Submission p 2-4., AMPCO Submission 2-3., CCC Submission 2-3.
[39] Procedural Order No. 1 (EB-2020-0030) October 9, 2020, p. 1

utility. The OEB therefore expects that a utility that applies under Custom IR will be committed to that method for the duration of the approved term and will not seek early termination or in-term updates except under exceptional circumstances and with compelling rationale."[40]

- The ramifications of what intervenors propose would have significant impacts on Hydro One's entire custom IR framework and would result in procedural unfairness:
    - In EB-2017-0049, the OEB approved an entire inter-related custom IR framework. Changing the capital factor will have implications on all components of the framework including the productivity program, the capital plan, target in-service additions, the functioning of the capital in-service variance account, among other things. The proposed changes are not as simple as intervenors suggest – you cannot 'cherry pick' a single component of the custom IR framework and expect no impacts on the balance of the framework; and
    - It is inherently unfair to re-open the rate order in year 4, when Hydro One is in the midst of executing its approved capital plan on the basis of the approved c-factor.
- The custom IR frameworks of other utilities are not relevant to Hydro One. All custom IR frameworks will be unique to the applicant. Intervenors point to OPG's custom IR framework which is significantly different than Hydro One's including for example the fact that the stretch factor only applies to a portion of OPG's capital program.

Below are detailed submissions in respect of intervenor arguments made in this regard.

In EB-2017-0049, the OEB approved a five year Custom IR framework that covers the years 2018 to 2022.[41] The approved custom capital factor as proposed by Hydro One[42] used in the Custom IR framework allows the recovery of incremental revenue in each test year beyond the first year,

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[40] OEB Handbook for Utility Rate Applications October 13, 2016, pp. 26-27

[41] EB-2017-0049, Decision and Order, March 7, 2019, page 20. See also EB-2019-0043, Decision and Rate Order, December 17, 2019 page 1

[42] EB-2017-0049, Decision and Order, March 7, 2019, page 31.

necessary to support Hydro One's Distribution System Plan, beyond the amount of revenue recovered in rates. Despite approving Hydro One's approach to calculating the Capital Factor, the OEB revised the custom capital factor in its Decision by ordering the removal of working capital from the calculation and the inclusion of an additional 0.15% stretch factor for capital. These changes reduced the applied-for annual capital related revenue requirement in order to incent further productivity improvements throughout the term and to provide customers the benefit from these additional improvements upfront.[43]

All parties to the EB-2017-0049 proceeding were afforded ample opportunity to understand, test and provide views on Hydro One's proposed custom capital factor. In fact, many suggestions were made in respect of the capital factor proposal by OEB staff and intervenors. In the evidence[44] and various IRs, Hydro One included supporting calculations to help explain how the stretch factor was calculated and applied to the capital factor calculation annually. The record was clear that at the Draft Rate Order stage the OEB would approve the RCI parameters including the annual capital factors for the duration of the Custom IR period. The only component of the Custom IR framework that changes annually is the OEB issued inflation factor. What was applied for and approved as part of its Custom IR Framework was a custom capital factor that had been carefully reviewed and indeed further revised by the OEB in its Decision.

While SEC now makes the observation that Hydro One's custom capital factor is not akin to the calculations used by OPG or other utilities who have their own Custom IR frameworks, this point bears no relevance.[45] All custom IR frameworks will be unique to the applicant. OPG's custom IR framework is significantly different than Hydro One's including for example the fact that the stretch factor only applies to a portion of OPG's capital program.

[43] EB-2017-0049, Decision and Order at page 31-33. See also EB-2019-0043, Decision and Rate Order at page 4.
[44] EB-2017-0049 Custom IR Application Summary, Exhibit A, Tab 3, Schedule 2 p 5.
[45] SEC Submission p 4-5.

The custom nature of Hydro One's methodology was expressly acknowledged by the Board in its Decision:

> The OEB accepts Hydro One's proposed revenue cap index approach for adjusting rates each year. […] Some parties have argued that an RCI approach is not available to Hydro One. The OEB does not agree. Under the Custom IR option, it is open to a utility to propose options as long as all requirements of the Custom IR framework have been met. It is by its own definition, a custom approach to rate-setting. The OEB finds that Hydro One's proposed RCI is an acceptable approach for adjusting rates to incent productivity and efficiency improvements.[46] (emphasis added)

Since setting the approved revenue requirement and capital factors as part of the DRO process in EB-2017-0049, Hydro One has applied its custom capital factor as part of the RCI when setting 2020 Distribution rates and charges as part of the 2020 Distribution Annual Update.[47]

The Board's expectation of the approved custom capital factor as having continued application throughout the rate period was last demonstrated in the OEB's 2020 Annual Update Decision. Table 5 below (reproduced table 4.1 of the Decision shown below), reported the annual values of the custom capital factor (and which is used to calculate the revenue cap index (RCI) during the remainder of the approved rate period) as follows:[48]

Table 5 – Reproduced Table 4.1 of EB-2019-0043 Decision (in $millions)

Table 4.1 RCI by Component[11]

RCI by Component (%)	2020	2021	2022
Inflation Factor (I)	1.50	1.50	1.50
Productivity Factor (X)	-0.45	-0.45	-0.45
Capital Factor (C)	1.21	1.95	1.85
RCI Total	**2.26**	**3.00**	**2.90**

[46] EB-2017-0049 at page 24.
[47] EB-2019-0043
[48] EB-2019-0043 at page 5.

