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Frank D'Andrea
Vice President, Reliability Standards and Chief Regulatory Officer

BY EMAIL AND RESS

November 5, 2021

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

Dear Ms. Long:

EB-2021-0033 – Hydro One Networks Inc. – Distribution Rate Application for the Areas Formerly Served by Norfolk Power Distribution Inc., Haldimand County Hydro Inc., and Woodstock Hydro Services Inc. – Interrogatory Responses

Hydro One Networks Inc. is submitting written responses to the Ontario Energy Board ("OEB") Staff interrogatories on Hydro One Networks' 2022 Distribution Rate Application for the Areas Formerly Served by Norfolk Power Distribution Inc., Haldimand County Hydro Inc., and Woodstock Hydro Services Inc.

An electronic copy of the interrogatories along with the supporting Excel models have been submitted using the Board's Regulatory Electronic Submission System.

Sincerely,

Frank D'Andrea

Frank D'Andrea

OEB STAFF INTERROGATORY #1

Reference:

Application Summary, Page 41 of 51

Interrogatory:

In the current application, Hydro One is seeking to recover LRAMVA balances associated with CDM savings achieved by the Acquired Utilities up to 2015 and the persistence of these historical savings up to 2020. Hydro One is not seeking recovery of any incremental savings from 2016 to the end of the Conservation First Framework. Please confirm whether Hydro One is planning to recover any incremental savings from 2016 to the end of the Conservation First Framework that are associated with the Acquired Utilities in a future proceeding. In the response, please confirm whether Hydro One is permanently forgoing any LRAMVA balances associated with incremental savings from 2016 to the end of the Conservation First Framework for the Acquired Utilities.

Response:

Hydro One is not planning to recover any incremental savings from 2016 to the end of the Conservation First Framework that are associated with the Acquired Utilities in a future proceeding. Hydro One confirms that it is permanently forgoing any LRAMVA balances associated with incremental savings from 2016 to the end of the Conservation First Framework for the Acquired Utilities.

OEB STAFF INTERROGATORY #2

Reference:

(i) Application Summary, Pages 43 & 44 of 51

(ii) Appendix I.1, Sheet 6

Interrogatory:

In the current application, Hydro One is seeking to recover LRAMVA balances associated with CDM Haldimand County Hydro last disposed of an LRAMVA balance and the associated carrying costs up to April 30, 2014, in EB-2013-0134. However, in the current proceeding, Hydro One is seeking to recover LRAMVA carrying charges associated with the Haldimand service area for the period of January 2011 to December 2021. Please comment on this overlapping period with respect to the Halimand service area carrying charges. In the response, please confirm whether Haldimand County Hydro disposed of all LRAMVA carrying charges up to April 30, 2014.

Response:

Haldimand was previously approved to dispose of 2011 and 2012 LRAMVA balances, with carrying charges up to April 30, 2014. Hydro One confirms that Haldimand previously disposed of the LRAMVA carrying charges up to April 30, 2014. The overlapping period of interest included in the Haldimand LRAMVA balance, as filed in this Application, related to the true-up of interest amounts from savings adjustments from prior years in 2011 to 2014. As a result, Hydro One has removed carrying charges up to April 30, 2014, and all overlapping period amounts from prior years that were previously approved in this LRAMVA balance for Haldimand. The DVA continuity schedule has been updated accordingly and has been filed in response to OEB Staff IR-4.

OEB STAFF INTERROGATORY #3

Reference:

(i) Application Summary, Pages 20, 46

(ii) EB-2021-0110, Exhibit L / Tab 1 / Schedule 2 / Pages 5-9

Interrogatory:

a) Given that the LRAMVA rate riders are proposed to continue to the end of 2023, how does this impact Hydro One's plan to harmonize the Acquired Utilities' rate classes effective January 1, 2023 into a new set of proposed rate classes for the Acquired Utilities (Acquired Urban Residential, Acquired Residential, etc.)?

   i. Please map the Acquired Utilities existing rate classes to the new set of rate classes proposed in Hydro One's 2023 rate application, if applicable.

   ii. How do these riders change in the 2023 proceeding, if at all, to accommodate that reclassification?

b) Hydro One indicated that disposition of the Group 2 balances in this proceeding means that Hydro One can effectively begin to dispose of the Group 2 balances to each of the Acquired Utilities' customers before rates are harmonized in 2023. Considering Hydro One's response to part a above regarding the LRAMVA rate riders continuing to the end of 2023, please explain whether Hydro One would be able dispose the Group 2 accounts specifically to the Acquired Utilities' customers in a similar manner as being proposed with the LRAMVA rate riders. Please explain why or why not.

Response:

a) In light of the proposed disposition of certain variance accounts in EB-2021-0110 (such as Hydro One Distribution's Group 2 Accounts and recovery of misallocated tax savings[1], Norfolk and Woodstock's 1595 Accounts), Hydro One plans to continue to identify acquired customers even after they merge into Hydro One's rate structure in 2023. As such, the continuation of LRAMVA rate rider until the end of 2023 has no impact on Hydro One's harmonization plan.

[1] EB-2020-0194, Decision and Order

i. The Table below provides the requested mapping of rate classes:

Norfolk and Haldimand - Existing Rate Class	**Proposed Rate Class in 2023**
Residential	Acquired Mixed-Density Residential (AR)
General Service < 50kW	Acquired Mixed-Density GS<50kW (AGSe)
General Service 50-4,999 kW*	Acquired Mixed-Density GS 50-4,999kW (AGSd)
Unmetered Scattered Load	Hydro One Unmetered Scattered Load
Street Light	Hydro One Street Light
Sentinel Light	Hydro One Sentinel Light
Woodstock - Existing Rate Class	**Proposed Rate Class in 2023**
Residential	Acquired Mixed-Density Residential (AUR)
General Service < 50kW	Acquired Mixed-Density GS<50kW (AUGe)
General Service 50-999 kW*	Acquired Mixed-Density GS 50-999kW (AUGd)
General Service >1,000 kW	Hydro One Sub-Transmission
Unmetered Scattered Load	Hydro One Unmetered Scattered Load
Street Light	Hydro One Street Light

* Eligible acquired demand-billed customers will move to Hydro One's Sub-Transmission rate class.

ii. The proposed LRAMVA riders will not change in 2023 for the reason mentioned above.

b) Yes, for the reason provided in response to part a), Hydro One will be able to dispose the Group 2 accounts specifically to the Acquired Utilities' customers even after the Acquired Utilities' customers harmonize into Hydro One's proposed rate structure. Furthermore, Hydro One is prepared to dispose of 2021 and 2022 forecasted Group 2 balances as part of the current proceeding in the event that the OEB finds it appropriate, and has thus requested final disposition of forecasted 2021 and 2022 balances, as stated in response to OEB Staff IR-7.

OEB STAFF INTERROGATORY #4

Interrogatory:

Please file an updated LRAMVA Workform, should any updates be required as a result of responses to OEB staff questions.

Response:

Please see Attachment 1 filed in response to this interrogatory. Changes to the Haldimand LRAMVA Workform in response to OEB Staff IR-2 are summarized in Tab "1-a. Summary of Changes".

Additionally, the LRAMVA Workforms for Norfolk (Attachment 1), Haldimand (Attachment 2) and Woodstock (Attachment 3) have been updated to include forecasted carrying charges to December 31, 2022 in response to OEB Staff IR-7 (c) ii.

OEB STAFF INTERROGATORY #4

NORFOLK LRAMVA WORKFORM

This exhibit has been filed separately in MS Excel format.

OEB STAFF INTERROGATORY #4

HALDIMAND LRAMVA WORKFORM

This exhibit has been filed separately in MS Excel format.

OEB STAFF INTERROGATORY #4

WOODSTOCK LRAMVA WORKFORM

This exhibit has been filed separately in MS Excel format.

OEB STAFF INTERROGATORY #5

Reference:

(i) Application Summary, Pages 4, 9, 10, 13, 14, & 47

(ii) Appendix B, C and D, Sheet 11

Interrogatory:

Hydro One is proposing the following mitigation measure in this Application in order to minimize year-over year rate fluctuations by maintaining the RTSRs for Norfolk, Haldimand and Woodstock at the current 2021 rates, and by disposing of the LRAMVA balances over a two-year period.

a) Please confirm that bill mitigation would not be necessary if Hydro One were to dispose of the Acquired Utilities' Group 1 net credit balances in this proceeding, based on their allocated share.

b) Does Hydro One plan on accruing interest over the next year on the balances in accounts 1584 and 1586? If so, please discuss the appropriateness of doing so.

c) Hydro One's proposal will result in incremental costs being reflected in Accounts 1584 and 1586 that are solely attributable to Acquired Utilities' customers. Does Hydro One propose to dispose of those amounts to all of its customers (rather than just the Acquired Utilities customers) in a future proceeding, given its plan to consolidate Group 1 accounts? Please discuss from the perspective of cost causality and quantify this impact.

d) Please discuss the impacts of intergenerational inequity resulting from Hydro One's proposal.

e) Has Hydro One considered other ways to mitigate the impact of deferring disposition of Group 1 accounts (for example, forgoing the Price Cap Index increase, either in part or in full)?

Response:

a) As mentioned in the interrogatory response provided to OEB Staff IR-6 part (a), Hydro One has not performed an allocation of the Group 1 variance account balances, and hence, is not able to confirm that bill mitigation would not be necessary if Acquired Utilities' Group 1 balances were to be disposed of in this proceeding.

b) Consistent with the treatment of deferral and variance accounts, Hydro One intends to accrue interest on principal balances for OEB approved deferral and variance accounts including Accounts 1584 and 1586.

c) Given Hydro One's plan to dispose of Group 1 account balances on consolidated basis starting in 2023, Hydro One will propose to dispose of the incremental costs reflected in Accounts 1584 and 1586 to all of its customers. Hydro One notes that the Acquired Utilities represent approximately 3% of the total metered consumption of the combined entity, and as such, the adverse impact of any incremental costs in Accounts 1584 and 1586 is anticipated to be immaterial for Hydro One's legacy customers.

d) Given the lag between the implementation of Uniform Transmission Rates (UTRs) and Retail Transmission Service Rates (RTSRs), and the lag between the implementation of RTSRs and disposition of Accounts 1584 and 1586, some level of intergenerational inequity already exists in the current framework. Hydro One believes that its proposal strikes an appropriate balance between managing impacts on customer bills with concerns over intergenerational equity. As mentioned in response to part (c) above, the impact of Hydro One's proposal on its legacy customers is expected to be immaterial.

e) Hydro One believes that the current bill mitigation proposal to maintain the RTSRs for each of the Acquired Utilities at current 2021 rates, and dispose of the LRAMVA balances over two years, remains appropriate. As explained in the Application, the main driver for the bill increase and the current mitigation strategy is the expiry of Group 1 credit rider from the previous year.

