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BY EMAIL AND RESS

December 3, 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. – Reply Submission

In accordance with Procedural Order No. 1, please find enclosed Hydro One Networks Inc.'s reply submission in the 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 this reply submission has been submitted using the Board's Regulatory Electronic Submission System.

Sincerely,

Frank D'Andrea

Frank D'Andrea

IN THE MATTER OF the Ontario Energy Board Act, 1998, being Schedule B to the *Energy Competition Act, 1998*, S.O. 1998, c.15;

AND IN THE MATTER OF an Application by Hydro One Networks Inc. to the Ontario Energy Board for an Order or Orders pursuant to section 78 of the *Ontario Energy Board Act, 1998* for distribution rates and related matters in the service areas formerly served by Norfolk Power Distribution Inc., Haldimand County Hydro Inc. and Woodstock Hydro Services Inc., to be effective January 1, 2022.

REPLY SUBMISSION OF
HYDRO ONE NETWORKS INC.

December 3, 2021

INTRODUCTION

On August 27, 2021, Hydro One Networks Inc. (Hydro One) filed an Incentive Rate-setting Mechanism (IRM) Application for Norfolk Power Distribution Inc. (NPDI), Haldimand County Hydro Inc. (HCHI) and Woodstock Hydro Services Inc. (WHSI) (effectively, the Acquired Utilities) seeking approval for changes in its electricity distribution rates to be effective on January 1, 2022. This is the last IRM Application made for each of the Acquired Utilities pursuant to section 78 of the *Ontario Energy Board Act, 1998* (the OEB Act) prior to their rebasing in the 2023 joint rate application for Hydro One Transmission and Distribution (the 2023 Rebasing Application) in EB-2021-0110.

In the current Application, Hydro One is seeking the following relief:

a. Application of a price cap adjustment to NPDI, HCHI and WHSI's distribution rates;
b. Maintaining the current Retail Transmission Service Rates (RTSR) for NPDI, HCHI and WHSI for 2022; and
c. Disposition of Group 2 Deferral and Variance Account (DVA) Balances of the Acquired Utilities over a one-year period, in addition to the Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) balances over a two-year period.

This is Hydro One's reply submission in respect of the 2022 Application. Hydro One submits that the proposed 2022 distribution rates and charges are reasonable and requests that the Application should be approved as filed, including the update to the WACC rate as noted below to Account 1576.

In OEB staff's submission, OEB staff updated Hydro One's 2022 IRM Models to reflect the OEB-approved 2022 inflation factor, and resulting price cap adjustment. Hydro One has no concerns with OEB staff's updates to the IRM Models. Furthermore, Hydro One does not take issue with OEB staff's submissions supporting Hydro One's proposals on the following matters:

- Maintaining Retail Transmission Service Rates at current levels
- Disposing of Group 2 balances in this proceeding on a final basis, including the final disposition of forecasted 2021 and 2022 balances, and discontinuance of the Group 2 accounts of the Acquired Utilities, except Haldimand Rate Zone's Account 1533
- Discontinuing Woodstock Rate Zone's Account 1508, sub-account ICM
- Removal of Haldimand Rate Zone's Account 1576 from disposition
- Continuing Haldimand Rate Zone's Account 1533
- Bill Mitigation Approach
- Implementation Matters related to effective date of January 1, 2022 and issuance of interim rate order, in the event that a final rate order is not issued before the end of 2021.

In this reply submission, Hydro One will address the outstanding aspects of OEB staff's submissions on the following topics:

1. Group 1 Disposition Approach (for all three utilities)
2. Review of Group 2 Accounts (for all three utilities)
3. Account 1592, sub-account CCA Changes (for all three utilities)
4. Woodstock Rate Zone's Account 1576
5. Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) Disposition (for all three utilities)

1. GROUP 1 DISPOSITION APPROACH (FOR ALL THREE UTILITIES)

Hydro One is not requesting disposition of its 2020 Group 1 balance in this proceeding or in the 2022 Distribution Annual Update Application (EB-2021-0032). The consolidated 2020 Group 1 balances of Hydro One Distribution, inclusive of the Acquired Utilities, with projected carrying charges to December 31, 2021 is a credit of $69.1M.[1] While the consolidated Group 1 balance exceeds the disposition threshold, Hydro One is proposing to dispose of the consolidated 2020 Group 1 balance inclusive of the Acquired Utilities in the 2023 Rebasing Application.[2]

