



Hydro One Networks Inc.

483 Bay Street
7th Floor South Tower
Toronto, Ontario M5G 2P5
HydroOne.com

Kathleen Burke

Director, Applications Delivery
T 416-770-0592
Kathleen.Burke@HydroOne.com

BY EMAIL AND RESS

November 7, 2022

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

Dear Ms. Marconi,

EB-2022-0040 - Hydro One Networks Inc. 2023 Rate Application for the areas formerly served by Orillia Power Distribution Corporation and Peterborough Distribution Inc. - Reply Submission

In accordance with Procedural Order No. 1, please find enclosed Hydro One Networks Inc.'s reply submission on Hydro One Networks Inc. 2023 Rate Application for the Areas formerly served by Orillia Power Distribution Corporation and Peterborough Distribution Inc.

An electronic copy of the reply submission has been submitted using the Board's Regulatory Electronic Submission System.

Sincerely,

A handwritten signature in black ink that reads "Kathleen Burke". The signature is written in a cursive style.

Kathleen Burke

ONTARIO ENERGY BOARD

IN THE MATTER OF the Ontario Energy Board Act, 1998, S.O.
1998, c.15;

AND IN THE MATTER OF an Application by Hydro One Networks
Inc. 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 Orillia Power Distribution
Corporation and Peterborough Distribution Inc., to be effective
January 1, 2023.

**REPLY SUBMISSION OF
HYDRO ONE NETWORKS INC.**

November 7, 2022

1 **A. OVERVIEW**

2 On August 3, 2022, Hydro One Networks Inc. (HONI) filed an Incentive Rate-setting
3 Mechanism (IRM) Application for the areas formerly served by Orillia Power Distribution
4 Corporation (OPDC) and Peterborough Distribution Inc. (PDI), seeking approval to
5 change rates effective January 1, 2023.

6
7 Hydro One Inc., HONI's parent company, previously filed Mergers, Acquisitions,
8 Amalgamations and Divestitures (MAADs) applications with the OEB for each of PDI and
9 OPDC.¹ The OEB approved the applications on April 30, 2020 (MAADs Decisions), which
10 allowed Hydro One Inc. to purchase all of the issued and outstanding shares of OPDC,
11 and to purchase the distribution system of the amalgamated corporation of PDI and
12 Peterborough Utilities Services Inc. and subsequently transfer the assets and liabilities of
13 the electricity businesses to HONI.

14
15 The customers of both former service areas are currently in a ten-year deferred rebasing
16 period pursuant to the terms of the MAADs Decisions. The MAADs Decisions further
17 provided that base distribution rates for residential and general service customers would
18 be subject to a 1% reduction through an ongoing rate rider during years one to five of the
19 deferred rebasing period. References to the HONI service areas formerly served by Orillia
20 Power Distribution and Peterborough Distribution, are herein referred to as "Orillia" and
21 "Peterborough", respectively.

22
23 In this Application, HONI sought the following relief:

- 24 • HONI requested the final disposition of Group 1 deferral/variance account (DVA)
25 balances as of December 31, 2020, for a debit amount of \$1,855,584 pertaining to
26 Orillia, and a debit amount of \$2,113,769 pertaining to Peterborough.² HONI
27 requested a one-year disposition period for both rate zones.
- 28 • Per the OEB's direction in their decision on 2022 rates for Orillia and Peterborough
29 (EB-2021-0050),³ HONI requested the disposition of Group 2 DVA balances as at

¹ OPDC (EB-2018-0270) and PDI (EB-2018-0242)

² OEB Staff Interrogatory #3

³ EB-2021-0050, Decision and Rate Order, December 16, 2021, p. 6

1 December 31, 2021 with projected interest to December 31, 2022. For Orillia,
2 HONI requested to dispose a credit balance of \$445,340 over a one-year period
3 beginning January 1, 2023.⁴ For Peterborough, HONI requested to dispose a credit
4 balance of \$538,654 over a one-year period beginning January 1, 2023.⁵

- 5 • HONI requested disposition of the historical Lost Revenue Adjustment Mechanism
6 Variance Account (LRAMVA) balances for each of Orillia and Peterborough up to
7 December 31, 2022 in this Application, and prospective approval of LRAMVA
8 balances based on the CDM program savings persistence into the 2023 to 2029
9 period. HONI is seeking to recover \$598,236 (inclusive of interest to 2022) for
10 Orillia and \$954,506 (inclusive of interest to 2022) for Peterborough over a one-
11 year period beginning January 1, 2023.⁶
- 12 • HONI requested that the Retail Transmission Service Rates (RTSR) are updated
13 to reflect the approved Uniform Transmission Rates (UTRs) and HONI's Sub
14 Transmission class (ST) RTSR effective January 1, 2023.

