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BY EMAIL AND RESS

November 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-2023-0059 – Hydro One Networks Inc. 2024 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 issued on October 16, 2023, please find enclosed Hydro One Networks Inc.'s Reply Submission for the Orillia and Peterborough rate zones in support of its request for distribution rates effective January 1, 2024 and the supporting attachments.

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

Sincerely,

Elise Andrey

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O.1998, c.15 (Schedule B).

AND IN THE MATTER OF an Application by Hydro One Networks Inc., for an Order or Orders made pursuant to section 78 of the *Ontario Energy Board Act, 1998* approving just and reasonable rates and other charges for the distribution of electricity, in the service areas formerly served by Orillia Power Distribution Corporation and Peterborough Distribution Inc., to be effective January 1, 2024.

REPLY SUBMISSION
HYDRO ONE NETWORKS INC.

Orillia Power Distribution Corporation and Peterborough Distribution Inc.

November 29, 2023

INTRODUCTION

On August 17, 2023, Hydro One Networks Inc. (Hydro One) filed an Incentive Rate-setting Mechanism (IRM) Application for the areas formerly served by Orillia Power Distribution Corporation (OPDC) and Peterborough Distribution Inc. (PDI), seeking approval for 2024 distribution rates and charges effective January 1, 2024. This Application was made pursuant to section 78 of the *Ontario Energy Board Act, 1998* (the OEB Act).

The OEB approved two Mergers, Acquisitions, Amalgamations and Divestitures (MAAD) applications filed by Hydro One Inc. (HOI), Hydro One's parent company, for each of PDI and OPDC on April 30, 2020 (MAAD Decisions),[1] which allowed HOI to purchase all of the issued and outstanding shares of OPDC, and to purchase the distribution system of the amalgamated corporation of PDI and Peterborough Utilities Services Inc., and to subsequently transfer the assets and liabilities of the electricity businesses to Hydro One. The integration of OPDC and PDI into Hydro One's distribution system was completed on June 1, 2021.

The customers of the former OPDC and PDI service areas are currently in a ten-year deferred rebasing period approved by the OEB, which is set to expire on August 31, 2030, for the areas formerly served by OPDC; and July 31, 2030, for the areas formerly served by PDI. The MAAD Decisions further provided that base distribution rates for residential, general service and large use customers would be subject to a 1% reduction in base distribution rates through a rate rider during years one to five of the deferred rebasing period.

References to the Hydro One service areas formerly served by OPDC and PDI are herein referred to as Orillia Rate Zone (RZ) and Peterborough RZ, respectively.

In this Application, Hydro One hereby applies to the OEB for an order approving:

a) The 2024 distribution rates and charges to be effective on January 1, 2024.

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

b) The 2024 Retail Transmission Service Rates (RTSRs), Low Voltage (LV) Service Rates, and the updated Retail Service Charges and Specific Service Charges for access to power poles – telecom to be effective January 1, 2024.

c) The disposition of Group 1 Deferral and Variance Account (DVA) balances for both Orillia RZ and Peterborough RZ. For Orillia RZ, Hydro One is requesting disposition of a debit balance of $1,259 over a one-year period beginning January 1, 2024. For Peterborough RZ, Hydro One is requesting disposition of a debit balance of $1,092,379 over a one-year period beginning January 1, 2024.[2]

d) Disposition of the 2024 Lost Revenue Adjustment Mechanism (LRAM)-Eligible amounts approved in EB-2022-0040,[3] escalated by the OEB-approved inflation factor for 2024 rates. Hydro One is seeking to recover $45,147 for Orillia RZ and $57,322 for Peterborough RZ.[4]

This is Hydro One's reply submission in respect of the 2024 IRM application for Orillia and Peterborough RZs (Reply Submission). Hydro One submits that the proposed 2024 distribution rates and charges are reasonable and that the Application should be approved as filed and as further revised during the proceeding.[5]

No submissions were made by OEB staff in respect of Hydro One's request for updating the RTSRs and rate rider for the disposition of the 2024 LRAM-Eligible amounts.

In this Reply Submission, Hydro One will address the outstanding aspects of OEB staff's submissions on the following topics:

- LV Service Rates Update
- Group 1 DVAs

[2] The Group 1 DVA balances proposed for disposition are as of December 31, 2022, adjusted for dispositions during 2023, along with projected carrying charges to December 31, 2023.
[3] EB-2022-0040, Draft Rate Order, Attachment 4 (Orillia RZ) and Attachment 5 (Peterborough RZ) dated December 13, 2022.
[4] Application, Exhibit A-04-01, Section 2.7, Tables 5 and 6
[5] Including applicable updates to projected 2023 interest and RTSRs, as updated during interrogatories.

1.0 LV SERVICE RATES UPDATE

1.1 OVERVIEW

As part of the Application, Hydro One updated the LV Service Rates for the Orillia and Peterborough RZs effective January 1, 2024. The update to the LV Service Rates was made pursuant to the OEB's Chapter 3 Filing Requirements, which allow embedded/partially embedded distributors to update their LV Service Rates.

The current LV Service Rates for the customers in the Orillia and Peterborough RZs were approved in their most recent Cost of Service (COS) applications.[6] Upon OPDC and PDI's integration into Hydro One's distribution system on June 1, 2021, Hydro One deregistered the redundant wholesale meters that were no longer required for settlement and billing purposes, and the associated host and embedded distributor transactions were eliminated.[7] As such, the cost of LV services cannot be tracked post-integration due to the deregistration of the redundant meters at the former embedded delivery points.[8]

The updated LV Service Rates calculated by Hydro One were derived using Hydro One's currently approved Sub-transmission (ST) rates (2023 ST rates) and the billing quantities from their respective most recent COS applications for each of Orillia and Peterborough RZs.

OEB staff made two submissions in this regard:

i. Hydro One should maintain the status quo LV Service Rates in each RZ and not be allowed to update this rate for the remainder of the deferred rebasing period. OEB staff believes that without accurate volumes measured by delivery point meters, an updated LV Service Rate would not reflect reasonable LV costs.[9]

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[6] EB-2009-0273, Decision on 2010 OPDC Rates, March 5, 2010; and EB-2012-0160, Decision and Order on 2013 PDI Rates, August 22, 2013
[7] Response to OEB Staff Interrogatory 14 b); Application, Exhibit A-04-01, Section 2.2.4
[8] Response to OEB Staff Interrogatory 14 e)
[9] OEB Staff Submission, p. 7

ii. Hydro One should not track any variance in Account 1550 for either RZ going forward, until the OEB considers a rebasing application for a consolidated entity.[10] Moreover, OEB staff submitted that the mechanism to track variances has been eliminated when Hydro One deregistered the meters.[11]

Hydro One submits that the updated LV Service Rates are appropriate for each of Orillia and Peterborough RZs. They were derived based on Hydro One's 2023 ST rates (which are the most recently approved ST rates) and the sales volumes from the most recent COS applications. Hydro One's update to the LV Service Rates is fundamentally consistent with OEB staff's proposal to maintain status quo LV Service Rates in each RZ. As discussed in Section 1.3 below of this Reply Submission, Hydro One is using the sales volumes from the most recent COS applications (consistent with OEB staff's proposal to maintain the LV Service Rates under the status quo approach), but is also updating the LV Service Rates with the latest Hydro One ST rates as approved by the OEB.[12] By applying the 2023 ST rates, these rates more accurately reflect the current costs to provide ST distribution services to the Orillia and Peterborough RZs, whereas OEB staff's proposal for the status quo would effectively rely on Hydro One's ST rates in effect at the time of OPDC and PDI's prior COS applications.

