

Hydro One Networks Inc.

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BY EMAIL AND RESS

November 30, 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 the OEB's letter dated November 24, 2022, 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".

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 30, 2022

A. INTRODUCTION

This is Hydro One Networks Inc.'s ("HONI") reply submission to the comments received from OEB staff in its November 7, 2022 Reply Submission on how to proceed with the disposition of Account 1588 (Retail Service Variance Account (RSVA)- Power) and Account 1589 (RSVA- Global Adjustment (GA)) for its Peterborough rate zone.

In its November 7, 2022 Reply Submission, HONI presented the following three options for the OEB to consider:¹

- i. The OEB may approve the Account 1588 and 1589 balances for disposition as part of this Application, as requested by HONI;
- ii. The OEB may order an audit as requested by OEB staff. Given the lack of information available to conduct an audit, HONI believes this option would be time and resource intensive and would not yield the intended results; or
- iii. The OEB could apply a downward adjustment to debit transactions only for 2017, 2018 and 2019. The adjustment was based on OEB staff's calculation of Account 1588 as a percentage of Account 4705, an established reasonability test to assess the accuracy of Account 1588 balances.² This adjustment would be to the benefit of rate payers: it would not be applied to credit transactions for these accounts; the adjustment would include two extra years (2018 and 2019) relative to an audit (2017 only), as PDI made adjustments to 2018 and 2019 to correct the error it identified; the adjustment would use the highest value calculated by OEB staff of 6% (the values in other years were lower, at 5% and 1%);³ and would result in an overall reduction of \$238,434, to the benefit of customers.

In their response letter on November 28, 2022, OEB staff rejected option (i) but acknowledged that option (ii) may not be productive as HONI does not have sufficient data to carry out the audit. As a compromise, OEB staff supported a modified option (iii), which would apply a much larger 30% reduction to the cumulative 2020 balance in

¹ HONI's Reply Submission, November 7, 2022, p. 9.

² Account 1588 as a percentage of Account 4705 is the test incorporated into the GA Analysis Workform to assess whether the Account 1588 balance is reasonable. When the percentage is greater than +/-1%, an explanation is required per the GA Analysis Workform Instructions.

³ OEB Staff Submission, October 26, 2022, p. 9.

1 Account 1589. OEB staff did not support HONI's proposed 6% reduction on the basis that
2 it is arbitrary, notwithstanding that it was derived using OEB staff's approach and
3 calculation.

4
5 OEB staff based their proposed 30% reduction on the finding made by the OEB in its
6 Decision and Order for Hydro One's 2022 rate proceeding for the Norfolk Power,
7 Haldimand County Hydro and Woodstock Hydro service territories (EB-2021-0033), in
8 which the OEB disallowed 30% of the Group 2 account balances.⁴

9
10 **Reply Response**

11 HONI's Proposal is Consistent with OEB Staff Submission dated October 26

12 There is nothing arbitrary about HONI's proposal to apply a 6% reduction to debit
13 transactions in Accounts 1588 and 1589 from 2017-2019. It is based on the calculations
14 provided by OEB staff in their October 26, 2022 Submission. HONI is using this
15 established reasonability test that is used in the OEB's GA Analysis Workform to
16 determine if the balance in Account 1588 is reasonable. Indeed, OEB staff relied on the
17 reasonability test to assess Account 1588 and connected that same margin of error to
18 Account 1589.⁵

19
20 The reasonability test is used as a general guide. In contemplation of this, HONI applied
21 the reasonability test in the broadest way possible. HONI's proposed option (iii):

- 22 • goes even further than the scope of the original audit (just 2017 balances), as it
23 applies the downward adjustments between 2017-2019, years where
24 Peterborough Distribution Inc. (PDI) performed adjustments to its Account 1588
25 and 1589 balances;
- 26 • the adjustment would use the highest value calculated by OEB staff of 6% (the
27 values in other years were lower, at 5% and 1%); and
- 28 • it only applies the reduction to transactions that are a debit to customers; it does
29 not apply reductions to transactions that are to the credit of customers.