OEB staff did not object to Hydro One's proposal to defer the disposition of 2020 Group 1 balances. OEB staff invited Hydro One to comment on whether there were 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.[3]

Hydro One notes that OEB staff's position was premised on two factors:

(i) OEB staff agrees there may be some relatively minor administrative regulatory efficiencies in combining the disposition request for 2020 balances with the 2021 balances, but notes this reason is not sufficient to defer disposition requests, and needs to be balanced with intergenerational inequity considerations; and

(ii) Hydro One did not provide the OEB with adequate evidence in this proceeding to enable a decision that directs Hydro One to dispose Group 1 balances.[4] OEB staff further noted that

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[1] $(69.1M) (as of December 31, 2021) / 36 TWh (2020 total metered kWh) = $(0.0019/ kWh)
[2] See EB-2021-0110, Exhibit G-01-01, Section 5.
[3] OEB staff submission, p. 4
[4] Specifically, OEB staff indicated that 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.

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.

1.1 RESPONDING TO OEB STAFF'S REQUEST ON OTHER REASONS FOR DEFERRAL

Hydro One submits that the proposed approach for disposition of Group 1 balances in this proceeding and in EB-2021-0032 and EB-2021-0110 is appropriate. Hydro One notes that the rationale for deferring the Group 1 balances of the Acquired Utilities has not changed in the Application, and believes that it has provided compelling rationale both as part of the Application as well as in interrogatory responses. Based on OEB staff's submissions, Hydro One would like to clarify and elaborate on the basis of its proposal to dispose of all Group 1 consolidated balances in the 2023 Rebasing Application.

(a) No customers are harmed

- The proposed approach for the Acquireds Utilities' one-year balances (i.e., 2020 balances) to be disposed in 2023 rates vs. 2022 rates, are not expected to create intergenerational inequities as prior balances (i.e., up to 2019) have been disposed in the 2021 rates.
- Contrary to the OEB staff's remarks,[5] Hydro One believes that the impact of the resulting rate riders being the same, in fact, supports the disposition proposal, as there is no significant difference in the rate rider impact between (i) disposing the Group 1 balances on a consolidated basis in 2023, and (ii) disposing the Group 1 balances based on an allocation in 2022.[6]
- As a result, Hydro One notes that customers will not be harmed by deferring the disposition of the Group 1 balances of the Acquired Utilities by one-year.

(b) Rate mitigation and bill smoothing is achieved beyond 2023

- This proposed approach enables longer term rate mitigation to be realized from bill smoothing over the 2023-2027 Custom IR term. The Acquired Utilities' Group 1 balance has contributed to the total credit balance of $87.7M proposed for disposition in the 2023 Rebasing Application, which will be applied against the revenue requirement over the custom IR term.

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[5] OEB staff submission, p. 4
[6] Response to OEB Staff IR 6

- From this perspective, Hydro One disagrees with OEB staff's interpretation that credit 2021 balances will exacerbate bill impacts.[7] Hydro One clarifies that the response to OEB Staff meant to state that disposing two-years of balances (2020 and 2021) will mitigate volatility in the bill impacts (i.e. reduction in one year followed by possible increase in the next), not mitigate bill impacts.[8]

(c) Change in circumstance based on filing timelines of multiple applications

- Hydro One disagrees with OEB staff that there has been no change in circumstance where Hydro One has been receiving one IESO invoice since 2015/2016.[9] Due to the timing of the 2023 Rebasing Application (EB-2021-0110) coinciding this year with the filing of the 2022 Annual Update Applications for Hydro One Distribution (EB-2021-0032) and the current Application (EB-2021-0033), this created a change in circumstance impacting Hydro One's decision to leverage the rebasing application to clear of all regulatory balances, without the need to produce allocated Group 1 balances by entity from the consolidated IESO invoice.
- In prior applications, producing an allocation for Group 1 balances would indeed be prudent, as multiple year balances of the Acquired Utilities were previously not disposed until the 2021 Annual Update Application for Hydro One Distribution and 2021 Application for the Acquired Utilities.
- As disposition is not requested in this Application, it is reasonable not to produce allocated Group 1 balances by Acquired Utility.