With respect to tracking variances associated with the Orillia and Peterborough RZs in Account 1550, Hydro One clarifies that it is not tracking any variances post-integration (June 1, 2021). As such, OEB's staff submission is consistent with the current practice adopted by Hydro One post-integration, where all LV revenues from customers in the Orillia and Peterborough RZs are reclassified to ST revenues.

Hydro One therefore submits that its updated LV Service Rates should be approved as filed.

[10] OEB Staff Submission, p. 7
[11] OEB Staff Submission, p. 6
[12] Decision and Order, EB-2021-0110, Schedule A, Attachment 2, Schedule 8.2, November 29, 2022

Hydro One addresses the outstanding concerns raised by OEB staff for the LV Service Rates including:

- Embedded Delivery Point Meters
- LV Service Rates Billing Determinants
- Reclassification of LV Revenue to ST Revenue

1.2 EMBEDDED DELIVERY POINT METERS

Consistent with the OEB's Chapter 3 Filing Requirements with respect to updates to LV Service Rates, OEB staff noted that the demand data used to update the LV Service Rates should reflect the most recent historical data. Therefore, OEB staff submitted that there is a need to measure demand data via meters at the embedded delivery points. Furthermore, OEB staff stated that the volumes measured at these meters are used to (i) update the LV Service Rates in these rate zones; and (ii) track the variance between LV revenues and LV costs.[13]

Specifically, OEB staff raised the following concern regarding Hydro One's decision to deregister the embedded delivery point meters at the time of integration of OPDC and PDI with Hydro One:

<u>Concern i), OEB staff questioned why Hydro One would have considered the meters used to determine a variance in the LV costs to Hydro One versus the LV revenues received from the customers in the Orillia and Peterborough RZs, as redundant. In particular, OEB staff invited 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.</u>[14]

[13] OEB Staff Submission, p. 4
[14] OEB Staff Submission, p. 5

In response to OEB staff's request for additional information, Hydro One clarifies that some of the former OPDC and PDI's wholesale meters became redundant[15] with Hydro One's wholesale meters upon integration due to its consolidation with Hydro One's settlement with the IESO. As such, Hydro One deregistered the redundant meters based on the primary purpose to align wholesale settlements with the IESO. These redundant meters were in fact identified through a joint work with the IESO, and former OPDC and PDI's meter service providers.[16] In response to OEB staff's concerns, Hydro One submits that keeping the redundant wholesale meters to track the LV variances between Hydro One and the former embedded distributor delivery points would not have been justified, for the purposes of tracking LV variance, as these meters are unnecessary for the operations and maintenance of distribution assets and there would be ongoing operational costs for meter data reconciliation and maintenance services.

To ensure that the record is clear with respect to the redundant wholesale meters, the following summary is provided:

Pre-integration:

i. The former OPDC and PDI's wholesale meters were primarily used for their settlement with the IESO for its transmission, commodity and market-related charges.

ii. Some of these wholesale meters, were downstream of Hydro One's existing wholesale meters.[17]

iii. In addition, the existing wholesale meters were leveraged by Hydro One to bill ST charges to the former OPDC and PDI embedded delivery points.

[15] There is a unique circumstance that arises for Hydro One when distributors that were formerly embedded are acquired. Before integration, the embedded distributors had to settle independently with the IESO, and often had wholesale meters that are downstream of Hydro One's wholesale meters. After integration, these downstream meters became redundant with Hydro One's upstream wholesale meters.
[16] Response to OEB Staff Interrogatory 14 d)
[17] Response to OEB Staff Interrogatory 14 c)

Post-integration:

i. The load that was formerly served by OPDC and PDI was now consolidated with Hydro One's settlement with the IESO.

ii. Former OPDC and PDI's wholesale meters that were downstream of Hydro One's existing wholesale meters became redundant. Therefore, redundant meters were no longer required as Hydro One settles with the IESO at the most upstream wholesale meter point, which captures the former OPDC and PDI load.

iii. Hydro One no longer bills ST charges to the former OPDC and PDI embedded delivery points, but instead directly bills the customers formerly served by OPDC and PDI based on their respective rate class. This is further explained in Section 1.4 below.

In response to OEB staff's concern that the redundant wholesale meters were eliminated during the deferred rebasing period, Hydro One notes that this decision was consistent with the OEB's Report on Rate-Making Associated with Distributor Consolidation (OEB's Consolidation Policy), which sets out the expectation that the distribution sector should continue to seek efficiencies, especially through consolidation. Specifically, the OEB's 2015 Report (at page 7) says that "the OEB believes that it is in the best interest of consumers to have consolidating entities operate as one entity as soon as possible" – the elimination of redundant meters is one step along this path. Hydro One interprets this to mean that it should implement efficiencies right away as at the completion date of the MAAD transaction, and not delay or defer these efficiencies until the next rebasing.

Hydro One is of the view that it is allowed to make changes to implement efficiencies, including the removal of redundant wholesale meters, without OEB approval as provided in the OEB's Consolidation Policy.

With respect to reinstalling the redundant meters, OEB staff indicated that it is unable to make a submission on whether reinstalling the meters is of value or not as Hydro One did not provide a cost estimate.[18]

In response, Hydro One confirms that it does not intend to reinstate the deregistered redundant wholesale meters based on the reasons provided above.

1.3 LV SERVICE RATES BILLING DETERMINANTS

In regards to Hydro One's request to update the LV Service Rates for Orillia and Peterborough RZs based on sales volumes from the 2010 and 2013 rebasing applications respectively and the latest Hydro One ST rates, OEB staff raised the following two concerns.[19]

<u>Concern i), 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.</u>[20]

Hydro One disagrees with OEB staff's assertion that it is inappropriate to set LV Service Rates based on the most recent COS billing data. In its submission, OEB staff stated that Hydro One should maintain the status quo LV Service Rates in each RZ, which were set based on the most recent COS billing data. As such, both Hydro One and OEB staff believe in maintaining the sales volumes from the most recent COS applications. The only difference between the status quo LV cost and the updated LV cost as proposed by Hydro One is the update for the latest Hydro One ST rates (2023) from the last rebasing application.[21] Hydro One believes that using the most recent ST rates as approved by the OEB in the derivation of the updated LV Service Rates is more appropriate than maintaining the status quo LV Service Rates, which are based on the ST rates in effect at the time of OPDC and PDI's most recent COS applications and are over ten years old.

