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DECISION AND ORDER

EB-2023-0328

HYDRO ONE NETWORKS INC. AND CHAPLEAU PUBLIC UTILITIES CORPORATION

**Application for approval for Chapleau Public Utilities Corporation
to sell its distribution system assets to Hydro One Networks Inc.**

BEFORE: David Sword
Presiding Commissioner

Robert Dodds
Commissioner

April 18, 2024



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1 OVERVIEW

Hydro One Networks Inc. (Hydro One Networks) and Chapleau Public Utilities Corporation (Chapleau Public Utilities) (collectively, the Applicants) filed a joint application to the Ontario Energy Board (OEB)¹ seeking approval for Chapleau Public Utilities to sell its distribution system assets to Hydro One Networks (the Transaction).

The OEB finds the proposed Transaction meets the ‘no harm’ test regarding the impact of the proposed Transaction, on price, reliability and quality of electricity service to customers, and that the Transaction is consistent with the legislative objectives of the Ontario Energy Board Act.

The OEB notes the vast resources and expertise Hydro One Networks can bring to Chapleau Public Utilities and its customers.

The OEB notes that Hydro One Networks has a long record of accommodating small and rural utilities into their operations and brings valued rural operating experience.

The OEB also notes that Hydro One Networks is familiar with Chapleau Public Utilities and has been handling their operations, with success, since May 2023.²

The OEB finds that Hydro One Networks’ ability to access capital will help ensure the current backlog in infrastructure needs are addressed. In addition, Hydro One Networks will also be able to readily address capital for future infrastructure needs associated with an expected increase in demand for electricity for a variety of new applications for consumer and local industry needs.

Utility regulation can be complex, notwithstanding the OEB’s efforts to minimize the complexity when able. Hydro One Networks has resources in all areas of safety, regulation, compliance, and performance excellence for its new customer base in the Chapleau service territory to rely upon.

The OEB finds that the Transaction is consistent and in keeping with the objectives pertaining to electricity as set out in the OEB Act.

The OEB therefore is satisfied that this Transaction is in the public interest and approves the sale of Chapleau Public Utilities’ distribution system assets to Hydro One

¹ Pursuant to section 86(1)(a) of the OEB Act

² EB-2023-0144

Networks, along with additional requests made by the Applicants, subject to certain conditions that are further described in this Decision.

2 CONTEXT AND PROCESS

2.1 The Applicants

Hydro One Networks is a corporation incorporated pursuant to the Ontario Business Corporations Act. Hydro One Networks is a licensed distributor regulated by the OEB in accordance with the Act. Hydro One Networks' distribution system serves approximately 1.5M customers in its service territory including Indigenous communities and businesses on the outskirts of the Township of Chapleau. Hydro One Networks is a wholly owned subsidiary of Hydro One Inc., which in turn is a wholly owned subsidiary of Hydro One Limited, a publicly listed business corporation.

Chapleau Public Utilities was formed on January 1, 2018 by way of amalgamation of Chapleau Public Utilities Corporation³ and Chapleau Energy Services Corporation⁴. The Township of Chapleau is the sole shareholder of Chapleau Public Utilities. Chapleau Public Utilities' distribution system serves approximately 1,200 mostly residential and commercial customers. Chapleau Public Utilities' distribution service area is bounded by Panet, the Town of Cochrane, and the Township of Chapleau. It is an embedded utility within Hydro One Networks' service area.

2.2 The Application

On November 6, 2023, Chapleau Public Utilities and Hydro One Networks entered into an Agreement of Purchase and Sale (the Agreement) pursuant to which Chapleau Public Utilities has agreed to sell to Hydro One Networks, and Hydro One Networks has agreed to purchase from Chapleau Public Utilities the business of distributing electricity to consumers and businesses within the Township of Chapleau via an asset sale. The purchase price is \$2.3M, subject to adjustments as specified in the Agreement.

The Applicants seek OEB approval⁵ of the following aspects of the Transaction:⁶

- For Chapleau Public Utilities to sell its distribution system assets to Hydro One Networks pursuant to section 86(1)(a) of the OEB Act.

³ Ontario Corporation #1353009 incorporated on August 18, 1999

⁴ Ontario Corporation #1498252 incorporated on December 19, 2001

⁵ Pursuant to sections 21, 74(1)(b), 77(5), 78 and 86(1)(a) of the Ontario Energy Board Act, 1998, S.O. 1998, c. 15, Schedule B

⁶ EB-2023-0328, Exhibit A, Tab 1, Schedule 1 pp. 4-5

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- To cancel Chapleau Public Utilities' distribution licence⁷ pursuant to section 77(5) of the OEB Act and Hydro One Networks' interim distribution licence⁸ pursuant to subsection 77(5) of the OEB Act.
 - To amend Hydro One Networks' electricity distribution licence⁹, pursuant to subsection 74(1)(b) of the OEB Act, more specifically Appendix B, Tab 1, to include the Township of Chapleau, as defined in the Municipality of Chapleau Boundaries Act, 1927, as of December 31, 1997¹⁰ and Appendix B, Tab 4, to exclude¹¹ the Township of Chapleau, as defined in the Municipality of Chapleau Boundaries Act, 1927, as of December 31, 1997.¹²
 - To transition Chapleau Public Utilities customers to Hydro One Networks' existing OEB approved distribution rates, including specific service charges, pursuant to section 78 of the OEB Act.
 - To continue to track costs to Chapleau Public Utilities' previously established regulatory accounts and seek disposition of their balances at a future date. All rate riders to continue per existing schedules until expiry.
 - To continue to use the deferral account established in EB-2023-0144 to record costs of operation and maintenance of Chapleau Public Utilities.
 - To establish two new deferral accounts:
 - Bill Impact Mitigation Deferral account to implement bill mitigation for Chapleau Public Utilities customers.
 - Chapleau Historical Land Rights Deferral Account to track all costs needed to secure land rights for distribution facilities not obtained by Chapleau Public Utilities prior to closing.
 - To seek relief from section 3.5.11 of the Standard Supply Service Code and sections 2.6 and 10.6.3 of the Retail Settlement Code to migrate customers into Hydro One Networks' customer billing systems as "new" customers.

⁷ ED-2002-0528

⁸ ED-2023-0144

⁹ ED-2003-0043

¹⁰ As an authorized Municipality to distribute and sell electricity. The details of the Municipality to be included are as follows:

Name of Municipality: Township of Chapleau, as defined in the Municipality of Chapleau Boundaries Act, 1927, as of December 31, 1997; Formerly Known As: Same.

¹¹ As pursuant to the proposed Transaction, the Township of Chapleau will be served by Hydro One Networks.

¹² ED-2003-0043, Appendix B, Tab 4 (as of December 31, 1997). The details of the Municipality to be excluded are as follows:

Name of Municipality: Township of Chapleau, as defined in the Municipality of Chapleau Boundaries Act, 1927, as of December 31, 1997; Formerly Known As: Same; Area Not Served By Networks: The area served by Chapleau Public Utilities Corporation, as set out in Licence ED-2002-0528; Networks assets within area not served by Networks: Yes; Customer(s) within area not served by Networks: No.