15
16 HONI proposed to defer the disposition of 2021 Group 1 balances until its 2024 rate
17 application as the 2021 balances include seven months of post-integration data that is
18 recorded on a consolidated basis for Orillia and Peterborough, HONI Distribution and the
19 other acquired utilities.⁷ Due to the ongoing Joint Rate Application for HONI Distribution
20 and the other Acquired Utilities, the 2021 balances for these entities will not be considered
21 for disposition until their 2024 annual update. This deferral allows the OEB to review the
22 disposal of these consolidated balances for all entities at one time, as opposed to only
23 reviewing a subset allocated to Orillia and Peterborough.

24
25 For Orillia, HONI submits that the proposed 2023 distribution rates and charges are
26 reasonable and requests that the Application be approved as filed, subject to adjustment
27 of the 2023-2029 LRAM-eligible amounts by the approved inflation minus X factor for
28 2023. HONI has included the updated 2023 IRM Model for Orillia with these revisions as

⁴ OEB Staff Interrogatory #13, Attachment 1

⁵ OEB Staff Interrogatory #13, Attachment 3

⁶ OEB Staff Interrogatory #9, Attachments 1 and 2

⁷ Norfolk Power Distribution Inc. (Norfolk), Haldimand County Hydro Inc. (Haldimand), Woodstock Hydro Services Inc. (Woodstock)

1 Attachment 1, *Updated Appendix E-1 – 2023 IRM Model – Orillia*. HONI has also included
2 the updated 2023 tariff of rate schedules as Attachment 2, *Updated Appendix I – Proposed*
3 *Tariff of Rates and Charges – Orillia*, which consider the updated 2023 LRAM-Eligible
4 Rate Riders, and adjustments to the Retailer Service Charges and Specific Service
5 Charge for Access to Power Poles for the 2023 approved inflation factor of 3.7%.

6
7 For Peterborough, HONI submits that the proposed 2023 distribution rates and charges
8 are reasonable and requests that the Application be approved as filed, subject to
9 adjustment of the 2023-2029 LRAM-eligible amounts by the approved inflation minus X
10 factor for 2023. HONI has included an updated 2023 IRM Model for Peterborough with
11 these revisions as Attachment 3, *Updated Appendix F-1 – 2023 IRM Model -*
12 *Peterborough*. HONI has also included the updated 2023 tariff of rate schedules as
13 Attachment 4, *Updated Appendix J – Proposed Tariff of Rates and Charges –*
14 *Peterborough*, which consider the updated 2023 LRAM-Eligible Rate Riders, and
15 adjustments to the Retailer Service Charges and Specific Service Charge for Access to
16 Power Poles for the 2023 approved inflation factor of 3.7%.

17
18 Furthermore, HONI does not take issue with OEB staff's submissions supporting HONI's
19 proposals on:

- 20 • disposing the Group 1 balances up to December 31, 2020 for Orillia;
- 21 • deferring the disposition of the Orillia and Peterborough 2021 Group 1 account
22 balances, for the reasons described above;
- 23 • discontinuing Account 1508, Sub-account ICM for Orillia and Peterborough and
24 Peterborough's Account 1555, Sub-account Stranded Meter Costs;
- 25 • disposing the Group 2 balances for Orillia and Peterborough, including the
26 following updates provided during interrogatories:
 - 27 ○ removing the disposition of the Account 1508, Sub-account Incremental
28 Capital Module (ICM) for both Orillia and Peterborough;⁸
 - 29 ○ updating Orillia and Peterborough's Account 1592, Sub-account CCA
30 Changes balances to a credit amount of \$279,670 and a credit amount of