OEB STAFF INTERROGATORY #6

Reference:

Application Summary, Page15

Interrogatory:

Regarding Hydro One's proposed disposition approach for Group 1 balances,

a) Hydro One indicated that 2023 Rebasing application is the first application for both Hydro One Distribution and the Acquired Utilities, which introduces the opportunity to dispose Group 1 balances on a consolidated basis, without performing an allocation to Distribution and each of the Acquired Utilities. Please provide a high-level, approximate comparison of the 2020 Group 1 disposition related bill impacts to Distribution and each of Acquired Utilities using the consolidated approach and using an allocation approach.

b) Hydro One indicated that it intends to update the 2023 Rebasing application for audited 2021 Group 1 balances during the course of that proceeding. Hydro One further stated that in the event that Group 1 balances change based on 2021 audited transactions from a credit balance to a debit balance or a smaller credit balance, the combined disposition based on 2020 and 2021 audited balances would result in less volatility to rate payers.
   i. Given that there are 9 months of data for 2021 available, please confirm that net 2021 transactions to date have been debit transactions which would reduce the 2020 credit Group 1 balances. If not confirmed, please explain the basis for Hydro One's statement above.

c) Hydro One indicated that it receives one consolidated invoice for settlement of commodity, bulk transmission and wholesale settlements for all service territories. Please explain when Hydro One started to receive one consolidated bill for Hydro One Distribution and the Acquired Utilities.

Response:

a) During the course of the OEB Staff's Inspection of Compliance of the RPP Settlement Process and Assessment of the DVA Allocation Methodology to Assign Group 1 Balances to the Acquired Utilities (Inspection Report), Hydro One demonstrated and OEB Staff accepted, that the allocation methodology results in the same rate riders whether the balances are allocated to all utilities separately or as one single entity:

> *HONI has demonstrated that after all the acquired utilities are integrated into HONI's financial systems, this proposed RSVA allocation methodology resulted in the same set of rate riders, whether the RSVA balances are allocated to HONI, Norfolk Power, Haldimand County Hydro and Woodstock Hydro separately, or to all utilities together as one single entity.*[1]

Attachment 1 to this response provides the final Inspection Report issued by the OEB on March 4, 2019.

Furthermore, as Hydro One is not proposing to dispose of any Group 1 balances in the current Application (EB-2021-0033) or in the Hydro One's 2022 Distribution Annual Update Application (EB-2021-0032), and those balances are proposed for disposition only in the 2023 Rebasing Application, an allocation was not performed. In 2023, the Acquired Utilities will be integrated into Hydro One Distribution rate classes (including newly created rate classes) as further discussed in Exhibit L, Tab 1, Schedule 2 (EB-2021-0110). At that point, any balances proposed for disposition will be reviewed for prudence including any allocation of the consolidated balances to the respective rate classes.

b) The basis for the statement made above is to indicate that Hydro One's proposal to dispose of its consolidated Group 1 balances, including the 2020 Distribution balances on a combined basis with the Acquired Utilities, in the 2023 rebasing application, is expected to mitigate volatility impacts to ratepayers since there would be two years' worth of audited balances, as opposed to just one year.

The 2021 audited balances are not yet available until the 2021 audited financial statements are publically released in the first half of 2022. Moreover, 9 months of data are not always representative of what full year balances would be. As such, Hydro One cannot confirm at this time that net 2021 transactions will offset 2020 transactions and result in a lower

[1] "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 page 6.

overall balance. However, as noted in Section 3.1 of the Application, a large driver of the variation in the Group 1 balances is due to the commodity balances from Retail Settlement Variance Accounts. Transactions in these accounts tend to have large fluctuations year over year, and can result in material rate changes in either debit or credit direction when the annual balances are disposed in isolation. As a result, in the event that 2020 Group 1 balances change based on 2021 audited transactions from a credit balance to a debit balance or potentially a smaller credit balance, as compared to what may be originally anticipated, the combined disposition of Group 1 balances is expected to result in less volatility to ratepayers as there are two years' worth of audited balances.

Based on the reasons noted above, along with meeting over-arching objectives to facilitate regulatory efficiency given the timing of the 2023 rebasing application relative to the current Application, it has shaped the basis for the current approach.

c) Norfolk IESO invoice has been consolidated with Hydro One Distribution IESO invoice by the IESO as of September 2015. Woodstock and Haldimand IESO invoices have been consolidated with Hydro One Distribution IESO invoice by the IESO since September 2016.

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Ontario

March 4, 2019

Mr. Frank D'Andrea
Vice President, Chief Regulatory Officer, Chief Risk Officer
Hydro One Networks Inc.
South Tower, 8th floor
483 Bay Street
Toronto, ON, M5G 2P5

Dear Mr. D'Andrea:

Re: Inspection of the Compliance of the RPP Settlement Process and Assessment of the DVA Allocation Methodology for the Acquired Utilities in 2015 and 2016

The Ontario Energy Board's Audit & Investigations Department (OEB staff) has completed its inspection of Hydro One Networks Inc.'s (HONI) compliance with respect to regulatory requirements for the Regulated Price Plan (RPP) settlement processes and its assessment of the deferral and variance accounts (DVAs) allocation methodology to assign balances for Group 1 DVAs for all acquired utilities in 2015 and 2016. The inspection was initiated due to the magnitude of ratepayer funds involved in HONI's RPP settlement processes and relevant regulatory accounts.

The results of the inspection are now shared with HONI in the form of a written inspection report. To the extent that the inspection required the examination of documents, records or information that are not already in the OEB's possession, OEB staff acted under Part VII of the *Ontario Energy Board Act, 1998* (the Act).

The inspection report concludes that nothing has come to OEB staff's attention indicating that HONI's RPP settlement claim processes are not in compliance with current regulatory requirements. As well, the report confirms that HONI also

utilizes a reasonable allocation methodology for Group 1 DVAs for the acquired utilities in 2015 and 2016.

Notwithstanding the prior paragraph, the conclusions contained in the inspection report, as summarized above, are made without prejudice with regard to any future review by OEB staff relating to the refund of $121.8 million received from the IESO related to Charge Type 148[1] for the period of April to November 2017 (as disclosed in HONI's rate application EB-2017-0049) .

The OEB issued a letter on July 20, 2018, advising electricity distributors of the OEB's initiative to standardize the accounting guidance related to commodity pass-through accounts. The OEB provided an initial set of standardized requirements for regulatory accounting and RPP settlements on February 21, 2019 titled *Accounting Guidance related to Accounts 1588 RSVA Power, and 1589 RSVA Global Adjustment*. For some distributors, the result of implementing this guidance may be that changes will be required to their current processes even though the current processes result in accurate balances. HONI is expected to comply with this accounting guidance and to continue comply with all other relevant regulatory requirements.

We thank you for your cooperation and assistance. Please do not hesitate to contact the undersigned directly should you have any questions.

Yours truly,

Tony Stanco
Manager - Audit & Investigations

Copy:
Mr. Chris Lopez, Acting Chief Financial Officer – Chris.Lopez@HydroOne.com

[1] Class B – Global Adjustment Settlement Amount

ONTARIO ENERGY BOARD

Inspection Report

Inspection of the Compliance of the RPP Settlement Process and Assessment of the DVA Allocation Methodology for the Acquired Utilities

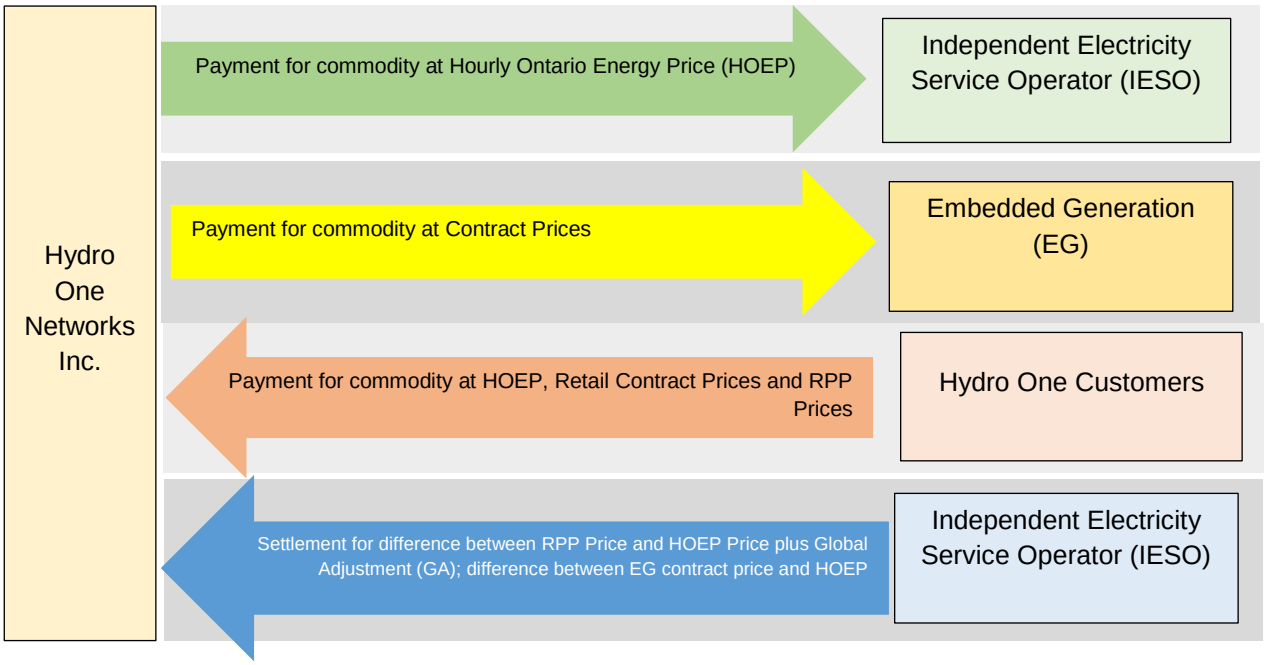
Hydro One Networks Inc.

Date: March 4, 2019

CONTENTS

1. Executive Summary

The Ontario Energy Board (OEB)'s Audit and Investigations Department (Staff) undertook an inspection of Hydro One Networks Inc.'s (HONI) Regulated Price Plan (RPP) Settlement Claim process for the period of January 1 to December 31, 2017. The RPP Settlement Claim process is summarized in the flow diagram below:



This inspection evaluated the compliance of HONI's RPP Settlement Claim process with the established IESO Market Rules and Ontario Regulations as detailed in Appendix 4. In addition, this inspection assessed the reasonability of the allocation methodology for Deferral and Variance Accounts (DVA) for the three acquired utilities by HONI in 2015 and 2016.