- Such other relief as Hydro One Networks and Chapleau Public Utilities may request and the OEB determines to be just and reasonable.

The Applicants requested that, pursuant to section 21 of the OEB Act, their application proceed without a hearing given that:

- Customers will not be affected in a material way by the transaction.
- Chapleau Public Utilities is already being managed on an interim basis by Hydro One Networks pursuant to the OEB Decision and Order.¹³
- The entire annual revenue requirement of Chapleau Public Utilities is approximately equal to the materiality threshold of Hydro One Networks Distribution (approximately \$1M) and should therefore be considered immaterial with respect to the overall distribution sector.

The Applicants noted that closing of the proposed Transaction will occur approximately 90 days following the last date on which all required approvals have been obtained, including OEB approval of this Application but may be adjusted by 30 days sooner or later, at Hydro One Networks' discretion.

2.3 The Process

Prior to this Application, Chapleau Public Utilities had indicated to the OEB difficulties in operating their distribution system.

On May 9, 2023, Chapleau Public Utilities requested the OEB¹⁴ to issue an interim license to Hydro One Networks to undertake activities under Section 57 of the OEB Act in respect of the Chapleau Public Utilities electricity distribution business. Chapleau Public Utilities stated that it had been experiencing difficulty managing day-to-day operations of the utility and would not be able to continue providing reliable electricity distribution service due to financial and staffing issues.

In response, the OEB issued an order on May 23, 2023¹⁵, requiring Chapleau Public Utilities to surrender possession and control of the electricity distribution system in the Township of Chapleau to Hydro One Networks and appointing Hydro One Networks as an interim licensee for the Chapleau Public Utilities service area for a period of six months.

¹³ EB-2023-0144

¹⁴ In accordance with Section 59 (1) of the OEB Act

¹⁵ EB-2023-0144

The Applicants filed this Application on November 20, 2023. The OEB issued a Notice of Hearing on January 16, 2024, inviting interested parties to register as intervenors or file a letter of comment with the OEB. On February 9, 2024, the OEB issued Procedural Order No. 1 (PO1), in which it approved Vulnerable Energy Consumers Coalition (VECC) as an intervenor. PO1 also set out a schedule for a discovery process and submissions.

Intervenor and OEB staff submissions were due to be filed by March 14, 2024, and the Applicants' reply submission was to be filed by March 28, 2024. All parties filed their submissions by the deadlines set out in PO1.

3 REGULATORY PRINCIPLES

3.1 The “No Harm” Test

The OEB applies the “no harm” test in its assessment of merger, acquisition, amalgamation and divestiture (MAAD) applications.¹⁶ The OEB considers whether the “no harm” test is satisfied based on an assessment of the cumulative effect of the transaction on the attainment of its statutory objectives. If the proposed transaction has a positive or neutral effect on the attainment of these objectives, the OEB will approve the application.¹⁷

The statutory objectives to be considered by the OEB in relation to electricity are set out in the OEB Act as follows:

1. To inform consumers and protect their interests with respect to prices and the adequacy, reliability and quality of electricity service.
2. To promote economic efficiency and cost effectiveness in the generation, transmission, distribution, sale and demand management of electricity and to facilitate the maintenance of a financially viable electricity industry.
3. To promote electricity conservation and demand management in a manner consistent with the policies of the Government of Ontario, including having regard to the consumer’s economic circumstances.
4. To facilitate innovation in the electricity sector.¹⁸

While the OEB has broad statutory objectives, in applying the “no harm” test the OEB’s focus is on the objectives that are most directly relevant to the impact of the proposed transaction, namely, price, reliability and quality of electricity service to customers, as well as the cost-effectiveness, economic efficiency and financial viability of the consolidating utilities.

¹⁶ The OEB adopted the “no harm” test in a combined proceeding (RP-2005-0018/EB-2005-0234/EB2005-0254/EB-2005-0257) as the relevant test for determining applications for leave to acquire shares or amalgamate under Section 86 of the OEB Act and it has been subsequently applied in applications for consolidation. As set out in the OEB’s *Handbook to Electricity Distributor and Transmitter Consolidations*, the OEB has, and will continue to apply its “no harm” test in reviewing consolidation transactions.

¹⁷ [OEB Handbook to Electricity Distributor and Transmitter Consolidations](#), January 19, 2016 (MAADs Handbook)

¹⁸ *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15 Schedule B, section 1

The OEB considers this an appropriate approach, given the performance-based regulatory framework under which regulated entities are required to operate and the OEB's existing performance monitoring framework.

3.2 OEB Policy on Rate Making Associated with Consolidations

The Ontario electricity sector has several dozen electricity distributors ranging in size from just over one thousand customers to well over one million customers. To encourage consolidations within the sector, the OEB has introduced policies on rate-making that provide consolidating distributors with an opportunity to offset transaction costs with savings achieved as a result of the consolidation. The *Report of the Board on Rate-Making Associated with Distributor Consolidation* (2015 Report)¹⁹ permits consolidating distributors to defer rebasing for up to ten years from the closing of the transaction.

The OEB *Handbook to Electricity Distributor and Transmitter Consolidations* (MAADs Handbook)²⁰ provides that the extent of the deferred rebasing period is at the option of the distributor and no supporting evidence is required to justify the selection of the deferred rebasing period. Consolidating entities must, however, select a definitive timeframe for the deferred rebasing period. This is to allow the OEB to assess any proposed departure from this stated plan. When a consolidated entity has opted for a deferred rebasing period, it has committed to a plan based on the circumstances of the consolidation and, if it seeks to amend the deferred rebasing period, the OEB will need to understand whether any change to the proposed rebasing timeframe is in the best interest of customers.²¹

The 2015 Report sets out the rate-setting mechanisms during the deferred rebasing period and requires consolidating entities that propose to defer rebasing beyond five years to implement an Earnings Sharing Mechanism (ESM) for the period beyond five years to protect customers and ensure that they share in increased benefits from consolidation.

The MAADs Handbook clarifies that rate-setting following a consolidation will not be addressed in an application for approval of a consolidation transaction unless there is a rate proposal that is an integral aspect of the consolidation. Rate-setting for a

¹⁹ EB-2014-0138, [Report of the Board on Rate-Making Associated with Distributor Consolidation](#), March 26, 2015

²⁰ MAADs Handbook, pp. 12-13

²¹ MAADs Handbook, p. 12

consolidated entity will be addressed in a separate rate application, in accordance with the rate-setting policies established by the OEB.

The Applicants requested immediate customer integration²² of Chapleau Public Utilities to Hydro One Networks' customer classes.

²² Expected integration date of September 1, 2024

4 DECISION ON THE ISSUES

In the subsections that follow the OEB has assessed the effect of the Transaction on attaining the following OEB objectives:

- Price, Economic Efficiency and Cost Effectiveness
- Reliability and Quality of Electricity Service
- Financial Viability

4.1 Application of the “No Harm” Test

The OEB has applied the “no harm” test in assessing the Application and has concluded that the Transaction meets this test. The OEB therefore approves the sale of Chapleau Public Utilities’ distribution system assets to Hydro One Networks, subject to certain conditions discussed in the sections that follow.

