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
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Dear Ms. Long:

Re: Ontario Energy Board (OEB) Staff Submission
Hydro One Networks Inc. - Former Service Areas of Norfolk Power Distribution Inc., Haldimand County Hydro Inc., and Woodstock Hydro Services Inc.
Application for 2022 Rates
OEB File Number: EB-2021-0033

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

Yours truly,

Kelli Benincasa

Kelli Benincasa
Incentive Rate-setting & Regulatory Accounting

Encl.

cc: All parties in EB-2021-0033

ONTARIO ENERGY BOARD

OEB STAFF SUBMISSION

Hydro One Networks Inc. - Former Service Areas of Norfolk Power Distribution Inc., Haldimand County Hydro Inc., and Woodstock Hydro Services Inc.

2022 Rates Application

EB-2021-0033

November 19, 2021

Application Summary

Hydro One Networks Inc. (Hydro One) filed an incentive rate-setting mechanism (IRM) application with the Ontario Energy Board (OEB) on August 27, 2021 seeking approval for changes to its electricity distribution rates, effective January 1, 2022, in the areas formerly served by Norfolk Power Distribution Inc., Haldimand County Hydro Inc., and Woodstock Hydro Services Inc. (Acquired Utilities).[1]

The purpose of this document is to provide the OEB with the submissions of OEB staff based on its review of the evidence submitted by Hydro One.

The OEB previously approved its Mergers, Acquisitions, Amalgamations and Divestitures (MAAD) applications that Hydro One filed to acquire the former Norfolk Power Distribution Inc., Haldimand County Hydro Inc., and Woodstock Hydro Services Inc.[2] As part of the MAADs decisions, the OEB accepted Hydro One's proposals to defer the rebasing of the consolidated entities for a five-year period in each application and froze base electricity distribution rates for a five-year period. The OEB also approved a 1% reduction to base distribution rates for each of the Acquired Utilities. The five-year distribution rate-freeze period for the Norfolk, Haldimand and Woodstock rate zones ended on September 7, 2019, June 30, 2020, and October 30, 2020, respectively.

In this proceeding, Hydro One applied the Price Cap IR adjustment factor to adjust the monthly service charge and distribution volumetric rate during the incentive rate-setting years. OEB staff has no concerns with Hydro One's proposed price cap adjustment, although OEB staff notes that the 2021 inflation parameters have been applied as a placeholder, pending the OEB's issuance of the 2022 parameters. On August 6, 2021, the OEB issued a notice on its own motion to initiate a proceeding to consider the inflation factor to be used to set rates for electricity transmitters and electricity and natural gas distributors for the year 2022.[3] The OEB's decision on the 2022 inflation parameters was issued on November 18, 2021, approving an inflation factor of 3.3% for electricity distributors. OEB staff has updated Hydro One's 2022 IRM Models to reflect the OEB-approved 2022 inflation factor, and resulting price cap adjustment, and attached those models to this submission.

[1] Filed under section 78 of the *Ontario Energy Board Act, 1998*
[2] Norfolk rate zone EB-2013-0196/0187/0198, Haldimand rate zone EB-2014-0244, Woodstock rate zone EB-2014-0213
[3] EB-2021-0212

OEB staff makes detailed submissions on the following:

- Retail Transmission Service Rates (RTSRs)
- Group 1 and 2 Deferral and Variance Accounts (DVA)
- Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) Disposition

OEB Staff Submission

1. Retail Transmission Service Rates

Distributors typically update their RTSRs on an annual basis, to recover the wholesale transmission rates charged by the Independent Electricity System Operator (IESO), or if applicable, host distributors. In order to mitigate bill impacts associated with this application, Hydro One proposes to maintain its RTSRs for 2022 at currently approved (2021) levels.

OEB staff inquired as to how this may impact future DVA dispositions, as Hydro One plans to dispose of the 2022 variances on a consolidated basis – given that some rate zones may be contributing to variances based on lower RTSRs than others. Hydro One cited the proportion of the Acquired Utilities' consumption (3%) relative to the rest of Hydro One's operations, explaining that legacy customers are anticipated to be immaterially impacted by having incremental RTSR variances disposed to them (despite being attributable to the Acquired Utilities only).[4]

Submission

As a bill mitigation measure, OEB staff does not oppose Hydro One's request to maintain its RTSRs at current levels. OEB staff submits that, in principle, this may result in cross-subsidization of Hydro One's legacy customers by the Acquired Utilities' customers. However, OEB staff concurs with Hydro One that the impacts are not likely to be significant.