Based on the inspection, nothing has come to OEB staff's attention that HONI's RPP Settlement Claim with the IESO is not in compliance with the relevant IESO Market Rules and Ontario Regulations. OEB staff has also concluded on the following:

(1) In EB-2017-0050, HONI described its allocation methodology as using historical pre-integration consumption as the allocator. Subsequently during the inspection, HONI proposed a new allocation methodology which uses post-integration sales volume as the allocator. HONI has demonstrated that after all the acquired utilities are integrated into HONI's financial systems, this proposed RSVA allocation methodology resulted in the same set of rate riders, whether the RSVA balances are allocated to HONI, Norfolk Power, Haldimand County Hydro and Woodstock Hydro separately, or to all utilities together as one single entity.

(2) Due to the cumulative impact of the energy injected back to the grid (AQEI) on Global Adjustment (GA) for the period of January 2005 to August 2016, HONI received the refund of $121.8 million from the IESO related to CT 148[1] for the period of April to November 2017. HONI first informed the OEB of the $121.8 million refund in the rate application EB-2017-0049. Staff intends to follow up on this matter in the future.

2. Reason for Inspection

This inspection was selected based on a risk assessment following the Global Adjustment Policies and Processes Sector Review. The objective of the GA review was to better understand and identify the underlying potential risks within the various processes associated with the quantification of GA amounts or quantum, and the allocation of those amounts for recovery from different customer classes. The result of the review informed the need for the OEB to inspect the RPP Settlement Claims that are submitted by the distributors to the IESO on a monthly basis.

The inspection also assessed the allocation methodology proposed by HONI for the three utilities acquired during 2015 and 2016 (collectively, the acquired utilities).

- Norfolk Power Distribution Inc. (Norfolk Power) – Integrated in September 2015
- Woodstock Hydro Services Inc. (Woodstock Hydro) – Integrated in September 2016
- Haldimand County Hydro Inc. (Haldimand County Hydro) – Integrated in September 2016

On April 5, 2018, the OEB issued a Decision and Rate Order for a rate application EB-2017-0050. Specifically, in relation to Group 1 DVA, the OEB had concerns with certain balances (most notably in Account 1588 – Power for Norfolk Power and Account 1589 – GA for all three of the acquired utilities), mainly resulting from HONI's proposed allocation methodology and the resulting impacts to customers of the three former utilities' rate zones. The OEB noted that while the proposed allocation methodology conceptually appeared reasonable, the OEB believed HONI did not sufficiently explain why the principal transactions in the year of integration for the acquired utilities were substantially higher than in prior years, other than noting that the balances were the result of the proposed allocation methodology. For these reasons, the OEB only approved the disposition of Group 1 DVA balances for each of the acquired utilities up to December 31 of the year prior to their acquisition. For Norfolk Power, the disposition was to the end of December 31, 2014. For Haldimand County Hydro, the disposition was to the end of December 31, 2015, and for Woodstock Hydro the disposition was to the end of December 31, 2015.

[1] Class B – Global Adjustment settlement amount

3. Objectives and Scope

The objectives of this inspection were as follows:

1. Evaluate the processes and controls in place to ensure HONI's RPP Settlement Claim process with the IESO complies with the established IESO Market Rules and Ontario Regulations as detailed in Appendix 4.

2. Determine whether the RPP and embedded generation (EG) settlement amounts, including the RPP true-ups are accurate and complete and the settlements are recorded in the appropriate account.

3. Validate that GA charges are properly allocated between Accounts 1588 and 1589.

4. Verify the reasonability of the allocation methodology for Group 1 DVAs for the utilities acquired in 2015 and 2016.

The scope of the inspection was for the period of January 1 to December 31, 2017.

4. Methodology

Through the inspection, staff:

- Obtained an understanding of HONI's policies, procedures, and controls with respect to the determination and reporting of the RPP and EG settlement amounts with the IESO and allocation of the settlement amounts to Account 1588 and Account 1589.

- Assessed HONI's compliance with relevant regulations made under the *Ontario Energy Board Act, 1998* and *Electricity Act, 1998*.
    - *Ontario Energy Board Act, 1998,* Ontario Regulation 95/05 Classes of Consumers and Determination of Rates
    - *Electricity Act, 1998,* Ontario Regulation 429/04 Adjustment under Section 25.33 of the Act
    - *Electricity Act, 1998,* Ontario Regulation 430/04 Payments re Section 25.33 of the Act

- Assessed HONI's compliance with the IESO market rules on settlement.

- Assessed the methodology and underlying information (volumes and prices) for the determination of the monthly RPP settlement amounts and true-up amounts.

- Examined HONI's compliance with the relevant sections in the Accounting Procedures Handbook for Electricity Distributors (APH), effective January 1, 2012, for the purpose of Account 1588 and Account 1589.

- Verified through samples of the information submitted on RPP forms and entries to Accounts 1588 and 1589.

- Assessed the process for EG settlement and GA allocations between RPP and non-RPP customers.

- Assessed the reasonability of the allocation methodology for Group 1 DVA accounts for the acquired utilities.

Refer to Appendix 2 for the description of the RPP Settlement Claim Process

Refer to Appendix 3 for the details on the allocation methodology.

Refer to Appendix 4 for the description on the compliance assessment criteria.

5. Licensee Profile

HONI is Canada's largest electricity transmission and distribution service provider transmitting and distributing electricity across Ontario. HONI distributes electricity to over 1.3 million residential and business customers covering approximately 75 per cent of the geographic area of Ontario.

6. Conclusion

Based on the results of the inspection for the identified areas within the inspection scope, nothing has come to OEB staff's attention that HONI's RPP Settlement Claim with the IESO is not in compliance with the relevant Ontario Regulations. HONI's RPP Settlement Claim process with the IESO satisfies the inspection objectives and HONI has established reasonable allocation methodology for Group 1 DVAs for the acquired utilities.

As well, the findings and conclusions contained in this report are made without prejudice with regard to any future review by OEB staff relating to the refund of $121.8 million as noted in Section 7.1.2.

7. Appendix 1 - Detailed Observations

7.1.1 RSVA Allocation Methodology

Summary of Observation

In EB-2017-0050, HONI described its allocation methodology as using historical pre-integration consumption as the allocator. Subsequently during the inspection, HONI proposed a new allocation methodology which uses post-integration sales volume as the allocator. HONI has demonstrated that after all the acquired utilities are integrated into HONI's financial systems, this proposed RSVA allocation methodology resulted in the same set of rate riders, whether the RSVA balances are allocated to HONI, Norfolk Power, Haldimand County Hydro and Woodstock Hydro separately, or to all utilities together as one single entity.

Details of Observation

In EB-2017-0050, HONI described its allocation methodology as using historical pre-integration consumption as the allocator. During the inspection, HONI identified that the existing allocation methodology had not resulted in reasonable balances for the following two reasons:

- The cost allocation is based on three-year historical data which does not factor in customer changes in the post-integration period. As such, any changes to commercial customers may cause the pre-defined allocation factors to be inaccurate; and,

- The newly connected EG is not classified to the corresponding acquired local distribution companies' (LDC) territories. Instead, the newly connected EGs are recognized as part of HONI as a consolidated entity. Therefore, the EG total for the acquired LDCs and the cost allocated to the acquired LDCs may have been understated.

HONI has proposed a new allocation methodology which uses post-integration sales volume as the allocator. Using the sales volume as the allocator is consistent with the methodology from the OEB's CoS DVA Workform Model and IRM Rate Generator Model as was used in previous HONI applications[2]. In addition, the new allocation methodology follows the same principle as the OEB's policy for allocating the GA and the Capacity Based Recovery (CBR) variance balances to customers who transition between Class A and Class B within a given year.

HONI has demonstrated that after all the acquired utilities are integrated into HONI's financial systems (i.e. after the transition years 2015 and 2016), HONI's proposed RSVA allocation methodology resulted in the same set of rate riders, whether the RSVA balances are allocated

[2] E.g. EB-2009-0096 and EB-2013-0416

to HONI Networks, Norfolk Power, Haldimand County Hydro and Woodstock Hydro separately or to all utilities together as one single entity.

Refer to Appendix 3 – Allocation of RSVA Balances in Post-Transition Years which provides detailed walkthroughs of calculations for single and multiple rate riders.

Conclusion and Expectation

HONI's proposed allocation methodology of using applicable sales volume as the allocator for Group 1 Accounts 1588 and 1589 balances for Haldimand County Hydro, Norfolk Power and Woodstock Hydro is reasonable.

In its future rate applications, HONI should submit the balances for the years of integration and the post integration years for each of the three acquired utilities as follows and all the balances to be submitted for disposition must be well supported.

The Group 1 DVA balance for Norfolk Power (integrated with HONI in September 2015), for 2015 will be comprised of 8 months of pre-acquisition balances, plus 4 months of post integration allocated balances using the proposed methodology. For each year starting with 2016, until HONI's next cost of service application which will include harmonizing Norfolk Power Distribution into its rates, HONI should compute 12 months of post integration allocated balances using the proposed methodology. HONI must provide supporting calculations for 2015 and each subsequent year being sought for disposition.

The Group 1 DVA balance for Woodstock Hydro (integrated with HONI in September 2016), for 2016 will be comprised of 8 months of pre-acquisition balances, plus 4 months of post integration allocated balances using the proposed methodology. For each year starting with 2017, until HONI's next cost of service application which will include harmonizing Woodstock Hydro into its rates, HONI should compute 12 months of post integration allocated balances using the proposed methodology. HONI must provide supporting calculations for 2016 and each subsequent year being sought for disposition.

The Group 1 DVA balance for Haldimand County Hydro (integrated with HONI in September 2016), for 2016 will be comprised of 8 months of pre-acquisition balances, plus 4 months of post integration allocated balances using the proposed methodology. For each year starting with 2017, until HONI's next cost of service application which will include harmonizing Haldimand County Hydro into its rates, HONI should compute 12 months of post integration allocated balances using the proposed methodology. HONI must provide supporting calculations for 2016 and each subsequent year being sought for disposition.

7.1.2 $121.8M IESO Refund

Summary of Observation

Due to the cumulative impact of the energy injected back to the grid (AQEI) on GA for the period of January 2005 to August 2016, HONI received a refund of $121.8 million from the IESO related to CT 148[3] for the period of April to November 2017. HONI first informed the OEB of the $121.8 million refund in the rate application EB-2017-0049. Audit & Investigations staff intends to follow up on this matter in the future.

Detailed Observation

As explained by HONI, HONI estimated a GA amount to be charged by the IESO for the month end accrual purpose for June 2016. Upon receiving the actual invoice from the IESO in July 2016, HONI noticed a greater than expected GA charge amount. HONI then investigated the GA variance and noticed a trend of deviation from expected GA. The GA variance was determined to be the volume impact of the AQEI as a result of increased number of EG connections. The impact resulted in an overcharge of CT148 for the period of January 2005 to August 2016. Subsequently, IESO refunded the overcharge of $121.8 million through the monthly IESO invoices from April to November 2017 for the impact of the AQEI on GA for the period of January 2005 to August 2016.

