



Ontario
Energy
Board | Commission
de l'énergie
de l'Ontario

BY EMAIL

October 22, 2021

Christine E. Long
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4

Dear Ms. Long:

Re: EB-2021-0050 Application for 2022 Rates

In accordance with Procedural Order #1, please find attached the Ontario Energy Board (OEB) staff interrogatories in the above proceeding. The applicant and intervenors have been copied on this filing.

Hydro One Networks Inc.'s responses to interrogatories are due by November 5, 2021, for the areas formerly served by Orillia Power Distribution Corp., and Peterborough Distribution Inc.

Any questions relating to this letter should be directed to Birgit Armstrong at birgit.armstrong@oeb.ca or at 416-544-5162. The Board's toll-free number is 1-888-632-6273.

Yours truly,

Birgit M. Armstrong

Project Advisor, Incentive Rate Setting & Regulatory Accounting

Encl.

**OEB Staff Interrogatories
Hydro One Networks Inc.
EB-2021-0050**

Please note, Hydro One Networks Inc. (Hydro One) is responsible for ensuring that all documents it files with the OEB, including responses to OEB staff interrogatories and any other supporting documentation, do not include personal information (as that phrase is defined in the *Freedom of Information and Protection of Privacy Act*), unless filed in accordance with rule 9A of the OEB's *Rules of Practice and Procedure*.

OEB Staff-1

Ref: Manager's Summary, Page 9

Regarding Group 1 accounts, the OEB found that an audit of Peterborough Distribution's 2017 balances was necessary.

- a) Please provide a status update on the audit.
- b) In Hydro One's view, please explain whether Hydro One's acquisition of Peterborough Distribution Inc.'s distribution system has any implications on the OEB-directed audit.

OEB Staff-2

Ref: Manager's Summary, Page 9

Hydro One is requesting to defer disposition of 2020 Group 1 balances for Peterborough and Orillia until at least the 2023 rate application.

- a) Please explain Hydro One's plan for consolidating Peterborough and Orillia's Group 1 accounts with the rest of Hydro One's deferral and variance accounts (e.g. when Hydro One expects to consolidate balances) and when Hydro One plans on requesting consolidated balances for disposition.
- a) Regarding Group 1 accounts, please explain when Hydro One expects to have one invoice for settlement of commodity, bulk transmission and wholesale settlements for all service territories consolidated for the Orillia and Peterborough service territories, as well as the rest of Hydro One.

OEB Staff-3

Ref: Application Summary, Page 9

Hydro One is requesting disposition of Accounts 1575 and 1576.

- a) Please explain Hydro One's planned disposition approach for the remaining Group 2 accounts (excluding Accounts 1575 and 1576), including discussion on when disposition will be requested, impacts to intergenerational inequity as

balances continue to accumulate during the deferred rebasing period, and the continuation/discontinuation of the accounts during the deferred rebasing period.

- b) Please confirm that Hydro One is able to continue recording transactions for Group 2 accounts specifically for Orillia and Peterborough going forward.
 - i. If not, please explain why not and indicate which accounts Hydro One proposes to consolidate with the rest of Hydro One.

OEB Staff-4

Ref: Application Summary, p.13

Hydro One is requesting Orillia's Account 1575 – IFRS- CGAAP Transitional PP&E Amounts (debit balance of \$14,920) for disposition. It states that additions to capital contributions in 2014 was \$1,073,760 and depreciation recorded in 2014 on these additions previously recorded under the CGAAP standard was \$13,563.

- a) Please clarify whether this statement means that there was a difference in depreciation on capital contributions between IFRS and CGAAP, which resulted in the \$13,563 balance in Account 1575.
- b) If so, please further explain what this difference in depreciation between IFRS and CGAAP is, and why this amount is not recorded in Account 1576 - Accounting Changes Under CGAAP, as Account 1576 is used to record impacts from the changes in depreciation and capitalization policies.
- c) If part a) is not confirmed, please explain the nature of the difference between IFRS and CGAAP, which resulted in the \$13,563 balance in Account 1575.

OEB Staff-5

Ref: Application Summary, pp. 13-14
Appendix H

Hydro One is requesting disposition of Orillia's Account 1575 - IFRS- CGAAP Transitional PP&E Amounts and Account 1576 – Accounting Changes Under CGAAP balances. The balances include a return component, based on a 5% weighted average cost of capital (WACC) per the OEB's 2021 cost of capital parameters. Orillia's last approved WACC from its 2010 cost of service proceeding was 7.49%¹. Orillia was previously approved interim disposition of the 2014 balance in Account 1576 in EB-2015-0286. The 2014 Account 1576 balance applied a WACC of 7.49%. OEB staff notes that in other cases where Account 1576 has been approved for disposition (e.g. EB-2020-0041 and EB-2018-0079), a distributor's last approved WACC has been used to calculate the return component for Account 1576. Please explain why Hydro One has

¹ EB-2009-0273

applied the OEB's 2021 WACC instead of Orillia's last approved WACC to Account 1575 and Account 1576.

