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BY EMAIL

November 15, 2023

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.
2024 Distribution Rate Application
OEB File Number: EB-2023-0059**

Please find attached OEB staff's submission in the above-referenced proceeding, pursuant to Procedural Order No.1. Hydro One Networks Inc. has been copied on this filing.

Yours truly,

Kelli Benincasa

Kelli Benincasa
Case Manager

Encl.

cc: All parties in EB-2023-0059



ONTARIO ENERGY BOARD

OEB Staff Submission

Hydro One Networks Inc.

2024 Distribution Rate Application

EB-2023-0059

November 15, 2023

Introduction

Hydro One Networks Inc. (Hydro One) filed an incentive rate-setting mechanism (IRM) application with the Ontario Energy Board (OEB) on August 17, 2023, under section 78 of the *Ontario Energy Board Act, 1998* (OEB Act) seeking approval for changes to its electricity distribution rates to be effective January 1, 2024.

On September 29, 2023, a Notice of Hearing was issued. The Power Workers' Union (PWU) and the Society of United Professionals (SUP) applied for intervenor status but were denied. Procedural Order No. 1 was issued on October 16, 2023, which made provisions for interrogatories and interrogatory replies as well as submissions by OEB staff and a reply submission by Hydro One.

In this document, OEB staff makes detailed submissions on the following:

- Low Voltage Service Rate Update
- Group 1 Deferral and Variance Accounts (DVAs)

Background

In 2018, Hydro One filed two (2) applications pursuant to section 86 of the Ontario OEB Act, to acquire the distribution businesses of Orillia Power Distribution Corporation (Orillia Power Distribution) and Peterborough Distribution Inc. (Peterborough Distribution) and Peterborough Utilities Services Inc. (collectively the Mergers, Acquisitions, Amalgamations and Diversities ((MAADs) Applications)).¹

The MAADs Applications also requested various related approvals under the OEB Act. The OEB approved both MAADs Applications on April 30, 2020 which allowed Hydro One Inc., the parent company of Hydro One, to purchase all the issued and outstanding shares of Orillia Power Distribution, and to purchase, through its subsidiary, the distribution system of the amalgamated corporation of Peterborough Distribution and Peterborough Utilities Services Inc. and subsequently transfer the assets and liabilities of the amalgamated corporation to Hydro One (collectively the (MAADs) Decisions).²

The distribution licences for Orillia Power Distribution and Peterborough Distribution have been transferred to Hydro One. The integration of Orillia Power Distribution and Peterborough Distribution into Hydro One's distribution system was completed on June 1, 2021.

In the MAADs Decisions the OEB approved Hydro One's proposal to defer the rebasing of the consolidated entities for a ten-year period. During years one to five of the deferred rebasing period, all base distribution delivery rates for customers of former Orillia Power Distribution and Peterborough Distribution are held to the last approved rates for its respective acquired customers.

¹ In EB-2018-0270 (Orillia MAADs Application), the proposed transaction was for Hydro One Inc., the parent company of HONI, to purchase all of the shares of OPDC and then transfer the assets and liabilities of the electricity distribution business from OPDC to HONI. In EB-2018-0242 (Peterborough MAADs Application), the proposed transaction was to amalgamate PDI and PUSI, sell the amalgamated corporation to 1937680 Ontario Inc., a subsidiary of Hydro Inc., and then allow 1937680 Ontario Inc. to dispose of its distribution system and transfer its rate orders to HONI.

² Decision and Order in EB-2018-0270 and Decision and Order in EB-2018-0242, both issued on April 30, 2020

OEB Staff Submission

Low Voltage Service Rate Update

Background

Prior to integration, Hydro One served as a host distributor to Orillia Power Distribution and Peterborough Distribution's embedded delivery points. Hydro One applied the Sub-transmission (ST) distribution charges to both embedded distributors, recovering a portion of Hydro One's approved ST rates revenue requirement. Orillia Power Distribution and Peterborough Distribution recognized these ST charges as cost of power (CoP) flow-through costs and recovered these CoP Low Voltage (LV) costs from their customers through their respective OEB-approved LV service rates as CoP LV revenues. The difference between the CoP LV revenues and CoP LV costs was tracked in the LV Variance Account 1550.³

Hydro One noted, in this application, that since integration on June 1, 2021, it no longer considered Orillia Power Distribution and Peterborough Distribution as embedded distributors but rate zones of Hydro One.⁴ Subsequently, Hydro One decommissioned Orillia Power Distribution and Peterborough Distribution's delivery point meters and eliminated the associated host and embedded distributor LV transactions. In response to interrogatories, Hydro One stated that it deregistered a total of four meters for the Orillia rate zone and ten meters for the Peterborough rate zone.⁵ From here on Orillia Power Distribution and Peterborough Distribution will be referred to as the Orillia and Peterborough rate zones.

In addition, Hydro One stated that it no longer issues ST bills to the former embedded distributors.⁶ Instead, Hydro One stated that it recovered CoP LV revenues directly from customers for the Orillia rate zone and the Peterborough rate zone.⁷ Hydro One noted that this treatment led to an overstatement of the LV Variance Account (Account 1550) liability since Hydro One continued to recognize LV revenues as a CoP flow-through revenue but Hydro One was no longer able to establish CoP LV costs. To address this issue, Hydro One reclassified the post-integration CoP LV revenues from Orillia and Peterborough's rate zone customers to ST revenues in July of 2022.⁸ Hydro One noted

³ Manager's Summary, p. 8

⁴ Ibid, p. 8

⁵ Interrogatory Response #14(c)

⁶ Manager's Summary, p. 8

⁷ Ibid, p. 8

⁸ Ibid, p. 8-9

that the only variances to be tracked in Account 1550 for both rate zones are for Hydro One, not the individual rate zones.⁹

Hydro One noted that since the former embedded delivery points were eliminated after integration, no actual volumes and resulting LV costs are available.¹⁰ Instead, Hydro One requested to update the LV service rates for each rate zone using Hydro One's current ST rates and the volumes used to establish the current LV service rates for each rate zone. These volumes used to establish the current LV Service rates are based on Orillia and Peterborough's last CoS proceeding of the former distributors, which were filed in 2010 and 2013 respectively.¹¹

Submission

Embedded Delivery Point Meters

On June 15, 2023, the OEB issued an update to [Chapter 3 of the Filing Requirements for Electricity Distribution Rate Application](#) which provided embedded distributors with the option to update their LV service rates during an IRM term.¹² On June 23, 2023, the OEB issued [Instructions for Low Voltage Service Rate Tab](#) regarding the updates to the LV service rate (combined the "Instructions").