Conclusion and Expectation

HONI is expected to reassess the impact of the refund and corresponding charges have on RPP and non-RPP customers and ensure that there are appropriate processes and controls put in place to rectify the overcharges going forward. The OEB staff intends to follow up on this matter in the future.

[3] Class B – Global Adjustment Settlement Amount

8. Appendix 2 – RPP Settlement Claim Process

On a monthly basis, HONI calculates an amount payable/receivable to/from the IESO to settle for the previous month RPP consumption based on invoice issued. Since HONI's customers do not all have a billing cycle that coincides with the calendar month, HONI does not declaring RPP consumption data based on the calendar month consumption. HONI accrues the RPP settlement amount for the portion of the unbilled revenue for accounting purposes at month end along with all other charge types from the IESO invoices on the cost side and unbilled revenue on the revenue side for both accounts 1588 and 1589. HONI's monthly RPP settlement claim includes two amounts:

(1) the difference between the energy amounts billed at RPP price and Spot price for the invoices created during each fiscal month; and,
(2) the RPP invoiced Consumption at actual GA rate.

The RPP settlement amounts, are communicated to the IESO via an online portal on or before the 4th business day of the month and appear under charge type 1142 on the IESO invoice.

The EG and Class A volumes are communicated to the IESO via the online portal on or before the 4th business day of the month and are used by the IESO to calculate the GA and appear under charge types 147 and 148 on the IESO invoice.

HONI extracts billed customer RPP commodity charges (TOU and Tiered) from the GL activity and extracts billed consumption for RPP customers from their Customer Information System (CIS). HONI also determine the WAHSP charges based on billed consumption for RPP customers from its CIS.

The monthly IESO settlements also include the EG declaration for the difference between the rate paid to regulated and contracted generators and spot price. Monthly, embedded distributors (eLDC) calculate their own RPP and generation settlement amounts and declare to the IESO through HONI Distribution. As a host distributor, HONI Distribution settles with the IESO on behalf of embedded distributors and treats it as pass through costs, in the monthly IESO settlement declaration.

HONI is charged by the IESO the actual GA rate in CT 148 on the volumes representing the power withdrawn from the grid plus the EG volume minus the Class A volume on a calendar month basis. As the GA is embedded in the RPP price, the IESO must reimburse HONI for the RPP portion of the GA and reflect it in CT 1142. HONI uses the second estimate of GA rate published by IESO to calculate RPP GA settlement associated with the RPP consumption during the fiscal month. As the actual rate is not available until 10th business day of each month for the preceding month, which is six business days after the utility submits the RPP settlement claim to the IESO on the 4th business day, the true up is calculated by using the actual GA rate and declared to the IESO in the following month.

9. Appendix 3 – Allocation of RSVA Balances for the Acquired Utilities

After the transition period (i.e. from September 1, 2016 onwards), HONI's current proposed RSVA allocation methodology will result in the same set of rate riders, whether the RSVA balances are allocated to HONI, Norfolk Power, Haldimand County Hydro and Woodstock Hydro separately or to all utilities together as one single entity.

Below is an illustrative example created by HONI using RSVA Power (1588) transactions and associated detailed kWh information from HONI, Norfolk Power, Haldimand County Hydro and Woodstock Hydro during the period September 1st to December 31, 2016 (post transition). The illustrative example compares two allocation scenarios:

1. Allocating the RSVA Power balance to HONI, Norfolk Power, Haldimand County Hydro and Woodstock Hydro separately first, and then to each utilities' rate classes; and,
2. Allocating the RSVA Power balance to all rate classes assuming that all four utilities are one single entity.

The illustrative example uses the total kWh for each utility over this period because detailed 2017 kWh information (i.e. grouped by WMP/non-WMP/RPP/non-RPP/ClassA/ClassB/LDC/non-LDC by rate class) could not be prepared in the given timeline and is not critical for the purpose of illustrating that the two allocation scenarios will provide the same results.

Scenario 1: Allocating RSVA Power balance (1588) to each utility separately first, and then to each utilities' rate classes

Table 1 below shows how the RSVA Power balance over the Sep.1 to Dec. 31, 2016 period is allocated to HONI, Norfolk Power, Haldimand County Hydro and Woodstock Hydro by kWh.

TABLE 1 - RSVA Power $ and kWh

	(1)	(2)	(3)	(4)	(5)	(6)=(2)+(3)+(4)+(5)
RSVA Power	Total Principle + Interest*	H1 kWh**	NF kWh**	HC kWh**	WS kWh**	Total kWh**
1588	($4,572,422)	7,584,123,336	108,194,087	109,303,647	135,346,369	7,936,967,439
		(7)=(2)/(6)	(8)=(3)/(6)	(9)=(4)/(6)	(10)=(5)/(6)	
		H1 % of kWh	NF % of kWh	HC % of kWh	WS % of kWh	Total
		95.6%	1.4%	1.4%	1.7%	100.0%
		(11)=(1)x(7)	(12)=(1)x(8)	(13)=(1)x(9)	(14)=(1)x(10)	
		Allocated H1 $	Allocated NF $	Allocated HC $	Allocated WS $	Total
		($4,369,151)	($62,330)	($62,969)	($77,972)	($4,572,422)

* Sept 1 to Dec 31 2016
** Sept 1 to Dec 31 2016 non-WMP kWh

H1: Hydro One Networks
NF: Norfolk Power
HC: Haldimand County Hydro
WS: Woodstock Hydro

The actual kWh by rate class for each utility is not readily available for this period. For comparing the scenarios, an illustrative breakdown of the kWh by rate class is used. Table 2 shows the illustrative kWh by rate class for each of the four utilities used in assessing both scenarios.

TABLE 2 - Illustrative kWh by rate classes

Illustrative H1 kWh and rate classes			
(15)	(16)	(17)	(18)=(15)+(16)+(17)
H1 rate class 1 kWh	H1 rate class 2 kWh	H1 rate class 3 kWh	Total H1 kWh
5,308,886,335	1,516,824,667	758,412,334	7,584,123,336
(19)=(15)/(18)	(20)=(16)/(18)	(21)=(17)/(18)	
% kWh	% kWh	% kWh	
70%	20%	10%	

Illustrative NF kWh and rate classes			
(22)	(23)		(24)=(22)+(23)
NF rate class 1 kWh	NF rate class 2 kWh		Total NF kWh
70,326,157	37,867,931		108,194,087
(25)=(22)/(24)	(26)=(23)/(24)		
% kWh	% kWh		
65%	35%		

Illustrative HC kWh and rate classes			
(27)	(28)		(29)=(27)+(28)
HC rate class 1 kWh	HC rate class 2 kWh		Total HC kWh
60,117,006	49,186,641		109,303,647
(30)=(27)/(29)	(31)=(28)/(29)		
% kWh	% kWh		
55%	45%		

Illustrative WS kWh and rate classes			
(32)	(33)		(34)=(32)+(33)
WS rate class 1 kWh	WS rate class 2 kWh		Total WS kWh
70,380,112	64,966,257		135,346,369
(35)=(32)/(34)	(36)=(33)/(34)		
% kWh	% kWh		
52%	48%		

Table 3 below shows how each utility's allocated RSVA Power balance, as calculated in Table 1, is allocated to its rate classes by kWh.

TABLE 3 - Allocated $ by rate classes

(37)=(11)x(19)	(38)=(11)x(20)	(39)=(11)x(21)	
Allocated H1 rate class 1 $	Allocated H1 rate class 2 $	Allocated H1 rate class 3 $	Total
($3,058,406)	($873,830)	($436,915)	($4,369,151)

(40)=(12)x(25)	(41)=(12)x(26)		
Allocated NF rate class 1 $	Allocated NF rate class 2 $		Total
($40,514)	($21,815)		($62,330)

(42)=(13)x(30)	(43)=(13)x(31)		
Allocated HC rate class 1 $	Allocated HC rate class 2 $		Total
($34,633)	($28,336)		($62,969)

(44)=(14)x(35)	(45)=(14)x(36)		
Allocated WS rate class 1 $	Allocated WS rate class 2 $		Total
($40,545)	($37,427)		($77,972)

Scenario 2: Allocating RSVA Power balance (1588) to all rate classes by treating all four utilities as one single entity

Table 4 below shows how the total RSVA Power balance is allocated to all rate classes assuming all of the rate classes existed within one single entity. The illustrative kWh for each rate class used to allocate the RSVA balances are the same as the kWh in Table 2.

TABLE 4 - RSVA Power $

	(1)	(46)	(47)	(48)	(49)	(50)	(51)	(52)	(53)	(54)	(55)=sum(46:54)
RSVA Power	Total Principle + Interest*	H1 rate class 1 kWh**	H1 rate class 2 kWh**	H1 rate class 3 kWh**	NF rate class 1 kWh**	NF rate class 2 kWh**	HC rate class 1 kWh**	HC rate class 2 kWh**	WS rate class 1 kWh**	WS rate class 2 kWh**	Total kWh**
1588	($4,572,422)	5,308,886,335	1,516,824,667	758,412,334	70,326,157	37,867,931	60,117,006	49,186,641	70,380,112	64,966,257	7,936,967,439
		(56)=(46)/(55)	(57)=(47)/(55)	(58)=(48)/(55)	(59)=(49)/(55)	(60)=(50)/(55)	(61)=(51)/(55)	(62)=(52)/(55)	(63)=(53)/(55)	(64)=(54)/(55)	
		% of kWh	% of kWh	% of kWh	% of kWh	% of kWh	% of kWh	% of kWh	% of kWh	% of kWh	Total
		66.9%	19.1%	9.6%	0.9%	0.5%	0.8%	0.6%	0.9%	0.8%	100.0%
		(65)=(1)x(56)	(66)=(1)x(57)	(67)=(1)x(58)	(68)=(1)x(59)	(69)=(1)x(60)	(70)=(1)x(61)	(71)=(1)x(62)	(72)=(1)x(63)	(73)=(1)x(64)	
		Allocated H1 rate class 1 $	Allocated H1 rate class 2 $	Allocated H1 rate class 3 $	Allocated NF rate class 1 $	Allocated NF rate class 2 $	Allocated HC rate class 1 $	Allocated HC rate class 2 $	Allocated WS rate class 1 $	Allocated WS rate class 2 $	Total
		($3,058,406)	($873,830)	($436,915)	($40,514)	($21,815)	($34,633)	($28,336)	($40,545)	($37,427)	($4,572,422)

* Sept 1 to Dec 31 2016

** Sept 1 to Dec 31 2016 non-WMP kWh

H1: Hydro One Networks
NF: Norfolk Power
HC: Haldimand County Hydro
WS: Woodstock Hydro

Comparison of the Two Allocation Scenarios

As illustrated in Table 5, the RSVA Power balance to be collected from each rate class is identical under the two scenarios.