[18] OEB Staff Submission, p. 5
[19] OEB Staff Submission, p. 5
[20] OEB Staff Submission, p. 6
[21] Decision and Order, EB-2021-0110, Schedule A, Attachment 2, Schedule 8.2, November 29, 2022

Concern ii), OEB staff submitted 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 submitted that Hydro One should not be allowed to track any variances for either rate zone going forward.[22]

Hydro One submits that it is not tracking any LV variances for the Orillia and Peterborough RZs. Post-integration, Account 1550 solely tracks LV variances for Hydro One Distribution.[23] Hydro One further notes that post-integration LV revenue from customers formerly served by OPDC and PDI have been reclassified to ST revenue, to align with the associated ST costs, which is further discussed in Section 1.4 below. As such, Hydro One's current practice is consistent with OEB staff's proposal.

1.4 RECLASSIFICATION OF LV REVENUE TO ST REVENUE

With respect to the post-integration reclassification of LV revenues to ST revenues, OEB staff presented a number of concerns which are addressed below:

Concern i), 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.[24]

In response, Hydro One clarifies that the customers in each of Orillia and Peterborough RZs are not billed ST rates. Hydro One directly bills these customers their LV Service Rates according to the approved tariff schedule for their respective rate class.[25] The reclassification of the revenue stream is described in Concern ii) below.

[22] OEB Staff Submission, p. 6
[23] Application, Exhibit A-04-01, Section 2.2.4; Response to Staff Interrogatory 14
[24] OEB Staff Submission, p. 7
[25] Decision and Rate Order, EB-2018-0242 Schedule A and EB-2018-0270 Schedule A, with updates approved in Hydro One's Orillia and Peterborough RZs 2023 Rate Application, EB-2022-0040

<u>Concern ii), 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.</u>[26]

To provide greater clarity on the record, Hydro One submits that formerly OPDC and PDI acted as intermediaries between Hydro One and the end-use customers that they served.

- As the host distributor, Hydro One's distribution revenue requirement was recovered through its ST charges to OPDC and PDI.

- As the embedded distributors, OPDC and PDI recognized their ST charges from Hydro One as LV costs which are considered cost of power, as per the OEB's Accounting Procedures Handbook For Electricity Distributors.[27]

- The intermediate step with the embedded distributors was eliminated with OPDC and PDI's integration with their host distributor, which created a disconnect in the revenue streams; LV revenue is not associated with Hydro One's cost of power and Hydro One no longer issues ST bills to the embedded delivery points.

Therefore, Hydro One's reclassification of LV revenue to ST distribution revenue is still applicable as it resolves the post-integration revenue disconnect that is further described in the Application.[28]

<u>Concern iii), OEB staff is unclear on how this direct billing intersects with the OEB's decision in Hydro One's MAADs proceeding. OEB staff questioned Hydro One on the allocation methodology used to directly allocate ST revenue requirements to Orillia and Peterborough rate zone customers.</u>[29]

Although OEB staff's submission touches on direct billing and direct allocation of ST revenues, Hydro One understands that the reference to direct billing in OEB staff's

[26] OEB Staff Submission, p. 7
[27] Accounting Procedures Handbook For Electricity Distributors, Article 220
[28] Application, Exhibit A-04-01, Section 2.2.4
[29] OEB Staff Submission, p. 7

submission refers to Hydro One's direct billing for LV Service Rates to the customers that were formally served by OPDC and PDI.[30] Post-integration, Hydro One directly bills all customers that were formally served by OPDC and PDI based on the rate schedules provided and approved in the MAAD proceedings.[31] The revenues from these LV Service Rates are in-turn reclassified as ST revenues as further discussed in Exhibit A-04-01 Section 2.2.4. Hydro One further notes that this was the context of the response provided in Staff Interrogatory 16 which requested an explanation as to the direct assignment of LV costs post-integration. In the context of LV revenues, following integration on June 1, 2021, the embedded distributors were eliminated and Hydro One ceased to issue ST bills, which would have constituted OPDC and PDI's LV costs. Hydro One explained that the LV revenues are based on the total amount that Hydro One directly billed for LV Service charges to these customers post-integration. Hence, OEB staff's line of questioning on cost allocation is not relevant.

2.0 GROUP 1 DVAS

Hydro One will address the outstanding aspects of OEB staff's submission on the disposition of Group 1 DVAs, which consist of the following six topics:

1. DVA Overview
2. Adoption of Accounting Guidance and Review of Balances – Accounts 1588 and 1589
3. Systemic Issues – Accounts 1588 and 1589
4. Accounting Error – DVAs Approved for Disposition in 2018 Custom IR
5. Allocated DVA Balances
6. Establishment of Forgone Revenue DVA

2.1 DVA OVERVIEW

Hydro One requests disposition of December 31, 2022 Group 1 DVA balances amounting to a debit of $1,259 and a debit of $1,092,379 on a final basis for the Orillia and Peterborough RZs, respectively. Each of the balances is proposed to be disposed over a

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[30] Response to Staff Interrogatory 16 a)

[31] Decision and Rate Order, EB-2018-0242 Schedule A and EB-2018-0270 Schedule A, with updates approved in Hydro One's Orillia and Peterborough RZs 2023 Rate Application, EB-2022-0040

one-year period, effective January 1, 2024. Although the consolidated Group 1 DVA balances do not exceed the pre-set disposition threshold of $0.001/kWh for Orillia RZ, Hydro One has requested to dispose of the Group 1 DVA balances for all rate zones since the disposition threshold for the Peterborough RZ has been met.[32] This is consistent with the expectations set out in the 2023 Orillia and Peterborough RZs' IRM Decision[33] and is consistent with past practice, where the OEB has accepted Hydro One's disposition approach to establish the total Group 1 balance and seek disposition of all allocated balances for Hydro One Distribution and its acquired utilities of the same rate year.[34] In addition, this approach will minimize intergenerational inequities, as the 2021 and 2022 balances have not yet been disposed.

OEB staff supported disposing of the December 31, 2022 Group 1 DVAs, for the Orillia and Peterborough RZs, excluding Accounts 1588 and 1589, pending Hydro One's reply submission for the Orillia and Peterborough RZs regarding allocated Group 1 DVA balances and the $38 million impact on Account 1595.[35] OEB staff submitted that Hydro One should conduct a further review of Accounts 1588, 1589 and 1595 and submit the findings in the distributor's 2025 IRM applications for the Orillia and Peterborough RZs.[36]

Hydro One submits that the request to dispose of all Group 1 DVA balances on a final basis remains appropriate. Further reviews on Accounts 1588 and 1589 are not required as these accounts reflect audited balances and have already been reviewed. No further issues were identified based on the reviews conducted. In addition, OEB staff's request for a review of the $38 million impact of Hydro One Distribution's Account 1595 on the Group 1 DVAs of the Orillia and Peterborough RZs is not applicable, as no amounts were allocated to the Orillia and Peterborough RZs. As such, Hydro One requests final disposition of all Group 1 DVA accounts for the Orillia and Peterborough RZs based on the following reasons:

[32] Hydro One has requested to dispose of the Group 1 DVA balances for all rate zones including Orillia RZ and Peterborough RZ in this Application and Hydro One Distribution in EB-2023-0030, which is currently before the OEB.
[33] Decision and Order, EB-2022-0040, December 8, 2022, pp. 7 and 13
[34] Application, Exhibit A-04-01, p. 7
[35] OEB Staff Submission, p. 10
[36] OEB Staff Submission, p. 10

1. Hydro One has reviewed all related data and processes to ensure alignment with the adoption of the Accounting Guidance as of January 1, 2021 and believes that the reviews conducted to date are sufficient to confirm accuracy of Accounts 1588 and 1589 for the Orillia and Peterborough RZs to be disposed on a final basis in this proceeding. Further details of Hydro One's adoption of the Accounting Guidance, applicable to Orillia and Peterborough RZ's post-integration balances, are provided in Section 2.2 below.