Accordingly, OEB staff supports Hydro One's proposal with respect to its RTSRs.

[4] Response to OEB Staff-5 c)

2. Group 1 and 2 Deferral and Variance Accounts

Group 1 Disposition Approach

In the Acquired Utilities' 2021 rates proceeding[5], Hydro One was approved to dispose of each of the Acquired Utility's 2019 Group 1 balances on a final basis, based on an allocation of the consolidated Group 1 balances between Hydro One Distribution and each of the Acquired Utilities. In this application, Hydro One's consolidated 2020 Group 1 balance (inclusive of the Acquired Utilities' balances) is a credit amount of $69,159,920.[6] Hydro One has proposed to defer disposition of the 2020 Group 1 balances to Hydro One's 2023 rebasing application,[7] despite the consolidated balances exceeding the disposition threshold.[8] Hydro One provided the following reasons for proposing to defer disposition:[9]

i) The 2023 rebasing application is the first application for both Hydro One Distribution and Acquired Utilities, which introduces the opportunity to dispose of the Group 1 balances on a consolidated basis without the need to perform an allocation between Hydro One Distribution and the Acquired Utilities.
ii) It is more efficient to review and consider the disposition of the Group 1 balances as part of the 2023 rebasing application at the same time as the proposed DVA disposition for Hydro One Transmission.
iii) It is more prudent to request disposition of the consolidated Group 1 balances in the 2023 rebasing application in order to mitigate volatility to bill impacts, in the event that the 2021 Group 1 balances that Hydro One also plans to request for disposition in its 2023 rebasing application are in a debit position, thereby reducing the credit 2020 Group 1 balances.
iv) Hydro One receives one consolidated invoice from the IESO for the settlement of commodity, bulk transmission and wholesale settlement costs for all service territories.

Submission:

OEB staff does not object to Hydro One's proposal to defer disposition of 2020 Group 1 balances as the factors discussed below. OEB staff notes that the OEB's policy requires

[5] EB-2020-0031
[6] Including interest to December 31, 2021, per pre-filed Evidence Appendix E1
[7] EB-2021-0110
[8] Page 10 of the Report of the OEB on Electricity Distributor's Deferral and Variance Account Review Initiative (EB-2008-0046), dated July 31, 2009 requires that Group 1 accounts be disposed if they exceed (as a debit or credit) a pre-set disposition threshold of $0.001 per kWh, unless a distributor justifies why balances should not be disposed.
[9] Application Summary, pages 15-16

that distributors bring forth Group 1 balances annually, in order to assess whether the balances exceed the disposition threshold, and therefore, warrant disposition.[10] The onus is on the distributor to justify why any account balance over the threshold should not be disposed.

As discussed below, OEB staff notes that the reasons Hydro One provided for the proposed deferral, are not particularly compelling. OEB staff invites Hydro One to comment on whether there are other reasons for its deferral request, which would help support its justification for why balances over the threshold should be deferred to a future proceeding.

i) Hydro One has indicated the allocation methodology results in the same rate riders whether the balances are allocated to each of Hydro One Distribution and the Acquired Utilities first and then allocated to each entity's rate classes, or allocated directly to all rate classes assuming one consolidated single entity. OEB staff interprets this to mean that regardless of whether 2020 Group 1 balances were disposed in this proceeding based on an allocation method, or disposed on a consolidated basis in the 2023 rebasing application, the resulting rate riders would generally be the same.[11] Therefore, OEB does not see why disposing on a consolidated basis would be a significant reason to support deferring disposition.

ii) As noted below, OEB staff acknowledges that there is some minor regulatory efficiency to be gained in combining the disposition of 2020 and 2021 Group 1 balances. However, OEB staff also notes that Hydro One has proposed to dispose of the Acquired Utilities' Group 2 accounts in the current proceeding, instead of the 2023 rebasing application, which would be when Group 2 accounts are typically brought forth for disposition. Deferring disposition of amounts that are otherwise eligible, while bringing forth amounts earlier than they otherwise are expected to be brought forth, appears counterintuitive.

iii) Hydro One has indicated that it cannot confirm whether the net 2021 transactions will offset the 2020 transactions, and result in a lower overall balance which would mitigate volatility to bill impacts.[12] If the 2021 amounts are ultimately credit balances, Hydro One's proposal would exacerbate bill

[10] Report of the OEB on Electricity Distributor's Deferral and Variance Account Review Initiative (EB-2008-0046), dated July 31, 2009.

