



**Hydro One Networks Inc.**

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**BY EMAIL**

August 29, 2023

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

Dear Ms. Marconi,

**EB-2023-0030 and EB-2023-0059 – Application for 2024 Distribution Rates - Hydro One Networks Inc. Responses**

Please find attached Hydro One Networks Inc. responses to the OEB Staff questions received on August 28, 2023.

Sincerely,

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

Kathleen Burke

1 **OEB STAFF – HYDRO ONE DISCUSSION**  
2 **AUGUST 28, 2023**  
3

4 **BACKGROUND**

5 OEB staff notes that section 3.2.6 of the Filing Requirements<sup>1</sup> outlines required  
6 documentation to be filed in a proceeding, relating to any adjustments made to deferral  
7 and variance (DVA) balances that were previously approved by the OEB on a final basis.  
8 Section 3.2.6.3 also discusses final disposition requests after the implementation of the  
9 Accounting Guidance.<sup>2</sup>

10  
11 OEB staff also observes that in Hydro One’s 2021 Custom IR Update proceeding, the OEB  
12 made the following findings:<sup>3</sup>

13  
14 ...The OEB accepts Hydro One’s proposal to adopt the new Accounting  
15 Guidance in a modified manner until the OEB otherwise directs Hydro One.  
16 The OEB notes Hydro One’s commitment to bring errors identified after  
17 disposing of the DVA balances on a final basis, if any, to the OEB’s attention  
18 (including any balances allocated to the Acquired rate zones). The OEB  
19 further notes that any revisions proposed by Hydro One may be subject to  
20 the OEB’s October 31, 2019 letter regarding Adjustments to Correct for  
21 Errors in Electricity “Pass-Through” Variance Accounts After Disposition.  
22

23 OEB staff notes that the following points listed below may involve adjustments to  
24 previously approved balances. OEB staff also has concerns regarding the reclassifications  
25 made between Account 1588 and Account 1589 of \$45.7 million. Finally, OEB staff notes  
26 that Hydro One did not discuss in its application what type of review was done to adopt  
27 the new Accounting Guidance in a modified manner.

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<sup>1</sup> Filing Requirements For Electricity Distribution Rate Applications - 2023 Edition for 2024 Rate Applications- Chapter 3, Incentive Rate-Setting Applications, June 15, 2023

<sup>2</sup> Accounting Guidance related to Accounts 1588 RSV Power, and 1589 RSV Global Adjustment, issued February 21, 2019

<sup>3</sup> EB-2020-0030, 2021 Custom IR Update, Decision and Rate Order, December 17, 2020, p. 17 & 18

1 **Question 1**

2 In the GA Analysis Workform (A-4-1-4), Tab GA 2021, a credit of \$3,576,971 is recorded  
3 which relates to an “embedded LDC RPP Settlement true-up for Dec 2020 booked in 2021  
4 for the period before H1 adopted the new accounting guidance.”

5  
6 OEB staff notes that an offsetting amount is missing from Tab GA 2020 of the Hydro One  
7 GA Analysis Workform filed in the 2023 Custom IR proceeding EB-2021-0110 (HONI\_I-  
8 01-G-Staff-312-01\_20211129).

9  
10 Please explain whether Hydro One is proposing in the current proceeding to adjust 2020  
11 balances that were previously approved on a final basis.

12  
13 **Response**

14 Hydro One is not proposing to adjust 2020 balances that were previously approved on a  
15 final basis.

16  
17 Similar to reconciliation items 1a, 1b, 2a and 2b on the GA Workform, any timing related  
18 reconciliation items do not adjust the principal balances from previous years. This is  
19 consistent with the approach used in prior Hydro One applications.

20  
21 Hydro One agrees that Tab GA 2020 of the GA Workform filed in the 2023 Custom IR  
22 proceeding was missing an offsetting debit reconciliation item of \$3.6M, which would have  
23 updated the unresolved differences from -0.1% to +0.4%. However, this does not change  
24 the 2020 disposition balances that were approved for Hydro One Distribution.