2. There are no outstanding systemic issues with Hydro One's accounting process which should raise concerns over the accuracy of the post-integration 2021 and 2022 Account 1588 and 1589 balances for the Orillia and Peterborough RZs. Hydro One addressed the Accounting Guidance with OEB staff in 2020 as part of the 2021 Custom IR proceeding.[37] The OEB then directed Hydro One to adopt the Accounting Guidance in a modified manner prospectively beginning January 1, 2021, as the adoption could only occur on a prospective basis.[38]

   As noted in Hydro One's reply submission in EB-2023-0030, the modified approach remains appropriate.[39] Upon all the reviews and internal controls implemented, Hydro One has not identified any further issues aside from the isolated reclassification adjustments with respect to embedded distributors, which have now been rectified. The reclassification adjustment amounts are limited to Hydro One Distribution and were excluded from the consolidated balances allocated to the Orillia and Peterborough RZs.[40] Further details are provided in Sections 2.2 and 2.3 below.

3. As noted above, the $38 million impact of Hydro One Distribution's Account 1595 on the Group 1 DVAs of the Orillia and Peterborough RZs is not applicable, as no amounts were allocated to the Orillia and Peterborough RZs. For additional details, please refer to Section 2.4 below.

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[37] EB-2020-0030, Reply Submission, pp. 5-7
[38] EB-2020-0030, Hydro One Distribution, 2021 Custom IR Update, Decision and Rate Order, December 17, 2020, Revised: February 18, 2021, pp. 17-18
[39] EB-2023-0030, Reply Submission, p. 5
[40] Response to OEB Staff Interrogatory 5 a)

4. The allocation of the Group 1 DVAs for 2021 and 2022 have been reconciled with the DVA Continuity Schedules, in response to OEB staff's request in Section 2.5 below.

For these reasons, which are detailed in the following sections, Hydro One submits that the request to dispose of all Group 1 DVA balances for the Orillia and Peterborough RZs on a final basis is appropriate.

2.2 ADOPTION OF ACCOUNTING GUIDANCE AND REVIEW OF BALANCES – ACCOUNTS 1588 AND 1589

(A) IMPLEMENTATION OF ACCOUNTING GUIDANCE IN A MODIFIED MANNER SINCE JANUARY 1, 2021

Hydro One's adoption of the Accounting Guidance in a modified manner was approved by the OEB in the 2021 Custom IR Decision. In the OEB's decision in the 2021 Custom IR proceeding, the OEB agreed 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."[41] (emphasis added)

OEB staff presented the following concerns regarding the Account 1588 and Account 1589 balances:

i. OEB staff believes that there are significant adjustments that give rise to concerns that there may be systemic problems with Hydro One's commodity accounting (including accounting related to the Orillia and Peterborough RZs) especially in light of the fact that Hydro One has not fully adopted the accounting guidance. OEB staff remains concerned that such adjustments may point to further systemic problems, also impacting the Orillia and Peterborough RZs. [42]

[41] EB-2020-0030, Hydro One Distribution, 2021 Custom IR Update, Decision and Rate Order, December 17, 2020, Revised: February 18, 2021, pp. 17-18
[42] OEB Staff Submission, p. 12

ii. OEB staff does not support Hydro One's request for disposition of the balances in Accounts 1588 and 1589 for the Orillia and Peterborough RZs, given that OEB staff is unclear of the issues pertaining to pre-2021 and post-2021 balances. As a result, Hydro One should conduct a further review of the impact of the noted issues in this submission on Accounts 1588 and 1589 for the Orillia and Peterborough RZ.[43]

iii. Hydro One is using a select approach in reflecting 1588 and 1589 adjustments on GA Analysis Workform and the DVA Continuity Schedule for the Peterborough and Orillia RZs, as opposed to a consistent approach.[44]

iv. 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 RZ. This raises question as to whether a similar disallowance would be appropriate in the current proceeding for the Peterborough RZ, given that Peterborough legacy staff was still performing the accounting function for the January 1, 2021 to May 31, 2021 period. [45]

Each of these concerns are addressed below.

<u>Concern i), OEB staff believes that there are significant adjustments that give rise to concerns that there may be systemic problems with Hydro One's commodity accounting (including accounting related to the Orillia and Peterborough RZs) especially in light of the fact that Hydro One has not fully adopted the accounting guidance. OEB staff remains concerned that such adjustments may point to further systemic problems, also impacting the Orillia and Peterborough RZs.</u>[46]

[43] OEB Staff Submission, p. 12
[44] OEB Staff Submission, p. 13
[45] OEB Staff Submission, pp. 13, 14
[46] OEB Staff Submission, p. 12

Hydro One does not agree with OEB staff's views that use of the modified approach to adopt the Accounting Guidance is yielding systemic issues, including the accounting for the Orillia and Peterborough RZs in the post-integration period.

Since the reclassification issue has been rectified for Hydro One Distribution, there are no systemic issues. Hydro One therefore disagrees with OEB staff's position that there may be systemic issues with Hydro One's commodity accounting which point to further systemic problems impacting the Orillia and Peterborough RZs.

Hydro One's modified approach relies on the same methodology as the Accounting Guidance with the exception of the data used for RPP settlements. These data limitations are not systemic, but rather a technology system limitation, which the OEB accepted in Hydro One's 2021 Custom IR proceeding. As quoted above, from the OEB's decision in the 2021 Custom IR proceeding:

> "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"[47]
>
> "the OEB accepts Hydro One's proposal to adopt the new Accounting Guidance in a modified manner"[48]

This is further discussed in Section 2.3 below of this Reply Submission.

<u>Concern ii), OEB staff does not support Hydro One's request for disposition of the balances in Accounts 1588 and 1589 for the Orillia and Peterborough RZs, given that OEB staff is unclear of the issues pertaining to pre-2021 and post-2021 balances. As a result, Hydro One should conduct a further review of the impact of the noted issues in this submission on Accounts 1588 and 1589 for the Orillia and Peterborough RZs.</u>[49]

[47] EB-2020-0030, Hydro One Distribution, 2021 Custom IR Update, Decision and Rate Order, December 17, 2020, Revised: February 18, 2021, pp. 17-18
[48] EB-2020-0030, Hydro One Distribution, 2021 Custom IR Update, Decision and Rate Order, December 17, 2020, Revised: February 18, 2021, pp. 17-18
[49] OEB Staff Submission, p. 12

Hydro One submits that there are no outstanding issues pertaining to Orillia and Peterborough RZs.