[11] Disposition using the allocation methodology and the consolidated methodology each allocates balances using post-integration sales volume, and therefore result in the same rate riders to customers. OEB staff notes that there would a difference between the disposition methodologies for Account 1551 – Smart Meter Entity Charge Variance Account as this account is allocated to rate classes based on the number of residential and GS<50 kW customers, but the impact would not be expected to be significant as the Account 1551 balance is only a credit of $154,183.

[12] IRR OEB Staff #6

impacts, rather than mitigate them (as Hydro One has speculated they might). In any given year, a distributor may make this same statement (that a future year's transactions may offset the current balance). It is unclear to OEB staff how this statement provides justification for deferral.

iv) Hydro One has been receiving one IESO invoice since 2015/2016 and there has been no change in circumstances in this regard.

Despite the above discussion, OEB staff's position considers two factors. The first is that OEB staff agrees that there may be some relatively minor administrative regulatory efficiencies in combining the disposition request for 2020 balances with the 2021 balances. For example, the DVA continuity schedule and associated allocations/calculations resulting in the rate riders to ratepayers would only be reviewed once (although there would be more data to review in one instance). However, OEB staff is of the view that this reason alone is not sufficient to defer disposition requests, as any distributor could make the same suggestion in any given year (i.e. propose to defer as combining multiple years' balances would be more efficient), and this would need to be balanced with intergenerational inequity considerations.

The second, and more important factor, is that Hydro One has not provided the OEB with adequate evidence in this proceeding to enable a decision that directs Hydro One to dispose Group 1 balances. In particular, Hydro One did not provide each of the Acquired Utility's allocated Group 1 balances, nor the associated bill impacts reflecting disposition of allocated Group 1 balances, in either its pre-filed evidence or its interrogatory responses.[13] OEB staff notes that distributors invariably provide Group 1 balances as part of their evidence, even in cases where they are requesting not to dispose of the balances, if only to demonstrate the threshold result.

Accordingly, absent additional procedural steps whereby the OEB directs Hydro One to provide this information and allows for a discovery process, a decision ordering disposition of Group 1 balances cannot practically be made at this time. OEB staff also notes that the Group 1 balances are currently being reviewed in Hydro One's 2023 rebasing application, and there may be duplication of efforts in the case where the OEB directs for further recovery of Group 1 balances in this proceeding. Given the impact this may have on implementation of 2022 rates, from the perspective of regulatory efficiency, OEB staff does not believe that these procedural steps are absolutely necessary at this time.

[13] IRR OEB Staff #5 and 6

Group 2 and LRAMVA Disposition Approach

Hydro One proposes to dispose the Acquired Utilities' Group 2 balances (including forecasted principal and interest to December 31, 2022) and Account 1568 – LRAMVA (for the December 31, 2020 principal and interest to December 31, 2022), summarized below, on a final basis in this proceeding:

- Norfolk rate zone - a debit balance of $ 1,088,048
- Haldimand rate zone - a debit balance of $ 102,139
- Woodstock rate zone - a credit balance of $ 1,067,830

Hydro One noted that disposition in this proceeding is the most timely and efficient way to ensure that the accumulated balances are disposed to those customers that generated the balances. Hydro One further noted that 2022 is the last year in which the Acquired Utilities have their own rates in place before those customers are integrated from a rate perspective with Hydro One Distribution customers.[14]

Hydro One confirmed that the Acquired Utilities' Group 2 accounts (except for Haldimand rate zone's Account 1533 – Distribution Generation – Other –Provincial – Deferral Account[15,16]) would be discontinued effective January 1, 2023, when Hydro One rebases. Hydro One has therefore, forecasted 2021 and 2022 Group 2 balances and is requesting the forecasted 2022 balances for final disposition.[17]

Submission

OEB staff supports the disposition of Group 2 accounts in this proceeding. However, OEB staff is unclear on why Hydro One has proposed to dispose Group 2 accounts in this proceeding, as Hydro One indicated that it would be able to dispose the Group 2 accounts specifically to the Acquired Utilities' customers even after the Acquired Utilities' customers harmonize with Hydro One's proposed rate structure in 2023.[18] Notwithstanding the above, OEB staff supports the disposition of Group 2 accounts, as the balances have already been reviewed in this proceeding and it would be inefficient to defer disposition and review these balances again in a future proceeding. In addition, disposing Group 2 balances now rather than a future proceeding would reduce intergenerational inequity.