OEB Staff-6

Ref: Appendix H

Regarding Orillia's Account 1576 - Accounting Changes Under CGAAP balance,

- a) please identify and quantify the drivers of the change in closing net PP&E, in accordance with Chapter 2 Filing Requirements²
- b) Per Appendix H, the net additions under former CGAAP and revised CGAAP are the same each year. Please confirm that there were no changes in capitalization policies required. If not confirmed, please explain why net additions are the same under both former and revised CGAAP.

OEB Staff-7

Ref: Appendix H

Decision and Rate Order, July 9, 2020, EB-2018-0270

Decision and Rate Order, July 9, 2020, EB-2018-0242

In the MAADs proceedings for Orillia and Peterborough, the OEB approved the establishment of Account 1576 – Accounting Policy Changes to capture the impact of applicable accounting changes to depreciation and capitalization accounting policies on property, plant and equipment resulting from the transition of Modified International Financial Reporting Standards to US GAAP. The accounts are effective as of the effective date of transaction close.

- a) Please confirm that the transactions closed on September 1, 2020 for Orillia and August 1, 2020 for Peterborough. If not confirmed, please indicate when the transactions closed.
- b) It appears that the Account 1576 balance for Orillia requested for disposition represents the balance as at August 30, 2020. Please confirm this.
- c) If there is a period between the date of the ending balance in Orillia's Account 1576 – Accounting Changes Under CGAAP and Orillia's transaction close date, please provide the Account 1576 balance for this stub period and provide Hydro One's view for disposing this stub period amount in the current application.

² Filing Requirements For Electricity Distribution Rate Applications - 2017 Edition for 2018 Rate Applications, dated July 20, 2017. This is the last Filing Requirements discussing support required for Account 1576.

- d) Please confirm that Orillia last rebased in 2010 under Canadian GAAP, before implementing the OEB mandated capitalization and depreciation policy changes (i.e. former CGAAP). If not confirmed, please explain.
- e) Please confirm that Peterborough last rebased in 2013 under CGAAP, after implementing the OEB mandated capitalization and depreciation policy changes (i.e. revised CGAAP). If not confirmed, please explain.
 - i. Please confirm that Peterborough did not identify further differences between the accounting policies underpinning its 2013 rebasing application and Modified International Financial Reporting Standards (MIFRS), and therefore, did not identify any balance that needed to be recorded in Account 1575 – IFRS – CGAAP Transitional PP&E Amounts. If not confirmed, please explain.
- f) Orillia has not previously rebased under revised CGAAP or MIFRS. To ensure that Hydro One captures the full PP&E differential between i) the capitalization and depreciation policies underpinning rates in Orillia's last rebasing proceeding (under former CGAAP), and ii) Hydro One's capitalization and depreciation policies in effect at the subsequent rebasing proceeding (under US GAAP) at the end of the deferred rebasing period, please confirm that the original Account 1576, as well as the Account 1576 established in the MAADS proceeding, will operate from the date the MAADs transaction closed until the end of the deferred rebasing period. If not confirmed, please explain Hydro One's proposed treatment.
 - i. Please discuss whether the above treatment for the original Account 1576 will also apply to Account 1575, where Account 1575 will continue to record the annual PP&E differences resulting from the transition from CGAAP to MIFRS (excluding amounts related to capitalization and depreciation policy changes recorded in the original Account 1576) from the date the MAADs transaction closed until the end of the deferred rebasing period. If not, please provide Hydro One's rationale.
- g) For Peterborough, please confirm the following treatment for the two accounts: The original Account 1576 had ceased recording new transactions in the account effective May 1, 2013 as Peterborough rebased under revised CGAAP in that year. The new Account 1576 established in the MAADs proceeding will record, from the effective date of the close of transaction to the end of the deferred rebasing period, the incremental PP&E differential between the capitalization and depreciation policies under revised CGAAP (in effect immediately prior to the merger) and the capitalization and depreciation policies of Hydro One under US GAAP. If this treatment is not confirmed, please explain in detail Hydro One's treatment of the two accounts.

OEB Staff-8

Ref: Manager's Summary, Page 15

Hydro One is requesting Peterborough's Account 1576 - Accounting Changes Under CGAAP balance (debit balance of \$9,998) for disposition, which is a residual amount remaining after it was previously disposed. The OEB has not provided guidance that indicates residual balances are to be requested for disposition and has not historically done so. The amount requested for disposition is also immaterial. Please explain why Hydro One is requesting disposition of this residual balance. Please update the evidence to remove the balance requested for disposition.