The Orillia and Peterborough RZs did not follow Hydro One's modified approach until after integration with Hydro One. As such, OEB staff's concerns regarding the potential for systemic issues with the pre-June 2021 balances has no basis.

After integration was completed on June 1, 2021, all RPP settlement related transactions for the Orillia and Peterborough RZs were completed on a consolidated basis in accordance with Hydro One's modified approach. In response to interrogatories, Hydro One confirmed that the Orillia and Peterborough RZ's 2021 and 2022 RSVA balances were not impacted by the reclassification adjustments.[50] This point was acknowledged by OEB staff in its submission.[51]

Based on all the reviews conducted and internal controls implemented to date, Hydro One submits that there are no ongoing systemic issues that remain unresolved for the consolidated balances, which should give rise to any concern over the accuracy of the 2021 and 2022 commodity accounts for the Orillia and Peterborough RZs.

As indicated in EB-2023-0030[52] and in this proceeding, Hydro One has reviewed all related data and processes to ensure alignment with the adoption of the Accounting Guidance as of January 1, 2021. The reviews conducted to date are sufficient to confirm accuracy of Accounts 1588 and 1589. The Orillia and Peterborough RZs balances have already been examined as part of the reviews done on a consolidated basis[53] and do not require any further adjustments prior to final disposition.

[50] Response to OEB Staff-Hydro One Discussion Question 5 b), August 29, 2023; and Response to OEB Staff Interrogatory 5 a)
[51] OEB Staff Submission, p. 17
[52] EB-2023-0030, Reply Submission, p. 10
[53] Response to OEB Staff Interrogatory 1 d)

Concern iii), Hydro One is using a select approach in reflecting 1588 and 1589 adjustments on GA Analysis Workform and the DVA Continuity Schedule for the Peterborough and Orillia RZs, as opposed to a consistent approach.[54]

Hydro One disagrees with OEB staff that it is using a select approach to reflect 1588 and 1589 adjustments for the Orillia and Peterborough RZs.

Hydro One is using a consistent approach to reflect 1588 and 1589 reclassification adjustments on the DVA Continuity Schedule based on audited actuals. This approach is consistent with historical practice, which anchors the disposition of requested balances on the DVA Continuity Schedule to its audited balances and audited financial statements. Specifically, the two principal adjustments captured on the DVA Continuity Schedule (which are related to Hydro One Distribution) are reclassification adjustments related to the audited balances between the two specific accounts only.[55] The reconciliation items on the GA Analysis Workform are primarily related to timing differences and are captured in the following year's closing balances on the DVA Continuity Schedule and the audited balances requested for disposition in future proceedings.[56]

Concern iv), 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 RZ.[57] This raises question as to whether a similar disallowance would be appropriate in the current proceeding for the Peterborough RZ, given that Peterborough legacy staff was still performing the accounting function for the January 1, 2021 to May 31, 2021 period.

In response to OEB Staff Interrogatory 3 and in particular part d), Hydro One confirmed it has addressed the reasons for the 30% disallowance on Peterborough RZ's December 31, 2020 Account 1589 balance as ordered by the OEB in its 2023 IRM decision. This

[54] OEB Staff Submission, p. 13
[55] Response to OEB Staff Interrogatory 8 c) and d)
[56] Response to OEB Staff Interrogatory 8 c)
[57] OEB Staff Submission, p. 13

30% disallowance was based on the variability of the Account 1588 and 1589 balances from 2017 to 2020.[58]

Although Hydro One was unable to confirm whether the pre-integration commodity balances followed the OEB's new accounting guidance,[59] it is unnecessary to apply a similar disallowance on the pre-June 1, 2021 Account 1589 transactions (amounting to a further reduction of $264,054 to Account 1589). Hydro One confirmed that the Account 1588 and 1589 balances were below the 1% threshold in 2021 on a consolidated basis.[60] Therefore, any further reductions to the pre-integration transactions for the first five months of 2021 will be overly excessive.

Hydro One submits that OEB staff's submission did not consider the difference in circumstance that are present in this Application, thus the rationale for a further disallowance on the pre-June 1, 2021 Account 1589 balance is not justified.

(B) NO MATERIAL ADJUSTMENTS ON RETROSPECTIVE BASIS AFTER FINAL DISPOSITION

In OEB staff's submission, OEB staff indicated that in the event that Hydro One supports disposition of Account 1588 and 1589 balances for the Orillia and Peterborough RZs in the current proceeding, Hydro One should confirm whether there would be any material adjustments on a retrospective basis following final disposition. If that were the case, OEB staff recommended that the OEB's approach set out in the October 2019 letter should apply. [61]

As indicated previously, Hydro One reviewed the relevant data to confirm accuracy of the 2021 and 2022 Account 1588 and 1589 balances and confirms there will be no material adjustments to the Orillia and Peterborough RZs on a retrospective basis, following the final disposition in this Application.[62] With respect to OEB staff's submission for an asymmetrical approach to correcting errors based on the October 31, 2019 letter, Hydro

[58] EB-2022-0040, Decision and Order, December 8, 2022, p. 14
[59] EB-2022-0040, Response to OEB Staff Interrogatory 5 a), October 12, 2022
[60] Response to OEB Staff Interrogatory 3 d)
[61] OEB Staff Submission, p. 15
[62] Response to OEB Staff Interrogatory 1 and 2

One submits that a further direction on this matter is not required, as the October 31, 2019 guidance is clear.[63]

2.3 SYSTEMIC ISSUES – ACCOUNTS 1588 AND 1589

(A) PRESENCE OF SYSTEMIC ISSUES THAT MAY EXIST FOR MAIN RZ IN THE METHODOLOGY FOR ITS ACQUIRED UTILITIES

OEB staff remains concerned that systemic issues may be present in Hydro One's accounting processes that may give rise to incorrect balances for the Orillia and Peterborough RZs.[64]

Hydro One reiterates that the Orillia and Peterborough RZ's pre-2021 balances did not follow Hydro One's modified approach since it was prior to integration, therefore the presence of potential systemic issues is not applicable to Orillia and Peterborough RZ's pre-2021 balances.

After completion of integration on June 1, 2021, all RPP settlement related transactions are completed on a consolidated basis following Hydro One's modified approach. As there are no ongoing systemic issues with Hydro One's accounting, it is incorrect to say that the Orillia and Peterborough RZs balances may be affected, as further discussed in Section 2.3(B) below.

(B) TWO EXISTING SYSTEMIC ISSUES RAISED IN 2021 PROCEEDING

In OEB staff's submission, OEB staff were unclear why the two systemic issues raised in the 2021 Custom IR proceeding affecting the pre-2021, 2021 and 2022 balances remain unresolved, given that these issues were brought to the OEB's attention over three years ago.

These systemic issues were characterized as follows:

i. Meter reading calendarization calculations are not conducted when settling with the IESO on a monthly basis; and

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[63] Adjustments to Correct for Errors in Electricity Distributor "Pass-Through" Variance Accounts After Disposition, October 31, 2019

[64] OEB Staff Submission, p. 17

ii. 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.