[14] Application Summary, page 20
[15] IRR OEB Staff #7
[16] OEB staff notes that this account is named Account 1533 - Renewable Generation Connection Funding Adder Deferral Account in the Accounting Procedures Handbook
[17] IRR OEB Staff #7
[18] IRR OEB Staff #3

OEB staff supports Hydro One's proposal to forecast the 2021 and 2022 Group 2 balances and discontinue the accounts (except for Haldimand rate zone's Account 1533). OEB staff submits that there would be regulatory efficiency in this approach. OEB staff also notes that Hydro One has not forecasted transactions in Account 1518 – RCVA - Retail and Account 1548 – RCVA – STR for any of the Acquired Utilities. However, OEB staff does not expect the 2021 and 2022 transactions to be material, considering past transactions from 2017 to 2020.[19]

OEB staff further submits that the same approach of forecasting transactions and discontinuing the account may be taken with the LRAMVA for each Acquired Utility. Hydro One noted that it will only make claims for persistence savings from pre-2016 projects. Therefore, OEB staff expects that Hydro One would be able to reasonably forecast its 2021 and 2022 LRAMVA amounts. OEB staff invites Hydro One to forecast the 2022 year-end balances for LRAMVA and update its LRAMVA claim accordingly as part of its reply submission.

Review of Group 2 Accounts

Hydro One indicated that it did not have the opening balances (2011 for the Norfolk rate zone, 2013 for the Haldimand rate zone and 2010 for the Woodstock rate zone) for each of the Acquired Utility's Group 2 accounts.[20] Hydro One confirmed 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.[21]

Through interrogatories, OEB staff requested information for the Group 2 accounts in Table 1 below.[22] In its response to interrogatories, Hydro One indicated that it is unable to provide the information requested as it mainly pertained to pre-integration balances.[23]

[19] Application Summary, pages 24, 29, 34
[20] IRR OEB Staff #8
[21] Ibid
[22] Claim amount from IRR Attachment 7 – Group 2 DVA Continuity Schedule
[23] IRR OEB Staff #10, 11, 12,17, 18

Table 1 – Select Group 2 Accounts Proposed for Disposition

Account #	Account Name	Norfolk 2022 Balance ($)	Haldimand 2022 Balance ($)	Woodstock 2022 Balance ($)	Total 2022 Balance ($)
1508	Sub-account Deferred IFRS Transition Costs	130,393		74,129	
1518,1548	RCVA - Retail and STR	16,037	333,265		
1533	Distribution Generation - Other Costs	381,293			
1536	Smart Grid Funding Adder Deferral Account			426,564	
1508	ICM			-	
		527,723	**333,265**	**500,693**	**1,361,681**

In addition, Hydro One noted that in prior proceedings,[24] it did not have readily available detailed data from the pre-integration period for each of the Acquired Utility's Group 1 balances. In those proceedings, the OEB approved the disposition of the pre-integration and post-integration Group 1 balances for the Acquired Utilities on a final basis.

<u>Submission</u>

OEB staff submits that only 50% of the balances of Group 2 accounts noted in Table 1 above should be disposed. This represents a $680,840 reduction to the amounts noted in Table 1 above. Hydro One has not been able to provide sufficient evidence to allow for an opportunity to adequately review these accounts. Group 2 accounts require a prudence review. Hydro One indicated that it does not see significant benefit in reviewing pre-integration balances. OEB staff disagrees, as the majority of the balances being requested for disposition accumulated during the pre-integration period. Furthermore, these amounts are clearly material to the individual rate zones, and more pronounced in an application where rate mitigation is required.

OEB staff acknowledges that upon integration of the Acquired Utilities, Hydro One may not have all the detailed data relating to the Group 2 account balances available. However, per Hydro One's interrogatory responses, it appears that Hydro One has little to no data available except for the balances of the accounts that were transferred to Hydro One. OEB staff understands that the balances for these accounts have been audited, as noted by Hydro One.[25] However, OEB staff does not know whether the individual account balances were specifically audited, or whether the entire Group 2

[24] EB-2016-0082, EB-2017-0050 and EB-2020-0331
[25] IRR OEB Staff #10, 12

balances were audited at a higher consolidated level. In addition, OEB staff is of the view that Hydro One is familiar with the Group 2 account disposition process, including the process to review the balances for prudence. Furthermore, OEB staff notes that the OEB has provided direction in decisions that have specifically noted a prudence review would be required for certain accounts listed above.[26] Therefore, OEB staff submits that there is at least a partial onus on Hydro One to substantiate the balances it is requesting for disposition, particularly when some of the balances appear questionable at face value.