(d) Administrative and regulatory efficiencies for Hydro One

- Contrary to OEB staff's belief that there are minor administrative regulatory efficiencies gained this proposal, Hydro One believes there are significant, administrative and regulatory efficiencies by disposing all consolidated Group 1 balances of Hydro One Networks (Hydro One Distribution and Acquired Utilities) in the 2023 rebasing application.
- Hydro One notes that the allocation of balances between the rate zones is a manual exercise that is undertaken by the same staff that has prepared rates-related evidence for Hydro One's other ongoing applications before the OEB including the 2023 Rebasing Application. As noted by Hydro One in its interrogatory responses,[10] the OEB, in its audit report, accepted that the allocation methodology results in the same outcome as disposing on a consolidated basis.

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[7] OEB staff submission, pp. 4-5
[8] Response to OEB Staff IR 6
[9] OEB staff submission, p. 5
[10] Response to OEB Staff IR 6

- Due to the adjacent timing of the filing deadlines between the rebasing application and the 2022 Annual Update applications,[11] this timing issue has created the opportunity to leverage the upcoming 2023 Rebasing Application to dispose of all consolidated balances at once and avoid the need for this very time-intensive, manual process.

(e) Regulatory efficiencies for the OEB

- As the consolidated regulatory account balances of all Group 1 of Hydro One Distribution and Group 2 accounts of Hydro One Transmission are currently before the OEB in the 2023 rebasing proceeding, Hydro One believes that it has enabled a more comprehensive review of all regulatory accounts all at once in one juncture, except for the Group 2 balances of the Acquired Utilities which are the subject of this proceeding.

Summary and Other Considerations

Based on the above considerations, Hydro One submits that the proposed approach to defer disposition of Group 1 balances of the Acquired Utilities in this proceeding is appropriate. As stated in EB-2021-0110, EB-2021-0032, and EB-2021-0033, the Group 1 balances of the consolidated entity are proposed for disposition in the 2023 Rebasing Application on a final basis.

Additionally, as noted above, producing an allocation of Group 1 balances for this Application will be irrelevant and time-intensive. Hydro One submits that in doing so, this will be inconsistently applied if done for the Acquired Utilities, but not for Hydro One Distribution in the 2022 Annual Update Applications. Hydro One stated in the 2020 Annual Update for the Acquired Utilities that “the most appropriate way to dispose of the Group 1 account balances is to establish the total balance and seek OEB approval to dispose of the accounts for all four entities in the same year (Hydro One Networks’ main distribution service area, and the three Acquired Utilities)”.[12] The OEB accepted Hydro One Networks’ planned disposition approach for 2021 rates.

On this basis, for the reasons discussed above, Hydro One agrees with OEB staff that introducing an additional discovery process in this proceeding to determine the allocated Group 1 balances by utility is unnecessary. Hydro One therefore requests that the OEB accept Hydro One’s proposal to defer the disposition of the Acquired Utilities’ 2020 Group 1 balances in this proceeding.

[11] The 2023 rebasing application was filed on August 5, 2021, two weeks before the filing of the 2022 HONI Dx Application on August 20, 2021, and approximately two months before the filing of the 2022 Annual Update Application on September 27, 2021, due to an extension granted by the OEB for this Application.
[12] EB-2019-0044, Decision and Rate Order, pp. 8-9

2. REVIEW OF GROUP 2 ACCOUNTS (FOR ALL THREE UTILITIES)

While Group 2 balances are normally reviewed at time of rebasing, Hydro One requested to dispose of all the Acquired Utilities' Group 2 balances in this proceeding prior to its 2023 Rebasing Application. During the course of this proceeding, Hydro One forecasted 2021 and 2022 Group 2 balances for all Acquired Utilities in response to OEB staff interrogatories. Hydro One proposed that forecasted 2021 and 2022 balances be disposed on a final basis, if the OEB accepts Hydro One's request to discontinue all Group 2 accounts after 2022, with exception to Haldimand's Account 1533.[13]

OEB staff supported the approach to dispose of Group 2 balances in this proceeding as it reduces intergenerational inequity. However, OEB staff submitted that only 50% of select Group 2 balances noted in Table 1 of staff's submission be disposed. This equates to a clearance of $680,840 as compared to a total of $1,361,681 (noted in Table 1) that could be eligible for disposition.