OEB staff invited Hydro One to explain in more detail why these issues are still outstanding in its reply submission for the Orillia and Peterborough RZs.

There are no ongoing systemic issues with the consolidated RPP settlement process that should raise concern over the accuracy of the Orillia and Peterborough RZs commodity balances. The first issue described above is, in fact, a technology system limitation that the OEB has previously acknowledged, accepted and as a result, approved Hydro One's modified approach. The second issue described above is not a systematic issue at all. OEB staff may have misinterpreted the way Hydro One splits IESO GA Charge Type 148 between Accounts 1588 and 1589, and how it conducts RPP settlements.
Each of the items are discussed below:

i. To comply with the Accounting Guidance, Hydro One was approved by the OEB to adopt the Accounting Guidance in a modified manner which includes the use of accrued data for RPP settlements. This is because calendarized sales volume data is not received, stored nor extracted from the current systems.

As reiterated in the reply submission in EB-2020-0030 (2021 Reply Submission), Hydro One worked with its IT solutions team to explore options to obtain calendarized sales volume data, but identified major limitations to its current technology framework, including:[65]

- not receiving or storing Meter Data Management Repository (MDMR) data on a daily basis, nor on a calendar month cycle;
- only keeping monthly MDMR readings based on the billing period, which is different for different sets of customers as some billing periods run mid-month to mid-month (e.g., Jan 15 to Feb 14, for example); and

[65] EB-2020-0030, Reply Submission, p. 6

- not being able to sync all the MDMR data with the calendar month, which would be inefficient and impractical to do for 1.5 million customers.

Without calendarized data due to the current technology limitations, the use of accrued data for RPP settlements remains the best alternative to align with how the IESO settles with distributors. Hydro One is concerned to see that this previously identified technology system limitation is being incorrectly characterized as a systemic issue and is causing concerns over the accuracy of the Account 1588 and 1589 balances.

Hydro One understands OEB staff's position to promote standardization and consistency across the industry in the application of the Accounting Guidance. As Hydro One's modified approach relies on the same methodology as the Accounting Guidance with the exception of calendarized data, Hydro One submits that the lack of calendarized data to conduct calendarization calculations should not be characterized as a systemic issue, but rather a technology system limitation which was previously understood and accepted by the OEB.

ii. For the second issue raised by OEB staff, Hydro One believes that there may have been a misinterpretation. For the RPP settlements and the splitting of IESO GA Charge Type 148, Hydro One confirms that it is using wholesale consumption, but clarifies that it is using retail loss adjusted consumption to apportion the wholesale volumes between the accounts, consistent with the Accounting Guidance.[66] As such, Hydro One submits it is incorrect for OEB staff to characterise this as a systemic issue.

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[66] Accounting Procedures Handbook Update - Accounting Guidance Related to Commodity Pass-through Accounts 1588 & 1589, February 21, 2019, pp. 9 and 20

(C) REQUEST TO FULLY ADOPT ACCOUNTING GUIDANCE AS OF JANUARY 1, 2023

OEB staff submitted that Hydro One should be directed to fully adopt the Accounting Guidance, effective January 1, 2023, given that it has been over three years since the systemic issues were raised in the 2021 Custom IR proceeding, with no solution implemented to-date by Hydro One.[67] Additionally, OEB staff asked Hydro One to provide more detail in its reply submission regarding any computer technology limitations of this full adoption, effective January 1, 2023. If there were concerns, Hydro One should advise of a date when it would be possible to fully implement the Accounting Guidance.[68]

Consistent with its reply submission in EB-2023-0030, Hydro One disagrees with OEB staff's position for the following reasons:[69]

- The OEB has already agreed, after considerable discussion and collaboration with Hydro One, to permit Hydro One to adopt the Accounting Guidance in a modified manner and on a prospective basis.[70] This decision was made in consideration of the costs (borne by customers) and the benefits to significantly modify its existing technology framework to fully comply with the Accounting Guidance.[71]

- Hydro One has already revamped its RPP settlement processes and procedures to comply with the Accounting Guidance starting in 2021. Given the technology framework limitations that exist, the adoption of the Accounting Guidance in a modified manner was an acceptable solution developed in consultation with OEB staff and was accepted by the OEB.[72] In the 2021 Reply Submission, Hydro One outlined the steps it undertook with OEB staff over the 2019 and 2020 period to

[67] OEB Staff Submission, p. 18
[68] OEB Staff Submission, p. 18
[69] EB-2023-0030, Reply Submission, pp. 15-17
[70] EB-2020-0030, Hydro One Distribution, 2021 Custom IR Update, Decision and Rate Order, December 17, 2020, Revised: February 18, 2021, pp. 17-18
[71] EB-2020-0030, Reply Submission, p. 5
[72] Between 2019 and 2020, Hydro One worked with various OEB staff to arrive at an acceptable solution to implement the Accounting Guidance, given the technology framework limitations that exist.

arrive at this solution, including in-person and virtual meetings, email questions and responses, and formal submissions (see Appendix A for details).[73]

- Based on discussions with OEB staff in 2019 and 2020, Hydro One understood that the OEB's Phase 2 Consultation was forthcoming to identify further procedures and data sets to be used in the new settlement methodology. As such, Hydro One believed that it would be best to implement further modifications to its IT framework after the Phase 2 consultation was completed to determine the inputs used in the new settlement methodology. That would avoid duplicative and potentially costly re-works to the modified IT framework, and this was previously accepted by the OEB.[74]

In response to OEB staff's request to provide more detail regarding any computer technology limitations of this full adoption and to further advise of a date when it would be possible to fully implement the Accounting Guidance if there were any concerns, Hydro One submits the following:[75]

1. The timeframe to implement changes to the current IT framework would be considerable. Hydro One would need to conduct a thorough reassessment of the current IT framework and impacts with all affected business units to determine the full scope and appropriate implementation timelines.

2. Hydro One cannot fully adopt the Accounting Guidance retroactively. This position was accepted by the OEB in the 2021 Custom IR proceeding. Once modifications are made to the system, changes to the data are made on a go-forward basis. Historical data cannot be reproduced out of the system for the purposes of assessing the Accounting Guidance on historical balances. Therefore, the adoption of the Accounting Guidance as of January 1, 2023 is simply not possible. Hydro One notes that this rationale was accepted by the OEB in the 2021 Custom

[73] EB-2020-0030, Reply Submission, pp. 4-7
[74] EB-2020-0030, Hydro One Distribution, 2021 Custom IR Update, Decision and Rate Order, December 17, 2020, Revised: February 18, 2021, pp. 17-18
[75] EB-2023-0030, Reply Submission, pp. 16-17

IR Decision.[76] Given previous OEB rulings, Hydro One is unsure why OEB staff is taking a different view in this proceeding.

In the event there is no Phase 2 consultation, Hydro One submits that the implementation of the Accounting Guidance in a modified manner, as approved by the OEB, continues to remain appropriate. With the exception of the use of calendarized data for RPP settlements, Hydro One has already updated its settlement processes and procedures as of January 1, 2021. This included modifying its existing system reports and revamping the entire RPP settlement processes and procedures to comply with the Accounting Guidance.