For example, OEB staff questioned the balance in Woodstock rate zone's Account 1536 - Smart Grid Funding Adder Deferral Account. Account 1536 is intended to record revenue collected through a funding adder approved by the OEB related to smart grid development.[27] Therefore, OEB staff expects the balance in the account to be in a credit position, but it is in a debit position. OEB staff suspects that smart grid capital and OM&A costs that should have been recorded in Accounts 1534 – Smart Grid Capital Deferral Account and Account 1535 – Smart Grid OM&A Deferral Account may have been recorded in Account 1536 instead. OEB staff is also unclear as to whether the revenue requirement impact of capital and OM&A costs or the total capital and OM&A costs have been recorded in the account (if any). In addition, for Norfolk and Haldimand rate zones' Account 1518 and Account 1548, OEB staff notes that the opening 2016 integrated cumulative revenues and costs for these accounts are both debit amounts, when credit amounts are expected for revenues.[28] Finally, OEB staff notes that Haldimand rate zone's Accounts 1518 and 1548 had significant pre-integration transactions when compared to post-integration transactions.[29]

Hydro One has noted the OEB has previously approved the Acquired Utilities' pre-integration Group 1 balances on a final basis, where Hydro One did not have readily available data from the pre-integration period. OEB staff does not view the disposition of Group 1 accounts as comparable to Group 2 accounts. Group 1 accounts are commodity pass-through accounts, where the accounting for these accounts are routine

[26] Regarding Woodstock rate zone's Account 1536, the OEB's April 20, 2011 decision and order for the former Woodstock Hydro's 2011 cost of service proceeding (EB-2010-0145) stated "The Board has not made any finding on the prudence of the proposed smart meter activities…. Such costs will be considered when Woodstock Hydro applies for the recovery of these costs on a final basis, if applicable." Also, regarding Norfolk rate zone's Account 1533, the former Norfolk Power Distribution's 2012 cost of service settlement proposal (EB-2011-0272), which was accepted by the OEB, stated "Norfolk Power will track any expenditures in the GEA related deferral account, and acknowledges that it will be expected to establish the prudence of its expenditures at a later date".
[27] Article 220 of the Accounting Procedures Handbook, effective January 1, 2012.
[28] Application Summary, pages 24, 29
[29] IRR OEB Staff #11

in nature and the disposition approach is mechanistic, whereas Group 2 accounts may be used for a wide variety of items and necessarily require a prudence review.

For the reasons above, OEB staff submits that the Group 2 balances for the above noted accounts should be disposed after a reduction of 50%. A 50% reduction recognizes the fact that Hydro One maintains responsibility to support its claims, despite the fact that it acquired these balances in a MAADs proceeding.

Account 1592, Sub-account CCA Changes

The OEB established Account 1592 PILS and Tax Variances, Sub-account CCA Changes effective November 21, 2018 to track the impact of any differences that result from the capital cost allowance (CCA) change to the tax rate or rules that were used to determine the tax amount that underpins rates.[30] This sub-account would include the impact from the introduction of the Accelerated Investment Incentive program (AIIP), which provides for a first-year increase in CCA deductions on eligible capital assets acquired after November 20, 2018.

There are no balances in each of the Acquired Utility's 1592 sub-account. Hydro One indicated that, as there were no additions embedded in the Acquired Utilities' rate filings from 2018 onwards, there would be no accelerated CCA impacts recorded in the 1592 sub-account.[31]

Submission

OEB staff submits that all Acquired Utilities should have balances in the 1592 sub-account that should be returned to ratepayers. As noted above, the sub-account is intended to track differences resulting from CCA changes that were used to determine the tax amount underpinning rates. OEB staff is unclear why Hydro One has stated that there were no additions embedded in the Acquired Utilities' rate filings from 2018 onwards. The additions underpinning rates that prevailed during the Acquired Utilities' incentive-rate setting, and subsequent deferred rebasing period, were included in each of the Acquired Utility's last rebasing application. The AIIP introduced a change in the CCA rule that previously underpinned rates approved in the Acquired Utilities' last rebasing application. For each year from 2018 until the year in which base rates are reset to reflect the new CCA rules[32], for its Acquired Utilities, Hydro One is realizing a windfall gain associated with CCA changes as it would be claiming CCA at an

[30] July 25, 2019 letter regarding Accounting Direction Regarding Bill C-97 and Other Changes in Regulatory or Legislated Tax Rules for Capital Cost Allowance
[31] IRR OEB Staff #9
[32] Assumed to be EB-2021-0110 for 2023 rates

accelerated rate compared to the CCA embedded in its rates. OEB staff therefore submits that the 1592 sub-account is applicable to each of the Acquired Utilities.