2.1 Review of Select Group 2 Amounts in Table 1

Table 1 in OEB staff's submission,[14] reproduced below, includes a total of six Group 2 accounts:

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**

[13] Response to OEB Staff IR 7
[14] OEB staff submission, p. 8

OEB staff supported the disposition of 50% of the Group 2 balances noted in Table 1 of their submission. Hydro One notes that OEB staff's views were premised on the following:

(i) OEB staff noted that the OEB has provided direction in decisions that have specifically noted a prudence review would be required for certain accounts listed above, and was of the view that Hydro One is familiar with the Group 2 account disposition process, including the process to review the balances for prudence.

(ii) The 50% reduction recognizes the fact that Hydro One maintains responsibility to support its claim, despite the fact that it acquired these balances in a MAADs proceeding. OEB staff submitted that there is at least 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.[15]

(iii) Although 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.

Reply Submission
For the purposes of this Application, Hydro One agrees that there is an onus on the applicant to demonstrate the prudence of amounts requested for disposition. Hydro One has continued, on a best efforts basis, to source supporting documentation for all Group 2 accounts requested for disposition throughout this proceeding, but given the passage of time it does not have access to the data to provide any further details than what has currently been provided.

Hydro One has confirmed that the Group 2 account balances reflect the pre-integration balances from each Acquired Utilities' general ledger. At the time of integration, Hydro One accepted the balances at face value as the account balances were also audited. Hydro One submits that it is reasonable to assume that the amounts reflect the costs that were prudently incurred by the former utilities, on the same basis as they were approved the establishment of these accounts. There has been no principal activity since integration as most accounts have been inactive, except for the pole attachment revenue differential account and RCVA account. Hydro One confirms that it has followed the Accounting Procedures Handbook in recording transactions in the RCVA accounts.[16]

[15] OEB staff submission, p. 9
[16] EB-2021-0110, Exhibit G-1-1, section 5.10, p. 44

Hydro One opposes OEB staff's suggestion that only 50% of the select Group 2 balances in Table 1 should be disposed in this proceeding. Hydro One submits that any reduction to the Group 2 balances in Table 1 is not appropriate for the following reasons:

(i) The rationale in deriving this figure of 50% reduction was not provided and appears arbitrary and does not appear to be based on account-specific reductions.

(ii) The selection of accounts in Table 1 appears to be arbitrary and they are all debit balances. Hydro One also questions why the ICM account was included in Table 1 when the balance is nil.

(iii) OEB staff specifically identified and explained why three out of six accounts were questionable at face value. These three accounts specifically include (i) Woodstock rate zone's Account 1536 – Smart Grid Funding Adder Deferral Account, (ii) Norfolk rate zone's Accounts 1518 and 1548, and (iii) Haldimand rate zone's Accounts 1518 and 1548.

Hydro One requests that the OEB consider the information on the record, including the additional clarifications below, in making its final determinations on the reasonableness of the Group 2 account balances.

For completeness of the record, Hydro One will discuss the basis of the balances for all applicable accounts identified in Table 1.

Accounts 1508 – IFRS (Norfolk and Woodstock).

- Hydro One notes that this specific account balance was not identified by OEB staff as being questionable, as such Hydro One is not clear why the amount was included in the overall balance requested for reduction by OEB staff. Norfolk and Woodstock's Account 1508 IFRS Transition Costs were included for review in the former utilities' financial statements[17] and do not appear to be inappropriately capturing additional amounts that do not qualify for recovery.

[17] Response to OEB Staff IR 10

Accounts 1518/1548 – RCVA (Norfolk and Haldimand).