⁸ OEB Staff Interrogatory #13

- 1 \$288,442, respectively, in order to reflect the “actual additions method” of
2 calculating the balance in the sub-accounts;⁹ and
3 ○ updating Orillia and Peterborough’s Account 2405, Sub-account Pole
4 Attachment Charge Variance Account balances;¹⁰
5 ● deferring the disposition of Peterborough’s Account 1533 – Distribution Generation
6 – Provincial – Express Feeders – Deferral Account as HONI intends to continue
7 receiving revenues from the Renewable Generation Connection Funding Adder for
8 the in-servicing of Distributed Generation assets;¹¹
9 ● disposing the Orillia and Peterborough LRAMVA balances on a final basis, and to
10 also approve the 2023-2029 LRAM-eligible amounts, including recovering these
11 amounts, subject to adjustment by the approved inflation minus X factors,
12 beginning with the 2023 rate year; and
13 ● updates to the 2023 Rate Generator models, provided the OEB approves the 2023
14 UTRs and/or host distributor RTSRs, effective January 1, 2023, following the close
15 of record in this proceeding and before the issuance of a decision and order in this
16 proceeding.

17

18 In this reply submission, HONI addresses the outstanding aspects of OEB staff’s
19 submissions on the following topics:

- 20 1. Disposition of Peterborough’s Group 1 DVA Balances up to December 31, 2020
21 2. Group 2 DVAs
22 3. Lost Revenue Adjustment Mechanism Variance Account (LRAMVA)

⁹ OEB Staff Interrogatory #14

¹⁰ OEB Staff Interrogatory #15

¹¹ OEB Staff Interrogatory #16

1 **B. REPLY RESPONSE**

2 **1. DISPOSITION OF PETERBOROUGH'S GROUP 1 DVA BALANCES UP TO**
3 **DECEMBER 31, 2020**

4 As part of the OEB's Decision dated March 28, 2019 for PDI's application for rates effective
5 May 1, 2019 (EB-2018-0067), the OEB found that:

6
7 ... an audit of Peterborough Distribution's December 31, 2017 balances in
8 Accounts 1588 and 1589, is necessary. The purpose of the audit is to
9 obtain further validation of these commodity account balances through a
10 more detailed review of the underlying transactions and processes,
11 including a review of Peterborough Distribution's process over its monthly
12 RPP settlements and the subsequent true-up of those settlements. The
13 OEB expects that Peterborough Distribution file a report in its next rate
14 application outlining the changes it made to its RPP settlement processes
15 and any adjustments it made to its Account 1588 and Account 1589
16 balances explaining each.¹²

17
18 In HONI's view, the OEB's direction in EB-2018-0067 has been satisfied. Subsequent to
19 the OEB's Decision in EB-2018-0067, HONI understands from former PDI employees¹³
20 that PDI reviewed and corrected the historical RPP Settlements to the Independent
21 Electricity System Operator (IESO) for the period of January 2017 to June 2020 following
22 the OEB's Accounting Guidance for RSVA commodities and GA and recorded the
23 adjusting entries in July 2020 which were part of the RSVA balances as at July 31, 2020.
24 PDI's auditors, Baker Tilly KDN LLP (Baker Tilly), then audited those balances. HONI filed
25 the requested report outlining the changes made to PDI's RPP settlement processes and
26 adjustments it made to its Account 1588 and Account 1589 balances as Appendix D to
27 this Application.

28
29 HONI understands from former PDI employees that the OEB may have intended to
30 conduct an audit at one point, but that audit was never carried out.¹⁴ In the meantime, the
31 OEB approved the sale of PDI's distribution system, and the sale did not include its billing

¹² EB-2018-0067, Decision and Rate Order, March 28, 2019, p. 7.

¹³ This included a former PDI Accounting Supervisor and the former PDI Conservation and Regulatory Coordinator.