OEB staff further submits that Hydro One should be directed to calculate the balances (including a forecast to the end of 2022) in the 1592 sub-account for each of the Acquired Utilities for the period of November 21, 2018 to December 31, 2022. The balances in the sub-accounts should equal to 100% of the revenue requirement impact of the CCA difference on actual (and forecast, as applicable) annual capital additions between i) the CCA calculated using the prior CCA rules underpinning rates and ii) the CCA calculated using the accelerated CCA rules applicable to each year of the period. Hydro One may wish to address why it should not be ordered to dispose of these balances in the current proceeding in its reply submission.

Woodstock Rate Zone's Account 1508, Sub-account ICM

In its pre-filed evidence, Hydro One requested to dispose a debit balance of $187,825 in Account 1508 - Other Regulatory Assets, Sub-account ICM. In its interrogatory responses, Hydro One withdrew the disposition request as it is expected that the year-end 2020 account balance would be drawn down by the incremental capital module (ICM) rate rider collected by the end of 2021. As such, Hydro One requests that the OEB discontinue the ICM rate rider as that funding is no longer required.

Submission

OEB staff agrees with Hydro One that no amount pertaining to the 1508 sub-account needs to be disposed. Although OEB staff finds the opening 2016 balance integrated into Hydro One's general ledger questionable, OEB staff is of the view that the net balance in the account should be close to nil. OEB staff notes that the former Woodstock Hydro was approved an ICM revenue requirement of $337,412.[33] The rate rider collected has ranged between approximately $325,000 and $350,000 annually from 2017 to 2020.[34] Therefore, assuming actual ICM costs were close to approved ICM costs, the annual ICM revenue requirement would be more or less offset with the annual rate riders collected, and the variance in the 1508 sub-account should be close to nil.

[33] March 22, 2012, ICM Workform, EB-2011-0207
[34] As shown by annual principal transactions in the sub-account in IRR Attachment 7 and IRR OEB Staff #18

Woodstock and Haldimand Rate Zone's Account 1576

i) Woodstock Rate Zone's Account 1576

Hydro One is proposing to dispose a credit balance of $2,240,878 in Woodstock rate zone's Account 1576 - Accounting Changes Under CGAAP. Transactions in the account cease in 2015, coinciding with the year prior to Woodstock rate zone's transition to US GAAP.[35] The Account 1576 balance includes a return component based on the OEB's 2022 weighted average cost of capital (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.[36,37] Hydro One further noted 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 Account 1576 transactions should not cease in 2015, but should cease when Woodstock rate zone rebases its rates. Account 1576 is intended to capture the property plant and equipment (PP&E) impact for capitalization and depreciation policy changes from those embedded in rates at last rebasing, made during the incentive-rate setting term. The account specifies that journal entries are required starting with the year of accounting policy changes until the year prior to when a distributor rebases its rates.[38]

OEB staff understands that Hydro One was approved to adopt US GAAP for the Woodstock rate zone upon integration with Hydro One in 2015. However, OEB staff submits that the adoption of US GAAP does not displace the need to continue recording transactions in Account 1576 leading up to rebasing. The purpose of Account 1576 is to capture the full PP&E impact from accounting policy changes, and Hydro One should be required to do so irrespective of the accounting policy in place leading up to rebasing. Account 1576 did not contemplate a situation where a distributor would implement the OEB mandated capitalization and depreciation policy changes, then adopt US GAAP instead of International Financial Reporting Standards (IFRS). If Hydro One were to cease recording amounts in 2015, then from that date until the year prior to rebasing, the differences in PP&E as presented under US GAAP versus those presented under

[35] Close of acquisition between Hydro One and the former Woodstock Hydro Services Inc. was on September 30, 2015.
[36] EB-2020-0041
[37] IRR OEB Staff #5
[38] Accounting Procedures Handbook, July 2012 Frequently Asked Questions #2

the former Canadian GAAP would represent a windfall gain for Hydro One. OEB staff submits that Account 1576 was designed to correct this exact circumstance. OEB staff submits that Account 1576 should continue to apply until rebasing to fully capture the PP&E impact from accounting policy changes as was intended by the OEB's establishment of Account 1576.