- OEB staff questioned why the sign on the opening 2016 balance of Accounts 1518 and 1548 were both debit amounts for Norfolk and Halidmand, when revenues are expected to be credit amounts.[18] OEB staff raised concerns that Halidmand's Account 1518/1548 had significant pre-integration transactions compared to post-integration transactions.[19]
- Since integration, Hydro One confirms that the Acquired Utilities' RCVA annual transaction movements were consistent with Hydro One's overall RCVA transaction movements and that both revenues and costs have been accurately recorded with the proper amounts and signs.
- OEB staff raised concern over the RCVA revenues. They reflect the life-to-date balance, which is caused by the integrated balances from Norfolk and Haldimand in 2016. As discussed, Hydro One accepted the 2016 opening balances at face value, as all other audited balances were brought forth to Hydro One at time of integration. Any subsequent year transactions leading to the amounts proposed for disposition are mechanistically derived.
- Hydro One submits the calculation methodology underpinning the life-to-date balance for the RCVA revenues as of December 31, 2020 is reasonable, despite there being significant pre-integration balances compared to post-integration balances.
- Hydro One further submits that the RCVA account balance can be viewed as a mechanistic account, similar to Group 1 accounts for which the OEB previously approved disposition of the pre-integration balances.

Accounts 1533, DG – Other Cost (Norfolk).

- Hydro One notes that this specific account balance was not identified by OEB staff as being questionable, as such Hydro One is not clear why the amount was included in the overall balance requested for reduction by OEB staff. Hydro One notes that Norfolk's account balance was a lump sum amount of $290K in 2015, was not an active account either.
- Hydro One submits that the reasonability of Norfolk's balance should be viewed similarly as with Woodstock's Account 1536, as Norfolk's principal balance is similar to the situation with Woodstock as discussed below.

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[18] OEB staff submission, p. 9
[19] OEB staff submission, p. 9

Account 1536, Smart Grid Funding Adder Deferral Account (Woodstock).

- OEB staff raised concerns over the use of Account 1536, the nature of amounts recorded in the account, and the sign on the account balance.[20] Specifically, OEB staff expected the balance to be in a credit position, but it is in a debit position. Each of these issues are addressed in turn below.
- Hydro One confirms that when it received the trial balance from Woodstock, Woodstock's initial costs were recorded in Accounts 1534 (OM&A tracking) and 1535 (Capital tracking). Upon review with Woodstock in 2016, Hydro One was informed that these costs should not be recorded in contra-accounts. Hydro One subsequently re-mapped these costs to Account 1536. To clarify in response to OEB staff's questions,[21] the $426,564 debit balance requested for disposition, in fact, reflects both OM&A and capital spending from Woodstock's smart grid program.
- As noted in interrogatory responses, the $383K principal balance reflects the integration amount from September 1, 2016, with interest improvement applied on this account since integration.[22] Hydro One had no visibility into how the opening account balance was calculated, as it received a lump sum, integrated amount from Woodstock, and accepted this balance at face value at the time of integration.

<u>Summary Conclusions</u>

Hydro One submits that the OEB should reject OEB staff's recommendation to disallow 50% of the Group 2 account balance (listed in Table 1) as being eligible for disposition, as only three of the six Group 2 account balances were identified by OEB staff as being questionable. This 50% reduction amount was also not specifically derived by account and seems to be a subjective evaluation.

In prior rate proceedings including EB-2016-0082, EB-2017-0050 and EB-2020-0331, Hydro One did 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 approved for disposition the pre-integration Group 1 balances. In most recent proceeding, the OEB approved the post-integration Group 1 balances for the Acquired Utilities as of December 31, 2019.

Although Hydro One recognizes that a different standard of review applies for Group 2 accounts, it is also important to recognize that there has been precedence from the OEB accepting the disposition of certain regulatory accounts that were considered to be mechanistic, without the detailed analysis requested by OEB staff.