Table 5. Allocated RSVA Power Balances by Rate Class

	Scenario 1 (from Table 3)	Scenario 2 (from Table 4)	Difference
H1 rate class 1 $	($3,058,406)	($3,058,406)	$0
H1 rate class 2 $	($873,830)	($873,830)	$0
H1 rate class 3 $	($436,915)	($436,915)	$0
NF rate class 1 $	($40,514)	($40,514)	$0
NF rate class 2 $	($21,815)	($21,815)	$0
HC rate class 1 $	($34,633)	($34,633)	$0
HC rate class 2 $	($28,336)	($28,336)	$0
WS rate class 1 $	($40,545)	($40,545)	$0
WS rate class 2 $	($37,427)	($37,427)	$0

HONI has demonstrated that the allocated RSVA balances by rate class are identical under both scenarios.

Rate riders for each rate class are determined by dividing the RSVA balance by the charge determinant for the rate class. Since the allocated RSVA balances by rate class are identical in both cases and the charge determinants are identical in both cases, the resulting rate riders will also be identical.

10. Appendix 4 – Detailed Criteria

Below is a detailed list of criteria used to assess compliance:

Ontario Regulations made under the *Electricity Act, 1998*.

- Ontario Regulation 429/04 Adjustment under Section 25.33 of the Act (The regulation for GA)
- Ontario Regulation 430/04 Payments re Section 25.33 of the Act (The regulation for RPP settlements)

Ontario Regulations made under the *Ontario Energy Board Act, 1998*

- Ontario Regulation 95/05 Classes of Consumers and Determination of Rates

IESO Market Rule & Guide:

- IESO Market Rule & Manual Library
- IESO Guide to Online Data Submission via the IESO Portal
    - Regulated Price Plan vs. Market Price - Variance for Conventional
    - Regulated Price Plan vs. Market Price - Variance for Smart Meters
    - Regulated Price Plan - Final Variance Settlement Amount
    - Feed-In Tariff Program – LDC
    - Feed-In Tariff Program – Embedded LDC

Accounting Procedures Handbook for Electricity Distributors, effective January 1. 2012:

1. APH Article 490 – Retail Services and Settlement Variances: Power Charges
    - Retail Settlement Variance Account for Power (RSVA Power)
    - Retail Settlement Variance Account for Global Adjustment (RSVA GA)
2. July 2012 APH FAQs, October 2009 APH FAQs and December 2005 APH FAQs

OEB STAFF INTERROGATORY #7

Reference:

(i) Application Summary, Page 20

(ii) EB-2021-0110, Exhibit G / Tab 1 / Schedule 2 / Page 30

Interrogatory:

Hydro One is requesting to dispose of the Acquired Utilities' Group 2 2020 balances in this application. By disposing of the Group 2 balances in this proceeding, Hydro One can effectively begin to dispose of the Group 2 balances to each of the Acquired Utilities' customers before rates are harmonized in 2023.

a) The Acquired Utilities' Group 2 accounts are expected to remain effective until the Acquired Utilities rebase in 2023. Per Hydro One's 2023 rebasing application, the Acquired Utilities' Group 2 accounts are proposed to be continued in 2021. Please confirm that the Group 2 accounts for the Acquired Utilities would be discontinued effective January 1, 2023. If not confirmed, please explain why not.

b) If the Acquired Utilities' 2020 Group 2 balances are approved for disposition, there will still be 2021 and 2022 balances remaining to be disposed in the future. Please explain Hydro One's plan for the disposition of the 2021 and 2022 Group 2 balances remaining for the Acquired Utilities, including when it would be requested for disposition, and whether it would be disposed to the legacy ratepayers from the Acquired Utilities or all of Hydro One's ratepayers.

c) Please explain whether Hydro One is able to forecast the Acquired Utilities' Group 2 accounts for 2021 and 2022 with reasonable accuracy.
   i. If Hydro One is able to forecast the Group 2 accounts for 2021 and 2022 with reasonable accuracy, please provide the amounts for each account, by year.
   ii. In responding to all other OEB staff interrogatories regarding any Group 2 account, please provide a response that incorporates 2021 and 2022, as applicable.
   iii. Please provide Hydro One's position on the notion of disposing these forecasted balances in the current proceeding.
   iv. Please update the DVA Continuity Schedule as needed.

Response:

a) Confirmed.

b) Hydro One does not expect material principal activity in the Acquired Utilities' Group 2 accounts for 2021 and 2022. As such, Hydro One has forecasted to the best of its ability account balances up to the end of 2022, which largely consists of interest improvement on the account balances. Hydro One concurs with this approach as suggested by OEB Staff, as forecasting all remaining balances will enable regulatory efficiency, and another proceeding regarding the disposition of audited 2021 and 2022 Group 2 balances would not be required. Given that principal activities in 2021 and 2022 are not expected to be material, any true-up adjustment to actuals would not be required. Hydro One has updated the DVA Continuity Schedules accordingly, and requests that these balances be disposed of on a final basis to the appropriate legacy ratepayers. Hydro One also requests the OEB to approve the closing of the Acquired Utilities' Group 2 accounts, with the exception of Account 1533 for Haldimand as explained in OEB Staff IR 16 part (e).

c) Please refer to response b) above.

OEB STAFF INTERROGATORY #8

Reference:

Application Summary, Page 21

Interrogatory:

It states that the DVA Continuity Schedule starts in the year in which the Acquired Utilities integrated with Hydro One.

a) Please explain if Hydro One has the opening balance of each of the Acquired Utilities' Group 2 accounts since the balance that was last approved for disposition in the respective Acquired Utility's last cost of service proceeding.

b) If so, please provide the DVA Continuity Schedules starting from the last closing principal balances that were approved for disposition.

c) If the response to part a) is no, please explain whether Hydro One has previously confirmed that the opening account balances resulting in the cumulative 2020 balances appropriately reflect the last approved closing balances for each of the Acquired Utilities.

Response:

a) Hydro One did not have the opening balance (dating back to their respective rebasing application) for each of the Acquired Utilities' Group 2 accounts at the time each of the Acquired Utilities integrated with Hydro One.

b) Please see response to part a) above.

c) Hydro One confirms that all regulatory account balances reflect the accounts brought over from the Acquired Utilities, and all transactions have since been tracked in one segment (post-amalgamation). As a result, Hydro One does not have pre-integration balances by LDC readily available, but confirms that all balances reflected in cumulative 2020 amounts have been audited, and there has been limited to no activity in the Group 2 regulatory accounts since integration.

Given the extensive period of time that has elapsed since each of the Acquired Utilities last disposed of their Group 2 balances, Hydro One would need to undertake significant efforts to produce the pre-integration allocations. Hydro One can confirm that the pre-integration balances were from each Acquired Utility's general ledger and there have been minimal

principal transactions recorded in the accounts since integration. Therefore, Hydro One does not see significant benefit in reviewing pre-integration balances. It is Hydro One's view that it is appropriate to seek final disposition of the audited 2020 balances, notwithstanding the OEB's approval of final disposition of forecasted 2022 balances as requested in response to OEB Staff IR-7 part (b).

OEB STAFF INTERROGATORY #9

Reference:

(i) Appendix E.2

(ii) EB-2021-0110 - Exhibit G / Tab 1 / Schedule 1 / p.30

Interrogatory:

In Hydro One's 2023 rebasing application as per the second reference, Hydro One noted that Hydro One Distribution's 2020 Group 2 balances requested for disposition in that application only reflects Distribution balances and do not include the Acquired Utilities' balances. In the DVA Continuity Schedule of this proceeding, there are no balances for each of the Acquired Utilities for the following generic accounts.

- Account 1592, Sub-account CCA Changes, and
- Account 1522 Pension & OPEB Forecast Accrual versus Cash Payment Differential Carrying Charge, and related control and contra-accounts

a) Please explain why there are no balances for each of the Acquired Utilities for the accounts noted above.

b) Please provide the balances for the Account 1522 accounts for each year in which it is applicable and provide any supporting calculation.

c) For Account 1592, Sub-account CCA Changes, please provide the balances for each year. Please provide a calculation of the full revenue requirement for each year from 2018 to 2022 for each of the Acquired Utilities using the following two methods:
   i. The difference in CCA between the calculations embedded in each Acquired Utility's rates and what that calculation would have been had the Accelerated Investment Incentive Program (AIIP) rules been applied in its last rebasing application (i.e. based on approved capital additions)
   ii. The difference in CCA between the amounts claimed for each Acquired Utility in 2018 to 2020 and what the claims would have been had the AIIP program not been introduced (i.e. based on actual capital additions in the year).

d) Please update the DVA Continuity Schedules, as needed.

Response:

a) Account 1592, Sub-account CCA Changes – CCA rule changes effective November 21, 2018 captures the tax impact arising from tax rules changes arising from accelerated depreciation. Accelerated depreciation effectively allows the first year CCA claim to be increased up to 3x the legacy amount for assets acquired after November 21, 2018 and in-serviced before 2027. As there were no additions embedded in the Acquired Utilities' rate filings from 2018 onwards, there would be no accelerated CCA impacts recorded in Account 1592, Sub-account CCA Changes.

Account 1522, Pension & OPEB Forecast Accrual versus Cash Payment Differential Carrying Charge – these accounts were effective January 1, 2018. As indicated in the rebasing applications of the Acquired Utilities, each of the Acquired Utilities participated in the OMERS plan.[1] The Report of the OEB Regulatory Treatment of Pension and Other Post-employment Benefits (OPEBs) Costs, Appendix C, dated September 14, 2017, states that utilities who are members of OMERs do not need to post pension entries to the account. As such, there were no entries in Account 1522 required for the Acquired Utilities with respect to Pension.

Haldimand – As noted in EB-2013-0134, Exhibit 4, Tab 2, Haldimand did not provide OPEBs to employees. There would be no entries in Account 1522 required with respect to OPEBs.

Woodstock and Norfolk – The Report of the OEB Regulatory Treatment of Pension and Other Post-employment Benefits (OPEBs) Costs, Appendix C states:

> *[U]tilities do not need to post OPEB entries if both the amount embedded in rates and recognized on the financial statements is based on the cash paid to beneficiaries for the period. This would likely be the case for smaller utilities with OPEB plans that are not material.*

Hydro One notes there is no clear distinction in Woodstock and Norfolk's rate applications on whether these Acquired Utilities recovered their OPEB expenses on a cash or accrual basis.

[1] Haldimand: EB-2013-0134, Exhibit 4, Tab 2, Schedule 4, page 4; Woodstock: EB-2010-0145, Exhibit 4, Tab 2, Schedule 4, page 7; Norfolk: EB-2011-0272, Exhibit 4, Tab 2, Schedule 4, page 1

Based on Hydro One's review of the Acquired Utilities' previous rebasing applications, Woodstock's 2011 test year OPEB premiums (as embedded in their Application[2]) were $67,102, and Norfolk's 2012 test year OPEB premiums (as embedded in their Application[3]) were $31,908. As at January 1, 2018, there were no OPEB plans remaining for these Acquired Utilities. Any applicable interest differential on amounts collected in rates and actual cash payments made ($0) would be nominal in any event had they recorded OPEBs on an accrual basis; and therefore, no updates to the DVA Continuity Schedules are proposed.

b) Not applicable. Please refer to response (a) above.

c) Please refer to response (a) above.

d) Please refer to response (a) above.