OEB staff is does not know whether Hydro One would have tracked the applicable post-2015 transactions that should have been recorded in this account. OEB staff notes that annual transactions in the account from 2013 to 2015 have approximated a credit of $500,000. Therefore, OEB staff submits that the 2016 to 2022 transactions may similarly be estimated to be a credit of $500,000 annually (or a cumulative impact of $3,500,000 in favour of ratepayers). OEB staff notes that the actual annual transactions may be even higher due to higher PP&E amounts capitalized under US GAAP, as administration and other general overhead costs are not explicitly prohibited from capitalization under US GAAP (unlike IFRS). Forecasting the 2016 to 2022 transactions in a credit amount of $500,000 per year will result in an updated total principal credit balance of $5,624,659, instead of $2,124,659.

OEB staff also submits that the appropriate WACC to apply to the Account 1576 balance is the WACC approved by the OEB in the distributor's last approved cost of service proceeding, which would be 6.74% instead of 5.47%.[39] Applying a WACC of 6.74% would increase the Account 1576 balance by a credit of $26,983 on a 2015 year-end balance or a credit of $71,433 on a forecasted 2022 year-end balance.

OEB staff notes that the OEB previously approved interim disposition of Newmarket-Tay Power's 2017 Account 1576 balance[40] and final disposition of Newmarket-Tay Power's 2020 Account 1576 balance[41], in which the last approved WACC was applied to Account 1576.[42] OEB staff further notes that the OEB approved interim disposition of Orillia Power Distribution Corporation's 2014 Account 1576 balance,[43] in which the last approved WACC was applied to Account 1576.

Hydro One has referenced the decision in which the OEB approved the final disposition of Newmarket-Tay Power's 2020 Account 1576 balance and base rate adjustment in support of its application of the OEB's 2022 WACC on the 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

[39] Woodstock Draft Rate Order Revenue Requirement Workform, April 26, 2011, EB-2010-0145
[40] EB-2018-0055. WACC applied is noted in IRR OEB-Staff #3.
[41] EB-2020-0041. WACC applied is noted in DRO Appendix 2-EC.
[42] Newmarket-Tay Power's was approved to use the OEB's 2011 WACC of 7.03% in EB-2009-0269
[43] Decision and Rate Order, EB-2015-0286, January 14, 2016

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's 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 would agree 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) Haldimand Rate Zone's Account 1576

In its pre-filed evidence, Hydro One proposed to dispose a debit balance of $5,439 in Haldimand rate zone's Account 1576, representing a residual balance remaining from a previous approved disposition. In response to interrogatories, Hydro One removed its disposition request for the residual Account 1576 balance and invited the OEB to clarify its position on disposition of residual rider balances and associated materiality thresholds.[44]

Submission

OEB staff submits that Hydro One's removal of the Account 1576 balance for disposition is appropriate as the OEB has not provided guidance that indicates residual Account 1576 balances are to be requested for disposition and has not historically done so.[45] OEB staff also notes that the residual balance in the account is not material.

Haldimand Rate Zone's Account 1533

In its response to interrogatories, Hydro One indicated that it is not requesting disposition of Haldimand rate zone's Account 1533 – Distribution Generation – Other Provincial – Deferral Account, which has a credit balance of $1,084,440.[46] Hydro One noted that the account captures the revenue requirement associated with the in-servicing of certain distributed generation assets. Hydro One is not requesting disposition because the funding adder amounts recorded in the account have been greater than the revenue requirement associated with the in-servicing of distributed

[44] IRR OEB Staff #15
[45] 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.
[46] IRR OEB Staff #16

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. Hydro One also clarified that it is proposing to continue this account.

Submission

OEB staff accepts Hydro One's proposal for Account 1533. OEB staff notes that there may be regulatory efficiency gained if Haldimand rate zone's Account 1533 is reviewed for disposition along with Hydro One Distribution's Account 1533 in a future proceeding.