In its Instructions to electricity distributors, the OEB stated that the demand data used to update the LV service rate should reflect the most recent historical data. The OEB noted that it does not allow the use of forecasted demand data. The host distributor rates and charges to be used as inputs shall reflect the actual rates and charges the fully embedded/partially embedded distributor is charged by the host distributor in any given month.¹³ OEB staff notes that to provide this information, an embedded distributor, or a rate zone of a distributor that maintains separate rates, will need to measure the demand data via meters at the embedded delivery points. The volumes measured at these meters are used to update the LV service rates in these rate zones as well as to track the variance between the LV revenues versus the LV costs.

In its response to OEB staff interrogatories, Hydro One noted that it identified and deregistered a number of redundant wholesale meters that were no longer required for

⁹ Ibid, p. 9

¹⁰ Ibid, p. 9

¹¹ Ibid, p. 9

¹² [Chapter 3 of the Filing Requirements for Electricity Distribution Rate Application](#), 2023 Edition for 2024 Rates, S. 3.2.5, p. 9

¹³ [Instructions for Low Voltage Service Rate Tab](#), p. 3

settlement and billing purposes.¹⁴ OEB staff notes that Hydro One is currently in a deferred rebasing period and operates Orillia and Peterborough as separate rate zones. OEB staff questions why Hydro One would have considered meters that were used to determine a variance in the LV costs to Hydro One versus the LV revenues that are received from the customers in the Orillia and Peterborough rate zones as redundant. OEB staff invites Hydro One to elaborate on reasons as to why these meters were considered redundant before the OEB had an opportunity to consider Hydro One's rebasing application as a consolidated entity (including the Orillia and Peterborough rate zones), expected for 2031.

OEB staff asked Hydro One to provide a cost estimate for reinstalling the deregistered meters given that Hydro One is only in year four of its ten-year deferred rebasing period. OEB staff sought to evaluate the cost of reinstalling the meters versus the value of establishing accurate variances to be tracked in Account 1550 LV Variance. In its response, Hydro One stated that it is unnecessary and inefficient to maintain redundant meters and that Hydro One does not intend to reinstate these redundant meters. Hydro One did not provide a cost estimate, thus OEB staff is not able to make a submission on whether reinstalling the meters is of value or not.

LV Service Rates Billing Determinants

In its application, Hydro One completed the rate generator model to determine updated LV service rates for the Orillia and Peterborough rate zones. Given the lack of demand data read at the embedded delivery point meters, Hydro One proposed to set the LV service rates based on billing determinants from Orillia and Peterborough's last rebasing application in 2010 and 2013, respectively. Hydro One proposed to use a static volume of 21,327 kW for the Orillia rate zone and 81,868 kW for the Peterborough rate zone for each month. In the rate generator model, Hydro One did not identify the quantities per meter as contemplated by the model, nor did Hydro One show a variance in the monthly demand data.

In response to interrogatories, Hydro One provided the average monthly demand data used as billing determinant. OEB staff notes that the variance in the demand data over the last 5 historic years measured by Hydro One is significant, as shown in the table below:

¹⁴ Interrogatory Response #14(b)

Historical LV Volumes for Orillia RZ							
		Monthly Billing Quantity					
Hydro One Distribution ST Charge	Charge Determinant	Last Cost of Service (2010)	2016	2017	2018	2019	2020
	Number of Accounts	4	4	4	4	4	4
Common ST Lines	Billed kW	21,327	45,783	47,988	50,910	48,201	48,735

Historical LV Volumes for Peterborough RZ							
		Monthly Billing Quantity					
Hydro One Distribution ST Charge	Charge Determinant	Last Cost of Service (2013)	2016	2017	2018	2019	2020
	Number of Accounts	8	8	8	8	8	8
Common ST Lines	Billed kW	81,868	52,823	61,868	63,062	55,001	55,357

OEB staff submits that based on the variances of the billing determinants since Orillia and Peterborough’s last cost of service proceeding, it is inappropriate to use cost of service data to determine a new LV service rate for Orillia and Peterborough’s rate zone customers. OEB staff submits that the mechanism to track variances, which normally applies to a pass-through account has been eliminated when Hydro One deregistered the meters that would provide the data to track variance in volumes. Therefore, OEB staff submit that Hydro One should not be allowed to track any variances for either rate zone going forward.

Reclassification of LV revenue to ST revenue

Hydro One stated that after integration, Orillia and Peterborough rate zone’s LV revenues were classified as ST revenues. Hydro One noted that this allows Hydro One to recover these ST revenues directly from Orillia and Peterborough rate zone customers through their LV service rates.¹⁵ In response to OEB staff questions, Hydro One stated that this reclassification was considered and made during the normal course of business, and not as part of a specific OEB decision. Hydro One further stated that it was able to directly assign amounts to the Orillia and Peterborough rate zones based on billing data.¹⁶ OEB staff is unclear on how this revenue and the rates it is based on should be classified. While the ST rates charged by Hydro One to an embedded

¹⁵ Interrogatory Response #14(g)

¹⁶ Interrogatory Response #16(a)

distributor constitute a distribution rate for the host, for an embedded distributor, this charge constitutes a pass-through cost of power and as such is not considered to be related to the distribution of electricity.¹⁷

In this application, Hydro One is requesting to update the LV service rates for Orillia and Peterborough rate zone customers. Since Hydro One has reclassified the revenue stream, OEB staff is unclear as to whether this charge to Orillia and Peterborough rate zone customers should be considered a distribution rate since it is now a sub-transmission rate that is billed directly to customers in each rate zone.

OEB staff questions whether the rate classification of LV service rates, which resulted from the pass-through of the LV costs to the embedded distributor, is still applicable. OEB staff is also unclear on how this direct billing intersects with the OEB's decision in Hydro One's MAADs proceeding.¹⁸ OEB staff questioned Hydro One on the allocation methodology used to directly allocate ST revenue requirements to Orillia and Peterborough rate zone customers. Hydro One stated that it used billing data to directly allocate amounts. When questioned on how this reflects cost causation, Hydro One replied that this is not applicable.

Summary

OEB staff submits that Hydro One should maintain the status quo LV service rates in each rate zone and not be allowed to update this rate for the remainder of the deferred rebasing period. OEB staff notes that the decision to decommission the meters was made by Hydro One without any direction from the OEB. OEB staff submits that without accurate volumes measured by delivery point meters, an updated LV service rate would not reflect reasonable LV costs due to the lack of demand data at the delivery points. OEB staff notes that historic variances were debit balances, and it is likely that any variances going forward would be debit balances as well. Since no accurate variance can be established, OEB staff submits that Hydro One should not track any variance in Account 1550 for either rate zone going forward until the OEB considers a rebasing application for a consolidated entity.

