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BY EMAIL

September 28, 2022

Nancy Marconi
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4

Dear Ms. Marconi:

**Re: Hydro One Networks Inc. (Hydro One)
Application for 2023 Distribution Rates for Areas formerly served by Orillia
Power Distribution Corporation and Peterborough Distribution Inc.
Ontario Energy Board File Number: EB-2022-0040**

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

Hydro One Networks Inc.'s responses to interrogatories are due by October 12, 2022.

Any questions relating to this letter should be directed to Arturo Lau at Arturo.Lau@oeb.ca. The OEB's toll-free number is 1-888-632-6273.

Yours truly,

Arturo Lau
Advisor

Encl.

**OEB Staff Interrogatories
Hydro One Networks Inc.
EB-2022-0040**

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

OEB Staff 1- Orillia- GA Consumption

Ref. 1: Appendix E-1 2023 IRM Model- Orillia, Tab 6

OEB staff notes that Customer 4 had a consumption of roughly 5 million kWh prior to 2021, however in Jan- Jun 2021, there was a precipitous drop to 2.7 million kWh then an increase to 4.1 million kWh in the next period.

Question:

- a) Please confirm the consumptions for Customer 4 are correct.

OEB Staff 2- Peterborough- GA Consumption

Ref. 1: Appendix F-1 2023 IRM Model- Peterborough Tab 6

OEB staff notes for question 3a, that Customer 10 started consumption in the period of January to June 2020.

OEB staff also notes that Customer 1 decreased its consumption by 90% between 2019 – 2021.

Question:

- a) Please confirm that Customer 10 connected to the utility during the period of January to June 2020.
 - a. If not, please input the data prior to the January to June 2020 period.
- b) Please confirm Customer 1's consumption data is correct specifically for 2019 and beyond.

OEB Staff 3- Account 1588 RSVA – Power and Account 1589 RSVA Global Adjustment

Ref. 1: Decision and Rate Order EB-2018-0067, page 7

Ref. 2: Decision and Rate Order EB-2021-0050, pages 6-7

Ref. 3: Application and Evidence, Appendix D, Hydro One’s Review of Peterborough Distribution Inc. Accounts 1588 and 1589

Ref. 4: Application and Evidence, page 13

In Reference 1, the OEB stated:

The OEB finds that an audit of Peterborough Distribution’s December 31, 2017, balances in Accounts 1588 and 1589, is necessary. The purpose of the audit is to obtain further validation of these commodity account balances through a more detailed review of the underlying transactions and processes, including a review of Peterborough Distribution’s process over its monthly RPP settlements and the subsequent true-up of those settlements. The OEB expects that Peterborough Distribution file a report in its next rate application outlining the changes it made to its RPP settlement processes and any adjustments it made to its Account 1588 and Account 1589 balances explaining each.

The audit request by the OEB was ratified in Reference 2:

The OEB notes and accepts that the deferral is due to the transfer of customer data that is still pending integration into Hydro One’s system for both rate zones as well as a pending audit for the Peterborough Distribution rate zone.

Hydro One Networks has provided a review report in Reference 3. The review was done by Hydro One Networks.

In Reference 4, Hydro One Networks requests the disposition of its Group 1 DVA balances for Orillia and Peterborough up to December 31, 2020 (the year prior to integration). Hydro One Networks further states that:

HONI is proposing to defer the disposition of Orillia and Peterborough’s Group 1 balances for the 2021 fiscal year until its 2024 IRM Application. The 2021 balances include seven months of post-integration data that is tracked and recorded on a consolidated basis for Orillia, Peterborough, HONI Distribution, and the other acquired utilities. Due to the ongoing Joint Rate Application for HONI Distribution and the other Acquired Utilities, the 2021 balances for these entities will not be considered for disposition until their 2024 annual update. This deferral allows the OEB to review the disposal of these consolidated balances for

all entities at one time, as opposed to only reviewing a subset allocated to Orillia and Peterborough.

Questions:

- a) Please provide the status of the audit ordered by the OEB.
 - i) Please provide the reasons if the audit has not started or completed.
- b) Please explain the nature of the review conducted by Hydro One Networks regarding Peterborough rate zone's accounts 1588 and 1589 and confirm whether this review was conducted by Hydro One Networks' internal audit group.
 - i) Please elaborate how this review meets the OEB's direction in the 2019 decision and order.
- c) Please clarify that Hydro One Networks has requested Group 1 DVA balances for Orillia and Peterborough up to December 31, 2020 on an interim basis or a final basis. Please provide the rationale.
- d) Please provide Hydro One Network's thought of deferring the disposition of Group 1 DVA balances as at December 31, 2020 until the completion of the audit that was ordered by the OEB.