⁴ EB-2021-0033, Decision and Order, December 16, 2021, p.11.

⁵ OEB Staff Submission, October 26, 2022, p.7, OEB Staff Submission, November 28, 2022, p.4.

1 HONI's approach is appropriate in these circumstances given that it is based on an
2 established reasonability test and broadly applied to the benefit of customers.

3
4 A 30% Reduction is Excessive Relative to the Circumstances in EB-2021-0033

5 With respect, OEB staff's counterproposal to reduce the account balances by 30% is
6 arbitrary and excessive in the circumstances, which are considerably different from the
7 circumstances in EB-2021-0033, for the following reasons:

8
9 1. There are several key differences between this proceeding and EB-2021-0033:

- 10 ○ In EB-2021-0033, the 30% adjustment was applied to Group 2 accounts.
11 Group 1 accounts are being considered in this proceeding. As noted by
12 OEB staff, Group 1 accounts are commodity pass-through accounts that
13 are more mechanistic in nature, while Group 2 accounts require a
14 prudence review. This is because there is a lower risk of error associated
15 with Group 1 accounts compared to Group 2 accounts. With a lower risk
16 of error, Group 1 accounts should not be subjected to the same magnitude
17 of reductions as Group 2 accounts.
18 ○ In EB-2021-0033, HONI was unable to provide meaningful evidence
19 supporting the account balances beyond the audited trial balances. That
20 is not the case in this proceeding. As outlined in Appendix D to this
21 Application, PDI identified the issue, which related to a reporting error in
22 the invoice consumption for Regulated Price Plan (RPP) and non-RPP
23 customers, rectified the issue, and performed adjusting entries to 2017,
24 2018 and 2019 in 2020. These adjusting entries are included in the RSVA
25 balances as at July 31, 2020, and the financial statements were audited
26 by Baker Tilly KDN LLP.

27
28 2. In the Decision and Order for EB-2021-0033, the OEB noted that "a high level
29 percentage-based disallowance requires an exercise of judgment and will be to
30 some extent subjective".⁶ Thus, the 30% reduction applied during EB-2021-0033

⁶ EB-2021-0033, Decision and Order, December 16, 2021, p.11.

1 was based on the OEB's judgment on the specific details of that case. As outlined
2 above, the details of this case are different and do not merit such a high reduction
3 given the actions already taken by PDI to rectify the error and have the account
4 balances subject to audit through the financial statements.

5

6 3. HONI also notes that in the original option (iii) proposal, HONI applied the
7 downward adjustments to both Account 1588 and 1589 because the original audit
8 was concerned with the balances in both accounts. The modified option proposed
9 by OEB staff does not consider any adjustments to Account 1588, which is a credit
10 balance.

11

12 OEB staff suggested that HONI did not make significant effort to retain documentation
13 supporting account balances. HONI did make efforts and requested data to support the
14 balances in Accounts 1588 and 1589. PDI made best efforts to provide supporting
15 documentation, however the majority of the requests were addressed by PDI after the
16 sale. Since the nature of the transaction was for the sale of assets and not PDI's billing
17 and accounting systems and data, it proved challenging for PDI to locate and provide all
18 the requested data. HONI respectfully submits that had OEB staff conducted an audit in
19 2019 as planned, it would have had access to all data needed to complete the audit.
20 However, given the passage of time and the subsequent sale of PDI, this is no longer
21 possible.

22

23 HONI agrees with OEB staff that an audit is unlikely to generate satisfactory results on
24 the accuracy of balances due to the unavailability of data. HONI submits that its original
25 option (iii) proposal, which applies a 6% downward adjustment on debit transactions
26 between 2017-2019 to the benefit of rate payers, remains appropriate and will allow for
27 greater regulatory efficiency.

1 **All of which is respectfully submitted on November 30, 2022.**

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By its counsel,

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Raman Dhillon