[2] EB-2010-0145, Exhibit 4, Tab 2, Schedule 4, Table 4-13
[3] EB-2011-0272, Exhibit 4, Tab 2, Schedule 4, Table 2.21

OEB STAFF INTERROGATORY #10

Reference:

Application Summary, Pages 22, 32-32

Interrogatory:

Please provide a breakdown of the costs in Norfolk and Woodstock's Account 1508, Deferred IFRS Transition Costs (debit balance of $129,745 and debit balance of $73,765, respectively), using the following table, for each year:

	Amount ($) for each year from 2011 to 2020	Reasons why the costs recorded meet the criteria of one-time IFRS administrative incremental costs
Professional accounting fees		
Professional legal fees		
Salaries, wages and benefits of staff added to support the transition to IFRS		
Associated staff training and development costs		
Costs related to system upgrades, or replacements or changes where IFRS was the major reason for conversion		
Other – describe		
Total		

Response:

As noted in the Application, this account includes one-time IFRS transition expenses incurred prior to integration with Hydro One. This is consistent with the descriptions included in the notes of the former utilities' audited financial statements. The balance in Account 1508 – Deferred IFRS Transition reflects the integration balance from September 1, 2015 (Norfolk) and September 1, 2016 (Woodstock), and since integration, there has been limited activity in the Group 2 regulatory accounts, including Account 1508 – Deferred IFRS Transition.

Hydro One does not have detailed breakdown of the costs as requested by OEB Staff above for the pre-integration and post-integration balances from 2011 to 2020, but notes that the balances reflect audited cumulative amounts.

Hydro One wishes to reiterate that it indicated in prior rate proceedings, including EB-2016-0082, EB-2017-0050 and EB-2020-0331, that it does not have readily available detailed data from the pre-integration period for each of the Acquired Utilities. In all prior proceedings noted above, the OEB has approved for disposition the pre-integration Group 1 balances for the Acquired Utilities on a final basis, and in the most recent proceeding, the OEB also approved the post-integration Group 1 balances on a final basis.

OEB STAFF INTERROGATORY #11

Reference:

(i) Application Summary, Page 23-24, 28-29,33-34

(ii)Report of the OEB, Energy Retailer Services Charges, November 29, 2018(EB-2015-0304)

Interrogatory:

For each of the Acquired Utilities' Account 1518 – RCVA Retail and Account 1548 - RCVA STR,

a) Please provide the amounts from last rebasing until 2016 for Tables 5, 7, 9, if available.

b) Please confirm that the calculations shown in Tables 5, 7 and 9 reflect updated energy retail service charges effective May 1, 2019 as well as the subsequent annual updates (in accordance with the OEB's Report in the second reference above). If not, please explain and revise the calculations to reflect the appropriate energy retail service charges.

c) For Norfolk, Table 5 shows STR revenues and costs to be both debit amounts. Please explain why both STR revenues and costs are debit amounts.

d) For Haldimand (total debit balance of $341,435), Table 7 shows STR revenues and costs, Retail revenues and costs to all be debit amounts. Please explain why both revenue and costs are debit amounts.
   i. The balance in the two accounts would have been accumulated since 2013 (Haldimand last rebased in 2014 and disposed 2012 balances). From 2013 to 2016, the two accounts accumulated a balance of $320,120 (i.e. the total 2016 ending principal balance is $320,120). Total closing principal balance in 2020 is $321,065. Annual transactions from 2017 to 2020 have been below $15k (debits or credits) per Table 7. Please explain the significant balance accumulated from 2013 to 2016, as compared to annual transactions of under $15k from 2017 to 2020.

Response:

a) As noted in response to OEB Staff IR-6, Hydro One does not have detailed principal transaction data readily available for the pre-integration balances. As a result, Hydro One is unable to provide the amounts from last rebasing until 2016 for Tables 5, 7 and 9 with respect to Accounts 1518 and 1548.

b) Confirmed.

c) Table 5 in the Application shows STR revenues and costs to be both debit amounts because the table shows RCVA balances on a Life to Date basis by each year end. As shown below, Norfolk's STR revenues and costs for in-year activities (transactions) are as follows:

	Revenue	Cost
In year activties		
2017	(209)	7,589
2018	(141)	5,610
2019	452	(6,583)
2020	(669)	4,598

Please note that 2019 in-year activities included OEB approved dispositions.

d) Table 7 in the Application shows STR revenues and costs to be both debit amounts because the table shows RCVA balances on a Life to Date basis by each year end. As shown below, Haldimand's STR revenues and costs in-year activities (transactions) are as follows:

	Revenue	Cost
In year activties		
2017	(197)	7,183
2018	(159)	6,328
2019	493	(7,197)
2020	(746)	5,137

Please note that 2019 in-year activities included OEB approved dispositions.

i. Since Haldimand integrated with Hydro One in 2016, Hydro One had no way of tracking RCVA related activities on the customer account level by each Acquired Utility. Therefore, Hydro One adopted a high-level allocation methodology based on customer count to allocate the RCVA STR revenues and costs among the Acquired Utilities. This is reasonable as revenues and costs are collected and incurred based on service volume. Hydro One has no visibility to Haldimand's transactions prior to the integration period,

namely for the 2013 to 2016 period in question. Although Hydro One cannot comment on the reason for the increase in the balance from 2013 to 2016, the decrease in annual transactions from the 2017 to 2020 period is directionally consistent with the doubling of the retail service charges effective May 1, 2019.

As noted in response to OEB Staff IR 10, Hydro One wishes to reiterate that it indicated in prior proceedings, including EB-2016-0082, EB-2017-0050 and EB-2020-0331, that it does not have readily available detailed data from the pre-integration period for each of the Acquired Utilities. In all prior proceedings noted above, the OEB has approved for disposition the pre-integration Group 1 balances for the Acquired Utilities on a final basis, and in the most recent proceeding, the OEB also approved the post-integration Group 1 balances on a final basis.

OEB STAFF INTERROGATORY #12

Reference:

Application Summary, Page 25

Interrogatory:

Regarding Norfolk's Account 1533 – Distribution Generation – Other Costs (debit balance of $379,263), the 2012 settlement proposal noted that parties agreed that Norfolk would track any expenditures in the Green Energy Act (GEA) related deferral account when expenditures are better known, and will be expected to establish the prudence of its expenditures at a later date.

a) Please provide a breakdown of the costs incurred by nature/type of cost and discuss the prudence of the costs incurred.

b) Please confirm that the costs incurred are associated with the expansions to connect renewable generation facilities and renewable enabling improvements, both as defined in the Distribution System Code, and are therefore, eligible to be recorded in the account as per the Accounting Procedures Handbook. If not confirmed, please explain.

c) For any capital costs incurred, please confirm that the amounts included in the account are the associated revenue requirement impacts. If not, please explain why not, and quantify the revenue requirement impacts.

Response:

a) Hydro One is unable to provide a breakdown of costs incurred in Account 1533 – Distribution Generation – Other Costs, as it does not have any detailed data for the pre-integration period to comment on the costs incurred. Hydro One respectively notes that the balance in this account reflects the integration balance from September 1, 2016. As stated in the Application, since integration, there has been limited activity in the Group 2 regulatory accounts, and so there have been no additional costs incurred beyond what was incurred by Norfolk for its Green Energy Plan pre-integration.

b) Hydro One notes that Norfolk confirmed through interrogatories of its previous rebasing application that the estimated expenditures to be recorded in the funding adder would pertain to completing expansion and enabling projects to accommodate microFIT and FIT

generation.[1] As Norfolk's application for the funding adder met the eligibility requirements for approval of the funding adder at that time,[2] it is reasonable to assume that the same types of project costs incurred by Norfolk since its last rebasing are appropriate reflected in this account balance. On this basis, Hydro One believes that the costs incurred by Norfolk during the pre-integration years would have been consistent with the OEB's expectations as set out in the Accounting Procedures Handbook.

c) Amounts recorded in Account 1533 – Distribution Generation – Other Costs, reflect audited balances that were brought forward at integration. Hydro One does not have any records from Norfolk to comment on the revenue requirement impact from any capital costs that may have been incurred in this account.

As noted in response to OEB staff 10, Hydro One wishes to reiterate that it indicated in prior proceedings, including EB-2016-0082, EB-2017-0050 and EB-2020-0331, that it does not have readily available detailed data from the pre-integration period for each of the Acquired Utilities. In all prior proceedings noted above, the OEB has approved for disposition the pre-integration Group 1 balances for the Acquired Utilities on a final basis, and in the most recent proceeding, the OEB also approved the post-integration Group 1 balances on a final basis.

[1] EB-2011-0272, Responses to OEB Staff Interrogatories #20, 33 to 36, November 28, 2011
[2] EB-2011-0272, Proposed Settlement Agreement, page 46

OEB STAFF INTERROGATORY #13

Reference:

Application Summary, Pages 25, 31, 36

Interrogatory:

For each of the Acquired Utilities' Account 2405 – Revenue Difference Account – Pole Attachment Charge Variance Account, please provide the supporting calculation of the balances for each year from 2018 to 2020, and forecast the calculation for 2021 and 2022, if it can be reasonably done so.

Response:

Table A indicates the revenues relating to the pole attachment charges at the original rate.
Table B indicates the revenues relating to the pole attachment charges at the new rates.
Table C indicates the difference between Tables A and B, and what should be recorded into the variance account.
Table D reflects the activity actually recorded in the account in each year as per the DVA Continuity Schedule.

Note that there are slight differences from 2018-2020 in Table C and Table D. These differences were identified and correction entries were made to the regulatory account to true up the life-to-date balances as at the end of 2020. The life to date balance as at the end of 2020 are correct for each Acquired Utility and appropriately reflected in the disposition request.

