



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

BY EMAIL

November 19, 2021

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

Dear Ms. Long:

**Re: Hydro One Networks Inc. (Hydro One)
Application for 2022 Distribution Rates for the Areas formerly served by
Orillia Power Distribution Corporation and Peterborough Distribution Inc.
OEB File Number: EB-2021-0050**

Please find attached OEB staff's submission in the above referenced proceeding,
pursuant to Procedural Order No. 1.

Yours truly,

Birgit M. Armstrong

Birgit Armstrong
Project Advisor, Incentive Rate-Setting & Regulatory Accounting

Encl.

cc: All parties in EB-2021-0050



ONTARIO ENERGY BOARD

STAFF SUBMISSION

Hydro One Networks Inc.

2022 Electricity Distribution Rates

EB-2021-0050

November 19, 2021

Summary of Submission

Hydro One Networks Inc. (Hydro One) filed an application with the OEB,¹ for the areas formerly served by Orillia Power Distribution Corporation (Orillia Power) and Peterborough Distribution Inc. (Peterborough Distribution), seeking approval to change rates, effective January 1, 2022.

Hydro One Inc., Hydro One's parent company, previously filed Mergers, Acquisitions, Amalgamations and Divestitures (MAADs) applications with the OEB. The OEB approved the applications in 2020 (MAADs Decisions), which allowed Hydro One Inc. to purchase all of the issued and outstanding shares of Orillia Power, and to purchase the distribution system of the amalgamated corporation of Peterborough Distribution and Peterborough Utilities Services Inc. and subsequently transfer the assets and liabilities of the electricity businesses to Hydro One.²

OEB staff notes that the customers of both former service areas are currently in a ten-year deferred rebasing period pursuant to the terms of the MAADs Decisions. The MAADs Decisions further provided that all base delivery rates would be subject to a 1% reduction through an ongoing rate rider during years one to five of the deferred rebasing period.

Hydro One's application includes:

1. Updates to the Retail Transmission Service Rates (RTSR) to reflect the approved Uniform Transmission Rates and Hydro One's sub-transmission RTSRs.
2. A proposal for Group 1 deferral and variance account balances (for which no disposition is requested)
3. Group 2 deferral and variance account balances, of which the following accounts are proposed for disposition:
 - Orillia rate zone – A net credit balance of \$4,108,802 disposed over a two-year period for the combined Account 1575 and 1576 balances
 - Peterborough rate zone – A debit balance of \$9,998 over a one-year period for Account 1575 (of which disposition was subsequently withdrawn, in response to interrogatories)

¹ Filed under section 78 of the *Ontario Energy Board Act, 1998* on August 27, 2021

² Decision and Order EB-2018-0270 and Decision and Order EB-2018-0242, both Decision and Order were issued on April 30, 2020

OEB staff supports the proposed RTSR adjustments.

OEB staff notes that Hydro One is not requesting the disposition of its Group 1 DVA account balances due to the transfer of customer data that is still pending integration into Hydro One's systems (both rate zones) as well as a pending audit for the Peterborough rate zone. OEB staff supports Hydro One's request to defer disposition of its Group 1 accounts for the reasons noted above.

There are various Group 2 balances (other than accounts 1575 and 1576), for each of the Peterborough and Orillia rate zones, that Hydro One has not presented for the OEB's consideration in this proceeding as the MAADs Decisions only directed Hydro One to bring forth Accounts 1575 and 1576 for disposition within 12 months of transaction close for each rate zone. OEB staff submits that Hydro One could consider bringing forth these balances, as part of its next annual rate application (for these rate zones), similar to what it has done with accounts 1575 and 1576, rather than waiting until the end of the current deferred rebasing period.

With respect to the Account 1575 and 1576 balances, for the Orillia rate zone, OEB staff submits that Hydro One should apply its own weighted average cost of capital (WACC) most recently approved by the OEB, on the balances of those accounts, instead of the OEB's 2022 cost of capital parameters. For the Peterborough rate zone, OEB staff supports Hydro One's withdrawal of its request to dispose the residual balance in Account 1575.

1. Retail Transmission Service Rates

Background

Hydro One's Orillia rate zone is fully embedded within its host distributor's (Hydro One Network Inc.) distribution system, while the Peterborough rate zone is partially embedded. Hydro One has requested an update to its RTSRs for each rate zone to recover the wholesale transmission rates charged by the Independent Electricity System Operator (IESO) and host distributor RTSRs charged by Hydro One Networks Inc.³ At the time of this submission, the 2022 Uniform Transmission Rates (UTRs) and the 2022 host RTSRs have not been approved by the OEB. Hydro One requested that

³ Manager's Summary, Page 17

OEB staff update the 2022 Rate Generator models after the 2022 UTRs and host RTSRs are approved.