¹⁷ Interrogatory Response #14(a)

¹⁸ EB-2018-0270 and EB-2018-0242

Group 1 Deferral and Variance Accounts (DVAs)**DVA Overview****Background**

Hydro One requested the disposition of its December 31, 2022 Group 1 DVA balances in the amount of \$1,092,378 and \$1,260 on a final basis for the Peterborough rate zone and Orillia rate zone respectively.¹⁹ These balances pertain to variances accumulated during the 2021 and 2022 calendar years. Hydro One is requesting the disposition of these balances over a 12-month period, beginning January 1, 2024.²⁰ The components of these balances are shown in Table 1 and Table 2.

Table 1: Group 1 DVA Balances – Peterborough Rate Zone

Account Name	Account Number	Principal Balance (\$) A	Interest Balance (\$) B	Total Claim (\$) C=A+B
Low Voltage Variance Account	1550	480,981	31,062	512,043
Smart Metering Entity Charge Variance Account	1551	(112,876)	(7,405)	(120,281)
RSVA - Wholesale Market Service Charge	1580	1,447,823	87,869	1,535,692
Variance WMS – Sub-account CBR Class B	1580	(223,270)	(17,981)	(241,251)
RSVA - Retail Transmission Network Charge	1584	963,855	60,517	1,024,372
RSVA - Retail Transmission Connection Charge	1586	(34,292)	(13,563)	(47,855)
RSVA - Power	1588	(135,738)	(48,102)	(183,840)
RSVA - Global Adjustment	1589	(1,325,140)	(61,362)	(1,386,502)
Totals for Group 1 accounts		1,061,343	31,035	1,092,378

¹⁹ Exhibit A, Tab 4, Schedule 1, Page 13, August 17, 2023; Hydro One Peterborough DVA Continuity Schedule and Hydro One Orillia Peterborough DVA Continuity Schedule, November 1, 2023

²⁰ Exhibit A, Tab 4, Schedule 1, Page 4, August 17, 2023.

Table 2: Group 1 DVA Balances – Orillia Rate Zone

Account Name	Account Number	Principal Balance (\$) A	Interest Balance (\$) B	Total Claim (\$) C=A+B
Low Voltage Variance Account	1550	398,845	23,939	422,784
Smart Metering Entity Charge Variance Account	1551	(47,542)	(3,106)	(50,648)
RSVA - Wholesale Market Service Charge	1580	618,825	38,035	656,860
Variance WMS – Sub-account CBR Class B	1580	(100,981)	(8,287)	(109,268)
RSVA - Retail Transmission Network Charge	1584	43,862	5,750	49,612
RSVA - Retail Transmission Connection Charge	1586	(254,222)	(19,616)	(273,838)
RSVA - Power	1588	134,757	(10,360)	124,397
RSVA - Global Adjustment	1589	(779,801)	(38,838)	(818,639)
Totals for Group 1 accounts		13,743	(12,483)	1,260

Despite the above-noted Group 1 account balances not exceeding the OEB's \$0.001/kWh threshold for disposition for the Orillia rate zone (although exceeding for the Peterborough rate zone), Hydro One believes that the disposition of these balances for the Peterborough rate zone and the Orillia rate zone will minimize intergenerational inequities, as the 2021 and 2022 balances have not yet been disposed.²¹ The OEB most recently approved the disposition of Hydro One's Group 1 account balances on a final basis, as of December 31, 2020, as part of the 2023 IRM proceeding for the Peterborough rate zone and Orillia rate zone.²²

Hydro One believes it is appropriate to dispose of the Peterborough rate zone, Orillia rate zone, and the Hydro One Distribution rate zone's Group 1 DVA balances together in the respective 2024 rate applications, as this approach to dispose of the consolidated Group 1 DVA balances is consistent with past practice.²³

²¹ Exhibit A, Tab 4, Schedule 1, Page 13 & 14, August 17, 2023.

²² EB-2022-0040, Decision and Order, December 8, 2022, p. 8 & 13

²³ Exhibit A, Tab 4, Schedule 1, Page 13 & 14, August 17, 2023.

Submission

OEB staff supports the disposition of Hydro One's December 31, 2022 Group 1 DVA balances on a final basis, for the Peterborough rate zone and Orillia rate zone, excluding Accounts 1588 and 1589, pending Hydro One's reply submission on the Peterborough rate zone and the Orillia rate zone regarding allocated Group 1 DVA balances and a \$38 million impact (as discussed below).

OEB staff further submits that Accounts 1588 and 1589 should not be approved at this time pending a further review of these balances being conducted by Hydro One for the Peterborough rate zone and Orillia rate zone. The results of a review of a \$38 million impact on the Hydro One Distribution rate zone's Account 1595, as suggested by OEB staff in its [submission](#) for the Hydro One Distribution rate zone's 2024 Custom IR Update proceeding, may also impact the Group 1 DVAs being requested for disposition in the current proceeding for the Peterborough rate zone and Orillia rate zone. The results of Hydro One's review should be filed in the distributor's 2025 IRM application for the Peterborough rate zone and the Orillia rate zone.

If the OEB determines that Hydro One has not adequately addressed OEB staff's concerns regarding allocated DVA balances discussed later in this submission, OEB staff submits that all of the Group 1 DVA balances for the Peterborough rate zone and the Orillia rate zone should not be disposed, given that there may be issues with the allocated DVA balances. These issues should be addressed instead in Hydro One's next rate application for 2025 rates for the Peterborough and Orillia rate zones.

Adoption of Accounting Guidance and Review of Balances – Accounts 1588 and 1589

Background

On February 21, 2019, the OEB issued *Accounting Guidance Related to Commodity Pass-Through Accounts 1588 & 1589 (Accounting Guidance)*.²⁴ The Accounting Guidance was effective January 1, 2019 and was to be implemented by August 31, 2019. However, in a response to an interrogatory in Hydro One Distribution rate zone's 2021 Custom IR Update proceeding, Hydro One indicated that it intended to adopt the Accounting Guidance on a prospective basis, once a solution to implement the

²⁴ Accounting Procedures Handbook Update - Accounting Guidance Related to Commodity Pass-Through Accounts 1588 & 1589, February 21, 2019; Note that this guidance was further updated on May 23, 2023.

Accounting Guidance was determined, citing computer technology issues.²⁵

In Hydro One Distribution rate zone’s 2021 Custom IR Update decision, the OEB made the following findings, also addressing a commitment made by Hydro One:²⁶

The OEB accepts Hydro One’s proposal to dispose of its 2019 Group 1 DVA balances on a final basis. The OEB agrees with Hydro One that changes to its technology framework at this time in order to implement the new Accounting Guidance could be costly and can only be applied on a prospective basis. Therefore, the OEB accepts Hydro One’s proposal to adopt the new Accounting Guidance in a modified manner until the OEB otherwise directs Hydro One. The OEB notes Hydro One’s commitment to bring errors identified after disposing of the DVA balances on a final basis, if any, to the OEB’s attention (including any balances allocated to the Acquired rate zones). The OEB further notes that any revisions proposed by Hydro One may be subject to the OEB’s October 31, 2019 letter regarding Adjustments to Correct for Errors in Electricity “Pass-Through” Variance Accounts After Disposition.