Table A - Billed at old rates - $22.35

	2018	2019	2020	Forecasted 2021	Forecasted 2022
Norfolk	$ 95,340	$ 88,702	$ 89,959	$ 92,646	$ 91,663
Haldimand	$ 123,981	$ 133,530	$ 149,188	$ 133,821	$ 133,821
Woodstock	$ 55,481	$ 52,714	$ 57,013	$ 53,809	$ 52,021

Table B - Billed at new rates

	$28.09 from September 1, 2018 until December 31, 2018	$43.63	$44.50 for Norfolk $43.63 for Haldimand and Woodstock	$44.50	$44.50
	2018	2019	2020	Forecasted 2021	Forecasted 2022
Norfolk	$ 103,283	$ 173,157	$ 176,565	$ 184,464	$ 182,506
Haldimand	$ 131,008	$ 217,596	$ 280,248	$ 266,444	$ 266,444
Woodstock	$ 58,982	$ 95,369	$ 104,442	$ 102,789	$ 102,789

Table C = Table A minus Table B

	2018	2019	2020	Total 2018-2020	Forecasted 2021	Forecasted 2022
Norfolk	$ (7,943)	$ (84,455)	$ (86,607)	$ (179,005)	$ (91,818)	$ (90,843)
Haldimand	$ (7,027)	$ (84,066)	$ (131,061)	$ (222,153)	$ (132,623)	$ (132,623)
Woodstock	$ (3,501)	$ (42,655)	$ (47,429)	$ (93,585)	$ (48,980)	$ (50,768)
	$ (18,471)	$ (211,176)	$ (265,096)	$ (494,743)	$ (273,421)	$ (274,234)

Table D - Difference recorded in variance account - as per DVA Continuity Schedue

	2018	2019	2020	Total 2018-2020	Forecasted 2021	Forecasted 2022
Norfolk	$ (7,977)	$ (67,253)	$ (103,774)	$ (179,004)	$ (91,818)	$ (90,843)
Haldimand	$ (7,069)	$ (62,717)	$ (152,367)	$ (222,153)	$ (132,623)	$ (132,623)
Woodstock	$ (3,519)	$ (33,662)	$ (56,404)	$ (93,585)	$ (48,980)	$ (50,768)
	$ (18,565)	$ (163,632)	$ (312,545)	$ (494,742)	$ (273,421)	$ (274,234)

OEB STAFF INTERROGATORY #14

Reference:

Application Summary, Page 27

Interrogatory:

Hydro One is requesting Haldimand's Account 1508, Sub-account Energy East Consultation Costs (debit balance of $5,575) for disposition. In the March 2015 Accounting Procedures Handbook Guidance, it states that "Materiality thresholds apply to the amounts recorded." Please explain how the amount in the account meets the materiality threshold. Please revise the DVA Continuity Schedule to remove the balance requested for disposition.

Response:

Upon further review, Hydro One has removed this balance from the amount requested for disposition. The DVA continuity schedule has been updated and has been filed in response to OEB Staff IR-20.

OEB STAFF INTERROGATORY #15

Reference:

Application Summary, Page 31

Interrogatory:

Hydro One is requesting Haldimand's Account 1576 - Accounting Changes Under CGAAP Balance (debit balance of $5,493) 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. Please explain why Hydro One is requesting disposition of this residual balance. Please revise the DVA Continuity Schedule to remove the balance requested for disposition.

Response:

Although there is currently no explicit guidance on the disposition of a residual balance after the balance was previously disposed, Hydro One believes that bringing forth a residual balance for disposition is generally consistent with the OEB's approach of disposing of residual balances in Account 1595 and in general, Rate Riders. Hydro One is not aware of generic materiality thresholds as it pertains to account disposition requests.

As requested in the Interrogatory, Hydro One has removed this balance. The DVA Continuity Schedule has been updated and has been filed in response to OEB Staff IR-20. However, Hydro One invites the OEB to clarify its position on disposition of residual Rider balances and associated materiality thresholds.

OEB STAFF INTERROGATORY #16

Reference:

(i) Appendix E.2

(ii) EB-2021-0110, Exhibit G / Tab 1 / Schedule 2 / Page 31

(iii) EB-2017-0370, Decision and Order, February 1, 2018

Interrogatory:

In the DVA Continuity Schedule for Haldimand, Account 1533 - Distribution Generation – Other – Provincial – Deferral Account has a credit balance of $1,084,440, which is not requested for disposition. In Haldimand's tariff, there is also a "Funding Adder for Renewable Energy Generation - in effect until the effective date of the next cost of service based rate order". In the OEB's decision and order for 2018 renewable generation connection rate protection compensation amount, the OEB approved the discontinuation of the provincial funding for eligible investments for Haldimand. In this proceeding, Hydro One stated that it would record costs for the provincial portion of eligible investments in Account 1533 until such time as the credit is expected to be fully depleted.

a) With consideration of the above, please explain Hydro One's treatment of Haldimand's renewable energy generation.

b) Please explain how the funding adder and provincial funding amounts collected have been reflected in Haldimand's Group 2 accounts.

c) Please explain what the amount in Account 1533 represents, and provide a breakdown by type/nature of amount making up the balance.

d) Please explain Hydro One's plan for the prudence review and disposition of this account, including why it is not requested for disposition in this application.

e) In Hydro One's 2023 rebasing application, this account was not listed as being proposed to continue. Please explain why not.

Response:

a) This deferral account captures the revenue requirement associated with the in-servicing of certain Distributed Generation assets.

b) The funding adder for renewable energy generation, as detailed in Schedule A to the Decision and Rate Order for EB-2020-0031, lowers the balance in this account while the revenue requirement associated with the in-servicing of Distributed Generation assets increases the balance in this account.

c) Please see the table below:

	2016	2017	2018	2019	2020
Account 1533 - Integrated amount	-$328,100				
Funding Adder	-$139,468	-$608,257	-$55,952	-$55,292	-$59,060
Revenue Requirement Earned		$91,609	$46,372	$48,383	$48,708
Difference (entry into deferral account)	-$467,568	-$516,647	-$9,580	-$6,910	-$10,352

d) Hydro One is not requesting disposition of this balance because the Funding Adder amounts have been greater than the revenue requirement associated with the in-servicing of Distributed Generation assets. Once the credit balance in this account has been fully depleted, Hydro One will include a plan to file a prudence review required for future funding.

e) In EB-2021-0110, Hydro One Distribution proposed the continuation of all Group 2 accounts for the Acquired Utilities, but clarifies that Hydro One is requesting to discontinue all Group 2 accounts in the current proceeding (in the event the proposal to dispose of 2021 and 2022 balances on a forecast basis as further discussed in response to OEB Staff IR-7 (b) is accepted) with the exception of Account 1533 for Haldimand, as the account balance has not been fully drawn down. Hydro One will clarify this matter in the interrogatories of the EB-2021-0110 proceeding.

OEB STAFF INTERROGATORY #17

Reference:

(i) Application Summary, p.35

(ii) EB-2010-0145, Exhibit 9 / Tab 4 / Schedule 4 / Page 1

(iii) December 2010, Accounting Procedures Handbook (APH) Frequently Asked Questions (FAQ)

Interrogatory:

Hydro One is requesting Woodstock's Account 1536 – Smart Grid Funding Adder Deferral Account (debit balance of $424,379) for disposition. Per the December 2010 APH FAQ #16,

- Account 1536 is to record revenue collected through a funding adder approved by the OEB related to smart grid development
- Account 1534 – Smart Grid Capital Deferral Account is to record investments related to smart grid demonstration projects and the cost of smart grid investments that are undertaken as part of a project to accommodate renewable generation
- Account 1535 – Smart Grid OM&A Deferral Account is to record operating, maintenance, amortization and administrative expenses directly related to the specific smart grid development activities. These activities are smart grid demonstration projects, smart grid studies and planning exercises, and smart grid education and training.

a) Please indicate how long Woodstock's Smart Grid Funding Adder was effective for and how much was collected from the funding adder.

b) Please confirm that the Account 1536 balance includes costs incurred relating to smart grid, as well as the funding adder collected. If not confirmed, please explain why Account 1536 is in a debit position.

c) Please provide the calculation of the principal balance in Account 1536. If there are any capital or operating costs recorded in Account 1536, please show the revenue requirement calculation relating to smart meter costs incurred after 2009, offset by the adder collected.

d) Please confirm that any costs reflected in Account 1536 meet the definition of eligible costs as defined for Accounts 1534 and 1536 per the APH FAQ. If not, please remove the amounts associated with these costs from the account.

e) As noted by Hydro One, the OEB's decision on smart meters in Woodstock's 2011 cost of service proceeding indicated that the OEB expected distributors to file for a final prudence review, after the availability of audited costs.
   i. Please discuss the prudence of the costs incurred, including a comparison of post-2009 capital and OM&A costs per meter to historical capital and OM&A costs per meter.
   ii. Per the second reference, the funding adder which was approved was calculated to recover the 2010 smart meter costs. Please explain why there is a significant principal balance in the account even though a funding adder was collected by Woodstock.

Response:

a) Hydro One can confirm that Woodstock's smart grid funding adder was effective on May 1, 2011.[1] Based on a preliminary review of the record, it appears the smart grid funding adder was charged to customers up until May 1, 2012, as this funding adder was no longer included on the approved charges on Woodstock's Tariff of Rates and Charges from 2012 to 2016, prior to integrating with Hydro One. As a result, Hydro One cannot confirm how long the smart grid funder adder was in effect, and the resulting revenues collected from the funder adder, primarily because Hydro One only had visibility to a total principal balance of $383K in Account 1536 brought forth at integration.

b) Hydro One does not have detailed principal transaction data for the pre-integration period to comment on the specifics of the costs incurred leading to the debit position in this account. The $383K principal balance in Account 1576 reflects the integration balance from September 1, 2016, with interest improvement applied on this account since integration. Detailed transactional information about this account balance was not provided to Hydro One at that time.

c) Hydro One is unable to provide the requested calculations for the balance in Account 1536. As noted in part (b) above, there has been no principal activity in this account since 2016, except for interest improvement on the balance. As this balance relates to amounts from the pre-integration period, Hydro One cannot confirm the revenue requirement calculation relating to smart meter costs incurred after 2009, and how much was offset by the adder revenues collected.

[1] EB-2010-0145, Rate Order, May 6, 2011

d) Hydro One can confirm that Woodstock's application for the smart grid funding adder met the eligibility requirements for approval of the funding adder at that time.[2] At the time of integration, Woodstock's 2015 audited financial statements as of Oct. 30, 2015 indicated that smart grid development costs undertaken as part of a project to accommodate renewable generation includes those related to smart grid demonstration projects, studies and planning exercises, and education and training. On this basis, it is Hydro One's understanding that the costs reflected in Account 1536 meet the definition of eligible costs as defined in the Accounting Procedures Handbook.

e) Hydro One understands the requirement to substantiate the prudence of costs incurred, but notes that it does not have audited costs readily available based on the balance brought forward at integration.

   i. Please see response to part (b) above.

   ii. Hydro One does not readily available detailed information to explain the significant principal balance in this account even though a funding adder was collected by Woodstock. Notwithstanding the above, the significant debit position in this account signifies that there was notionally an under-collection in rates based on activities that Woodstock would have prudently undertaken to meet O. Reg. 425/06 and/or O. Reg. 393/07 for the successful deployment of smart meters in its service territory.