Should the OEB determine that it is necessary for Hydro One to fully adopt the Accounting Guidance, Hydro One reiterates that it will only be able to do so on a prospective basis, after the technology solution around the calendarized data is implemented. Additionally, if this were the case, Hydro One requests that any costs related to modifications and enhancements to Hydro One's technology framework be recorded in the deferral account sought for approval in EB-2023-0030 for recovery at Hydro One's next rebasing application.[77]

(D) SCOPE OF REVIEWS SUGGESTED BY OEB STAFF

OEB staff recommended a detailed scope of review for Accounts 1588 and 1589 to ensure accuracy of these account balances.[78] OEB staff further recommended that Hydro One be directed to perform a further review of Account 1588 and 1589 for the Orillia and Peterborough RZs, including (i) addressing and (ii) quantifying the outstanding systemic issues (raised in both EB-2023-0030 and EB-2023-0059). OEB staff submitted that Hydro One should assess and quantify the impact on all Orillia and Peterborough RZs of outstanding systemic issues discussed in this submission and file the quantification and action plan in the 2025 rate application.[79]

[76] EB-2020-0030, Hydro One Distribution, 2021 Custom IR Update, Decision and Rate Order, December 17, 2020, Revised: February 18, 2021, pp. 17-18
[77] EB-2023-0030, Reply Submission, p. 17.
[78] OEB Staff Submission, p. 14
[79] OEB Staff Submission, p. 18

Hydro One respectively submits that no further reviews of Accounts 1588 and 1589 are required to support the disposition of the balances on a final basis.[80] The record is clear that there are no outstanding systemic issues that have not already been addressed with the approval to implement the Accounting Guidance, in a modified manner, since January 1, 2021. Hydro One has addressed OEB staff's questions on several occasions, including (i) over an informal discussion on August 28, 2023, (ii) filing of written responses to OEB staff questions on August 29, 2023, (iii) filing of interrogatory responses on November 1, 2023 (which confirmed the reviews conducted to ensure alignment of the Accounting Guidance)[81] and (iv) as part of the Reply Submissions in EB-2023-0030 and this proceeding.

Hydro One submits that it has reviewed all related data and processes to ensure alignment with the Accounting Guidance as of January 1, 2021, and believes that the reviews conducted to date are sufficient to confirm accuracy of Accounts 1588 and 1589 to be disposed in this proceeding. Hence, Hydro One submits that no further reviews for Orillia and Peterborough RZ's Accounts 1588 and 1589 are required and questions the additional value that further reviews and quantification plans would bring to confirm accuracy of the Orillia and Peterborough RZ's Account 1588 and 1589 balances.

2.4 ACCOUNTING ERROR – DVAS APPROVED FOR DISPOSITION IN 2018 CUSTOM IR

In Hydro One's 2024 Custom IR Update proceeding (EB-2023-0030), OEB staff did not support the disposition of Hydro One's December 31, 2022 Account 1595 (2019) balance of $6.2 million that pertained to the Hydro One Distribution rate zone. OEB staff requested further discovery of the impact of the $38 million of under-collected amounts in the disposition of balances approved in the 2018 Custom IR proceeding (EB-2017-0049), and questioned the impact on the Group 1 DVAs of the Orillia and Peterborough RZs being disposed of in this proceeding.

In the following sections, Hydro One provides clarity on OEB staff's concerns regarding

[80] EB-2023-0030, Reply Submission, pp. 17-18
[81] Response to OEB Staff Interrogatory 1

a) the impact of $38 million of under-collected amounts from Hydro One's 2018 Custom IR proceeding on Orillia and Peterborough RZ's Group 1 DVAs; and
b) the impact of $3.2 million transfer on Consolidated GA Analysis Workform.

(A) IMPACT OF $38 MILLION OF UNDER-COLLECTED AMOUNTS FROM 2018 CUSTOM IR PROCEEDING ON ORILLIA AND PETERBOROUGH RZ'S GROUP 1 DVAS

In OEB staff's submission, OEB staff sought clarity on whether, how and when the $38 million of under-collected amounts were allocated to the Orillia and Peterborough RZs. OEB staff further requested that Hydro One confirm that when it seeks disposition of the debit balance of $38 million for the Orillia and Peterborough RZs in a future proceeding, Hydro One will address the OEB's October 31, 2019 letter regarding adjustments to correct for errors after disposition, and the requirements outlined in the Chapter 3 Filing Requirements.[82]

Consistent with its reply submission in EB-2023-0030, Hydro One confirms that the $38 million of under-collected amounts relating to Hydro One Distribution were not allocated for recovery to the Orillia and Peterborough RZs.[83] The $38 million was already captured in Hydro One Distribution's Account 1595 (2021) as part of the implementation of the OEB's decision in the 2021 Custom IR proceeding, hence there are no further amounts that remain unrecovered.

In addition, Hydro One submits that the requirements of the October 31, 2019 letter do not apply, as the OEB's determinations on the under-collected amount of $38 million were already decided in the 2021 Custom IR proceeding.[84] As such, Hydro One submits that the proposal to address this issue in the context of the October 31, 2019 letter is not applicable and should be dismissed.

[82] OEB Staff Submission, p. 20
[83] EB-2023-0030, Reply Submission, p. 20
[84] EB-2023-0030, Reply Submission, p. 20

(B) IMPACT OF $3.2 MILLION TRANSFER ON CONSOLIDATED GA ANALYSIS WORKFORM

Hydro One confirms that this transfer has no impact on the Orillia and Peterborough RZs Account 1589 balances. This $3.2 million transfer is included in the consolidated GA Analysis Workform as a reconciliation item in Tab 2022 to reflect the impact on Hydro One's consolidated Account 1589.

2.5 ALLOCATED DVA BALANCES

As noted in Section 2.1 above, OEB staff supported the disposition of the December 31, 2022 Group 1 DVA balances for the Orillia and Peterborough RZs, excluding Accounts 1588 and 1589, pending Hydro One's reply submission regarding allocated Group 1 DVA balances and the $38 million error related to Account 1595 (as discussed in Section 2.4 above).

In response to interrogatories, Hydro One stated it had reviewed all relevant models and numbers and confirmed that all amounts are correct and do not require updates.[85]

In OEB staff's submission, OEB staff was unclear whether the "Allocation of Group 1 DVAs" spreadsheet[86] showed incorrect numbers, given that the closing balances indicated in the "Allocation of Group 1 RSVA Balances" spreadsheet (filed August 17, 2023) did not reconcile with the Consolidated DVA Continuity Schedule (filed November 1, 2023). As a result, OEB staff compiled Tables 4 and 5 in its submission and asked Hydro One to explain whether it agrees with OEB staff's calculations and values in both tables. In addition, OEB staff requested that Hydro One review all relevant models and numbers again, update the evidence as required, and provide the results of its review as part of its Reply Submission.[87]

In response to OEB staff's request, Hydro One has reviewed all relevant models and numbers again using the appropriate comparisons and confirms that the models and

[85] Response to OEB Staff Interrogatory 4
[86] In OEB staff's submission, the "Allocation of Group 1 DVAs" excel spreadsheet referenced by OEB staff is the "Allocation of Group 1 RSVA Balances" (Exhibit A-04-01, Attachment 2) filed on August 17, 2023.
[87] OEB Staff Submission, p. 23

numbers are correct. The results of Hydro One's Review of Allocated DVA Balances is filed in Attachment 1 to this Reply Submission, which demonstrates that the "Allocation of Group 1 RSVA Balances" spreadsheet reconciles to the DVA Continuity Schedules.