In the current proceeding, Hydro One confirmed its view that since the Accounting Guidance was applied on a prospective basis (beginning January 1, 2021), the historical balances approved on a final basis prior to 2021 were not impacted for the Peterborough rate zone and the Orillia rate zone.²⁷ OEB staff notes that the OEB approved the adoption “in a modified manner”, as opposed to a full adoption.

Hydro One further stated that no historical balances for the pre-2021 period have been considered in the context of the Accounting Guidance. Hydro One explained that no further review was performed for pre-2021 balances, for the following reasons:

- The pre-2021 Regulated Price Plan (RPP) settlement methodology was audited by the OEB and determined to result in reasonable balances that were disposed on a final basis.²⁸
- Pre-2021 balances underwent thorough monthly reviews and adhered to Hydro One’s control processes.
- Hydro One did not identify any systemic errors from the past transactions.

²⁵ EB-2020-0030, OEB Staff Interrogatory #1 Response, October 30, 2020.

²⁶ EB-2020-0030, Hydro One Distribution, 2021 Custom IR Update, Decision and Rate Order, December 17, 2020, Revised: February 18, 2021, Page 17 & 18.

²⁷ OEB Staff Interrogatory #1 Response, November 1, 2023.

²⁸ EB-2021-0110, OEB Staff Interrogatory #G-Staff-311 Response, November 29, 2021, “Inspection of the Compliance of the RPP Settlement Process and Assessment of the DVA Allocation Methodology for the Acquired Utilities, Hydro One Networks Inc., March 4, 2019.”

In an interrogatory, OEB staff suggested that if Hydro One is not able to perform a review of the balances, it should clearly explain why that is the case, and how the application of the Accounting Guidance to historical balances is not a practical exercise Hydro One can undertake.²⁹ Hydro One responded by stating that such an exercise is not applicable, given that the OEB audited Hydro One's methodology at the time. Hydro One also suggested that the OEB agreed with Hydro One implementing the Accounting Guidance prospectively, as of January 1, 2021 (as per the Hydro One Distribution rate zone's 2021 Custom IR Update decision).

Submission

Hydro One has made significant adjustments to the balances in Accounts 1588 and 1589 relating to the Hydro One Distribution rate zone (as shown in the below Table 3). These adjustments give rise to concerns that there may be systemic problems with Hydro One's commodity accounting (including accounting related to the Peterborough rate zone and Orillia rate zone), especially in light of the fact that Hydro One has not yet fully adopted the OEB's Accounting Guidance, including amounts pertaining to the Peterborough rate zone and the Orillia rate zone.

Although OEB staff is cognizant that the adjustments themselves shown in the below Table 3 do not apply to the Peterborough rate zone and Orillia rate zone (as discussed further in this submission), OEB staff remains concerned that such adjustments may point to further systemic problems, also impacting the Peterborough rate zone and the Orillia rate zone. Concerns are also noted given that Hydro One staff commenced performing the accounting function for the Peterborough rate zone and Orillia rate zone post June 1, 2021 (the integration date).

OEB staff does not support Hydro One's request for the disposition of the balances in Accounts 1588 and 1589 for the Peterborough rate zone and Orillia rate zone, given that OEB staff is unclear of the issues pertaining to pre-2021 balances and post-2021 balances (please also refer to the section below titled "Systemic Issues – Accounts 1588 and 1589"). OEB staff is of the view that Hydro One should conduct a further review of the impact of the noted issues in this submission on Account 1588 and Account 1589 for the Peterborough rate zone and Orillia rate zone.

Although Hydro One's RPP settlement methodology was inspected by the OEB, the inspection report was dated March 4, 2019, which is shortly after the Accounting

²⁹ OEB Staff Interrogatory #1 Response, November 1, 2023.

Guidance was issued by the OEB.³⁰ Therefore, the Accounting Guidance was not included as part of the inspection criteria. Furthermore, the OEB’s cover letter to the inspection report stated that Hydro One “is expected to comply with this Accounting Guidance”, although OEB staff also notes that the Hydro One Distribution rate zone’s 2021 Custom IR Update decision allowed adoption of the Accounting Guidance in a modified manner, until the OEB otherwise directs Hydro One.³¹

Hydro One is using a select approach in reflecting Accounts 1588 and 1589 principal adjustments on the GA Analysis Workform and the DVA Continuity Schedule for the Peterborough rate zone and Orillia rate zone, as opposed to a consistent approach.³² For the Peterborough rate zone and the Orillia rate zone, Hydro One should comply with the OEB’s requirements relating to the GA Analysis Workform and the DVA Continuity Schedule, as set out in the OEB’s Chapter 3 filing requirements, as well as the OEB’s instructions related to the GA Analysis Workform and DVA Continuity Schedule.³³

In the 2023 IRM decision relating to the Peterborough rate zone, the OEB determined that the December 31, 2020 Account 1589 balance should be reduced by 30%, as “a reasonable buffer against the risk of an overcharge to ratepayers” and noted a “concern about potential inaccuracy of the balances and “a lack of reliable accounting evidence.”³⁴ OEB staff observes that Hydro One staff commenced performing the accounting function for the Peterborough rate zone post June 1, 2021 (the integration date). A similar 30% reduction of the Account 1589 balance for the period January 1, 2021 to May 31, 2021 period (i.e., when the Peterborough legacy staff was still performing the accounting) would be a disallowance of \$264,054.³⁵

OEB staff notes that Hydro One has not addressed the reasons for the disallowance that the OEB ordered for Hydro One’s Account 1589 balance in its 2023 IRM decision for the Peterborough rate zone. This raises the question as to whether a similar disallowance would be appropriate in the current proceeding for the Peterborough rate

³⁰ EB-2021-0110, OEB Staff Interrogatory #G-Staff-311 Response, November 29, 2021, “Inspection of the Compliance of the RPP Settlement Process and Assessment of the DVA Allocation Methodology for the Acquired Utilities, Hydro One Networks Inc., March 4, 2019.”

³¹ EB-2020-0030, Hydro One Distribution, 2021 Custom IR Update, Decision and Rate Order, December 17, 2020, Revised: February 18, 2021, Page 17 & 18.

³² OEB Staff Interrogatory #8 Response, November 1, 2023.