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[20] OEB staff submission, p. 9
[21] OEB staff submission, p. 9
[22] Responses to OEB Staff IR 17

Hydro One submits that OEB staff did not specifically express their views on the other Group 2 accounts shown in Table 1. On this basis, there was not a strong disagreement from OEB staff that the other Group 2 account balances are questionable or unreasonable. By way of example:

(i) OEB staff did not comment on the pole attachment revenue differential account. This balance was not discussed nor included in Table 1 of OEB staff's submission. Hydro One assumes that OEB staff is in agreement with this credit balance to be returned to customers. This is one of two accounts besides the RCVA account, where Hydro One booked amounts in the accounts post-integration. Hydro One submits that both pole attachment and RCVA account balances are mechanistically derived.

(ii) Although not specified in Table 1, OEB staff did not comment on the integration credit balance of Woodstock rate zone's Account 1576.

(iii) By the same token as (i) above, OEB staff did not explicitly explain why the other Group 2 accounts besides the three accounts identified in Table 1 above were questionable.

(iv) OEB staff, in essence, have only expressed concern about the pre-integration balances, but the 50% reduction relates to the cumulative Group 1 balance, including post-integration amounts primarily from the RCVA balance, which OEB staff have not indicated were unreasonable. As a result, it would appear that OEB staff's suggested reduction amount is flawed.

Due to the passage of time since the Acquired Utilities' prior rebasing applications, Hydro One believes that it is appropriate to dispose of all account balances to the appropriate customers, as was agreed to by OEB staff, but not cherry-pick specific accounts for reduction which contain debit balances, to avoid cross-subsidization and intergenerational inequity. Hydro One submits the Group 2 balances in Table 1 should not prejudiced. With the proposed 50% reduction of the Group 2 accounts identified in Table 1 above, Hydro One is being penalized unfairly for any pre-integration balances that were recorded by the Acquired Utilities.

3. ACCOUNT 1592, SUB-ACCOUNT CCA CHANGES (FOR ALL THREE UTILITIES)

Account 1592 captures the revenue requirement impact relating to changes in regulatory taxes embedded in rates that arises from changes in tax legislation during the approved application period.

In this proceeding, the OEB staff noted that "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." OEB staff submitted that Hydro One should be directed to calculate the balances in the 1592 sub-account for each of the Acquired Utilities for the period of November 21, 2018 to December 31, 2022, as Hydro One is realizing a windfall gain associated with CCA changes by claiming CCA at an accelerated rate compared to the CCA embedded in its rates. As part of OEB staff's submission, OEB staff invited Hydro One to explain why it should not be ordered to dispose of the 1592 balances in the current proceeding in its reply submission.[23]

Reply Submission

Hydro One submits that the rates for Norfolk, Haldimand, and Woodstock were frozen over a five-year period since the MAADs applications based on their respective OEB-approved rates established in prior applications before acquisition and including a 1% rate reduction.[24] This resulted in a disconnect between the approved rates and the underlying components of revenue requirement for the deferred rebasing period. In other words, as the Acquired Utilities have not rebased, there was no linkage between any components of revenue requirement including the fixed asset additions based on which the benefit of accelerated CCA originates. Fixed asset additions lead to a higher overall level of fixed assets, which results in a corresponding change to revenue requirement. However, as the Acquired Utilities have, in fact, not rebased their revenue requirements and their rates are not based on fixed asset additions. Hydro One submits that it would be inequitable and unfairly penalize Hydro One to only return the tax benefits originated from accelerated CCA for the same fixed assets addition. As such, Hydro One continues to believe that the nil balances in each of the Acquired Utility's 1592 sub-account remain appropriate.

Hydro One also has concerns with OEB staff's calculation approach of using the additions embedded in the Acquired Utilities' last rate application, as rates were frozen during this time. In deriving rates, there was no forecasted additions relating to 2018 to 2022 embedded in those applications. By virtue of rates being frozen, the fixed assets are also frozen and there would be no additions for which accelerated CCA would apply. Consequently, OEB's staff's calculation approach of using the additions embedded in the Acquired LDCs last rate application to calculate the tax benefits associated with accelerated CCA is

[23] OEB staff submission, p. 11

[24] Norfolk, Haldimand, and Woodstock's approved rates have been frozen for a five-year period, since September 8, 2014; July 1, 2015; and October 31, 2015, respectively

inappropriate. For the reasons noted above, Hydro One continues to believe that the nil balances in each of the Acquired Utility's 1592 sub-account remain appropriate.