OEB Staff 4

Ref. 1: Application and Evidence, Appendix D, pages 2 and 3

Ref. 2: HONI_OPDC_PDI_Appendix F-1_20220803_IRM Peterb.xlsb, Tab 3, continuity schedule

Ref 3: Appendix H, GA Analysis Workform

In Reference 1, HONI mentioned that there were some adjustments made in the GA Analysis Workform during March of 2019. The review of Tab 3 of the file mentioned in reference 2, shows that there are no principal adjustments captured in the continuity schedule between the years of 2017-2020.

- a) Please confirm the adjustments mentioned in reference 1, are included in the amounts requested for disposition in the current application. If not, please adjust the evidence as required.
- b) Please refile the 2019 GA workform including the 2019 adjustments outlined in the Appendix D.

OEB Staff 5

Ref. 1: Application and Evidence, page 18

In Reference 1, HONI indicated:

On March 4, 2019, the OEB's Audit Report on HONI's regulated price plan (RPP) settlement process for Group 1 DVAs (the March 2019 Audit Report) concluded that HONI's RPP settlement process complies with current regulatory requirements.

Questions:

- a) Considering the balances sought for this position pertain to Orillia and Peterborough for the for variances accumulated during the period 2017-2020, please confirm these balances comply with the February 2021, Accounting Guidance related to Accounts 1588 Power, and 1589 RSVA Global Adjustment (GA).
- b) Hydro One indicated acquired Peterborough Distribution Inc on August 1, 2020, and Orillia on September 1, 2020, and the integration into Hydro One's systems was effective on June 1, 2021. Please explain how Hydro One accounted for the transactions that impacted the commodity accounts between the acquisition date and June 1, 2021.

OEB Staff 6- Global Adjustment Analysis Workform

Ref. 1: EB-2022-0040, page 19

In Reference 1, Hydro One indicated the 2020 consolidated account 1589 balance is reasonable as the discrepancies are within 1% of the total IESO GA charges.

Question:

- a) The reasonability of the threshold mentioned above is determined on a consolidated basis. Please provide what would be the result of this reasonability test on an individual basis for Orillia and Peterborough.
- b) Hydro One indicated that it receives one consolidated invoice for settlement of commodity, bulk transmission and wholesale settlements for all service territories. Please explain when Hydro One started to receive one consolidated bill for Hydro One Distribution and the Acquired Utilities.

OEB Staff 7

Ref 1: Manager's Summary, pages 32-33

HONI states that it requests the LRAMVA be continued for both Orillia and Peterborough to dispose of all historical CFF amounts on a prospective basis, as Orillia is in a deferred rebasing period until September 1, 2030 and Peterborough is in a deferred rebasing period until August 1, 2030.

OEB staff notes that, per the OEB's *Guidance on Prospective Lost Revenue Adjustment Mechanism (LRAM) Amounts – 2023 Rates*, LRAM-eligible amounts for prospective disposition are not entered into the LRAMVA, but are approved separately. Thus, continuation of the LRAMVA is not required solely for the purpose of approving LRAM-eligible amounts for future years due to persisting savings (and disposing of these amounts through future rate riders).

Questions:

- a) Please confirm if Orillia and Peterborough are seeking disposition of all outstanding LRAMVA balances and whether the LRAMVA will have a zero balance if disposition is approved.
- b) Please confirm that Hydro One Orillia and Peterborough are not requesting the use of the LRAMVA for future CDM activity beyond 2022 at this time.

OEB Staff 8

Ref 1: LRAMVA Workform (Peterborough), Tab 4

In Table 4-b, the adjustment to 2012 savings for the Energy Audit program could not be reconciled to the supporting IESO savings and persistence reports

Question:

- a) Please confirm the source of the 2012 savings adjustment for the Energy Audit program.

OEB Staff 9

Ref 1: LRAMVA Workform (Orillia and Peterborough), Tab 6

The OEB has recently published its prescribed interest rate for deferral and variance account balances for Q4.

