REGULATORY ACCOUNTS

1.0 INTRODUCTION

The purpose of this Exhibit is to describe Hydro One's Transmission and Distribution regulatory accounts. Hydro One's Transmission, Distribution including Acquired Utilities (Norfolk, Haldimand, and Woodstock) audited regulatory account balances (including the continuity schedules) as at December 31, 2020 are presented in Exhibit G-01-05, and will be updated once 2021 audited balances are available.

All of the regulatory accounts reported by Hydro One Transmission and Hydro One Distribution have been established pursuant to the applicable accounting orders approved by the OEB, consistent with the Accounting Procedures Handbook, and any subsequent OEB direction. Hydro One has not departed from the approved accounting orders or the USofAs.

Hydro One's outstanding deferral and variance account balances for Transmission and Distribution (inclusive of the Acquired Utilities) are summarized in Table 1, Table 2 and Table 3, below. The forecasted balances as at December 31, 2022 are calculated by taking the audited December 31, 2020 balances adjusted by any amounts approved for disposition by the OEB in prior decisions, and adjusted for interest improvement. Hydro One uses the most recent OEB-approved prescribed interest rates as at the time of filing this Application to calculate the projected carrying charges on the audited December 31, 2020 balances through to December 31, 2022.

Table 1 - Transmission Balances[1]

Description	Principal as at December 31, 2022	Interest as at December 31, 2022	Total Balance as at December 31, 2022
Total Regulatory Accounts Seeking Disposition	$4,768,223	$858,534	$5,626,758
Total Regulatory Accounts/Tracking Accounts Not Seeking Disposition	$233,117,562	$236,861	$233,354,424
Total Transmission Regulatory Accounts	**$237,885,785**	**$1,095,396**	**$238,981,181**

Table 2 - Distribution Group 1 & 2 Balances[2]

Description	Principal as at December 31, 2022	Interest as at December 31, 2022	Total Balance as at December 31, 2022
Total Regulatory Accounts Seeking Disposition – Group 1	$(68,378,378)	$(1,171,298)	$(69,549,677)
Total Regulatory Accounts Seeking Disposition – Group 2	$(15,615,974)	$(2,518,949)	$(18,134,923)
Total Regulatory Accounts Seeking Disposition	**$(83,994,352)**	**$(3,690,247)**	**$(87,684,599)**
Total Regulatory Accounts Not Seeking Disposition – Group 1	$9,025,219	$(3,428,283)	$5,596,935
Total Regulatory Accounts/Tracking Accounts Not Seeking Disposition – Group 2	$62,874,514	$(5,271,192)	$57,603,323
Total Regulatory Accounts Not Seeking Disposition	**$71,899,733**	**$(8,699,475)**	**$63,200,258**
Total Distribution Regulatory Accounts	**$(12,094,619)**	**$(12,389,722)**	**$(24,484,341)**

[1] Note that rounded numbers presented in charts may not add to the total due to rounding. Note that tracking accounts do not accrue interest.
[2] Note that positive numbers indicate debit amounts which are recoverable from ratepayers. Negative numbers indicate credit amounts which are payable to ratepayers.

Table 3 - Acquired Utilities Group 2 Balances[3]

Description	Principal as at December 31, 2022	Interest as at December 31, 2022	Total Balance as at December 31, 2022
Norfolk Regulatory Accounts Not Seeking Disposition – Group 2	$367,045	$35,653	$402,698
Haldimand Regulatory Accounts Not Seeking Disposition – Group 2	$(673,075)	$(54,947)	$(728,023)
Woodstock Regulatory Accounts Not Seeking Disposition – Group 2	$(1,303,234)	$244,629	$(1,058,604)
Group 2 Balances of Acquired Utilities Not Seeking Disposition	**$(1,609,264)**	**$225,335**	**$(1,383,929)**

2.0 OVERVIEW OF REGULATORY ACCOUNT BALANCES

As part of the 2020-2022 Transmission proceeding (EB-2019-0082) and the 2018-2022 Distribution proceeding (EB-2017-0049), the OEB approved the establishment or continuance of certain regulatory accounts. Regulatory accounts have also been established as a result of other OEB applications (i.e., s. 92 applications) and OEB issued Accounting Guidance (i.e. – COVID-19 Deferral Accounts). Proposals for new or modified regulatory accounts, and the accounts requested for continuation and discontinuation, are discussed in Exhibit G-01-02.

