



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

BY EMAIL

November 28, 2022

Ms. Nancy Marconi
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4
Registrar@oeb.ca

Dear Ms. Marconi:

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

Please find attached OEB staff's submission in the above referenced proceeding, pursuant to the OEB's letter dated November 24, 2022.

Yours truly,

Arturo Lau
Advisor

Encl.

cc: All parties in EB-2022-0040



ONTARIO ENERGY BOARD

OEB Staff Submission

Hydro One Networks Inc.

2023 Rates Application

EB-2022-0040

November 28, 2022

Application Summary and Process

Hydro One Networks Inc. (HONI) filed an incentive rate-setting mechanism (IRM) application with the Ontario Energy Board (OEB) on August 3, 2022, under section 78 of the *Ontario Energy Board Act, 1998* (OEB Act) for the Orillia rate zone and Peterborough rate zone seeking approval for changes to its electricity distribution rates to be effective January 1, 2023.

On August 19, 2022, a Notice of the application was issued. Power Worker Union (PWU) and Small Business Utility Alliance (SBUA) requested intervenor status. The OEB approved PWU and SBUA as intervenors.

Procedural Order No. 1 was issued on September 15, 2022, which made provisions for submissions for OEB staff and intervenors and a reply submission by HONI. OEB staff filed a submission on October 26, 2022, and HONI filed a reply submission on November 7, 2022.

On November 24, 2022, the OEB issued a letter noting that HONI's reply submission presented, for its Peterborough rate zone, three options on how to proceed with the disposition of Account 1588 (Retail Service Variance Account (RSVA)- Power) and Account 1589 (RSVA- Global Adjustment (GA))¹. The OEB's letter provided for OEB staff and intervenors to file a submission on the specific matter raised in the reply submission regarding the three options for Peterborough rate zone's Accounts 1588 and 1589.

¹ HONI Reply Submission, November 7, 2022, pg 9-10

OEB Staff Submission

The Peterborough rate zone's 2016 Group 1 balances were last approved for final disposition in the former Peterborough Distribution Inc.'s (Peterborough Distribution) 2018 rate application.² In Peterborough Distribution's 2019 rate application, the OEB did not approve the disposition of Group 1 balances.³ In Peterborough Distribution's 2019 Decision and Order, the OEB noted concerns with Accounts 1588 and 1589 and found that an audit of Peterborough Distribution's December 31, 2017 balances in Accounts 1588 and 1589 was necessary.⁴

In the current proceeding, HONI is requesting the final disposition of the Peterborough rate zone's Group 1 balances for the first time since the 2019 rate proceeding. HONI stated that it does not believe an audit is necessary prior to the disposition of the 2020 Group 1 balances for various reasons. HONI indicated that Peterborough Distribution had already identified corrections relating to a reporting error, which it has corrected and included in its Audited Financial Statements (AFSs) as of July 30, 2020.

In its submission, OEB staff submitted that the Peterborough rate zone's 2020 Group 1 accounts should not be disposed of in this proceeding because the audit that was directed in Peterborough Distribution's 2019 Decision and Order is still pending. OEB staff submitted that the audit is still necessary for several reasons, including concerns with the accuracy of the Account 1588 and Account 1589 balances.

In its reply submission, HONI stated that it believes the OEB's direction for an audit in Peterborough Distribution's 2019 Decision and Order has been satisfied. With regards to OEB staff's comment that Peterborough Distribution's July 31, 2020 financial statement audit may not provide assurance specifically on Accounts 1588 and 1589, HONI stated that the adjustments made to the Group 1 balances in the July 31, 2020 AFS were material enough to have influenced the decisions of the users of Peterborough Distribution's financial statements and it would be reasonable to assume that this would have required the auditor to apply a sufficient level of assurance on the Group 1 balances.⁵

HONI also clarified that that it does not have the necessary information required to carry out an audit even if an audit was still necessary as it did not acquire Peterborough Distribution's billing system.

² EB-2017-0266

³ EB-2018-0067, Decision and Rate Order, March 28, 2019

⁴ Ibid.

⁵ HONI Reply Submission, Nov 7, 2022, pg.8

In its reply submission, HONI provided three options for the OEB’s consideration:

- i. The OEB may approve the Account 1588 and 1589 balances for disposition on a final basis as requested by HONI
- ii. The OEB may order an audit as requested by OEB staff
- iii. The OEB could consider applying an adjustment to the Account 1588 and 1589 balances based on OEB staff’s calculation of Account 1588 as a percentage of Account 4705. The OEB could apply the percentage as a downward adjustment to any debit transactions in 2017, 2018 and 2019 to the benefit of ratepayers. HONI provided an example using a 6% reduction that would result in a refund to customers totaling \$238,434 relating to Accounts 1588 and 1589.

Submission

OEB staff submits that a modified option iii, using a 30% reduction to Account 1589 is appropriate.