25  
26 This reconciliation item does not impact the Peterborough and Orillia rate zones.

1 **Question 2**

2 In the GA Analysis Workform (A-4-1-4), Tab GA 2021, a credit of \$2,718,746 is recorded,  
3 relating to the “Peterborough and Orillia Power migration balance.”

4  
5 Please explain this “migration balance” and whether Hydro One is proposing in the current  
6 proceeding to adjust historical balances that were previously approved on a final basis.

7  
8 **Response**

9 The migration balance of a credit of \$2.7M reflects a one-time RSVA carry-over balance  
10 from Peterborough and Orillia rate zones’ Jan 1, 2021 to May 31, 2021 pre-integration  
11 period. It is a reconciliation item on the GA Workform, since their pre-integration  
12 consumption from Jan 1, 2021 to May 31, 2021 was not included in Note 4 of Tab GA  
13 2021.

14  
15 Hydro One confirms that it is not proposing to adjust the Peterborough and Orillia rate  
16 zone Group 1 balances as of December 31, 2020.

1 **Question 3**

2 In the GA Analysis Workform (A-4-1-4), Tab GA 2022, a debit of \$3,178,045 is recorded  
3 which relates to a “pricing calculation error in the 2021 GA Rate Rider setup resulted in  
4 \$3.17M GA liability to be disposed in future.”

5  
6 a) Please explain whether Hydro One is proposing in the current proceeding to  
7 adjust the Account 1589 December 31, 2019 balance cleared in its 2021 Custom  
8 IR Update EB-2020-0030 proceeding. A credit of \$27.4 million in Account 1589  
9 was cleared, which was previously approved on a final basis.

10  
11 b) Alternatively, please explain whether Hydro One is proposing to be made whole  
12 for this error when Account 1595 (2021) is requested for clearance in a future rate  
13 application.

14  
15 **Response**

16 a) Hydro One is not proposing in the current proceeding to adjust the Account 1589  
17 December 31, 2019 balance cleared in its 2021 Custom IR Update proceeding (EB-  
18 2020-0030).

19  
20 In its 2021 Custom IR Distribution Rate Application (EB-2020-0030), Hydro One  
21 received approval to dispose of a GA credit balance of \$23.8M to non-transition GA  
22 customers. However, in 2022, Hydro One had identified that the 2021 credit GA riders  
23 were calculated incorrectly as they were determined based on total volumes  
24 (transition and non-transition) rather than only non-transition customer volumes. As  
25 such, the approved credit GA riders set in the 2021 rate proceeding were lower than  
26 they should have been and were not fully refunding the total approved 2019 GA  
27 balance. The disposition error resulted in an under-refunding of approximately \$3.2M  
28 to the non-transition GA customers in 2021, which is the “pricing calculation error”  
29 reconciliation item noted in Tab GA 2022 of the GA Analysis Workform.

30  
31 Although the \$3.2M under-refunded balance was to be disposed in Account 1595  
32 (2021), Hydro has proposed to fully return these amounts to non-transition GA  
33 customers specifically and transferred the amount out from Account 1595 (2021) to  
34 Account 1589 as part of the 2022 transactions in the DVA continuity. This transfer will  
35 ensure that the non-transition customers will fully receive the under-refunded GA  
36 amounts in 2024.

37  
38 b) Not applicable. As discussed in part a) above, the under-refunded amount of \$3.2M  
39 has been transferred out from Account 1595 (2021) to Account 1589 as part of 2022  
40 transactions in the DVA continuity. The benefits of this transfer are:

- 1           i. The non-transition GA customers will be returned the under-refunded amounts
- 2           in 2024, resulting in less intergenerational inequity issues. The 1595 (2021)
- 3           credit balance will not be disposed until 2025 at the earliest.
- 4           ii. The transfer is specifically targeted to the affected customers (non-transition GA
- 5           customers) while the disposition of the under-refunded amount in the 1595
- 6           (2021) balance will benefit all other customers who were not affected by this
- 7           disposition error.