4.1.1 Price, Economic Efficiency and Cost Effectiveness

To demonstrate “no harm,” the MAADs handbook requires applicants to provide year-over-year comparative cost structure analysis for the proposed transaction, comparing the costs of the utilities post-transaction and in the absence of the transaction.²³ In its review of consolidation proposals, the OEB assesses the underlying cost structures of the consolidating utilities, both now and in the future.²⁴

To address OEB requirements related to cost structures, Hydro One Networks stated that a focus on previous cost structures with regards to the “no harm” test would be inappropriate given the OEB’s determination that Chapleau Public Utilities is likely to fail to meet its obligations relating to the supply of electricity in the township of Chapleau.²⁵ Hydro One Networks further stated that existing expenditure levels were inadequate, and customers could be facing loss of supply, safety, and environmental risks.²⁶ OEB staff and VECC submitted that in light of the unique challenges faced by Chapleau Public Utilities, previous cost comparison to assess “no harm” is distorted.

Hydro One Networks provided operating, maintenance and administrative (OM&A) and capital expenditure over the forecast (2024-2027) period. The forecasted spending in Chapleau Public Utilities only extends to 2027 because after that the costs to serve Chapleau Public Utilities customers will be integrated into Hydro One Networks’ next

²³ MAADs Handbook, Filing Requirements for consolidation applications, p. 5

²⁴ MAADs Handbook, p. 6

²⁵ EB-2023-0144, Decision and Order

²⁶ EB-2023-0328, Application, Exhibit A, Tab 2, Schedule 1, p. 5

rebasing application's revenue requirement request. Hydro One Networks anticipated spending more on capital expenditures as it believed these additional expenditures are necessary to sustain reliable service and meet regulatory requirements. These additional expenditures include the replacement of submarine cable and PCB-contaminated transformers which were identified as potential reliability and safety concerns within Hydro One Networks' Observation Report on the operations of Chapleau Public Utilities. After these measures are completed, Hydro One Networks expects capital costs to level at a steady state of approximately \$209k per year.²⁷

Hydro One Networks expects OM&A savings to exceed 50% per annum as a result of the acquisition.²⁸

These OM&A savings are approximately \$400k annually and are primarily generated through cost reductions in administrative and back-office functions such as finance, regulatory, legal, information technology, and board of directors.²⁹

Annual implied savings are calculated as the difference between Chapleau Public Utilities' 2022 actual OM&A against Hydro One Networks' forecast OM&A from 2024 to 2027.³⁰ Hydro One Networks did not forecast any material cost savings related to capital investments, so none were included in the forecast of implied savings.

OEB staff and VECC submitted that, given the existing deficiencies in Chapleau Public Utilities' distribution system, an increase in capital costs is reasonable.

OEB staff and VECC submitted that these measures directly impact the reliability and safety of the service area. In direct response to the Observation Report, capital costs are expected to increase beyond the steady state level in 2025 and 2026 due to the replacement of submarine cable and PCB-contaminated transformers. Depending on the concentration of PCBs, these transformers must be removed from service by December 31, 2025, according to PCB Regulations (SOR/2008-273).

OEB staff also submitted that in Hydro One Networks' first rebasing application following this transaction, Hydro One Networks should demonstrate, where possible, any savings and efficiencies that have resulted from the acquisition.

²⁷ EB-2023-0328, Interrogatory Response Staff-1

²⁸ EB-2023-0328, Exhibit A, Tab 2, Schedule 1, p. 7

²⁹ EB-2023-0328, Interrogatory Response, Staff-12

³⁰ The 2022 actuals are not adjusted for inflation in each year hence the implied savings would be even higher once these adjustments are accounted for.

Findings

The OEB finds that the Applicants have demonstrated that the Transaction will generate economic efficiencies and will likely deliver operating cost savings through reduced administrative functions.

The OEB is of the view that in the next rebasing application following the Transaction, Hydro One Networks should demonstrate how this Transaction was of benefit to the customers in this service area.

4.1.2 Adequacy, Reliability and Quality of Electricity Service

The MAADs Handbook requires consolidating utilities to indicate the impact that a proposed transaction will have on customers with respect to the quality and reliability of electricity service. In considering the impact and whether the “no harm” test has been met, the OEB is informed by, among other things, the metrics provided by the distributor in its annual reporting to the OEB and published in its annual scorecard.³¹

According to the MAADs Handbook, continuous improvement will be demonstrated by a distributor’s ability to deliver improved reliability performance without an increase in costs or to maintain the same level of performance at a reduced cost.³²

The Application stated that customers can expect improvements to reliability and quality of service as a result of this Transaction. The forecasted capital plan addresses deficiencies and assets that are in poor condition through line maintenance and refurbishment, wood pole replacement, station investment, the replacement of submarine feeder, and the replacement of oil-filled equipment contaminated with PCBs. Hydro One Networks believes these steps will enhance Chapleau Public Utilities’ electrical system resiliency and minimize outages due to deteriorating equipment.³³

Hydro One Networks noted the following examples of expected customer service benefits for Chapleau Public Utilities customers as a result of integrating with Hydro One Networks’ larger distribution system:³⁴

- Hydro One Networks’ contact centres and interactive voice response system
- Hydro One Networks’ online outage system details, including estimated restoration times
- Initiatives to help customers manage their bills

³¹ MAADs Handbook, p. 7

³² MAADs Handbook, p. 7

³³ Exhibit A, Tab 2, Schedule 1, pp.7-8

³⁴ EB-2023-0328, Exhibit A, Tab 2, Schedule 1, pp.2-3

- New services such as Green Button and Ultra Low Overnight rates³⁵

The Application also noted that Hydro One Networks is well-resourced to focus on policy advocacy on behalf of customers. As such, the Applicants believe that the transaction will provide Chapleau Public Utilities customers with access to recent emerging technologies, such as electric vehicle charging networks, broadband internet, and distributed energy resources, thereby increasing the quality of the electricity service.³⁶

The current staffing of Chapleau Public Utilities consists of two linesmen and one office-based staff member. Hydro One Networks intends to absorb the office position within its own vacancies and employ Chapleau Public Utilities linesmen allowing them to leverage their local knowledge to address immediate customer service quality and reliability needs in the overall area. Hydro One Networks will also enter into a 5-year lease of Chapleau Public Utilities' existing Service Centre to have a local presence in the community. By having access to Hydro One Networks' customer service benefits and staff, OEB staff and VECC submitted that customers in the Chapleau Public Utilities territory will see either status quo or improved quality of service.

Hydro One Networks also stated that Hydro One Networks' existing customers on the outskirts of the Township of Chapleau will also benefit from faster response times as they will now be serviced by the Chapleau Service Centre instead of Hydro One Networks' Timmins Operation Centre (approximately 200 km away).

OEB staff and VECC did not express any concerns about the reliability and quality of service as a result of the Transaction. OEB staff submitted that Hydro One Networks is in an advantageous position not only to maintain the current reliability performance, but also to improve upon the existing standards of Chapleau Public Utilities. In response to an Interrogatory, Hydro One Networks stated that it does not intend to track reliability metrics specifically for Chapleau Public Utilities' service territory from 2024-2027.³⁷ VECC submitted that Hydro One Networks should track reliability metrics separately for Chapleau Public Utilities' service territory as this information will be useful to assess the impact of increased capital expenditures between 2025-2027 and better inform the need for future investment levels in Chapleau Public Utilities' service territory.