Exhibit G-01-03, and the associated DVA continuity schedules in Exhibit G-01-05, include the audited 2020 balances requested for disposition for Hydro One Transmission and Hydro One Distribution's Group 1 balances (inclusive of the Acquired Utilities) and Group 2 balances. The Acquired Utilities Group 1 accounts are included in Hydro One Distribution's Group 1 accounts.

Each account and its balance are described in the following sections of this Exhibit:

- Section 3.0 - Transmission Accounts Sought for Disposition

[3] The Acquired Utilities' Group 2 balances are not being requested for disposition; however, are being presented for information purposes. Refer to Section 7.0 for more details.

- Section 4.0 - Transmission Accounts Not Sought for Disposition
- Section 5.0 - Distribution Accounts Sought for Disposition
- Section 6.0 - Distribution Accounts Not Sought for Disposition
- Section 7.0 - Acquired Utilities Account Balances

Further details on the deferral and variance accounts are provided in the following Exhibits:

- Exhibit G-01-02: Regulatory Account Requests (including continuance, discontinuance, modification of existing accounts and establishment of new accounts)
- Exhibit G-01-03: Proposed Disposition of Regulatory Accounts
- Exhibit G-01-04: Schedule of Annual Recoveries
- Exhibit G-01-05: Continuity Schedule of Regulatory Accounts

As part of the Chapter 2 Filing Requirements issued for 2022 applications on June 24, 2021, distributors are required to provide supporting evidence to show how the annual balance is derived for the utility-specific accounts sought for disposition including the relevant accounting orders. In Table 4 below, Hydro One has identified 14 utility-specific accounts for its Transmission regulatory accounts, and in Table 5 Hydro One has identified 7 utility-specific accounts for its Distribution regulatory accounts. The Accounting Orders for the Hydro One's utility specific accounts sought for disposition are filed at Attachment 4 of Exhibit G-01-01 for Transmission and Distribution.

Table 4 - Transmission Utility Specific Accounts

Transmission Regulatory Accounts	Account	Balance Requested for Disposition	Supporting Evidence to Derive Balance
Long-Term Transmission Future Corridor Acquisition and Development Deferral Account	1508	$ (1,292)	Balance consists of interest amounts only
LDC CDM and Demand Response Variance Account	1508	$ 26,797,560	See Attachment 3 of Exhibit G-01-01
Waasigan Transmission Deferral Account - OMA	1508	$ 18,406	Balance consists of interest amounts only
OPEB Cost Deferral Account	1508	$ 29,454,272	Described in Exhibit G-01-01 herein
Customer Connection and Cost Recovery Agreements (CCRA) True-Up Variance Account	1508	$ 648,530	Described in Exhibit G-01-01 herein
Tax Rate Changes Variance Account	1592	$ (20,958,738)	See Attachment 5 of Exhibit G-01-01/ discussion in G-01-01 described herein
Excess Export Service Revenue Variance Account	2405	$ 1,050,352	Described in Exhibit G-01-01 herein
External Secondary Land Use Revenue Variance Account	2405	$ (16,598,314)	Described in Exhibit G-01-01 herein
External Station Maintenance, E&CS and Other External Revenue Account	2405	$ 9,438,217	Described in Exhibit G-01-01 herein
Rights Payments Variance Account	2405	$ 935,301	Described in Exhibit G-01-01 herein
Pension Cost Differential Variance Account	2405	$ (4,506,807)	Described in Exhibit G-01-01 herein
External Revenue – Partnership Transmission Projects Deferral Account	2405	$ 1,875	Balance consists of interest amounts only
Capital In-Service Variance Account	2405	$ (3,350)	Balance consists of interest amounts only
Depreciation Expense (Asset Removal Costs) Asymmetrical Cumulative Variance Account	2405	$ (19,624,977)	Described in Exhibit G-01-01 herein