¹⁴ In HONI's 2022 IRM Application for Orillia and Peterborough, HONI advised that it "...understands that OEB staff intended to perform an audit; however, since the onset of COVID-19, there was no further update on this matter"

1 system. As such, even if an audit were still necessary, HONI does not have the necessary
2 information required to carry it out. Given the passage of time since the OEB stated it
3 would conduct an audit, the intervening sale, the subsequent loss of audit data, and the
4 reasonable steps PDI and HONI have taken in the interim to verify the Account 1588 and
5 Account 1589 balances, the final disposition of Peterborough's Group 1 balances as of
6 December 31, 2020, for a debit amount of \$2,113,769, is appropriate. With a total metered
7 kWh in 2021 of 765,415,258 kWh, the resulting disposition amount of \$0.0028 per kWh
8 exceeds the pre-set disposition threshold of \$0.001 per kWh.

9
10 In response to the specific issues raised by OEB staff, HONI's reply is set out below.

11
12 Available Data: OEB staff requested further detail in respect of what data HONI has that
13 would facilitate an audit. Below is a list of the data HONI has from PDI:

- 14 • the trial balance and some of the adjustment entries for the 1588 and 1589
15 adjustment performed in 2020 for fiscal year 2017, but without reconcilable
16 supporting backup;
- 17 • monthly IESO invoices, but without supporting calculations for Charge Type 148
18 allocation between Accounts 1588 and 1589 and without reconciliation to their trial
19 balance;
- 20 • 2017 and 2018 GA Analysis Workforms, but without the source data inputted into
21 the forms, such as monthly consumptions for Non RPP Class B customers (all
22 numbers were hardcoded in the PDI prepared GA Analysis Workforms without
23 audit trails); and
- 24 • monthly unbilled revenue journal entries, but without detailed breakdown of
25 commodity and GA revenues by customer class or corresponding unbilled
26 consumptions.

27
28 For clarity, below is a list of documentation that HONI does not have which would be
29 necessary to complete an audit and updated GA Analysis Workform for 2017:

- 30 • monthly consumption data by customer commodity class;
- 31 • monthly unbilled consumptions and dollars and subsequent true-ups;

- 1 • any potential reconciliation items applicable to PDI's billing system and
2 methodology;
- 3 • underlying data to reconcile the 1588 and 1589 adjustment performed in 2020 for
4 fiscal year 2017. As noted above, HONI has the trial balance and the adjustment
5 entries, without reconcilable supporting backup. In addition, HONI does not have
6 invoicing data, unbilled data, customer consumptions etc.;
- 7 • the reconciliations between the trial balance and all of the RSVA journal entries,
8 including the adjustments;
- 9 • the monthly supporting calculations for RPP settlements with IESO and true-up
10 methodology;
- 11 • the supporting data to reconcile the allocation of IESO invoice Charge Type 148
12 between Accounts 1588 and 1589;
- 13 • the details of PDI's unbilled estimation and how it was trued-up in the subsequent
14 period and potentially reconciled in the GA Analysis Workform; and
- 15 • thorough understanding of PDI's billing practices, such as billing cycles and
16 frequencies, billing lags, unbilled true-up, unbilled estimation approach, etc.

17
18 Baker Tilly Audit: OEB staff submitted that the financial statement audit may not provide
19 assurance specifically on the accuracy of the balances in Accounts 1588 and 1589. HONI
20 disagrees. The adjustments made to the RSVA balances in PDI's Financial Statements
21 as at July 31, 2020 were material enough to have influenced the decisions of the users of
22 PDI's financial statements including the OEB. It would be reasonable to assume that this
23 would have required Baker Tilly to apply a sufficient level of assurance on the RSVA
24 balances.

25
26 Account 1588 as a Percentage of Account 4705: OEB staff calculated the balances in
27 Account 1588 (RSVA-Power) as a percentage of Account 4705 (Power Purchased) using
28 the RRR balances (6% in 2017, 5% in 2018, and below 1% for each of 2019 and 2020),
29 noted that they considered the 2017 and 2018 percentages to be high, and concluded that
30 there is therefore a high risk for inaccurate balances in Account 1588 (and potentially
31 Account 1589) for these periods. With respect, HONI believes this calculation in certain
32 degrees is biased for the following reasons: (1) the 1% threshold is too high-level when

1 there are many reconciliation items to consider, similar to the ones presented in HONI's
2 consolidated GA Analysis Workform for 2020 and 2021; (2) RPP settlement true-up with
3 the IESO in the subsequent year impacts the current year amount; and (3) the OEB
4 accounting guidance adjusts the RSVA commodity to the higher of revenue or cost, which
5 means when the adjustment is applied to the cost, Account 4705 does not represent the
6 true cost incurred to distributors for power purchases from IESO, generators and other
7 host distributors.