Further to OEB staff's request to confirm the calculations in Tables 4 and 5 of its submission, Hydro One clarifies that the correct comparison between the DVA Allocation File and DVA Continuity Schedules is transactions. However, there is an exception for 2021 because this is the year of integration for Orillia and Peterborough. Thus, the closing balances in the DVA Allocation File and DVA Continuity Schedules should be compared for 2021, while transactions are used for comparative purposes in 2022.

As shown in the "Allocation of Group 1 RSVA Balances (Updated)"[88] spreadsheet (Attachment 2 to this Reply Submission), 2021 is a combination of pre-integration life-to-date (LTD) (pre-June 1, 2021) and post integration consolidated transactions (June to December 2021). Since the pre-integration LTD balances were brought forward to the integration date, the closing balances for 2021 should be used in the comparison between the DVA Allocation File and DVA Continuity Schedules to reflect total 2021 activity.

Accordingly, Hydro One does not agree with Table 4 in OEB staff's submission, as it inadvertently compared 2022 transactions in the DVA Allocation File with 2022 closing principal amounts in the DVA Continuity Schedules. However, Hydro One agrees with OEB staff's calculations in Table 5 in its OEB staff's submission.

2.6 ESTABLISHMENT OF FORGONE REVENUE DVA

Hydro One requested the use of a Forgone Revenue Deferral Account for the Orillia and Peterborough RZs to recover any differences between the interim rates and final rates effective January 1, 2024.

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[88] Hydro One has revised the "Allocation of Group 1 RSVA Balances" spreadsheet to update the title of the columns in Tab 2022 from "Closing Principal Balance and Interest Amounts as of December 2022" to "Total 2022 Transactions and Interest". Additionally, table titles were added for ease of reference.

In response to interrogatories, Hydro One supported the use of a rate rider that would be approved as part of this Application to capture any forgone revenue resulting from approved 2024 rates that would be implemented subsequent to the effective date of the 2024 rates.

OEB staff agreed with Hydro One that the use of forgone revenue rate rider is an acceptable alternative to the establishment of a new DVA to capture forgone revenue, should it be required. Therefore, both Hydro One and OEB staff agree on the use of a rate rider to capture any forgone revenue resulting from approved 2024 rates that would be implemented, subsequent to the effective date of the 2024 rates.

OEB staff further invited Hydro One to advise 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 Orillia and Peterborough RZs.[89] In response to OEB staff's request, Hydro One submits that a Final Tariff of Rates and Charges issued by the OEB by December 14, 2023 would provide reasonable time to implement rates effective January 1, 2024. In the event the OEB is unable to issue a final decision and rate order by December 14, 2023, Hydro One will appreciate the opportunity to work with OEB staff to come to a mutually agreed-upon date.

CONCLUSION

Based on the foregoing, it is Hydro One's submission that its proposed 2024 distribution rates and charges for the Orillia and Peterborough RZs are reasonable and that the Application should be approved as filed.

ATTACHMENTS

- Attachment 1: Hydro One Review of Allocated DVA Balances
- Attachment 2: Allocation of Group 1 RSVA Balances (Updated)

[89] OEB Staff Submission, p. 24

APPENDIX A

The following is an excerpt from Hydro One's 2021 Reply Submission outlining the steps it undertook with OEB staff over the 2019 and 2020 period.

Reference: EB-2020-0030, Reply Submission, pp. 5-7

On August 30, 2019, Hydro One submitted its 2020 Annual Update (EB-2019-0043). During the course of that proceeding, Hydro One explained that it was exploring technology solutions and accounting considerations that would allow it to obtain the necessary data from its billing system and the IESO's Meter Data Management Repository ("MDMR") system to allow it to adopt the Accounting Guidance. Hydro One also stated its commitment to working with OEB staff to identify a compliant and cost-effective solution.

Since then, Hydro One participated in two in-person meetings in November and December 2019 followed by a series of emailed questions and responses between December 2019 and January 2020 which included significant analysis and detail. OEB staff re-engaged on the matter in August 2020 and Hydro One participated in four formal meetings with OEB staff between August and November, and engaged in a series of emailed questions and responses which again included significant analysis and detail. As part of the ongoing discussions, the following items were reviewed and addressed with OEB staff:

- Hydro One detailed its current settlement process and how it differs from the Accounting Guidance including system limitations (current process is based on actual invoiced retail volume);

- Hydro One outlined its settlement process from a financial statement perspective (which is on an Accrued basis factoring both actual invoiced and unbilled estimation);

- Hydro One worked with its IT solutions team to explore options for adopting the Accounting Guidance and noted the limitations of its current technology framework and the need for a significant investment for an IT system solution;

- Hydro One's position is that the IT system solution should align with the OEB's Phase 2 requirements. As such, Hydro One discussed the challenges it faces in fully adopting the new Accounting Guidance until Phase 2 is complete (e.g. Hydro One does not receive or store MDMR data on a daily basis or on a calendar month cycle. Hydro One only keeps monthly MDMR readings based on the billing period which is different for different customers (i.e. some billing periods run mid-month to mid-month, Jan 15 to Feb 14, for example); Hydro One has 1.3M customers and they cannot all sync with the calendar month, this would not be practical or efficient);

- Hydro One described how it was able to accommodate the TOU rate change in March 2020 (this was a one-time special arrangement with MDMR to send meter read data before and after the rate change. Under normal circumstances, Hydro One does not have daily MDMR data and it is not possible to efficiently replicate this process on a monthly basis for Hydro One or the MDMR);

- Hydro One described its current OER settlement process (Hydro One settles on an Accrued basis not calendar month basis);

- As part of its ongoing discussions with OEB staff, Hydro One proposed to adopt the new Accounting Guidance in a modified manner using accrued monthly meter reading data (Accrued meter reading = Reversal of Prior Month Uninvoiced Meter reading + Current Month Invoiced Meter reading + Current Month Uninvoiced Meter Reading) to allocate total purchased volumes effective January 1, 2021, until Phase 2 requirements are issued, since actual calendarized meter reading is not available. As indicated previously, this proposed solution will be on a prospective basis.

Between January 2020 and August 2020 when OEB staff re-engaged on the issue, Hydro One has continued to work to better understand how it's current technology framework would need to be modified to implement the Accounting Guidance.

All of which is respectfully submitted on November 29, 2023.

By its counsel,

Raman Dhillon

HYDRO ONE REVIEW OF ALLOCATED DVA BALANCES

This exhibit has been filed separately in MS Excel format.

ALLOCATION OF GROUP 1 RSVA BALANCES (UPDATED)

This exhibit has been filed separately in MS Excel format.