³³ Filing Requirements for Electricity Distribution Rate Applications - 2023 Edition for 2024 Rate Applications, Chapter 3, Incentive Rate-Setting Applications, June 15, 2023, section 3.2.6; Instructions for Completing GA Analysis Workform – 2024 Rates, June 23, 2023; IRM Rate Generator – DVA Tabs Instructions - 2024 Rates, July 18, 2023.

³⁴ EB-2022-0040, 2023 IRM Decision and Order (Hydro One Orillia and Peterborough), December 8, 2022, page 13 & 14

³⁵ OEB Staff Interrogatory #3 Response, November 1, 2023

zone, given that Peterborough legacy staff was still performing the accounting function for the January 1, 2021 to May 31, 2021 period.

OEB staff is not addressing an analogous disallowance for the Orillia rate zone for the January 1, 2021 to May 31, 2021 period. This is because the former Orillia Power Distribution confirmed that it had implemented the Accounting Guidance retroactive to January 1, 2019 and applied the Accounting Guidance in the context of its 2017 and 2018 balances, as noted in its 2020 IRM decision.³⁶ Therefore there was no disallowance made to the December 31, 2020 Account 1589 balance relating to the Orillia rate zone in its 2023 IRM decision.³⁷ There was only a disallowance in that decision relating to the December 31, 2020 Account 1589 balance for the Peterborough rate zone (with some of the reasons noted above).

The results of the review of the Peterborough rate zone and Orillia rate zone suggested by OEB staff should be filed with Hydro One's next rate application for the Peterborough rate zone and Orillia rate zone, after completion of the internal review. In this next rate application, Hydro One should confirm that the balances in Accounts 1588 and 1589 that are being requested for disposition are accurate, conform to the Accounting Guidance, and have been adjusted accordingly based on the result of the internal review for the Peterborough rate zone and the Orillia rate zone. Hydro One should also explain whether any systemic issues were noted for the Peterborough rate zone and the Orillia rate zone. OEB staff submits that Hydro One should quantify the adjustments made to Accounts 1588 and 1589 for the Peterborough rate zone and the Orillia rate zone, and provide supporting calculations and explanations for each adjustment. Sufficient detail should be filed with the OEB to support balances proposed for disposition in Hydro One's next application for the Peterborough rate zone and the Orillia rate zone, after completion of the internal review.

In its next rate application for the Peterborough rate zone and Orillia rate zone, Hydro One should also satisfy the OEB's requirements regarding any potential adjustments to DVA balances that were previously approved by the OEB on a final basis for the Peterborough rate zone and the Orillia rate zone.³⁸

Hydro One is encouraged to initiate a dialogue with OEB staff before the filing of its next

³⁶ EB-2019-0061, Orillia Power Distribution Corporation, 2020 IRM Decision and Rate Order, April 16, 2020, p. 6

³⁷ EB-2022-0040, 2023 IRM Decision and Order (Hydro One Orillia and Peterborough), December 8, 2022, page 8

³⁸ OEB's letter issued October 31, 2019, regarding Adjustments to Correct for Errors in Electricity Distributor "Pass-Through" Variance Accounts after Disposition; Filing Requirements for Electricity Distribution Rate Applications - 2023 Edition for 2024 Rate Applications, Chapter 3, Incentive Rate-Setting Applications, June 15, 2023, section 3.2.6.

rate application for the Peterborough rate zone and the Orillia rate zone, in the event that OEB staff can assist Hydro One.

If Hydro One is of the view that Accounts 1588 and 1589 balances should be disposed in the current proceeding for the Peterborough rate zone and Orillia rate zone, Hydro One should also provide confirmation that, in its opinion, the approach taken by Hydro One to derive the 2021 to 2022 account balances requested for disposition for the Peterborough rate zone and the Orillia rate zone is unlikely to necessitate a material adjustment on a retrospective basis following final disposition. In this case, OEB staff recommends that should the OEB accept Hydro One's position, the OEB's approach set out in its October 2019 letter where an asymmetrical approach to correcting any identified errors in future regarding pass through amounts should apply.³⁹

Systemic Issues – Accounts 1588 and 1589

Background

In Table 8 of its pre-filed evidence for the Hydro One Distribution rate zone, Hydro One submitted that the following adjustments should be made for both principal and interest relating to Accounts 1588 and 1589:⁴⁰

Table 3: Reclassification Adjustments for Hydro One Distribution's Embedded Distributors (Pre-filed Evidence Table 8)

	Principal	Interest	Total
2021			
Account 1588 – RSVA Power	24,748,877	67,875	24,816,752
Account 1589 – RSVA GA	(24,748,877)	(67,875)	(24,816,752)
2022			
Account 1588 – RSVA Power	20,162,335	756,256	20,918,591
Account 1589 – RSVA GA	(20,162,335)	(756,256)	(20,918,591)

Hydro One explained that in early 2023, it identified an issue for the post-January 1,

³⁹ OEB's letter issued October 31, 2019, regarding Adjustments to Correct for Errors in Electricity Distributor "Pass-Through" Variance Accounts after Disposition

⁴⁰ EB-2023-0030 Exhibit A, Tab 4, Schedule 1, Table 8, Page 13, August 17, 2023.

2021 period related to the accounting in its general ledger of the invoices issued to the embedded distributors (i.e., on the revenue side). To address this issue, Hydro One proposed reclassification adjustments to the 2021 and 2022 principal balances, as shown in the above Table 3 for the Hydro One Distribution rate zone.⁴¹

Hydro One confirmed that both the invoices issued by Hydro One Distribution to its embedded distributors and the invoices issued by the IESO to Hydro One were correct.⁴²

The impact of this accounting error has resulted in the misallocation of commodity revenues and GA revenues for the Hydro One Distribution rate zone and consequently resulted in the reclassification adjustments in 2021 and 2022 in Table 3 above.

However, Hydro One confirmed that the Peterborough and Orillia rate zone Accounts 1588 and 1589 balances were not impacted by these reclassification adjustments.⁴³ Hydro One also stated that in the 2024 IRM rate generator models for the Peterborough rate zone and the Orillia rate zone, the reclassification adjustments are directly assigned to the Hydro One Distribution rate zone and are excluded from the consolidated balances allocated to the three rate zones.⁴⁴

While OEB staff accepts this position, as noted earlier, OEB staff is concerned that any systemic issues that may be present in Hydro One's accounting for its main rate zone (i.e., Hydro One Distribution), may also exist in its methodology for its acquired utilities (i.e., the Peterborough rate zone and the Orillia rate zone).