Questions:

- a) Please update the carrying charges for Q4 in Tab 6 of the LRAMVA Workforms for Orillia and Peterborough.
- b) Please update the IRM Models for Orillia and Peterborough to reflect the updated total balance and carrying charges for the LRAMVA.

OEB Staff 10

Ref 1: Application Summary, p.24

Ref 2: EB-2018-0270, Decision and Rate Order, July 9, 2020, Schedule B – Accounting Order

Ref 3: EB-2018-0242, Decision and Rate Order, July 9, 2020, Schedule B – Accounting Order

Ref 4: Accounting Procedures Handbook, Article 410

Orillia and Peterborough were approved to establish Account 1576 – Accounting Changes Under US GAAP Deferral Accounts. Per the accounting orders for Orillia and Peterborough, the account is to record the impact of any applicable accounting changes to depreciation expense and capitalization policies on property, plant, and equipment (PPE) resulting from Orillia and Peterborough’s transition from modified International Financial Reporting Standards (MIFRS) to US GAAP for financial and regulatory accounting purposes. The deferral account will track impacts (both debits and credits) of the transition to US GAAP with respect to how costs are capitalized and depreciated.

In the current application, Hydro One noted that the Account 1576 balances for Orillia and Peterborough is \$0 as at December 31, 2021.

Questions:

- a) Please confirm that the \$0 balance means that Hydro One has not identified any differences in Orillia and Peterborough’s depreciation and capitalization policies under USGAAP and MIFRS.
 - i. If not confirmed, please explain what the \$0 balances represent and revise the evidence as applicable.
- b) As per reference 4, notable differences between USGAAP and MIFRS include the prohibition of capitalization of administration and general overheads under MIFRS, and the MIFRS requirement to separately depreciate significant parts or components of assets in relation to the total cost of an asset. Please explain the nature of the review Hydro One has performed to assess the USGAAP and

MIFRS differences in capitalization and depreciation policies on PP&E for Orillia and Peterborough.

- i. Please discuss the findings of the review, including a discussion on the notable differences mentioned above.
- c) The accounting orders for Orillia and Peterborough state that the deferral account balances will be reviewed at the next rebasing rate application to determine the appropriate approach for disposition. Please confirm that Hydro One intends to bring these accounts for review and disposition at the next rebasing application. If not confirmed, please explain.

OEB Staff 11

Ref 1: Appendix E-2 – Orillia DVA Continuity Schedule

Ref 2: Appendix F2 – Peterborough DVA Continuity Schedule

The DVA Continuity Schedules for both Orillia and Peterborough's Group 2 accounts begin with the 2016 year-end balances. Orillia last rebased in 2010 and disposed 2008 Group 2 balances. Peterborough last rebased in 2013 and disposed 2011 Group 2 balances.

Questions:

- a) Please explain if Hydro One has the opening balance of each of Orillia and Peterborough's Group 2 accounts since the balance that was last approved for disposition in their last respective cost of service proceedings.
- b) If yes, please revise the DVA Continuity Schedules to start from the last closing principal and interest balances that were approved for disposition.
- c) If the response to part a) is no, please explain whether Hydro One has previously confirmed that the opening account balances resulting in the cumulative 2021 balances appropriately reflect the last approved closing balances for each of Orillia and Peterborough.
- d) Please explain if Hydro One has support for annual transactions recorded in Orillia and Peterborough's Group 2 accounts from the opening account balances (i.e. after last disposition) to the date of integration with Hydro One. If not, why not.

OEB Staff 12

Ref 1: Application Summary, p.26

Ref 2: Appendix F2 – Peterborough DVA Continuity Schedule

Ref 3: February 9, 2016, OEB Letter regarding Revisions to the Ontario Energy Board Cost Assessment Model

Hydro One is requesting a debit balance of \$338,208 for Peterborough's Account 1508, Sub-account OEB Cost Assessment Variance Account. Per the letter noted in reference 3, the account was established effective April 1, 2016, to record material differences between OEB cost assessments currently built into rates, and cost assessments that will result from the application of the new cost assessment model. Entries into the sub-account are to be recorded on a quarterly basis when the OEB's cost assessment invoice is received.

Questions:

- a) In Peterborough's DVA Continuity Schedule, there are no annual transactions for the sub-account. The entire principal balance in the account is recorded in 2021. Please explain why there are no annual transactions even though the OEB's letter requires entries into the sub-account to be recorded on a quarterly basis.
- b) Please explain how Hydro One determined the balance in the sub-account, and provide the supporting calculation.
 - i. Please provide the reference in Peterborough's last rebasing application for the amount of OEB cost assessments built into rates.