Table 5 - Distribution Utility Specific Accounts

Distribution Regulatory Accounts	Account	Balance Requested for Disposition	Supporting Evidence to Derive Balance
Other Regulatory Assets - Sub-Account - Long Term Load Transfer (LTLT) Rate Impact Mitigation Deferral Account	1508	$ 775,758	Described in Exhibit G-01-01 herein
Other Regulatory Assets - Sub-Account - Bill Impact Mitigation Variance Account	1508	$ 5,039	Balance consists of interest amounts only
Other Regulatory Assets - Sub-Account - OPEB Cost Deferral Account	1508	$ 69,077,055	Described in Exhibit G-01-01 herein
Other Regulatory Assets - Sub-Account - Smart Grid Fund (SGF) Pilot Deferral Account	1508	$ 2,332,544	Described in Exhibit G-01-01 herein
Pension Cost Differential Variance Account	2405	$(23,949,182)	Described in Exhibit G-01-01 herein
Earnings Sharing Mechanism (ESM) Deferral Account	2435	$ (15,150,738)	Described in Exhibit G-01-01 herein
PILs and Tax Variance for 2006 and Subsequent Years	1592	$ (48,925,870)	See Attachment 5 of Exhibit G-01-01/ discussion in G-01-01 described herein

3.0 TRANSMISSION ACCOUNTS SOUGHT FOR DISPOSITION

3.1 LONG-TERM TRANSMISSION FUTURE CORRIDOR ACQUISITION AND DEVELOPMENT DEFERRAL ACCOUNT (ACCOUNT 1508)

This deferral account was approved for creation in the OEB's decision for Hydro One Transmission's 2013 and 2014 revenue requirement (EB-2012-0031). In the OEB's decision for 2020-2022 Transmission revenue requirement (EB-2019-0082), the OEB approved continuance of this account. This account records transmission planning and study costs associated with preliminary corridor routing considerations for new transmission infrastructure. In order to ensure land corridor availability in near-urban areas, long term investment planning is required. The costs recorded in the account are associated with land assessment work such as environmental studies and other assessments, preliminary engineering studies, public and First

Nations/Métis consultations, etc. The outcomes of this work are helpful in making siting determinations for new corridors and in setting aside the required land for planning purposes, thus ensuring its availability and affordability when the project proceeds.

As at December 31, 2020, the balance in this deferral account reflects residual interest of $(1,245) since the disposition of the previously approved balance in EB-2019-0822. This account is reported to the OEB on an annual basis consistent with the OEB's Reporting and Record Keeping Requirements. Included in the balance submitted for disposition are drawdowns from approved dispositions. This will result in a forecast account balance of $(1,292) as at December 31, 2022.

3.2 LOCAL DISTRIBUTION COMPANY (LDC), CONSERVATION AND DEMAND MANAGEMENT (CDM), AND DEMAND RESPONSE VARIANCE ACCOUNT (ACCOUNT 1508)

This account was approved for creation as part of the approved Settlement Agreement in EB-2012-0031 relating to Hydro One's 2013 and 2014 transmission revenue requirement. The account tracks the impact of actual CDM and demand response programs on the actual load compared to the estimated load forecast included in revenue requirement. The balance in the account reflects these differences. Actual CDM revenues are included in total revenues in the audited financial statements.