³⁵ Hydro One Networks had previously received an exception to not implement these programs in the Chapleau Public Utilities service area until November 1, 2023 (EB-2023-0323 and EB-2023-0314)

³⁶ Exhibit A, Tab 2, Schedule 1, p.13

³⁷ EB-2023-0328, Interrogatory Response, VECC-10e

In its Reply submission, Hydro One Networks noted that tracking these metrics separately for Chapleau Public Utilities is ineffective, costly, not supported by any need evidence and unnecessarily delays operational efficiencies which are to be realized by eliminating the existing artificial boundary between the two distributors.³⁸

Findings

The OEB is satisfied that the Transaction can reasonably expect to have the current service quality and reliability standards maintained, and likely improved given Hydro One Networks' ability to plan and operate a rural system with greater resources.

While the test is 'no harm', the OEB expects the Transaction will also allow opportunity for major capital projects to more immediately be addressed, and in keeping with a recommendation from VECC, would expect Hydro One Networks to catalogue any such capital projects taking place in the Chapleau Public Utilities service area for presentation in a future rebasing application.

4.1.3 Financial Viability

The MAADs Handbook indicates that the impact of a proposed transaction on the acquiring utility's financial viability (in the case of an acquisition) or on the consolidated entity's financial viability (in the case of a merger) will be assessed³⁹. The OEB's primary considerations in this regard are:

- The effect of the purchase price, including any premium paid above the historic (book) value of the assets involved.
- The financing of incremental costs (transaction and integration costs) to implement the consolidation transaction.

Hydro One Networks stated that the Transaction will initially be financed through cash or its commercial paper program. Long-term financing will be through its Medium-Term Note program. The premium paid over the assets' book value will not have a material impact on Hydro One Networks' financial viability nor will it be included in the revenue requirement and hence will not be funded by ratepayers. The transaction price accounts for less than 0.1% of Hydro One Networks' distribution net fixed assets.

With respect to the financing of transaction and integration costs to implement the proposed Transaction, Hydro One Networks stated that total incremental costs will be

³⁸ EB-2023-328, Reply Submission, p.5

³⁹ MAADs Handbook, p.8

financed through the anticipated productivity gains associated with the Transaction.⁴⁰ Hydro One Networks noted that incremental transaction costs are estimated to be \$18k and incremental integration costs are expected to be \$350k.⁴¹ Integration costs include the up-front costs of integrating Chapleau Public Utilities customers into Hydro One Networks' customer and outage management system. Hydro One Networks does not expect to incur any ongoing transition costs.

OEB staff noted that implied savings from 2024-2027 are anticipated to exceed the total incremental integration and transaction costs which will be incurred in 2024.⁴² In OEB staff and VECC's opinion, the Transaction would not negatively impact the financial viability of the Applicant.

Findings

The OEB finds that the Transaction will have no adverse effect on the financial viability of Hydro One Networks, given the transaction price accounts for less than 0.1% of Hydro One Networks' distribution net fixed assets.

The OEB notes that the financial resources of Hydro One Networks will provide significant flexibility to manage any possible extraordinary events in the Chapleau Public Utilities service area.

4.2 Customer Integration Proposal

Hydro One Networks requested that the OEB, pursuant to Section 78 of the OEB Act, approve the transition of Chapleau Public Utilities customers to Hydro One Networks' existing OEB approved distribution rates, including specific charges, at the time of integration⁴³.

The MAADs Handbook allows for an acquiring or merging utility to elect to defer rebasing for up to a maximum of ten years.⁴⁴ The deferral period allows the acquiring or merging utility an opportunity to recover transaction costs, which are not normally allowed to be recovered directly from customers, through operational and capital efficiencies resulting from the transaction over a reasonable period of time.

⁴⁰ EB-2023-0328, Interrogatory Response, Staff-7

⁴¹ *Ibid*

⁴² EB-2023-0328, OEB staff Submission, p. 11

⁴³ Expected Integration date: September 1, 2024

⁴⁴ MAADs Handbook, p. 12

Hydro One Networks has not proposed a deferred rebasing period in the application. Instead, it proposed to integrate Chapleau Public Utilities customers into its existing rate classes. Chapleau Public Utilities residential customers will be included in Hydro One Networks' R1 residential class and the General Service (GS) customers will be included in either General Service energy-billed (GSe) or GS demand-billed (GSd) customer classes.⁴⁵

Hydro One Networks stated that post-integration, former Chapleau Public Utilities residential customers will have total bill impacts of less than 10% due to the applicable Distribution Rate Protection (DRP)⁴⁶ credit. The total bill impact for residential customers under DRP is 5% and stems from the difference in Hydro One Networks' RTSRs and loss factor being higher than Chapleau Public Utilities'. For all non-residential customers, Hydro One Networks proposed to freeze distribution charges at the proposed Chapleau Public Utilities May 1, 2024⁴⁷ rates for the period between September until December 31, 2024. As a result of the frozen distribution charges for non-residential customers, the total bill impact for all will be below 10%. The total bill impacts for GS<50kW and GS 50 to 4,999kW customers are 25% and 22% respectively prior to any mitigation. Following the proposed mitigation for GS classes by freezing distribution charges at the Chapleau Public Utilities proposed May 1, 2024 rates, the total bill impact for GS<50 kW rate class is 4.6% and GS 50 to 4999 kW rate class is 0.4% upon transition to Hydro One Networks⁴⁸.

Hydro One Networks' applicable distribution charges will be in effect for all former Chapleau Public Utilities customers starting January 1, 2025. Hydro One Networks' existing rate riders as per its current Tariff of Rates and Charges (i.e., those effective until December 31, 2025) will not be applicable to former Chapleau Public Utilities customers.⁴⁹ Following this transition to Hydro One Networks' charges, bill impacts for residential customers will remain below 10% due to DRP. Hydro One Networks proposes to calculate the bill impacts for each non-residential customer using their average monthly consumption based on the latest 12 months of data available at the time. Monthly credit amounts will then be calculated to limit the total bill impacts to less than or equal to 10%. The same monthly credit will be applied throughout the year. The bill credit calculation will be an annual exercise (before January 1 of each year,

⁴⁵ EB-2023-0328, Application, Exhibit A, Tab2, Schedule 1, p.9

⁴⁶ Chapleau Public Utilities is one of eight electricity distributors in Ontario to which this tax-funded program applies. The program has been in effect since July 2017, and currently caps monthly distribution charges at \$39.49 effective July 1, 2023 (EB-2023-0119)

⁴⁷ EB-2023-0011

⁴⁸ Expected integration date is September 1, 2024

⁴⁹ EB-2023-0328, Interrogatory Response, Staff-2e

commencing in 2025), until the total bill impact is less than 10%. The costs to provide this mitigation will be tracked in a Bill Impact Mitigation Deferral Account. The outstanding balance will be submitted for approval to the OEB as part of a future rate filing and will be collected from Hydro One Networks' customers.