OEB staff’s concerns regarding the Account 1588 and Account 1589 balances as raised in its submission remain unchanged and have not been adequately addressed by HONI.⁶ Regarding the July 31, 2020 financial statement audit, HONI noted that it was reasonable to assume that the auditor would have applied a sufficient level of assurance on the Group 1 balances. OEB staff notes that typically the users of the AFS are general purpose financial statement users and not users specifically looking for assurances on Group 1 balances. Therefore, OEB staff’s view on the July 31, 2020 AFS remains unchanged. Furthermore, OEB staff believes that the degree of assurance provided by the July 31, 2020 financial statement audit would be less than a special purpose audit specifically for Accounts 1588 and 1589 as ordered by the OEB. As a result, OEB staff disagrees with option i presented in the reply submission. However, OEB staff acknowledges that option ii to proceed with an audit may not be productive because HONI indicated that it does not have sufficient data to carry out an audit. Therefore, as a compromise, OEB staff would support option iii, modified for a 30% reduction to Account 1589, as outlined below.

For option iii, HONI proposed applying a downward adjustment to any debit transactions in 2017, 2018 and 2019 for Account 1588 and 1589 based on OEB staff’s calculation of the balances in Account 1588 as a percentage of Account 4705 – Power Purchased (Account 1588 test). Account 1588 is generally expected to hold a small balance as it should only reflect the unaccounted-for energy volume variance between the OEB approved line loss factor and the actual line loss factor experienced by the utility. OEB

⁶ OEB Staff Submission, October 26, 2022

staff notes that the Account 1588 test is a reasonability test that only acts as a general guide, flagging the potential need for further investigation when the test exceeds 1%. Meeting the Account 1588 test alone may not signify that the Account 1588 balance is accurate. OEB staff is of the view that even if any annual Account 1588 debit balances are reduced to the point where Peterborough rate zone's Account 1588 balances meet the 1% Account 1588 test, it does not signify that the account balances are accurate. In addition, a percentage reduction to Account 1589 based on the Account 1588 test has no direct correlation to the Account 1589 balance, although there is a certain degree of connectivity between these two accounts. Therefore, in the OEB staff's view, a 6% reduction based on the Account 1588 test (or any other percentage) to Accounts 1588 and 1589 as provided in HONI's reply submission is an arbitrary reduction.

The 2020 Account 1588 and 1589 balances are a credit of \$745,641 and a debit of \$2,636,284, respectively.⁷ OEB submits that a more appropriate reduction instead of the reduction proposed by HONI would be a 30% reduction to the 2020 Account 1589 debit balance (i.e. a reduction of \$790,885 balance for Account 1589), based on a similar finding made by the OEB in its Decision and Order for Hydro One's 2022 rate proceeding for the Norfolk Power, Haldimand County Hydro and Woodstock Hydro service territories.⁸ In that proceeding, certain Group 2 accounts were identified where HONI was unable to provide evidence supporting the account balances as it pertained mainly to balances prior to the respective service territories' integration with HONI. In the Decision and Order, the OEB disallowed 30% of the Group 2 account balances in question and stated:⁹

The OEB notes that Hydro One as the acquiring entity of the three distributors and the applicant in this proceeding bears responsibility for establishing the prudence of balances for accounts being sought for disposition. Clearing Group 2 DVA balances, whether mechanistic or not, does not absolve Hydro One from the responsibility to establish prudence.... Hydro One has been unable to provide adequate supporting documentation for the select Group 2 DVAs in Table 5.1 being sought for disposition, and so a clear case of prudence has not been established.

OEB staff acknowledges that Group 1 accounts do not require a prudence review, unlike Group 2 accounts. Group 1 accounts are reviewed for disposition in Price Cap IR rate applications when a pre-set disposition threshold is exceeded as the accounts tend

⁷ Balances include interest as at December 31, 2020 but exclude any forecasted interest

⁸ EB-2021-0033, Decision and Order, December 16, 2021

⁹ Ibid. pg. 11

to be more mechanistic in nature.¹⁰ However, OEB staff's view is that the basis for this mechanistic review assumes that the accounting of Group 1 accounts is accurate, which is questionable for the Peterborough rate zone's Group 1 accounts in this proceeding. Group 1 accounts are commodity pass-through accounts, where a utility has the responsibility to keep complete and accurate records to ensure that it makes no profit or loss on the accounts. OEB staff notes that like the 2022 rate proceeding referenced above, HONI has not been able to provide adequate supporting documentation for Accounts 1588 and 1589 as the balances relate to the pre-integration period with HONI. OEB staff submits there is onus on HONI to substantiate the balances it is requesting for disposition, particularly when some of the balances appear questionable and the fact that the audit ordered in Peterborough Distribution's 2019 Decision and Order was still outstanding at the time of acquisition. OEB staff understands that HONI did not acquire Peterborough Distribution's billing system, but it also did not make a significant effort to retain documentation (e.g., supporting calculations, reconciliations between trial balance and journal entries) supporting the account balances as evidenced by the list of documentation it does not have.¹¹

OEB staff submits that a 30% reduction to the cumulative 2020 Account 1589 balance is appropriate, reflecting the period for which HONI does not have supporting information for the balances, and recognizing the fact that HONI has the responsibility to support its claims in a rate application. This modified option also allows for greater regulatory efficiency as it does not require an audit to be conducted, when the audit may not generate satisfactory results on the accuracy of balances due to the unavailability of data.

~All of which is respectfully submitted~

¹⁰ Report of the OEB – “Electricity Distributors’ Deferral and Variance Account Review Initiative (EDDVAR)”, EB-2008-0046, July 31, 2009

¹¹ List of documentation is provided in HONI's reply submission, Nov. 7, 2022, pg.7-8 .