This account was not approved for continuation for the 2020-2022 test years pursuant to the Decision in EB-2019-0082, but it remained open to record any variances relating to Hydro One Transmission's 2018, and 2019 revenue requirement due to the lag in obtaining IESO issued information. In its decision for 2017 and 2018 transmission rates (EB-2016-0160), the OEB directed Hydro One to use its best efforts to obtain the peak savings information needed to calculate the variance for the account. The OEB previously approved the disposition of the 2017 calculated amount in the LDC CDM and Demand Response Variance Account, and the 2018 and 2019 amounts were calculated in a similar manner (see Exhibit G-01-01-03). The audited December 31, 2020 balance was based on the IESO's best estimate of energy efficiency savings

at that time; however, in early 2021, the IESO issued an official 2019 program evaluation report which changed the energy efficiency assumptions used in the calculation. The 2018 and 2019 amounts were adjusted for these changes in 2021 (approximately $2M) and will be included as part of the audited 2021 balances. The audited 2021 balances will be requested for disposition once they become available.

As at December 31, 2020, there is a balance of $42.3M in the variance account, inclusive of accrued interest. This account is reported to the OEB on an annual basis consistent with the OEB's Reporting and Record Keeping Requirements. Included in the balance submitted for approval is interest forecast through to December 31, 2022 to reflect carrying charges anticipated through to the proposed effective date, net of drawdowns from approved dispositions. This will result in a forecast account balance of $26.8M as at December 31, 2022. Note that the audited 2021 balances will be requested for disposition once they become available.

3.3 WAASIGAN TRANSMISSION DEFERRAL ACCOUNT (ACCOUNT 1508)

This deferral account was established in EB-2014-0311 for the purpose of recording expenses relating to the North West Bulk Transmission Line (NWBTL) associated with preliminary design/engineering, cost estimation, public engagement/consultation, routing and siting, and environmental assessment preparation work. At the time, these costs did not qualify as construction work in progress (CWIP) and were OM&A costs. These OM&A costs were not included in the rates, thereby necessitating the need to establish this deferral account.

On October 24, 2018, the IESO issued a letter to Hydro One, “Update of the Need and Scope for the Northwest Bulk Transmission Line”, confirming the need for additional electricity capacity in the area. The IESO recommended that Hydro One begin development work on Phase 1 and 2 of the Waasigan Project (formerly known as NWBTL) as soon as possible to shorten the project lead time required to have the assets ready to be in-serviced in order to meet the electricity capacity needs when they materialize (expected mid-2030s but potentially earlier). As the IESO

determined that supply needs for West of Thunder Bay and North of Dryden will be met by electricity infrastructure (a 'wires' solution), Hydro One believed that it was appropriate to begin recording development expenditures in CWIP.

On December 21, 2018, Hydro One Transmission requested that the OEB change the nature of the NWBTL deferral account to a Waasigan Transmission Tracking Deferral Account, which the OEB approved on September 12, 2019 in EB-2019-0151. Development expenditures are currently recorded in CWIP with the expectation that they will be recovered in rate base; but in the event that is not approved, Hydro One will request disposition of the accumulated balance in this tracking account. In the OEB's decision for 2020-2022 Transmission revenue requirement (EB-2019-0082), the OEB approved continuance of this account. Refer to Section 4.3 below for the Waasigan Transmission Tracking Deferral Account.

As at December 31, 2020, there is a balance of $0.6M in the deferral account, inclusive of accrued interest. This account is reported to the OEB on an annual basis consistent with the OEB's Reporting and Record Keeping Requirements. Included in the balance submitted for approval is interest forecast through to December 31, 2022 to reflect carrying charges anticipated through to the proposed effective date, net of drawdowns from approved dispositions. This will result in a forecast account balance of $18,406 as at December 31, 2022.