Bill Mitigation

Hydro One proposes two bill mitigation measures. The first being maintaining RTSRs at current 2021 values and the second being disposing LRAMVA balances over a two-year period.[47] Hydro One noted that the largest contributor of the bill impacts without mitigation is the expiry of 2021 DVA credit rate riders.[48]

Submission

OEB staff accepts Hydro One's bill mitigation measures. Hydro One noted that the largest contributor of the bill impacts without mitigation is the expiry of 2021 DVA credit rate riders. OEB staff also observes that Hydro One's proposed bill impacts were affected by its proposed disposition approach for Group 1 and 2 accounts. To provide conceptional direction of bill impacts, OEB staff provides the related DVA balances that affects bill impacts in Table 2 below. As seen in the first row of Table 2, credit balances relating to the 2021 rate riders are expiring. The second row shows Hydro One's proposed deferred disposition of Group 1 balances, which would presumably be a credit disposed to the Acquired Utilities, as the consolidated Group 1 balance is a credit of $69,159,920. The third row shows the Acquired Utilities' Group 2 balances that Hydro One proposes to dispose in this proceeding, rather than at its next rebasing application, as would have been the norm.

[47] Application Summary page 47
[48] IRR OEB Staff #5

Table 2 – DVA Balances Affecting Bill Impacts

	Norfolk ($)	Haldimand ($)	Woodstock ($)
Credit DVA Balances Related to Expiry of 2021 Rate Riders (credits increase/debits decrease bill impacts)	(478,830)	(2,445,503)	(3,235,333)
Credit Group 1 Balances Not Requested in this Application (debits increase/credits decrease bill impacts)	Unknown*	Unknown*	Unknown*
Group 2 Balances Requested in this Application (Forecasted 2022 Claim) (debits increase/credits decrease bill impacts)	1,088,048	102,139	(1,067,830)

*Amount of consolidated balance that would be allocated to each Acquired Utility was not provided, however, would presumably be credit balances as the consolidated balance is in a credit position.

Hydro One has not been able to confirm that bill mitigation would not be necessary if the Acquired Utilities' Group 1 balances were disposed in this proceeding, as it has not performed the allocation of Group 1 balances to each of the Acquired Utilities.[49] As discussed above, OEB staff accepts Hydro One's proposed disposition approaches for Group 1 and 2 accounts, but notes that even with bill mitigation measures, General Service 50 to 999 kW Non-RPP, General Service greater than 1,000 kW Non-RPP and General Service less than 50 kW Non-RPP classes for Woodstock rate zone are still above the 10% bill impacts. That said, these impacts do not exceed 13% and therefore OEB staff accepts Hydro One's bill mitigation measures.

3. Lost Revenue Adjustment Mechanism Variance Account Disposition

Hydro One requested disposition, on a final basis, of the LRAMVA balances associated with its Haldimand, Norfolk, and Woodstock rate zones, which result from its Conservation and Demand Management activities. The total LRAMVA balance for all three rate zones amounts to a debit of $2,105,387. This total includes principal balances as of December 31, 2020 and carrying charges to December 31, 2022. Components of the LRAMVA balance, broken down by rate zone, are shown in Table 3. Hydro One is requesting disposition over a 24-month period.

[49] Ibid

For the Haldimand rate zone, the LRAMVA balance pertains to incremental savings from programs delivered in the 2013 to 2015 period, as well as persisting savings from these programs to 2020. For the Norfolk and Woodstock rate zones, the LRAMVA balances pertain to incremental savings from programs delivered in the 2011 to 2015 period, as well as persisting savings from these programs to 2020.

Table 3: LRAMVA Balances

Account Name	Account Number	Actual CDM Savings ($) A	Forecasted CDM Savings ($) B	Carrying Charges ($) C	Total Claim ($) D=(A-B)+C
LRAMVA – Haldimand	1568	778,343	530,880	23,374	270,837
LRAMVA – Norfolk	1568	1,081,873	172,634	64,155	973,394
LRAMVA - Woodstock	1568	1,049,584	249,364	60,936	861,156
LRAMVA - Total	1568	2,909,800	952,878	148,465	2,105,387

Submission

OEB staff supports Hydro One's request to dispose of the LRAMVA balances (i.e. the 2020 balances) in Table 3 on a final basis. OEB staff has reviewed the LRAMVA balances and the supporting evidence substantiating these balances. In OEB staff's opinion, the LRAMVA balances are reasonable. Furthermore, as discussed in the Group 2 and LRAMVA Disposition Approach section above, OEB staff submits that the LRAMVA balances should be forecasted to the 2022 year-end and disposed in this proceeding on a final basis.

4. Implementation Matters

Hydro One requests the implementation of electricity distribution rates to be effective January 1, 2022. OEB staff supports this request and submits that in the event that the OEB orders a draft rate order process reflecting the OEB's findings, a final rate order may not be issued until January 2022. OEB staff would support the issuance of an interim rate order in this instance before the end of the calendar year.

- All of which is respectfully submitted -