8
9 Given the above, HONI believes the following options are available to the Commission:

- 10
- 11 1. The OEB may approve the Account 1588 and 1589 balances for disposition as
12 part of this Application, as requested by HONI;
 - 13 2. The OEB may order an audit as requested by OEB staff. Given the lack of
14 information available to conduct an audit, HONI believes this option would be time
15 and resource intensive and would not yield the intended results. HONI notes that
16 had the OEB conducted the audit in 2019 with previous PDI employees, when
17 HONI understands it may have intended to, this would not be an issue; or
 - 18 3. In the event the Commission disagrees with HONI and agrees with OEB staff, and
19 in light of the lack of necessary data to conduct an audit, HONI proposes on a
20 without prejudice basis that the OEB could consider applying an adjustment based
21 on OEB staff's calculation of Account 1588 as a percentage of Account 4705. The
22 Commission could apply the percentage as a downward adjustment to any debit
23 transactions in 2017, 2018 and 2019. This would be entirely to the benefit of rate
24 payers, as HONI would not seek similar adjustments to the credit transactions for
25 these accounts. By way of example, Table 1 demonstrates the impact of a 6% (the
26 highest value calculated by OEB staff) downward adjustment to the debit balances
27 for Accounts 1588 and 1589 between 2017 and 2019, which would result in an
28 overall reduction of \$238,434, all to the benefit of customers. This alternative would
29 help address OEB staff's concerns over the accuracy of the balances and result in
30 a more efficient use of OEB and HONI resources.

1 **Table 1 - Impacts of a 6% Downward Adjustment to the Debit Transactions for**
 2 **Accounts 1588 and 1589**

	Transactions Debit / (Credit) During 2017	Transactions Debit / (Credit) During 2018	Transactions Debit / (Credit) During 2019
Account 1588 – RSVA Power			
Annual Transactions	\$2,773,415	-\$2,310,156	-\$307,777
6% Adjustment to Debit Transactions	-\$166,405	NA	NA
Adjusted Annual Transactions	\$2,607,010	-\$2,310,156	-\$307,777
Account 1589 – RSVA – Global Adjustment			
Annual Transactions	-\$1,133,160	-\$200,073	\$1,200,475
6% Adjustment to Debit Transactions	NA	NA	-\$72,029
Adjusted Annual Transactions	-\$1,133,160	-\$200,073	\$1,128,447
6% Adjustment for Accounts 1588 and 1589			
	-\$166,405		-\$72,029
Grand Total of 6% Adjustments			-\$238,434

3
 4 Lastly, OEB staff noted that the OEB’s decision that found the audit necessary did not
 5 specify whether the audit was to be performed by the OEB’s Inspection and Enforcement
 6 department or by a third-party auditing firm. HONI requests that if the OEB deems an audit
 7 is still required prior to the disposition of Peterborough’s Group 1 DVA balances as of
 8 December 31, 2020, that the OEB provide clear direction on the party responsible for
 9 completing an audit, while considering the various limitations outlined above.

10

11 **2. GROUP 2 DEFERRAL / VARIANCE ACCOUNTS**

12 *i. Account 1533 – Distribution Generation – Provincial – Express Feeders – Deferral*
 13 *Account*

14 OEB staff noted that there may be regulatory efficiency gained if Peterborough’s Account
 15 1533 is reviewed for disposition along with HONI’s Account 1533 in a future proceeding.
 16 HONI does not take issue with this and will consider combining its requests for Account
 17 1533 in a future proceeding.

1 *ii. Future Disposition of Group 2 Accounts*

2 OEB staff submitted that the OEB may wish to consider requiring HONI to bring forth the
3 Group 2 accounts for disposition in its 2027 rate application. HONI does not take issue
4 with this but notes that such requests may be impacted by certain factors (i.e., materiality
5 of balances, regulatory efficiency).