The productivity and capital factors underlying the RCI were expressly acknowledged as "approved by the Board for the entire duration of the Custom IR plan."[49] This is for good reason as it promotes a formulaic approach to be used to calculate the annual RCI, thus streamlining the process for annual Custom IR update applications. The only RCI component contemplated being updated in the 2019-22 period is the annual inflation factor.[50] This ensures that rate adjustments in subsequent years of the approved rate period continue to be mechanistically determined thus improving regulatory efficiency, transparency and lessening regulatory burden.

Hydro One is concerned that the submissions filed by SEC, CME, AMPCO and CCC disregard the narrow scope of Custom IR update applications and the stated scope set out in procedural order No. 1 to this proceeding. More importantly, these submissions disregard the previously approved Custom IR parameters for the duration of the Custom IR period.

Despite these circumstances, the above noted intervenors suggest that Hydro One has misapplied the custom capital factor because it has been applied to the current year capital revenue requirement without taking into account any productivity requirements in prior years. SEC and CME; however, admit that this approach was consistent with the methodology Hydro One applied for in its EB-2017-0049 application.[51] SEC now says that this is all for naught because the factor has not been determined in a manner consistent with the Board's decisions in respect of other utilities, nor how it believes a stretch factor is meant to operate.

In response, the essence of SEC's argument is that Hydro One has misinterpreted or miscalculated how the stretch factor component is applied to Hydro One's Total Capital Related Revenue Requirement. Hydro One's evidence in the EB-2017-0049 proceeding and in all of the subsequent filings made in support of final rate orders, has calculated the stretch factor component so that it is

[49] EB-2019-0043 at page 5.
[50] EB-2017-0043 at page 5.
[51] SEC Submission p 1. CME Submission p 3.

applied for each year of the plan. The OEB has acknowledged this as the approved approach.[52] The RCI is calculated and applied annually. The capital factor is determined to recover the incremental revenue in each test year necessary to support the Distribution System Plan, beyond the amount of revenue recovered in rates.[53] Continuity of the stretch factor applying throughout the entire rate period was stated to provide the incentive to further productivity improvements throughout the term and to provide customers with the benefits from these additional improvements upfront.[54] There is simply no evidence to support SEC's theory. Throughout the EB-2017-0049 proceeding, the calculation and application of the RCI formula was applied consistently and uniformly.

CME mischaracterizes Hydro One's calculation as being a "change in calculation methodology". Yet Hydro One has not changed its methodology. As noted above, the methodology approved in EB-2017-0049 has been implemented consistently throughout the rate period and the same approach is taken in this application.

The assertion of "change" by CME is better framed as an observation – that the approved methodology is different from the manner in which other Ontario utilities have applied their capital factors. The problem, however, is that CME has not explained how this argument overrides the approval made in EB-2017-0049 and the consistent application of that approval in the subsequent annual update application and approved rate orders for the prior years of the rate period. The Board expressly found that Hydro One's applied-for and approved 2018-2022 Custom IR Framework was just that – custom and thus different from other frameworks that have come before the Board. Utilities are not limited from proposing and the Board may approve – just as it did – a Custom IR Framework.[55]

[52] EB-2019-0043 at page 1
[53] EB-2019-0043 at page 4.
[54] EB-2019-0043 at page 4.
[55] EB-2017-0049 at page 24.

Hydro One is concerned that entertaining a new argument based on "utility consistency" undermines the Board's Custom IR annual update process. The focus of this proceeding should remain narrow in scope and mechanistic in nature so that the approved capital factor methodology can continue to be used and applied in the RCI applicable to 2021 and 2022 rates. If parties seek to make arguments altering the approved Custom IR Framework, the time to do so is in the next rebasing period.

The relief CME and others seek requires a motion to review and vary the Board's EB-2017-0049 Decision.[56] Even if there was such a motion before the Board, which it is not, there is the problem that "consistency with other utility Custom IR Frameworks" has not been demonstrated to be an error in fact, a new fact or change in circumstance arising after EB-2017-0049 or in any of the subsequent DRO Decisions issued by the Board during the approved rate period.[57] Parties in the EB-2017-0049 proceeding noted that Hydro One's applied for Custom IR Framework was unlike other schemes. The suggestion that Custom IR Frameworks must all be alike was not accepted by the Board. It is therefore implausible to see how a "utility consistency" argument can or should now upend the methodology approved and which has been implemented in the last three of the five rate periods approved by the Board.