1 **Question 4**

2 In the current application, Hydro One stated that “it has not made adjustments to the 2020  
3 account balances that were previously approved by the OEB for disposition on a final  
4 basis.”<sup>4</sup>

5

6 Please explain whether this statement remains true and whether Hydro One has made  
7 adjustments to any other account balances that were approved for disposition on a final  
8 basis.

9

10 **Response**

11 Hydro One confirms that it has not made adjustments to the account balances that were  
12 previously approved by the OEB for disposition on a final basis.

13

14 This statement applies to Hydro One Distribution, and the Peterborough and Orillia rate  
15 zones.

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<sup>4</sup> EB-2023-0030, Exhibit A, Tab 4 ,Schedule 1, Page 12

1 **Question 5**

2 Please explain in more detail the nature of the 2021 and 2022 reclassifications made in  
3 "Table 8 - Reclassification Adjustments for Hydro One Distribution's Embedded  
4 Distributors (\$M)" of \$45.7 million, including whether the following balances have been  
5 impacted:

- 6
- 7 a) 2020 or earlier balances
- 8
- 9 b) Any balances relating to Orillia or Peterborough, despite Hydro One's statement  
10 that these reclassification of costs "do not impact the Account 1588 and Account  
11 1589 balances for Orillia RZ and Peterborough RZ."<sup>5</sup>
- 12

13 **Response:**

- 14
- 15 a. Hydro One confirms that 2020 or earlier balances were not impacted by the 2021  
16 and 2022 reclassification adjustments.
- 17
- 18 b. Hydro One confirms that the Peterborough and Orillia rate zone RSVA balances  
19 are not impacted by the reclassification adjustments.

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<sup>5</sup> EB-2023-0059, Exhibit A, Tab 4, Schedule 1, Page 5



1 **Question 6**

2 Please explain whether the invoices issued by Hydro One to its embedded distributors  
3 were incorrect.

4

5 **Response:**

6 The invoices issued by Hydro One Distribution to its embedded distributors were correct.

7

8 The embedded distributors' invoices were incorrectly recorded between the Revenue  
9 Commodity and GA general ledgers, which created a mismatch between Revenue and  
10 Cost. This mismatch between Revenue and Costs only occurred after Hydro One  
11 implemented the Accounting Guidance prospectively on a modified basis on January 1,  
12 2021.

1 **Question 7**

2 Upon adopting the new Accounting Guidance in a modified manner, please describe which  
3 historical balances have been considered in the context of the Accounting Guidance.  
4 Please provide a summary of the review performed, discuss the results of Hydro One's  
5 review, whether any systemic issues were noted, and whether any material adjustments  
6 to the account balances have been recorded. Please provide a summary and description  
7 of each adjustment made to the balances.

8  
9 **Response:**

10 In the 2021 Custom IR proceeding (EB-2020-0030), Hydro One was approved to  
11 prospectively adopt the new Accounting Guidance on a modified basis beginning January  
12 1, 2021. Since the accounting guidance was applied on a prospective basis, the historical  
13 balances approved on a final basis prior to 2021 were not impacted.

14  
15 As noted in the 2021 Custom IR proceeding, Hydro One committed to bring forward any  
16 errors identified after disposing the DVA balances on a final basis. The reclassification  
17 adjustments for embedded distributors were only identified in early 2023 and were  
18 confirmed to have only affected the balances starting in 2021 after the modified Accounting  
19 Guidance was implemented. This is the first opportunity where the reclassification  
20 adjustments were notified to the OEB as it pertains to changes to 2021 and 2022 balances.

21  
22 An illustrative example of the pre- and post- entries related to the implementation of the  
23 Accounting Guidance are provided in the attached excel.