OEB Staff 13

Ref 1: Application Summary, p.26

Ref 2: Accounting Procedures Handbook, March 2015 Guidance #13-14

Hydro One is requesting the disposition of Account 1508, Sub-account Incremental Capital Module (ICM) for a debit balance of \$10,025 for Orillia, and a debit balance of \$15,885 for Peterborough. Hydro One stated that for Orillia, this is a residual rider balance that ended April 30, 2010. For Peterborough, this balance has existed since 2015 and has been presented on the audited financial statements.

Questions:

- a) Please provide the application references (i.e. EB numbers) for the approval of the Orillia and Peterborough ICMs.

- b) Please indicate whether the ICMs have been incorporated into Orillia or Peterborough's rate bases. If yes, please provide the application references (i.e. EB numbers).
- c) Please confirm that the "residual rider balance" for Orillia and Peterborough is to mean the difference between the actual ICM revenue requirement calculated based on actual costs of the ICMs and the rate rider revenues collected. If not confirmed, please explain.
 - i. If confirmed, please provide the actual ICM costs for Orillia and Peterborough.
 - ii. Please also provide the calculation of the balances in the sub-accounts for Orillia and Peterborough, showing the calculation of the actual annual ICM revenue requirement recalculated using actual costs and the annual rate rider revenues collected.
 - iii. In reference to the revenue requirement calculation noted in part ii) above, please clarify whether the revenue requirement represents the full-year revenue requirement or the half-year revenue requirement (i.e. based on the half-year rule).
- d) Per the accounting guidance noted in reference 2, there is no generic account named Account 1508, Sub-account Incremental Capital Module. Please clarify which account in the accounting guidance this sub-account correlates to.
 - i. Please explain the mechanics of the Incremental Capital Module sub-account and how it interacts or correlates to the sub-accounts noted in the accounting guidance.

OEB Staff 14

Ref 1: Application Summary, p.29

Ref 2: Appendix E-2 – Orillia DVA Continuity Schedule

Ref 3: Appendix F-2 – Peterborough DVA Continuity Schedule

Ref 4: July 25, 2019, OEB letter regarding Accounting Direction Regarding Bill C-97 and Other Changes in Regulatory or Legislated Tax Rules for Capital Cost Allowance

Hydro One is requesting the disposition of Account 1592, Sub-account CCA Changes for a credit balance of \$204,147 for Orillia and a credit balance of \$204,630 for Peterborough.

In Orillia's DVA Continuity Schedule, there are only transactions shown in 2020. In Peterborough's DVA Continuity Schedule, there are transactions shown in 2020 and 2021.

The sub-account balance may be calculated based on two methods. The first method is the “approved capital additions method”, which is calculated as the difference in CCA between the calculations embedded in a utility’s rates and what that calculation would have been had the Accelerated Investment Incentive Program (AIIP) rules been applied in its last rebasing application. The second method is the “actual capital additions method” which is calculated as the difference in CCA between the amounts claimed for a utility from 2018 to 2021 and what the claims would have been had the AIIP program not been introduced

Questions:

- a) Please clarify which of the two methods noted above was used to calculate the balances in the sub-account for Orillia and Peterborough.
 - i. Please explain Hydro One’s rationale for the method used in calculating the balances.
- b) Please provide the calculation of the full revenue requirement impact using the two methods noted above, if not already provided.
- c) Per the letter noted in reference 4, the OEB expects utilities to record the impacts of the CCA rule change starting from November 21, 2018. If the actual capital additions method was used to calculate the sub-account balances, please confirm that there were no eligible capital expenditures for Orillia in 2019 and 2021, and Peterborough in 2019. If not confirmed, please explain why there are no transactions in the years noted.
 - i. If the approved capital additions method was used to calculate the sub-account balances, please explain why transactions are not recorded annually in the sub-accounts and revise the evidence as applicable.