As noted in response to OEB staff IR 10, Hydro One wishes to reiterate that it indicated in prior rate proceedings, including EB-2016-0082, EB-2017-0050 and EB-2020-0331, that it does not have readily available detailed data from the pre-integration period for each of the Acquired Utilities. In all prior proceedings noted above, the OEB has approved for disposition the pre-integration Group 1 balances for the Acquired Utilities on a final basis, and in the most recent proceeding, the OEB also approved the post-integration Group 1 balances on a final basis.

[2] EB-2010-0145, Decision and Order, April 20, 2011

OEB STAFF INTERROGATORY #18

Reference:

(i) Application Summary, p.37

(ii) Appendix E.2

(iii) EB-2011-0207, Decision and Order, March 22, 2012

Interrogatory:

Hydro One is requesting Woodstock's Account 1508, Sub-account Incremental Capital Module (ICM) (debit balance of $187,825) for disposition.

a) Please indicate the actual ICM costs incurred.

b) Please provide the annual calculation making up the balance in the sub-account, showing the calculation of the annual revenue requirement recalculated using actual costs and the revenues collected each year.

c) It states that the balance in the sub-account is net of annual drawdowns related to the amortization of Woodstock's capital contribution. Please clarify how this is done in the calculation of the sub-account balance provided in part b) above.

d) In reference to the revenue requirement calculation noted in part b) above, please confirm that the 2012 revenue requirement represents the full-year revenue requirement as the half-year rule did not apply to Woodstock's ICM per the decision and order that approved the ICM.

e) Please confirm that the ICM assets are being added to Hydro One's rate base in its 2023 rebasing application and that a full year's depreciation was recorded in the first-year the ICM assets were placed in service. If not confirmed, please explain the basis in which depreciation was recorded and explain why a full year's depreciation was not used.

Response:

a) The actual ICM costs as per the regulatory asset that was brought over as at the date of integration was $1.4M.

b) No additional costs have been incurred since integration. The principal activity in the DVA Continuity Schedule represents the Rate Rider amounts for recovery of incremental capital.[1] The regulatory asset is being drawn down as these Rate Rider amounts are received to compensate Woodstock for their capital contribution to Hydro One Networks for the Commerce Way Transmission Station, and the purchase/installation of Woodstock owned wholesale metering assets for this transmission station.

Hydro One would like to clarify that the balance in this account does not need to be disposed, as it is expected that the regulatory account balance as at year-end of 2020 would be drawn down by the ICM rider collected by the end of 2021. As such, Hydro One requests that the OEB to discontinue the ICM rate rider as that funding is no longer required. The DVA Continuity schedule has been updated accordingly to show that this account balance is not being disposed of.

c) Please refer to response (b).

d) Hydro One cannot confirm as 2012 was prior to the acquisition of Woodstock. However, Hydro One notes that the OEB accepted that the half year rule did not apply in EB-2011-0207, Decision and Order, page 16.

e) The ICM assets are included in Hydro One's rate base in its 2023 rebasing application. As Woodstock's ICM assets were placed in-service prior to the integration with Hydro One, Hydro One cannot confirm whether a full year's depreciation was recorded in the first year that Woodstock's ICM assets were placed in-service, as noted in part (d) above. However, in 2023, Hydro One can confirm that a full year depreciation has been applied to the ICM asset, which is now part of Hydro One's rate base.

[1] EB-2014-0213 – letter dated April 30, 2015

OEB STAFF INTERROGATORY #19

Reference:

Appendix G.1

Interrogatory:

Hydro One is requesting Woodstock's Account 1576 - Accounting Changes Under CGAAP Balance (credit balance of $2,230,892) for disposition.

a) The balance includes a return component of a credit of $106,233, based on a 5% weighted average cost of capital (WACC) per the OEB's 2021 cost of capital parameters. Woodstock's 2011 approved WACC was 6.74%. 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 have been used to calculate the return component for Account 1576. Please explain why Hydro One has applied the OEB's 2021 WACC instead of Woodstock's last approved WACC to Account 1576.

b) It states that Woodstock has followed the Chapter 2 Filing Requirements for 2018 rebasers. Per the noted filing requirements, please identify and quantify the drivers of the change in closing net PP&E.

c) In Appendix G, Note 5 states that differences due to the adoption of MIFRS is to be recorded in Account 1575. Hydro One has noted this is not applicable to Hydro One. Please explain whether this account is not applicable because there was no differences identified upon adoption of IFRS, or for other reasons. If for other reasons, please explain.

Response:

a) Hydro One originally applied the OEB's 2021 WACC of 5% to the Account 1576 balance, consistent with the OEB's decision in EB-2020-0041 to apply the 2021 WACC on the base rate adjustment to Newmarket-Tay's Account 1576 balance. The OEB noted that the 2021 WACC parameter was applicable in that case, as the adjustment will apply to rates going forward.[1] As noted in the Newmarket-Tay decision, the OEB did not find the Whitby settlement to be determinative of, or applicable to, the cost of capital parameters for base rate adjustment to NTRZ.[2] Since the OEB's update to the 2022 cost of capital parameters issued on October 28, 2021, Hydro One has updated the return component on Woodstock's

[1] EB-2020-0041, Decision and Order, April 22, 2021, page 25
[2] Ibid

Account 1576 balance using a WACC of 5.47%, and included the updated account balance for disposition in the DVA continuity. A revised version of Appendix 2-EB has been filed in response to OEB Staff IR-20.

b) Since 2012, Woodstock recorded the financial differences arising from accounting changes as they relate to PP&E in the OEB variance account, "Accounting Changes under CGAAP". These PP&E variances have been included in Woodstock's financial statements as a regulatory liability under MIFRS regulatory adjustment. At time of integration, Woodstock supplied Hydro One with the below chart, which formed the basis for the balance in Account 1576. Woodstock recognized a liability of $603,173 (in 2012), $507,474 (in 2013), $509,780 (in 2014), and $504,233 (in 2015), bringing the total liability to $2,124,659 as at October 30, 2015. As shown in the chart below, differences in depreciation expense are the primary drivers of the change in net PP&E which can be based on the following factors:

- Change in service life of assets that have reduced depreciation expense due to longer useful lives. In Woodstock's first year of transition to MIFRS in 2012, the 2012 year-end financial statements filed in its Application in the MAADs proceeding (EB-2014-0213) noted that Woodstock changed its estimate of useful lives of depreciable assets effective Jan. 1, 2012 following a comprehensive third party review, whose changes have been applied prospectively and had the effect of decreasing depreciation expense.

Asset	Rate
Buildings and distribution system	15-75 years
Organization expense	40 years
Machinery and equipment	3-15 years
Other plant and equipment	20 years

Source: EB-2014-0213, Notes to Financial Statements, year ended Dec. 31, 2012, page 10

Impact of OEB Adjustment for Accounting Changes					
	2011 Actual	**2012**	**2013**	**2014**	**2015**
PP&E Values Assuming "Previous CGAAP Accounting Policies continued					
Opening net PP&E	$21,051,422	$ 22,893,797	$23,242,449	$ 24,084,198	$ 25,557,977
Additions	$ 3,945,551	$ 2,490,965	$ 3,293,488	$ 3,763,967	$ 2,384,004
Depreciation	$ (2,103,177)	$ (2,142,312)	$ (2,451,740)	$ (2,290,187)	$ (1,865,068)
Closing net PP&E	$22,893,797	$ 23,242,449	$24,084,198	$ 25,557,977	$ 26,076,913
PP&E Values Assuming Accounting Changes under CGAAP					
Opening net PP&E	$21,051,422	$ 22,893,797	$23,845,622	$ 25,194,844	$ 27,178,403
Additions	$ 3,945,551	$ 2,410,393	$ 3,200,968	$ 3,682,486	$ 2,333,027
Depreciation (MIFRS based)	$ (2,103,177)	$ (1,458,568)	$ (1,851,746)	$ (1,698,927)	$ (1,309,858)
Closing net PP&E	$22,893,797	$ 23,845,622	$25,194,844	$ 27,178,403	$ 28,201,572
Difference in Closing net PP&E "Previous" CGAAP vs "Changed" CGAAP	**$ -**	**$ (603,173)**	**$ (1,110,646)**	**$ (1,620,426)**	**$ (2,124,658)**
OEB Variance Account 1576					
Opening Balance	$ -	$ -	$ (603,173)	$ (1,110,646)	$ (1,620,426)
Amount added Annually	$ -	$ (603,173)	$ (507,474)	$ (509,780)	$ (504,232)
Closing Balance in Variance Account	**$ -**	**$ (603,173)**	**$ (1,110,646)**	**$ (1,620,426)**	**$ (2,124,658)**
Change in Additions		$ 80,572	$ 92,520	$ 81,481	$ 50,977
Change in Depreciation		$ (683,745)	$ (599,994)	$ (591,260)	$ (555,210)
Annual Change		**$ (603,173)**	**$ (507,474)**	**$ (509,780)**	**$ (504,233)**

As noted in response to OEB Staff IR 10, Hydro One wishes to reiterate that it indicated in prior rate proceedings, including EB-2016-0082, EB-2017-0050 and EB-2020-0331, that it does not have readily available detailed data from the pre-integration period for each of the Acquired Utilities. In all prior proceedings noted above, the OEB has approved for disposition the pre-integration Group 1 balances for the Acquired Utilities on a final basis, and in the most recent proceeding, the OEB also approved the post-integration Group 1 balances on a final basis.

c) "Not applicable to Hydro One" was included with Note 5 of Appendix 2-EB to indicate that there are no differences identified in PPE, beyond 2016, once Woodstock was granted approval to utilize US GAAP for financial reporting purposes in EB-2014-0213 upon integration with Hydro One.

OEB STAFF INTERROGATORY #20

Interrogatory:

Please file all updated Excel files with Hydro One's interrogatory responses.

Response:

Hydro One has provided the following additional excel attachments (in addition to Attachments 1-3 provided in OEB Staff IR-4) in response to OEB Staff interrogatories:

- I-01-20_Norfolk RGM (Attachment 4)
- I-01-20_Haldimand RGM (Attachment 5)
- I-01-20_Woodstock RGM (Attachment 6)
- I-01-20_LDC Gr 2 DVA (Attachment 7)
- I-01-20_Woodstock App 2-EB (Attachment 8)

OEB STAFF INTERROGATORY #20

UPDATED 2022 IRM RATE GENERATOR MODEL – NORFOLK

This exhibit has been filed separately in MS Excel format.

OEB STAFF INTERROGATORY #20

UPDATED 2022 IRM RATE GENERATOR MODEL - HALDIMAND

This exhibit has been filed separately in MS Excel format.

OEB STAFF INTERROGATORY #20

UPDATED 2022 IRM RATE GENERATOR MODEL - WOODSTOCK

This exhibit has been filed separately in MS Excel format.

OEB STAFF INTERROGATORY #20

LDC CONTINUITY SCHEDULES

This exhibit has been filed separately in MS Excel format.

OEB STAFF INTERROGATORY #20

ACCOUNT 1576

This exhibit has been filed separately in MS Excel format.