Submission

OEB staff submits that it will make the appropriate updates to the 2022 Rate Generator models, provided the OEB approves the 2022 UTRs and/or host distributor RTSRs, effective January 1, 2022, following the close of record in this proceeding and before the issuance of a decision and order in this proceeding. If the OEB does not approve the 2022 UTRs and/or host distributor RTSRs prior to the issuance of a decision and order in this proceeding, Accounts 1584 RSVA – Retail Transmission Network Charge and 1586 Retail Transmission Connection Charge will capture these differences.

2. Group 1 Deferral and Variance Accounts

Background

Both Orillia and Peterborough rate zones' 2016 Group 1 balances were last approved for disposition, on a final basis, in their respective 2018 rate applications.⁴ In the decision and rate order for 2019 rates for the former Peterborough Distribution, the OEB noted concerns with the volume and quantum of adjustments to the Account 1588 – RSVA Power and Account 1589 – RSVA GA balances during the course of that proceeding.⁵ The OEB found that an audit of the December 31, 2017 Accounts 1588 and 1589 balances was necessary.

In the current proceeding, Hydro One proposes to defer the disposition of Group 1 balances for the Orillia (debit balance of \$1,813,130 as of December 31, 2020)⁶ and Peterborough (debit balance of \$2,066,556 as of December 31, 2020)⁷ rate zones. Hydro One's reasons for the proposed deferral are:

- i) customer data is required for the rate rider calculations, which was in the process of being transferred to Hydro One's systems, and

⁴ Orillia rate zone – EB-2017-0264 and Peterborough rate zone -EB-2017-0266

⁵ EB-2018-0067, Decision and Order, Pages 5-7

⁶ Including interest project to December 31, 2021

⁷ Ibid

-
- ii) Peterborough rate zone's Group 1 balances remain subject to an audit, and Hydro One will further review the balances prior to requesting disposition.

Submission

OEB staff does not take issue with the proposal to defer disposition of Group 1 balances for the Orillia and Peterborough rate zones, for the reasons Hydro One provided.

3. Group 2 Disposition Approach

Background

The 2020 Group 2 balances (excluding Account 1575 - IFRS-CGAAP Transitional PP&E Amounts and Account 1576 - Accounting Changes Under CGAAP) for the Orillia and Peterborough rate zones total a debit amount of \$773,709 and a debit amount of \$541,431, respectively.⁸ Hydro One indicated that it plans to request disposition of these Group 2 accounts at its next rebasing application. Hydro One further stated that if the balances become material before the next rebasing proceeding, it will propose disposition at the relevant annual update.⁹

Submission

OEB staff notes that some of the Group 2 balances for the Orillia and Peterborough rate zones started accumulating in 2009 and 2012, respectively.¹⁰ The OEB has approved a ten-year rebasing period for the Orillia and Peterborough rate zones, expiring July 31, 2030 and August 31, 2030, respectively. OEB staff is of the view that there may be intergenerational equity issues if certain Group 2 account balances are allowed to accumulate over an approximate twenty-year period before disposition at the next rebasing application. Therefore, OEB staff submits that Hydro One could consider bringing forth the Group 2 balances that have accumulated for an extended period of time, for review and potential disposition in its next annual rate application (for these

⁸ Including interest to December 31, 2021 per pre-filed evidence Appendix D2 for Orillia and Appendix E2 for Peterborough.

⁹ IRR OEB Staff #3

¹⁰ The former Orillia Power Distribution Corporation last rebased in 2010 (EB-2009-0273) and the former Peterborough Distribution Inc last rebased in 2013 (EB-2012-0160)

rate zones), similar to what it has done with accounts 1575 and 1576, rather than waiting until the end of the current deferred rebasing period.

4. Account 1575 and 1576

i) Orillia Rate Zone Account 1575 and 1576

Background

Hydro One is proposing to dispose a debit balance of \$14,304 for Account 1575¹¹ and a credit balance of \$4,140,935 for Account 1576¹² for the Orillia rate zone, over a two-year period in accordance with the direction provided in the related MAADs decision. The Account 1576 balance represents the balance as at August 30, 2020, as the MAADs transaction between Hydro One and the former Orillia Power closed on September 1, 2020. Hydro One confirmed that Account 1576 will continue to operate from the date the MAADs transaction closed until the end of the deferred rebasing period, along with the new Account 1576 – Accounting Policy Changes established in the MAADs proceeding.¹³ The new Account 1576 captures the impact of any depreciation and capitalization policy changes on property, plant, and equipment resulting from Orillia rate zone's transition from modified International Financial Reporting Standards to US GAAP.

The Account 1575 and 1576 balances include a return component applied to the principal balance, based on the OEB's 2022 WACC of 5.47%. Hydro One indicated that it applied the OEB's 2022 WACC consistent with the OEB's decision to apply the OEB's 2021 WACC on Newmarket-Tay Power Distribution Inc.'s (Newmarket-Tay Power) Account 1576 related base rate adjustment.^{14,15} Hydro One further explained that in that decision, the OEB noted that the 2021 WACC parameters were applicable, as the adjustment will apply to rates going forward.