OEB Staff 15

Ref 1: Application Summary, p.29

Ref 2: Appendix E-2 – Orillia DVA Continuity Schedule

Ref 3: Appendix F-2 – Peterborough DVA Continuity Schedule

Ref 4: EB-2015-0304 Report of the Ontario Energy Board – Wireline Pole Attachment Charges, March 22, 2018

Ref 5: November 28, 2019, OEB letter regarding Inflation Adjustment for Energy Retailer Service Charges (EB-2019-0280) and Wireline Pole Attachment Charge (EB-2015-0304) for Electricity Distributors

Ref 6: Decision and Rate Order, December 16, 2021, EB-2021-0302

Hydro One is requesting the disposition of Account 2405 – Revenue Difference Account, Sub-account Pole Attachment Charge Variance Account for a credit balance of \$113,529 for Orillia and a credit balance of \$548,096 for Peterborough.

Per references 4, 5 and 6, the September 1, 2018, January 1, 2019, January 1, 2020 and January 1, 2021 wireline attachment rates effective were \$28.09, \$43.63, \$44.50, \$44.50, respectively.

Questions:

- a) For each of the Orillia and Peterborough's Account 2405, please provide the supporting calculation of the balances for each year from 2018 to 2021.
- b) In Orillia's DVA Continuity Schedule, transactions are \$0 in 2018, approximately a credit of \$50,000 annually in 2019 and 2020, and approximately a credit of \$5,000 in 2021.
 - i. Please explain why there are no transactions in 2018 even though there was a rate change effective September 1, 2018.
 - ii. Please explain the significant decrease in 2021 transactions in the context of the 2020 and 2021 pole attachment rates which remained at \$44.50.
- c) In Peterborough's DVA Continuity Schedule, annual transactions are approximately a credit of \$10,000, credit of \$144,000, credit of \$221,000, and credit of \$157,000 from 2018 to 2021. Please explain the significant decrease in 2021 transactions in the context of the 2020 and 2021 pole attachment rates which remained at \$44.50.

OEB Staff 16

Ref 1: Appendix F-2 – Peterborough DVA Continuity Schedule

Ref 2: EB-2012-0160 Decision and Order, August 22, 2013, p.3

In Peterborough's DVA Continuity Schedule, there is a debit balance of \$107,2678 in Account 1533 – Distribution Generation – Provincial – Express Feeders – Deferral Account. Hydro One has not requested the disposition of this account.

In the OEB's decision and order noted in reference 2, the OEB stated:

The Board expects PDI to record the incremental capital investment eligible for recovery from provincial ratepayers in Account 1531: Renewable Generation Connection Capital Deferral Account. In addition, PDI shall record the revenues received through the IESO protocols in Account 1533: Renewable Generation Connection Funding Adder Deferral Account.

Questions:

- a) Please explain what the balance in Account 1533 represents (e.g capital, OM&A funding adder relating to Green Energy Plan), including what the annual transactions are for.
- b) Please explain why Hydro One has not requested the disposition of this account, explain Hydro One's plan for this account, and confirm that Hydro One intends to continue this account.

OEB Staff 17

Ref 1: Appendix E-2 – Orillia DVA Continuity Schedule

Ref 2: Appendix F-2 – Peterborough DVA Continuity Schedule

Ref 3: Report of the Ontario Energy Board: Regulatory Treatment of Pension and Other Post-Employment Benefits (OPEBs) Costs, EB-2015-0040, September 14, 2017

As noted in reference 3, the OEB established Account 1522 Pension & OPEB Forecast Accrual versus Cash Payment Differential Carrying Charge, and related control and contra-accounts. Account 1522 tracks the differences between the forecast accrual amounts recovered in rates and the actual cash payments made for both pension and OPEBs. Only the carrying charges applied to the account is subject to disposition. In the Orillia and Peterborough DVA Continuity Schedules, there are no balances for the Account 1522.

Questions:

- a) Please indicate whether Account 1522 and related accounts are applicable for each of Orillia and Peterborough. Please explain why it is or is not applicable.
- b) Please provide the balances for the Account 1522 accounts for each year in which it is applicable and provide any supporting calculations.
- c) Please revise the DVA Continuity Schedule as needed.

OEB Staff – 18

Ref 1: Appendix E-1: Orillia 2023 IRM Rate Generator, Tab 17

Ref 2: Appendix F-1: Peterborough 2023 IRM Rate Generator, Tab 17

In both the Orillia and Peterborough rate generator, OEB staff has updated the Smart Metering Entity charge to \$0.42, effective January 1, 2023, based on OEB Letter issued September 8, 2022 (EB-2022-0137).

Question:

- a) Please confirm the update in the IRM rate generator for Orillia in Ref 1.
- b) Please confirm the update in the IRM rate generator for Peterborough in Ref 2.