CME refers to the Ontario Court of Appeal's decision involving Union Gas.[58] This case concerned a preliminary issue that came before the Board in an altogether new rate case and whether prior period amounts were the proper subject matter of an earnings sharing mechanism, or whether the full revenue amounts should be passed through to customers. The issue at hand did not pertain to the alteration of approvals in effect governing the determination of rates within the approved rate period. Nor did the facts pertain to the narrow purpose and scope of Custom IR Framework annual updates.

[56] Ontario Energy Board Rules of Practice and Procedure, Part VII.
[57] Rule 44.01
[58] CME Submission p 4.

While there is no dispute that Courts have long recognized expert tribunals as having broad ratemaking powers, the discretion to exercise such powers must take into account the applicable facts and circumstances of each case. In these circumstances, SEC, CME, AMPCO and CCC are seeking to change a fundamental element of Hydro One's existing and approved Custom IR Framework. The Board has exercised its broad powers by establishing Rules and requirements necessary to hear and decide questions that seek extraordinary relief such as the review and variance of a Board Decision.[59] What SEC, CME, AMPCO and CCC fail to explain is why, in these circumstances, the Board's established process has not been followed. "Utility consistency" is not an error, change in circumstance or new fact. It is simply a new argument that has no bearing upon the determinations intended for this update application process.

Furthermore, SEC misrepresented Hydro One's implementation of the Decision in EB-2017-0049 and indicated that Hydro One did not subtract the additional 0.15% stretch factor from the calculated Capital Factor as set in the EB-2017-0049.[60] In response, Hydro One submits that this is in fact not true. As submitted in the DRO Submission from April 5, 2019 under Section 2.3 - Revenue Requirement Components, Hydro One indicated that it applied an incremental 0.15% capital stretch factor to be subtracted from the calculated revenue requirement. Line 9 of Table 2 from the DRO submission reflects the annual reduction in capital related revenue requirement as a result of the 0.45% stretch and the additional 0.15% stretch. The incremental stretch reduced the capital related revenue requirement by approximately $1.5 million per year relative to previously proposed stretch factor of 0.45%.

For these reasons, Hydro One submits that the OEB should reject SEC, CME, AMPCO and CCC's requests and instead should continue to have the 2021 update application proceed in the manner contemplated by the Board's own hearing order, namely, mechanistic adjustments to rates based on the approved Custom IR Framework. Not surprisingly, no such submission to alter the previously approved Custom IR Framework was provided by OEB staff as OEB staff understands the scope of

[59] Rule 44.01
[60] SEC Submission P 2.

the existing proceeding.

5. INTERIM RATES

Hydro One requests an effective date of January 1, 2021. In the event the OEB's decision approving 2021 rates is delivered or implemented after January 1, 2021, Hydro One requests an Interim Order 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. Furthermore, Hydro One states that 2021 Distribution rates once approved should remain interim until the conclusion of the EB-2020-0246 proceeding regarding the Seasonal Class and tax savings determination as a result of the Ontario Divisional Court decision issued on July 16, 2020 (Divisional Court File No. 200/19) the ongoing OEB proceeding (EB-2020-0194).

No parties objected to Hydro One's proposal to establish an account to capture any differences between the interim rates and the actual rates effective January 1, 2021 in the event that OEB's decision to establish 2021 rates is delivered or implemented after January 1, 2021.

OEB staff noted that given that Hydro One 2020 rates are already interim and have been for some time, it is not necessary for the OEB to issue the interim order.[61] Hydro One's preference is that the OEB issue an interim order for 2020 rates in the event that 2021 rates are not approved in time for January 1, 2021. Furthermore, OEB staff notes that given that the OEB maintained Hydro One's rates as interim in 2019 and 2020, it would be appropriate to maintain them on the same basis for 2021 once approved.[62] Hydro One agrees as this is consistent with the request outlined in the application. 2021 rates, once approved, should remain interim until the conclusion of the EB-2020-0246 proceeding regarding the Seasonal Class and tax savings determination as a result of the

[61] OEB Staff Submission p 12.
[62] OEB Staff Submission p 12.

Ontario Divisional Court decision issued on July 16, 2020 (Divisional Court File No. 200/19) and the ongoing OEB proceeding (EB-2020-0194).

6. COST ALLOCATION AND RATE DESIGN

No concerns were raised by OEB staff and intervenors with respect to the following rates-related items:

- Cost Allocation and Rate Design Methodology used to determine 2021 rates, as proposed in Sections 5 and 6 of Hydro One 2021 Annual Update Application;
- Deferral and Variance Accounts Rate Riders as outlined in Section 6.5 of Hydro One 2021 Annual Update Application, other than CBR Class B volumetric rider as previously discussed in section 3 of this reply argument; and
- Determination of Retail Transmission Service (RTSR) Rates as proposed in Section 6.4 of Hydro One 2021 Annual Update Application.

CONCLUSION

Based on the foregoing, it is Hydro One’s submission that its proposed 2021 distribution rates and charges are reasonable and that the Application should be approved as filed, and as further proposed by the applicant during the proceeding.

All of which is respectfully submitted this November 24, 2020.