Further to all of this, OEB staff is concerned that certain issues raised in the Hydro One Distribution rate zone's 2021 Custom IR proceeding regarding conformity with the Accounting Guidance remain unresolved. Despite proposing to make the reclassification adjustments to the 2021 and 2022 principal balances in the current 2024 Custom IR Update proceeding for the Hydro One Distribution rate zone, as shown in the above pre-filed evidence Table 8, two additional systemic issues remain unrectified by Hydro One (including for the Peterborough rate zone and the Orillia rate zone). These issues were confirmed to be outstanding in both the current proceeding and Hydro One Distribution rate zone's 2021 Custom IR Update proceeding interrogatory responses. These two additional systemic issues are:

⁴¹ OEB Staff Interrogatory #1 Response, November 1, 2023.

⁴² OEB Staff Question #6 Response, August 29, 2023; OEB Staff Interrogatory #2 Response, November 1, 2023.

⁴³ OEB Staff Question #5 Response, August 29, 2023.

⁴⁴ OEB Staff Interrogatory #5 Response, November 1, 2023

1. Meter reading calendarization calculations are not conducted when settling with the IESO on a monthly basis, as there is “no systematic solution.”⁴⁵
2. RPP settlement is occurring and IESO GA Charge Type 148 is being split between Accounts 1588 and 1589 based on retail loss adjusted consumption, rather than wholesale consumption.⁴⁶

Submission

OEB staff does not take issue with Hydro One’s statement that the Peterborough and Orillia rate zone Accounts 1588 and 1589 balances were not impacted by the above-noted reclassification adjustments shown in Table 3. This is because these adjustments relate to the accounting of the invoices issued to embedded distributors in Hydro One’s general ledger, as opposed to mistakes made in the invoices themselves.

OEB staff also appreciates that the 2024 IRM rate generator models for the Peterborough rate zone and the Orillia rate zone do not reflect the reclassification adjustments. This is because these adjustments are directly assigned to the Hydro One Distribution rate zone and are excluded from the consolidated balances allocated to the three rate zones.

Hydro One has stated that (as mentioned earlier in this submission) since the Accounting Guidance was applied on a prospective basis (beginning January 1, 2021), the historical balances approved on a final basis prior to 2021 were not impacted for the Peterborough rate zone and the Orillia rate zone. This is also because of Hydro One’s statement that no historical balances for the pre-2021 period have been considered in the context of the Accounting Guidance. OEB staff notes that the OEB approved the adoption “in a modified manner”, as opposed to a full adoption.

However, OEB staff remains concerned that any systemic issues that may be present in Hydro One’s accounting for its main rate zone (i.e., Hydro One Distribution), plus the two additional systemic issues described above that remain ongoing (for balances prior to 2021, during 2021, and after 2021 relating to the Peterborough rate zone and Orillia rate zone), may continue to give rise to incorrect balances for the Peterborough rate zone and the Orillia rate zone. OEB staff is not clear why the two latter issues have not yet been resolved, given that these issues were brought to the OEB’s attention over three years ago. OEB staff invites Hydro One to explain in more detail why these issues

⁴⁵ OEB Staff Interrogatory #8 Response, November 1, 2023; EB-2020-0030, Response to OEB Staff Interrogatory #11 a), October 30, 2020.

⁴⁶ OEB Staff Interrogatory #2 Response, November 1, 2023; EB-2020-0030, Response to OEB Staff Interrogatory #14, October 30, 2020.

are still outstanding in its reply submission for the Peterborough rate zone and the Orillia rate zone.

OEB staff submits that the OEB should direct Hydro One to fully adopt the Accounting Guidance effective January 1, 2023 for the Peterborough rate zone and the Orillia rate zone, given that it has been over three years since the first two systemic issues were raised in the Hydro One Distribution rate zone's 2021 Custom IR Update proceeding, with no solution implemented to-date by Hydro One. Hydro One should provide more detail in its reply submission for the Peterborough rate zone and the Orillia rate zone regarding any computer technology limitations of this full adoption, effective January 1, 2023. If there are any concerns, Hydro One should advise of a date where it would be possible for Hydro One to fully implement the Accounting Guidance for the Peterborough rate zone and the Orillia rate zone.

To satisfy OEB staff's concerns, OEB staff reiterates its submission made above (in the section "Adoption of Accounting Guidance and Review of Balances – Accounts 1588 and 1589") that the OEB should direct Hydro One to perform a further review of all of its balances for the Peterborough rate zone and Orillia rate zone, including addressing and quantifying the two additional outstanding systemic issues (that were raised in both the Hydro One Distribution rate zone's 2021 Custom IR proceeding and the current proceeding for the Peterborough rate zone and the Orillia rate zone).

OEB staff submits that Hydro One should assess and quantify the impact on all Peterborough rate zone and Orillia rate zone balances of the outstanding systemic issues discussed in this submission, and file the quantification and action plan from its review of the issues noted above in its next rate application for the Peterborough rate zone and the Orillia rate zone.

Accounting Error – DVAs Approved for Disposition in Hydro One Distribution 2018 Custom IR

Background

In its 2024 Custom IR Update proceeding for the Hydro One Distribution rate zone, Hydro One has requested disposition of a debit balance of \$6,222,411 in Account 1595, Disposition and Recovery/Refund of Regulatory Balances (2019), which relates solely to the Hydro One Distribution rate zone.⁴⁷ In response to an interrogatory, Hydro One confirmed that Account 1595 (2019) – HONI relates to DVAs approved for disposition in the Hydro One Distribution rate zone's 2018 Custom IR proceeding, as the decision and

⁴⁷ EB-2023-0030, Hydro One Distribution DVA Continuity Schedule, I-01-01-02, October 27, 2023.

order in that proceeding was issued on March 7, 2019.⁴⁸

In the same interrogatory response, Hydro One provided an Excel spreadsheet that showed further drivers of this balance requested for disposition for the Hydro One Distribution rate zone.⁴⁹ Specifically, in the new Excel spreadsheet, Hydro One showed the “OEB-Approved Disposition During 2019” amounts that were transferred to Account 1595 (2019) of \$54.5 million, the sum of principal and interest.

Submission

In its submission regarding the 2024 Custom IR Update proceeding for the Hydro One Distribution rate zone, OEB staff did not support the disposition of Hydro One’s December 31, 2022 Account 1595 (2019) debit balance of \$6,222,411 on a final basis, pertaining to the Hydro One Distribution rate zone.

In that submission, OEB staff requested further discovery of a \$38 million impact. This impact relates to amounts under-collected due to an accounting error made by Hydro One involving DVA balances that were approved for disposition in its 2018 Custom IR proceeding for the Hydro One Distribution rate zone. This error was noted in the Hydro One Distribution rate zone’s 2021 Custom IR Update proceeding.⁵⁰

The results of a review of a \$38 million impact on the Hydro One Distribution rate zone’s Account 1595 (2019), as suggested by OEB staff in Hydro One’s 2024 Custom IR Update proceeding, may also impact the Group 1 DVAs being requested for disposition in the current proceeding for the Peterborough rate zone and Orillia rate zone.