Hydro One Networks stated that deferred rebasing is not a viable option given the small number of customers of Chapleau Public Utilities and the unique circumstances challenging the current operations of the utility. Establishing a separate rate class for such a small group of customers in Hydro One Networks' billing systems would be cost prohibitive and it could take several years to recuperate these costs.⁵⁰ OEB staff and VECC took no issue with the proposal for immediate integration and bill impact mitigation strategy. OEB staff noted however, that the recoverability of tracked costs arising from bill impact mitigation should be determined at the time of Hydro One Networks' next rebasing.⁵¹ OEB staff submitted that Hydro One Networks should explain why the bill impact mitigation costs are not being offset by implied savings over the 2024-2027 period given the transaction and integration costs are only \$368k.⁵² In its reply submission, Hydro One Networks stated that bill mitigation and recovery of transaction and integration costs should not be linked. The implied savings are intended to offset all transaction costs and not fund bill mitigation requirements.⁵³

Findings

The OEB approves Hydro One Networks' request to transition Chapleau Public Utilities customers to Hydro One Networks' existing OEB-approved distribution rates, including specific charges, at the time of integration.

The OEB accepts that deferred rebasing is not a viable option for Hydro One Networks given the small number of customers of Chapleau Public Utilities and that establishing a separate rate class for such a small group of customers in Hydro One Networks' billing systems would be a cost prohibitive exercise.

The OEB notes that OEB staff and VECC took no issue with the proposal for immediate integration and bill impact mitigation strategy.

OEB staff noted however, that the recoverability of tracked costs arising from bill impact mitigation should be determined at the time of Hydro One Networks' next rebasing.

⁵⁰ EB-2023-0328, Interrogatory Response, Staff-2d

⁵¹ EB-2023-0328, OEB staff submission, p. 15

⁵² EB-2023-0328, OEB staff submission, p. 15

⁵³ EB-2023-0328, Reply submission, p.4

The OEB agrees with Hydro One Networks that bill mitigation and the recovery of transaction costs and integration costs are not linked.

However, the recoverability of the tracked costs arising from bill impact mitigation, shall be determined at the time of Hydro One Networks' next rebasing.

4.3 Compliance Matters

Hydro One Networks has requested exemptions, pursuant to section 74 of the OEB Act, from section 3.5.11 of the Standard Supply Service Code (SSSC) and sections 2.6 and 10.6.3 of the Retail Settlement Code (RSC), for two years from the date that Chapleau Public Utilities' electricity distribution business is integrated into Hydro One Networks' operations, as it intends to integrate Chapleau Public Utilities' customers into its billing system as 'new' customers.

With respect to sections 3.5.11 of the SSSC and 2.6 and 10.6.3 of the RSC, a distributor is required to keep and provide access to the listed consumer-specific historical information for two years.

The Observation Report, submitted by Hydro One Networks, mentions challenges with respect to Chapleau Public Utilities' obsolete billing system, as there is one external person that knows how to program and make changes to the billing system. Hydro One Networks has indicated that it intends to acquire Chapleau Public Utilities' customer data in the form of an offline database prior to integration, but Hydro One Networks has mentioned that the database's functionality to support timely responses to requests for historical information is not assured. This would limit their ability to respond to requests for historical Chapleau Public Utilities' customer-specific information on time and with accuracy. Thus, Hydro One Networks has proposed that it intends to integrate Chapleau Public Utilities' customers into its system as 'new' customers and their history with Hydro One Networks will begin on the date of the integration.

Hydro One Networks acknowledges the occasional need of the OEB, customers and/or designated third parties for certain customer-specific historical information that may pre-date Hydro One Networks' acquisition of the utility. Hydro One Networks will maintain Chapleau Public Utilities' billing database and will attempt to fulfill its obligations on a best efforts basis. However, Hydro One Networks stated that it cannot guarantee the quality and availability of the information.

In response to an Interrogatory, Hydro One Networks confirmed that classifying Chapleau Public Utilities customers as "new customers" will not trigger the requirement for security deposits. However, Hydro One Networks may request security deposits

from any new/existing customers based on go-forward payment/arrears management performance.

Findings

The OEB grants the requested exemptions from section 3.5.11 of the SSSC and sections 2.6 and 10.6.3 of the RSC, for a period of two-years from the completion of the Transaction, based on the explanation provided by Hydro One Networks on the challenges to access the historical consumer-specific information from the current billing system and/or database of Chapleau Public Utilities.

However, as the Transaction is yet to be completed, the OEB's approval of the aforementioned exemptions shall not take effect until the Applicants file written evidence confirming the closing of the Transaction.

4.4 Accounting Issues

In this application, Hydro One Networks requested approval to establish two new deferral accounts: the Bill Impact Mitigation Deferral Account and the Chapleau Historical Land Rights Deferral Account.⁵⁴ In its interrogatory response,⁵⁵ Hydro One Networks noted its intention to establish an additional new sub-account within the existing Accounting Policy Changes Accounts for Orillia Power Distribution Corporation (OPDC) and Peterborough Distribution Inc. (PDI).⁵⁶ This sub-account will track the differences arising from accounting policy changes specific to Chapleau Public Utilities. Chapleau Public Utilities currently uses International Financial Reporting Standards (IFRS) for financial accounting purposes and Modified IFRS (MIFRS) for regulatory accounting purposes, while Hydro One Networks currently uses United States Generally Accepted Accounting Principles (US GAAP) for both financial and regulatory reporting.

4.4.1 Bill Impact Mitigation Deferral Account

Hydro One Networks requested the establishment of this account to track all expenses associated with bill mitigation for non-residential customers of Chapleau Public Utilities.

⁵⁴ EB-2023-0328, Application, p. 5

⁵⁵ EB-2023-0328, Interrogatory Responses, Staff-9

⁵⁶ EB-2018-0270, Decision and Rate Order; EB-2018-0242, Decision and Order

This pertains to customers whose bill impacts exceed 10% from the time they were integrated into Hydro One Networks' rates in January 2025 until the conclusion of Hydro One Networks' current Custom IR period on December 31, 2027.⁵⁷

Anticipated mitigation costs are expected to be incurred outside of the revenue requirement.

OEB staff, in its submission,⁵⁸ supported Hydro One Networks' request to establish this deferral account, citing adherence to the three-part test (causation, materiality and prudence) that is required for the establishment of a new deferral account.⁵⁹ OEB staff noted that causation was evident, as the anticipated bill mitigation impact arose post-integration of Chapleau Public Utilities' customers, resulting in additional costs beyond their revenue requirement.

Regarding materiality, OEB staff acknowledged that the forecasted costs could reasonably meet the \$50,000 materiality threshold. While acknowledging the reasonableness of Hydro One Networks' mitigation plan, OEB staff emphasized the importance of prudent cost management and suggested that the recoverability of these costs should be determined during Hydro One Networks' next cost-based application.