4. WOODSTOCK RATE ZONE'S ACCOUNT 1576

Hydro One proposed to dispose of a credit balance of $2,240,878 (comprised of both principal and projected interest amounts) in Woodstock rate zone's Account 1576 – Accounting Changes under CGAAP. Transactions in the account ceased in 2015, coinciding with the year prior to Woodstock rate zone's transition to US GAAP. The Account 1576 included 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.

OEB staff submitted 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. As noted in the Accounting Procedures Handbook, 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. OEB staff further submitted that a credit of $500,000 annually should accrue to ratepayers, based on forecasting 2016 to 2022 transactions, which should result in a total principal credit balance of $5,624,659 instead of $2,124,659.

OEB staff also submitted 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%. OEB staff notes that the OEB previously approved interim disposition of Newmarket-Tay Power's 2017 Account 1576 balance and final disposition of Newmarket-Tay Power's 2020 Account 1576 balance, in which the last approved WACC was applied to Account 1576.

Reply Submission

Hydro One submits that Woodstock's Account 1576 balance of -$2,124,659 is appropriate. Account 1576 – Accounting Changes under CGAAP records the financial differences arising as a result of accounting policy changes to depreciation expense and capitalization policies permitted by the OEB from Canadian GAAP to Modified IFRS (MIFRS). Since Woodstock was permitted by the OEB to adopt US GAAP[25] for accounting and regulatory purposes in 2015, there was no need to continuing recording entries into the account as Woodstock was no longer applying MIFRS. If Woodstock continued to use MIFRS, then there

[25] EB-2014-0213, Decision and Order, September 11, 2015, p. 20

is a basis for entries to continue in Account 1576 until rebasing. However, given that Woodstock adopted US GAAP, Account 1576 is no longer relevant and therefore, Hydro One strongly disagrees with OEB staff's view that the principal balance needs to be updated. In fact, recording any principal balances after adopting US GAAP would be incorrect and is contrary to the purpose of this account.

With respect to the WACC rate to be applied to the principal balance in Account 1576, Hydro One accepts OEB Staff's rationale for applying 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%.

Hydro One will prepare an updated DVA Continuity Schedule, for the updated return component on the principal balance of -$2,214,659, as part of the Draft Rate Order process.

5. LOST REVENUE ADJUSTMENT MECHANISM VARIANCE ACCOUNT (LRAMVA) DISPOSITION (FOR ALL THREE UTILITIES)

In this Application, Hydro One requested to dispose of the LRAMVA balances for the Norfolk, Haldimand and Woodstock rate zones, totaling $2,105,387, which is inclusive of forecasted interest amounts to December 31, 2022.[26] Hydro One proposed to dispose of all LRAMVA balances over 24 months to mitigate rate impacts to its customers. OEB staff submitted that the LRAMVA balances were reasonable, and invited Hydro One to forecast the 2022 year-end balances for LRAMVA and be disposed in this proceeding on a final basis.[27]

Reply Submission

Hydro One noted that it was 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 also confirmed in response to OEB staff interrogatories 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.[28]

As it relates to savings prior to 2016 specifically the historical savings from 2011 to 2015 CDM programs that persist into 2021 and 2022 rate years, Hydro One submits that it is in the process of obtaining all the necessary inputs for the purpose of the calculation. In the event that the OEB agrees with the

[26] Response to OEB Staff IR 4
[27] OEB staff submission, pp. 7 and 17
[28] Response to OEB Staff IR 1.

current proposal to dispose of forecasted Group 2 balances for 2021 and 2022 on a final basis, Hydro One will be in a position to calculate those balances at the time of the DRO.

CONCLUSION

Based on the foregoing, Hydro One submits that the proposed 2022 distribution rates and charges are reasonable and requests that the Application should be approved as filed, including the update to the WACC rate as noted above to Account 1576.

All of which is respectfully submitted this December 3, 2021.