OEB staff is concerned that Hydro One may have incorporated this debit amount of \$38 million as part of the total DVA disposition claim in the current 2024 IRM proceeding for the Peterborough and Orillia rate zones. OEB staff’s concern is that a portion of the \$38 million debit was allocated to these two specific rate zones’ claimed DVA balances included in the current 2024 IRM proceeding for the Peterborough rate zone and the Orillia rate zone.

Consistent with its submission filed in the current 2024 Custom IR Update proceeding for the Hydro One Distribution rate zone, OEB staff requests that Hydro One provide more detail in its reply submission, for the Peterborough rate zone and the Orillia rate

⁴⁸ EB-2023-0030, OEB Staff Interrogatory #15, October 27, 2023.

⁴⁹ EB-2023-0030 OEB Staff Interrogatory #15, October 27, 2023; Hydro One Distribution Account 1595 (2019), I-01-01-10, October 27, 2023.

⁵⁰ EB-2020-0030, Hydro One 2021 Custom IR Update, Decision and Rate Order, Page 18 & 19, December 17, 2020: Revised February 18, 2021.

zone, regarding the accounts utilized to record the \$38 million debit, in the event that Hydro One has incorporated this debit amount of \$38 million as part of its total DVA disposition claim in the current proceeding (for the Peterborough rate zone and Orillia rate zone). Hydro One should clarify how (or whether) it has been allocated to the Peterborough rate zone and the Orillia rate zone. Hydro One should also address in its reply submission for the Peterborough rate zone and Orillia rate zone the requirements of the OEB's October 31, 2019 letter and Chapter 3 Filing Requirements, including the correction for errors after disposition.⁵¹

OEB staff submits that in its reply submission for the Peterborough rate zone and the Orillia rate zone, Hydro One should clarify if, when, and how it is proposing to recover (in the Peterborough rate zone and the Orillia rate zone) the \$38 million that was under-collected relating to the Hydro One Distribution rate zone's 2018 Custom IR proceeding, and how this amount has been accounted for (including whether amounts were allocated to the Peterborough rate zone and the Orillia rate zone).

OEB staff also requests that in its reply submission for the Peterborough rate zone and the Orillia rate zone, Hydro One confirm that if it requests disposition of this debit amount of \$38 million in a future proceeding for the Peterborough rate zone or Orillia rate zone, it will address the OEB's October 31, 2019 letter, regarding adjustments to correct for errors after disposition, as well as the requirements outlined in the OEB's Chapter 3 Filing Requirements.⁵² For example, the OEB outlined factors that it may consider in determining on a case-by-case basis whether to make a retroactive adjustment based on the particular circumstances of each case.

In addition to all of this, Hydro One incorrectly transferred a credit of \$3.2 million to Account 1589 from Account 1595 (2021) in the 2022 transactions portion of the DVA Continuity Schedule relating to the Hydro One Distribution rate zone and the GA Analysis Workform.⁵³ This transfer is inconsistent with how the OEB has treated similar cases regarding disposition of residual amounts.⁵⁴ OEB staff noted in its submission

⁵¹ OEB [Letter](#), Adjustments to Correct for Errors in Electricity Distributor "Pass-Through" Variance Accounts After Disposition, October 31, 2019; Filing Requirements For Electricity Distribution Rate Applications - 2023 Edition for 2024 Rate Applications, Chapter 3, Incentive Rate-Setting Applications June 15, 2023, section 3.2.6.

⁵² OEB Letter, Adjustments to Correct for Errors in Electricity Distributor "Pass-Through" Variance Accounts After Disposition, October 31, 2019; Filing Requirements For Electricity Distribution Rate Applications - 2023 Edition for 2024 Rate Applications, Chapter 3, Incentive Rate-Setting Applications June 15, 2023, section 3.2.6.

⁵³ OEB Staff Question #3 Response, August 29, 2023.

⁵⁴ OEB Staff Interrogatory #11 Response, November 1, 2023; EB-2022-0057, Oshawa PUC Networks Inc, Decision and Rate Order, Pages 8 & 9, December 8, 2022. This is a similar precedent where the OEB approved a sub-account of Account 1595 to be refunded only to non-RPP customers (as opposed to all customers), as it was global adjustment in nature.

regarding the 2024 Custom IR Update proceeding (for the Hydro One Distribution rate zone) that in its next rate application pertaining to that rate zone, Hydro One should apply for a new sub-account of Account 1595 (2021) to record the credit of \$3.2 million (to be refunded only to non-RPP customers).

OEB staff is noting this final matter because even though it relates to primarily to the Hydro One Distribution rate zone, it also impacts items such as the GA Analysis Workform which is consolidated across the Hydro One Distribution rate zone, the Orillia rate zone, and the Peterborough rate zone.

Allocated DVA Balances

Background

Hydro One stated that the Group 1 DVA balances are allocated to the Hydro One Distribution rate zone, the Peterborough rate zone, and the Orillia rate zone using the methodology approved in the OEB's Inspection Report,⁵⁵ which is primarily based on relevant historical sales volumes.⁵⁶ However, where possible, specific amounts were directly assigned to the appropriate rate zones.

OEB staff asked interrogatories seeking clarification on the balances allocated to each rate zone. In response, Hydro One stated that it had reviewed all relevant models and numbers and confirmed that all amounts are correct and do not require updates.⁵⁷ OEB staff also notes that these models also address balances in the Peterborough rate zone and the Orillia rate zone.

However, despite Hydro One's assertions, OEB staff has compiled the following Table 4 that demonstrates an example of Hydro One's numbers remaining unreconciled, including amounts pertaining to the Peterborough rate zone and the Orillia rate zone. For example, for the Account 1586 closing December 31, 2022 balance there is a difference of approximately \$26.7 million between the spreadsheet that allocates the DVA balances⁵⁸ and the Hydro One Consolidated DVA Continuity schedule.⁵⁹

That said, OEB staff notes for example, the Account 1586 closing December 31, 2022

⁵⁵ EB-2021-0110, OEB Staff Interrogatory #G-Staff-311 Response, November 29, 2021, "Inspection of the Compliance of the RPP Settlement Process and Assessment of the DVA Allocation Methodology for the Acquired Utilities, Hydro One Networks Inc., March 4, 2019."

⁵⁶ OEB Staff Interrogatory #4 Response, November 1, 2023.

⁵⁷ OEB Staff Interrogatory #4 Response, November 1, 2023.

⁵⁸ Allocation of Group 1 DVAs, A-04-01-02, August 17, 2023.