OEB staff noted that the draft accounting order requires modification to the language to be considered for approval.⁶⁰

In its submission, VECC supported Hydro One Networks' requests to establish this account and had no comment on the draft accounting order.⁶¹

Regarding OEB staff's concern about whether this account meets the requirement of materiality, Hydro One Networks submitted that it proposes to limit annual total bill impacts for all non-residential Chapleau Public Utilities customers to no more than 10% between 2025-2027. Hydro One Networks further stated that based on the existing average monthly consumption of these customers (ranging from 13,000 kWh/month to over 70,000 kWh/month), the forecast annual bill impact mitigation costs will significantly exceed \$50,000 materiality threshold.⁶²

⁵⁷ EB-2023-0328, Interrogatory Responses, Staff-10

⁵⁸ EB-2023-0328, OEB staff Submission, p. 20

⁵⁹ [OEB Chapter 2 Filing Requirements](#), p. 66

⁶⁰ EB-2023-0328, OEB staff Submission, p. 20

⁶¹ EB-2023-0328, VECC Submission, p.8

⁶² EB-2023-0328, Reply Submission, p.4

Findings

The OEB will allow Hydro One Networks to create an account to track all expenses associated with bill mitigation for non-residential customers of Chapleau Public Utilities.

As identified in their request, this account shall pertain to customers whose total bill impacts exceed 10% from the time they were integrated into Hydro One Networks' rates in January 2025 until the conclusion of Hydro One Networks' current Custom IR period on December 31, 2027.

The OEB finds that the anticipated mitigation costs are expected to be incremental to the approved revenue requirement.

The OEB notes the support of VECC and OEB staff in establishing this deferral account, citing adherence to the three-part test (causation, materiality and prudence) that is required for the establishment of such a new deferral account.

The prudence of any recorded expenses shall be evaluated at the time of disposition during Hydro One Networks' next rebasing application.

The OEB approves the Accounting Order set out in Schedule A of this Decision and Order.

4.4.2 Chapleau Historical Land Rights Deferral Account

Hydro One Networks requested the establishment of this account to record all expenses related to securing land rights for distribution facilities that are still pending and were not acquired by Chapleau Public Utilities before closure.

In an interrogatory response⁶³, Hydro One Networks confirmed that several assets, such as pad mount transformers, poles, and anchors, currently encroach on private property. Both Chapleau Public Utilities and Hydro One Networks are legally obligated to acquire necessary land rights from affected property owners.

As a result, Hydro One Networks anticipated additional expenses exceeding Chapleau Public Utilities' revenue requirement, ranging between \$0.1M and \$1.5M.⁶⁴ Hydro One Networks stated that the balance of this account would be recovered from Chapleau Public Utilities customers.⁶⁵

⁶³ EB-2023-0328, Interrogatory Responses, Staff-10

⁶⁴ EB-2023-0328, Interrogatory Responses, Staff-10

⁶⁵ EB-2023-0328, Application, p. 4

In its submission,⁶⁶ OEB staff supported Hydro One Networks' request to establish this account, as it meets the requirement of the three-part test (causation, materiality, and prudence).

Hydro One Networks indicated that the investigation into missing land rights within the existing service territory of Chapleau Public Utilities is ongoing. Consequently, these expenses could not have been factored into Chapleau Public Utilities' revenue requirement. Regarding materiality, the projected costs associated with land rights range from \$0.1M to \$1.5M, likely surpassing Chapleau Public Utilities' \$50,000 materiality threshold.

OEB staff acknowledged Hydro One Networks' plan to incur these costs as reasonable; however, the prudence of any recorded expenses should be evaluated at the time of disposition.

OEB staff noted that the draft accounting order requires modification to the language to be considered for approval.⁶⁷

In its submission, VECC supported Hydro One Networks' requests to establish this account and had no comment on the draft accounting order.⁶⁸

In its reply submission, Hydro One Networks filed an updated accounting order, reflecting the modification requested by OEB staff. This modification specifies that the cumulative variance will be recovered from or refunded to customers of Chapleau Public Utilities.⁶⁹

Findings

The OEB agrees with Hydro One Networks that land rights from affected property owners for assets such as pad mount transformers, poles, and anchors is a legal requirement and the OEB also agrees that this represents an obligation by Hydro One Networks to remedy.

The OEB finds the potential costs associated to be material and will therefore allow Hydro One Networks to create an account to record all expenses related to securing land rights for distribution facilities that are still pending and were not acquired by Chapleau Public Utilities before closure.

⁶⁶ EB-2023-0328, OEB staff Submission, p. 21

⁶⁷ EB-2023-0328, OEB staff Submission, p. 21

⁶⁸ EB-2023-0328, VECC Submission, p. 8

⁶⁹ EB-2023-0328, Reply Submission, Appendix B

While Hydro One Networks' approach to these costs is reasonable, the prudence of any recorded expenses shall be evaluated at the time of disposition. The OEB approves the Accounting Order set out in Schedule B of this Decision and Order.

4.4.3 Accounting Policy Changes Account

Hydro One Networks noted in its application that it planned to incorporate Chapleau Public Utilities' financial results using US GAAP, despite Chapleau Public Utilities' current use of IFRS for financial accounting and MIFRS for regulatory purposes. Hydro One Networks proposed creating a new sub-account to track accounting policy changes specific to Chapleau Public Utilities within an existing account created for OPDC and PDI, or alternatively, accepting the OEB's decision to establish a new deferral account for such changes.⁷⁰

This new account would record the impact of transitioning Chapleau Public Utilities from IFRS to US GAAP on depreciation expenses and capitalization policies.

In its submission,⁷¹ OEB staff supported Hydro One Networks' request to establish this new sub-account, as it meets the requirement of the three-part test (causation, materiality, and prudence).

OEB staff noted that the transition in accounting standards from IFRS to US GAAP would particularly impact depreciation expenses and capitalization policies regarding property, plant, and equipment, consequently triggering the differences under accounting policy change. These anticipated differences are evidently outside Chapleau Public Utilities' revenue requirement.

In its interrogatory response, Hydro One Networks acknowledged that it identified the impact resulting from the accounting standard transition, but it would quantify these accounting policy differences only after the acquisition.

OEB staff submitted that the anticipated accounting policy changes meet the requirement of materiality. Even though Hydro One Networks did not quantify the accounting difference in this application, OEB staff noted that these differences are expected to exceed the \$50,000 materiality threshold. The prudence of any recorded expenses should be evaluated at the time of disposition.

⁷⁰ EB-2023-0328, Interrogatory Responses, Staff-9

⁷¹ EB-2023-0328, OEB staff Submission, p. 22

OEB staff supported Hydro One Networks' proposal, given the same account to record the impact of transitioning from IFRS to US GAAP was established for both OPDC and PDI to Hydro One Networks. OEB staff noted that Hydro One Networks should submit a draft accounting order in its reply submission.

VECC submitted that the approach of creating a new subaccount is sufficient and the establishment of a new accounting policy deferral account is not required.⁷²

In its reply submission, Hydro One Networks filed a new accounting order based on OEB staff's submission.⁷³

Findings

The OEB approves of Hydro One Networks' request to establish a new account to record the impact of transitioning Chapleau Utilities from IFRS to US GAAP accounting standards on depreciation expenses and capitalization policies.