Submission

OEB staff submits that the appropriate WACC to apply to Account 1575 and 1576 balances is the WACC approved in the distributor's last cost of service proceeding,

¹¹ Equal to principal balance of \$13,563 per page 13 of the Application Summary plus an updated return of \$741 based on the 2022 weighted average cost of capital of 5.47% per IRR OEB-Staff #5

¹² IRR OEB Staff #5, page 21 of Attachment 1

¹³ IRR OEB Staff #7

¹⁴ EB-2020-0041

¹⁵ IRR OEB Staff #5

which would be 7.49% instead of the OEB's 2022 WACC of 5.47% for the Orillia rate zone.¹⁶ Applying a WACC of 7.49% would increase the Account 1576 balance by a credit of \$202,226 if disposed over two years, or a credit of \$101,113 if disposed over one year.

OEB staff notes that the OEB previously approved interim disposition of Newmarket-Tay Power's 2017 Account 1576 balance¹⁷ and final disposition of Newmarket-Tay Power's 2020 Account 1576 balance¹⁸, in which the last approved WACC was applied to Account 1576.¹⁹ OEB staff further notes that the OEB approved interim disposition of the Orillia rate zone's 2014 Account 1576 balance,²⁰ in which the last approved WACC was also applied to Account 1576.

Hydro One has referenced the decision in which the OEB approved final disposition of Newmarket-Tay Power's 2020 Account 1576 balance and base rate adjustment in support of its application of the OEB's 2021 WACC on its Account 1576 balance. At issue in this proceeding is the WACC applied to the Account 1576 balance. OEB staff notes that the OEB only approved the OEB's 2021 WACC to be applied to the base rate adjustment, and not the Account 1576 balance, in which the OEB applied the last approved WACC. Hydro One is not adjusting base rates going forward for these specific impacts, which is a key differentiation between the circumstances in the Newmarket Tay Power decision, and the current request being put forth by Hydro One. Had Hydro One's proposal been to adjust base rates in lieu of continuing to track amounts in Account 1576 on a go forward basis, OEB staff submits that these cases would be considered comparable. Therefore, OEB staff submits that to appropriately account for the impact of accounting policy changes during the incentive rate-setting term, the most recently approved WACC should be applied to Account 1576.

ii) Peterborough Rate Zone's Account 1575

Background

Hydro One initially requested to dispose of a debit balance of \$9,998 in Account 1575 for the Peterborough rate zone, representing a residual balance remaining from a previously approved disposition. In response to interrogatories, Hydro One removed its

¹⁶ Orillia Power Distribution Inc's Draft Rate Order Revenue Requirement Workform, EB-2009-0273

¹⁷ EB-2018-0055. WACC applied is noted in IRR OEB-Staff #3.

¹⁸ EB-2020-0041. WACC applied is noted in DRO Appendix 2-EC.

¹⁹ Newmarket-Tay Power's was approved to use the OEB's 2011 WACC of 7.03% in EB-2009-0269

²⁰ Decision and Rate Order, EB-2015-0286, January 14, 2016

disposition request for Peterborough rate zone's residual Account 1575 balance. Hydro One noted that although the OEB has not provided guidance that indicates residual Account 1575 balances are to be requested for disposition, and has not historically done so, the related OEB MAADs decision states that it is appropriate to dispose of the balances in Accounts 1575 and 1576 within twelve months of the closing of the Transaction. Hydro One removed the disposition request for Account 1575, as the amount is not material, and this approach would be consistent with the approach taken in Hydro One Acquired's (Norfolk, Haldimand, Woodstock) 2022 rates proceeding.

Submission

OEB staff submits that Hydro One's removal of the Account 1575 balance for disposition is appropriate.²¹

OEB staff agrees that the MAADs decision directed Hydro One to bring forth the Account 1575 balance for disposition within twelve months of the closing of the Transaction and Hydro One has done so in this proceeding. Upon bringing forth any Group 2 account balance, the OEB must review the account and make a decision on the disposition of the account. In OEB staff's view, the appropriate balance in that account should be nil. As Hydro One notes, the OEB has not provided guidance that indicates residual Account 1575 balances are to be requested for disposition and has not historically disposed of residual balances for this account.²² OEB staff also notes that the residual balance in the account is not material. Therefore, in OEB staff's view, the removal of the disposition request does not contradict the MAADs decision and is more consistent with OEB past practice with respect to Account 1575, which did not require the tracking of residual amounts once the original balance was disposed.

All of which is respectfully submitted

²¹ This balance will, therefore, need to be written off in Hydro One's general ledger.

²² Per the March 2015 Accounting Guidance #6, upon disposition of Account 1575, the approved disposition is reflected as an offset to depreciation expense. The approved disposition is not transferred to Account 1595 Disposition and Recovery/Refund of Regulatory Balances, which is the typical treatment for Group 2 accounts and is used to track residual balances once the original disposition period is complete.