⁵⁹ Hydro One Consolidated DVA Continuity Schedule, I-01-13-01, November 1, 2023.

value in the Hydro One Consolidated DVA Continuity schedule summing to a credit of \$30.5 million reconciles to the sum of the underlying DVA Continuity schedules relating to the three rate zones. This reconciliation is shown in Table 5. OEB staff is unclear whether it is only the spreadsheet “Allocation of Group 1 DVAs”⁶⁰ that has the incorrect numbers (as shown in Table 4), given that the December 31, 2022 Hydro One Consolidated DVA continuity schedule⁶¹ values equal the sum of the respective amounts shown in the DVA continuity schedules for each of the three rate zones (as shown in Table 5).⁶²

Table 4: Example of Unreconciled Allocated DVA Balances

Account 1586 - Closing Principal Balance and Interest Amounts as of December 31, 2022							
Hydro One Three Rate Zones A-4-1-2 20230817				Hydro One Consolidated DVA Continuity Schedule I-01-01-01 20231027			Difference
Hydro One Distribution	Hydro One Orillia	Hydro One Peterborough	Sum of Three Rate Zones OEB Staff Calculations	Hydro One Consolidated Principal	Hydro One Consolidated Interest	Hydro One Consolidated Total	
(3,660,228)	(31,772)	(66,019)	(3,758,018)	(29,709,976)	(763,551)	(30,473,527)	26,715,509

Table 5: Example of Reconciled DVA Balances Across DVA Continuity Schedules

Account 1586 - Closing Principal Balance and Interest Amounts as of December 31, 2022						
	Hydro One Distribution	Hydro One Orillia	Hydro One Peterborough	Sum of Three Rate Zones OEB Staff Calculations	Hydro One Consolidated	Difference
	HONI Main DVA Continuity Schedule I-01-01-02_October 27, 2023	Orillia DVA Continuity Schedule I-01-13-02 November 1, 2023	Peterborough DVA Continuity Schedule I-01-13-03 November 1, 2023		HONI Consolidated DVA Continuity Schedule I-01-01-01 October 27, 2023	
Principal	(30,182,050)	(69,447)	541,521	(29,709,976)	(29,709,976)	0
Interest	(741,027)	(8,515)	(14,009)	(763,551)	(763,551)	0
Total	(30,923,077)	(77,963)	527,512	(30,473,527)	(30,473,527)	0

Submission

OEB staff supports the disposition of Hydro One’s December 31, 2022 Group 1 DVA balances on a final basis (excluding Accounts 1588 and 1589) for the Peterborough rate zone and Orillia rate zone, pending Hydro One’s reply submission for the Peterborough

⁶⁰ Allocation of Group 1 DVAs, A-04-01-02, August 17, 2023

⁶¹ Hydro One Consolidated DVA Continuity Schedule, I-01-13-01, November 1, 2023.

⁶² EB-2023-0030 Hydro One Distribution DVA Continuity Schedule I-01-01-02 October 27, 2023; EB-2023-0059 Orillia DVA Continuity Schedule I-01-13-02 November 1, 2023; EB-2023-0059 Peterborough DVA Continuity Schedule I-01-13-03 November 1, 2023.

rate zone and the Orillia rate zone, regarding allocated Group 1 DVA balances (as discussed below) and that regarding the \$38 million error (as discussed above).

OEB staff submits that in its reply submission for the Peterborough rate zone and the Orillia rate zone, Hydro One should explain whether it agrees with OEB staff's calculations and values in both Table 4 and Table 5 and update as required.

OEB staff requests that Hydro One review all relevant models and numbers again (and not solely those described in Table 4 and Table 5) for the Peterborough rate zone and Orillia rate zone and update the evidence as required. OEB staff submits that this request is appropriate, given the analysis shown in Table 4, despite OEB staff previously asking Hydro One to perform this task in interrogatories.⁶³ OEB staff requests that Hydro One provide the results of its review in its reply submission for the Peterborough rate zone and the Orillia rate zone.

However, if the OEB determines that Hydro One has not adequately addressed OEB staff's concerns, OEB staff submits that all of the Group 1 DVA balances for the Peterborough rate zone and Orillia rate zone should not be disposed, given that there are issues with the allocated DVA balances. These issues should be addressed instead in Hydro One's next rate application for 2025 rates for the Peterborough rate zone and Orillia rate zone.

Establishment of Forgone Revenue DVA

Background

Hydro One requested that the OEB's rate order for this proceeding be effective January 1, 2024 for the Peterborough and Orillia rate zones.⁶⁴

In order to address the possibility that the requested rate order cannot be made effective by that time, Hydro One requested an interim rate order making its current distribution rates and charges effective on an interim basis as of January 1, 2024. Hydro One also requested the approval of a Forgone Revenue Deferral Account to recover any differences between the interim rates and final rates effective January 1, 2024 for the Peterborough rate zone and the Orillia rate zone, based on the OEB's decision and order.

⁶³ OEB Staff Interrogatory #4 Response, November 1, 2023.

⁶⁴ Exhibit A, Tab 2, Schedule 1, Page 5, August 17, 2023.

OEB staff noted that in certain previous proceedings,⁶⁵ the OEB has approved a rate rider to capture forgone revenue resulting from an implementation date for approved new rates that were subsequent to the effective date of such rates, rather than establishing a DVA to capture such impacts.

In response to an interrogatory, Hydro One supported the use of a rate rider that would be approved as part of this application (for the Peterborough rate zone and the Orillia rate zone) to capture any forgone revenue resulting from approved 2024 rates that would be implemented subsequent to the effective date of the 2024 rates.⁶⁶ Hydro One supported such a rate rider, rather than the establishment of a deferral account to capture the forgone revenue.

Submission

OEB staff agrees with Hydro One that the use of forgone revenue rate riders is an acceptable alternative to the establishment of a new DVA to capture forgone revenue, should it be required for the Peterborough rate zone and the Orillia rate zone, but only upon OEB approval.

OEB staff's view is that there would be regulatory efficiencies to be gained and less intergenerational inequity by utilizing forgone revenue rate riders in the current proceeding for the Peterborough rate zone and Orillia rate zone, rather than clearing a DVA in a future proceeding related to forgone revenue from the current proceeding.

OEB staff invites Hydro One to advise the OEB in its reply submission of the date by which it would require a final Tariff of Rates and Charges to be able to implement rates effective January 1, 2024 for the Peterborough rate zone and the Orillia rate zone, subject to OEB approval.

~All of which is respectfully submitted~

⁶⁵ For example, EB-2021-0016, E.L.K. Energy Inc., Decision and Rate Order, June 30, 2022, p. 5.

⁶⁶ OEB Staff Interrogatory #12, November 1, 2023.