This request meets the requirement of the three-part test (causation, materiality, and prudence).

The OEB notes OEB staff's comment that the transition in accounting standards from IFRS to US GAAP would particularly impact depreciation expenses and capitalization policies regarding property, plant, and equipment, consequently triggering the differences under accounting policy change.

The OEB agrees that these anticipated differences are outside Chapleau Public Utilities' revenue requirement.

The prudence of any recorded expenses shall be evaluated at the time of disposition.

The OEB approves the Accounting Order set out in Schedule C of this Decision and Order.

In establishing the above noted accounts, the OEB finds they relate to the special circumstances surrounding the Transaction and, therefore, are unique to the issues presented in this application. Accordingly, they will not necessarily be applicable to other future consolidation transactions that may come before the OEB for consideration.

⁷² EB-2023-0328, VECC Submission, p. 8

⁷³ EB-2023-0328, Reply Submission, Appendix D

5 LICENCE

Pursuant to section 77(5) of the OEB Act, the Applicants have requested the OEB to cancel Chapleau Public Utilities' electricity distribution licence⁷⁴ and Hydro One Networks' interim electricity distribution licence.⁷⁵ Also, pursuant to section 74 of the OEB Act, Hydro One Networks has requested to amend the service areas listed under its electricity distribution licence⁷⁶, more specifically Appendix B, Tab 1⁷⁷, to include the Township of Chapleau, as defined in the Municipality of Chapleau Boundaries Act, 1927, as of December 31, 1997, and Appendix B, Tab 4⁷⁸, to exclude the Township of Chapleau as defined in the Municipality of Chapleau Boundaries Act, 1927, as of December 31, 1997.

Findings

The OEB approves the Applicants' request to cancel the electricity distribution licence⁷⁹ of Chapleau Public Utilities and the interim electricity distribution licence⁸⁰ of Hydro One Networks.

The OEB also approves Hydro One Networks' request to amend its electricity distribution licence to include the Township of Chapleau, as defined in the Municipality of Chapleau Boundaries Act, 1927, as of December 31, 1997 under Appendix B, Tab 1, and exclude the Township of Chapleau, as defined in the Municipality of Chapleau Boundaries Act, 1927, as of December 31, 1997, from Appendix B, Tab 4.

⁷⁴ ED-2002-0528.

⁷⁵ ED-2023-0144.

⁷⁶ ED-2003-0043.

⁷⁷ As an authorized Municipality to distribute and sell electricity. The details of the Municipality to be included are as follows:

Name of Municipality: Township of Chapleau, as defined in the Municipality of Chapleau Boundaries Act, 1927, as of December 31, 1997; Formerly Known As: Same.

⁷⁸ As pursuant to the proposed Transaction, the Township of Chapleau will be served by Hydro One Networks. The details of the Municipality to be excluded are as follows:

Name of Municipality: Township of Chapleau, as defined in the Municipality of Chapleau Boundaries Act, 1927, as of December 31, 1997; Formerly Known As: Same; Area Not Served By Networks: The area served by Chapleau Public Utilities Corporation, as set out in Licence ED-2002-0528; Networks assets within area not served by Networks: Yes; Customer(s) within area not served by Networks: No.

⁷⁹ ED-2002-0528.

⁸⁰ ED-2023-0144.

However, as the Transaction is yet to be completed, the OEB's approval in relation to cancellation of the electricity distribution licence⁸¹ of Chapleau Public Utilities, cancellation of the interim electricity distribution licence⁸² of Hydro One Networks and the amendments to Hydro One Networks' electricity distribution licence⁸³ shall not take effect until the Applicants file written evidence confirming the closing of the Transaction.

⁸¹ ED-2002-0528.

⁸² ED-2023-0144.

⁸³ ED-2003-0043.

6 ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. Chapleau Public Utilities is granted leave to sell its distribution system assets to Hydro One Networks.
2. The leave granted in paragraph 1 shall expire 18 months from the date of this Decision and Order. If the transaction has not been completed by that date, a new application will be required in order for the transaction to proceed.
3. Hydro One Networks shall notify the OEB of the completion of the transaction referred to in paragraph 1 above.
4. Once the notice referred to in paragraph 3 of this Order is provided to the OEB, the OEB will amend the Electricity Distribution Licence (ED-2003-0043) of Hydro One Networks, more specifically Appendix B, Tab 1, to include the Township the Chapleau, as defined in the Municipality of Chapleau Boundaries Act, 1927, as of December 31, 1997, and Appendix B, Tab 4, to exclude the Township the Chapleau, as defined in the Municipality of Chapleau Boundaries Act, 1927, as of December 31, 1997.
5. Once the notice referred to in paragraph 3 of this Order is provided to the OEB, the OEB will cancel the Electricity Distribution Licence (ED-2002-0528) of Chapleau Public Utilities and the Interim Electricity Distribution Licence (ED-2023-0144) of Hydro One Networks.
6. Once the notice referred to in paragraph 3 of this Order is provided to the OEB, the OEB will amend Hydro One Networks' Electricity Distribution Licence (ED-2003-0043), specifically Schedule 3, in respect to its distribution service to the Township of Chapleau, to include the exemption from section 3.5.11 of the Standard Supply Service Code and sections 2.6 and 10.6.3 of the Retail Settlement Code, for a period of two-years.
7. Hydro One Networks shall file with the OEB, and shall forward to OEB staff and intervenors, a Draft Rate Order for Chapleau Public Utilities customers that includes a proposed Tariff of Rates and Charges reflecting the OEB's findings in this Decision and Order by **May 2, 2024**.
8. The Accounting order set out in Schedule A, B and C of this Decision and Order is approved.

9. Should VECC or OEB staff wish to comment on the Draft Rate Order, they must do so by filing a submission with the OEB and copying Hydro One Networks and Chapleau Public Utilities no later than **May 9, 2024**.
10. If Hydro One Networks wishes to reply to any submissions received, it must do so no later than **May 16, 2024**.
11. VECC shall file with the OEB and forward to Hydro One Networks and Chapleau Public Utilities their respective cost claims no later than **May 9, 2024**.
12. Hydro One Networks and Chapleau Public Utilities shall file with the OEB and forward to VECC any objections to the claimed costs of VECC by **May 16, 2024**.
13. VECC file with the OEB and forward to Hydro One Networks and Chapleau Public Utilities any responses to any objections to their respective cost claims by **May 23, 2024**.
14. Hydro One Networks and Chapleau Public Utilities shall pay the OEB's costs of and incidental to, this proceeding immediately upon receipt of the OEB's invoice.

Parties are responsible for ensuring that any documents they file with the OEB, such as applicant and intervenor evidence, interrogatories and responses to interrogatories or any other type of document, **do not include personal information** (as that phrase is defined in the *Freedom of Information and Protection of Privacy Act*), unless filed in accordance with rule 9A of the OEB's [Rules of Practice and Procedure](#).

Please quote file number, **EB-2023-0328** for all materials filed and submit them in searchable/unrestricted PDF format with a digital signature through the [OEB's online filing portal](#).