6
7 **3. LOST REVENUE ADJUSTMENT MECHANISM VARIANCE ACCOUNT**

8 OEB staff supported HONI's requests to dispose of the Orillia and Peterborough LRAMVA
9 balances on a final basis, and to also approve the 2023-2029 LRAM-eligible amounts,
10 including recovery of these amounts, subject to adjustment by the approved inflation
11 minus X factors, beginning with the 2023 rate year. As part of HONI's reply, OEB staff
12 requested that HONI update the rate riders in the IRM rate generator models for Orillia
13 and Peterborough for the 2023 LRAM-eligible amounts to reflect the 2023 inflation factor
14 for electricity distributors, and that the updated IRM rate generator models be included
15 with this reply submission.

16
17 In response to OEB staff's request, HONI updated the 2023 LRAM-eligible amounts by
18 the 2023 approved inflation minus X factor for Orillia and Peterborough, consistent with
19 the OEB's June 3, 2022 Guidance,¹⁵ and provided the calculations in Attachment 5 of this
20 reply submission. Based on the 2023 LRAM calculations in Attachment 5, HONI requests
21 approval to dispose a total debit amount of \$55,656 for Orillia and \$70,315 for
22 Peterborough, pertaining to the 2023 LRAMVA-eligible amounts to be cleared as part of
23 2023 rates.

24
25 The rate riders for disposition of the 2023 LRAM-eligible amounts are calculated in Table
26 2 below, using balances provided in Attachment 5 and charge determinants from the IRM
27 models, Tab 7 (Attachments 1 and 3 for Orillia and Peterborough, respectively).

¹⁵ Ontario Energy Board, "Guidance on Prospective Lost Revenue Adjustment Mechanism (LRAM) Amounts – 2023 Rates", June 3, 2022.

1

Table 2 - Rate Riders for Disposition of 2023 LRAM-Eligible Amounts

Orillia				
Rate Class	LRAM-Eligible (2023) (A)	Charge Determinant (B)	Billing Unit	Rate Rider (A/B)
GS <50 kW	\$25,559	43,909,596 kWh	\$/kWh	0.0006
GS 50-4,999 kW	\$30,017	375,462 kW	\$/kW	0.0799
Peterborough				
Rate Class	LRAM-Eligible (2023) (A)	Charge Determinant (B)	Billing Unit	Rate Rider (A/B)
GS <50 kW	\$27,870	103,728,616 kWh	\$/kWh	0.0003
GS 50-4,999 kW	\$42,682	761,528 kW	\$/kW	0.0560
Large User	-\$339	54,470 kW	\$/kW	-0.0062

2

3 HONI has re-filed the updated IRM rate generator models in Attachments 1 and 3 for Orillia
 4 and Peterborough accordingly.

5

6 **C. LIST OF ATTACHMENTS**

- 7 • **Attachment 1** – Updated Appendix E-1 - 2023 IRM Model – Orillia
- 8 • **Attachment 2** – Updated Appendix I – Proposed Tariff of Rates and Charges –
 9 Orillia
- 10 • **Attachment 3** – Updated Appendix F-1 - 2023 IRM Model – Peterborough
- 11 • **Attachment 4** – Updated Appendix J – Proposed Tariff of Rates and Charges –
 12 Peterborough
- 13 • **Attachment 5** – 2023-2029 LRAM Escalation

1 **All of which is respectfully submitted on November 7, 2022.**

2

3

By its counsel,

4

5



6

7

8

Raman Dhillon

Filed: 2022-11-07
EB-2022-0040
2023 Orillia/Peterborough
Reply Submission
Page 14 of 14

1

This page has been left blank intentionally.

1
2
3

UPDATED APPENDIX E-1 - 2023 IRM MODEL – ORILLIA

This attachment has been filed separately in MS Excel format.

1 **UPDATED APPENDIX F-1 - 2023 IRM MODEL – PETERBOROUGH**

2

3 This attachment has been filed separately in MS Excel format.

1
2
3

2023-2029 LRAM ESCALATION

This attachment has been filed separately in MS Excel format.