- Filings should clearly state the sender's name, postal address, telephone number and e-mail address.
- Please use the document naming conventions and document submission standards outlined in the [Regulatory Electronic Submission System \(RESS\) Document Guidelines](#) found at the [File documents online page](#) on the OEB's website.
- Parties are encouraged to use RESS. Those who have not yet [set up an account](#), or require assistance using the online filing portal can contact registrar@oeb.ca for assistance.
- Cost claims are filed through the OEB's online filing portal. Please visit the [File documents online page](#) of the OEB's website for more information. All participants shall download a copy of their submitted cost claim and serve it on all required parties as per the [Practice Direction on Cost Awards](#).

All communications should be directed to the attention of the Registrar and be received by end of business, 4:45 p.m., on the required date.

With respect to distribution lists for all electronic correspondence and materials related to this proceeding, parties must include the Case Manager, Amber Goher at amber.goher@oeb.ca and OEB Counsel, Charlotte Kanya-Forstner at charlotte.kanyaforstner@oeb.ca.

Email: registrar@oeb.ca

Tel: 1-877-632-2727 (Toll free)

DATED at Toronto, April 18, 2024

ONTARIO ENERGY BOARD

Nancy Marconi
Registrar

SCHEDULE A
ACCOUNTING ORDER
HYDRO ONE NETWORKS INC. AND CHAPLEAU PUBLIC UTILITIES
CORPORATION
EB-2023-0328
APRIL 18, 2024

Draft Accounting Order – 1508 – Other Regulatory Assets, Sub Account Bill Impact Mitigation Deferral Account - non-residential customers

Hydro One Networks may establish a new “Bill Impact Mitigation Deferral Account” to track mitigation costs resulting from integrating non-residential customers from Chapleau Public Utilities into Hydro One Networks’ existing rate classes.

The account will be established as Account 1508, Other Regulatory Assets – Sub-Account “Bill Impact Mitigation Deferral Account” effective the date of Chapleau Public Utilities’ customer integration until the effective date of Hydro One Networks’ next cost-based Rate Order.

Hydro One Networks will record interest on any balance in the sub-account using the interest rates set by the OEB. Simple interest will be calculated on the opening monthly balance of the account until the balance is fully disposed.

The disposition of any balances will be recovered from, or funded to all Hydro One Networks customers.

The following outlines the proposed accounting entries for this regulatory account.

USofA # Account Description

Dr 1508	Other Regulatory Assets – Sub account “Bill Impact Mitigation Deferral Account – non-residential customers”
Cr 1100	Customer Accounts Receivable

To record the bill impact mitigation costs for former Chapleau Public Utilities’ non-residential customers having been moved to appropriate Hydro One Networks rate classes at integration.

USofA # Account Description

Dr 1508	Other Regulatory Assets – Sub account “Bill Impact Mitigation Deferral Account – non-residential customers”
Cr 6035	Other Interest Expense

To record interest improvement on the debit principal balance of the Bill Impact Mitigation Deferral Account at the OEB’s published prescribed interest rate.

SCHEDULE B
ACCOUNTING ORDER
HYDRO ONE NETWORKS INC. AND CHAPLEAU PUBLIC UTILITIES
CORPORATION
EB-2023-0328
APRIL 18, 2024

Draft Accounting Order – 1508 – Other Regulatory Assets, Sub Account Chapleau Historical Land Rights

Hydro One Networks may establish a “Chapleau Historical Land Rights Deferral Account” to track costs incurred by Hydro One Networks to acquire any outstanding Chapleau Public Utilities’ historical land rights required to operate Chapleau Public Utilities existing distribution assets, where at the time of the close of Hydro One Networks’ acquisition of the Chapleau Public Utilities electricity distribution assets, such land rights could not be located or documented, may have expired, or were never obtained.

The account will be established as Account 1508, Other Regulatory Assets – Sub-Account “Chapleau Historical Land Rights Deferral Account” effective the date of the closing of the Agreement.

Hydro One Networks will record interest on any balance in the sub-account using the interest rates set by the Board. Simple interest will be calculated on the opening monthly balance of the account until the balance is fully disposed.

USofA # Account Description

Dr 1806 Land Rights
Cr 2205 Accounts Payable

To record the preliminary recognition of Hydro One Network’s costs incurred regarding the acquisition of any Chapleau Public Utilities historical land rights.

USofA # Account Description

Dr 1508 Other Regulatory Assets – Sub account “Chapleau Historical
Land Rights Deferral Account”
Cr 1806 Land Rights.

To transfer Hydro One Network’s costs incurred for the acquisition of any Chapleau Public Utilities historical land rights, to the deferral account for future disposition.

USofA # Account Description

Dr: 1508 Other Regulatory Assets – Sub account “Chapleau Historical
Land Rights Deferral Account - Interest Improvement”
Cr: 6035 Other Interest Expense

To record interest improvement on the principal balance of the Chapleau Historical Land Rights Deferral Account at the OEB’s published prescribed interest rate.

The disposition of any balances in this account will be recovered from or refunded to customers in the Chapleau Public Utilities' service territory.

SCHEDULE C
ACCOUNTING ORDER
HYDRO ONE NETWORKS INC. AND CHAPLEAU PUBLIC UTILITIES
CORPORATION
EB-2023-0328
APRIL 18, 2024

Draft Accounting Order – 1576 – Accounting Policy Changes – Sub-Account – Former Chapleau Public Utilities Service Territory

Hydro One Networks may establish a new sub-account within the prior OEB-approved “Accounting Policy Changes” Deferral Account⁸⁴ to record the impact of any applicable accounting changes to depreciation expense and capitalization policies on property, plant, and equipment (PPE) resulting from Chapleau Public Utilities’ transition from International Financial Reporting Standards (IFRS) for financial accounting purposes and Modified International Financial Reporting Standards (MIFRS) for regulatory accounting purposes to US GAAP for both financial and regulatory accounting purposes. The deferral account will track impacts (both debits and credits) of the transition to US GAAP with respect to how costs are capitalized and depreciated. At the time of the next cost rebasing rate application of Hydro One Networks, the balance in the account shall reflect the cumulative difference between the closing net PPE balance calculated using Chapleau Public Utilities’ existing accounting policies and the closing net PPE calculated using Hydro One Networks’ policies. The deferral account balance will be reviewed at the time of the next cost rebasing rate application to determine the appropriate approach for disposition. The sub-account will be effective the date of transaction close.

As per the OEB-issued “Accounting Policy Changes for Accounts 1575 and 1576”, a rate of return component will be applied to the balance in Account 1576 upon its disposition in rates and will require the use of separate rate riders for the disposition of the balance in Account 1576. No additional carrying charges shall accrue in this account prior to disposition.

The following outlines the proposed accounting entries for this regulatory account.

<u>USofA #</u>	<u>Account Description</u>
Dr/Cr: 1576	Accounting Policy Changes – Sub-Account – Former Chapleau Public Utilities Service Territory
Cr/Dr: 4305/4310	Regulatory Debit/Regulatory Credit

To record the annual difference between the net PPE balances calculated using Chapleau Public Utilities’ accounting policies and the net PPE balances calculated using Hydro One Networks’ accounting policies.

⁸⁴ EB-2018-0270 and EB-2018-0242