3.4 OPEB COST DEFERRAL ACCOUNT (ACCOUNT 1508)

The OPEB cost deferral accounts have been approved for both Hydro One Transmission and Hydro One Distribution. In the OEB's decision for 2020-2022 Transmission revenue requirement (EB-2019-0082), the OEB concluded that the non-service cost component of Hydro One's OPEB costs shall be recognized as OM&A for both its Transmission and Distribution businesses. In that proceeding, Hydro One had adjusted the test year (2020) revenue requirement for the 2018 audited balance disposition, as well as the 2020 test year OM&A to reflect the non-service cost component of OPEB recovery, during the draft rate order process to reflect those findings. In this Application, Hydro One Transmission is submitting the audited 2019 balance for disposition.

OPEB related expenditures are not deductible for tax purposes until the related payments are made. Therefore, Hydro One incurs incremental income taxes as a result of recovering the OPEB non-service costs under the accrual method. In the most recent Transmission draft rate order process (EB 2019-0082), the OEB denied the recovery associated with the taxes on the recovery of the regulatory account in its calculation of Regulatory Taxes. Therefore, in accordance with OEB's guidelines, whereby regulatory assets (and regulatory liabilities) must generally be excluded from Regulatory Tax calculations both when they are created and when they are collected regardless of the actual tax treatment accorded those amounts,[4] any tax impact associated with the disposition is not included in the calculation of Regulatory Taxes, but rather is included directly in this variance account as a tax gross up. This approach is consistent with a prior decision for Ontario Power Generation (OPG) where OPG sought approval to recover the tax impacts associated with the Pension & OPEB Cash vs. Accrual Differential Account.[5] OPG noted that pension and OPEB costs are not deductible for income tax purposes, and therefore, incremental income taxes are incurred as a result of recovering pension and OPEB costs under the accrual method. Under the terms of the Settlement Agreement, the OEB accepted OPG's approach, and the balance for recovery of the account included the income tax impacts. More specifically, the parties to the proceeding agreed that:

> *the portion of the December 31, 2017 balance…which includes other post-employment benefit ("OPEB") costs, and <u>the income tax impacts associated with the recovery of this portion</u> of the account balance, will be recovered over a 72 month period on a straight line basis, effective January 1, 2019.*[6] *[Emphasis added]*

[4] Filing Requirements for Electricity Transmission Applications – Chapter 2 dated February 11, 2016, page 34.
[5] EB-2018-0243, OPG Application and Evidence, dated August 9, 2018, Exhibit A1, Tab 2, Schedule 1, page 2.
[6] EB-2018-0243, Decision and Payment Amounts Order, February 21, 2019, page 17.

Consistent with this, the OPEB Cost Deferral Account includes the associated tax impacts. The OPEB Cost Deferral Account should place Hydro One in the same position with respect to the regulatory requirement inclusive of Regulatory Taxes that would have been incurred, if the amounts were approved as part of revenue requirement. The tax impacts related to non-service cost component of OPEB were approved for recovery during the last Transmission 2020-2022 application as it was related to 2020 to 2022 years. Consequently, it is reasonable that the OPEB Cost Deferral Account also includes the associated tax impacts related to 2019 as there should be no inconsistencies between recovering the incremental tax gross-up through the revenue requirement or in variance accounts (due to timing of the OEB decision on the matter).

As at December 31, 2020, the deferral account balance is $44.5M, inclusive of accrued interest. This account is reported to the OEB on an annual basis consistent with the OEB's Reporting and Record Keeping Requirements. Included in the balance submitted for approval is interest forecast through to December 31, 2022 to reflect carrying charges anticipated through to the proposed effective date net of drawdowns from approved dispositions. This will result in a forecast balance of $29.5M as at December 31, 2022, which is inclusive of the tax gross-up and projected interest amounts. The principal additions reflect the actual non-service cost component of OPEBs that would have otherwise been capitalized in the absence of ASU 2017-07. Refer to Exhibit E-07-01 for an overview of OPEB Costs.

3.5 CCRA TRUE-UP VARIANCE ACCOUNT (ACCOUNT 1508)

In the OEB’s decision for Hydro One’s 2020-2022 Transmission revenue requirement (EB-2019-0082), the OEB approved the establishment of a new variance account to track the differences between components of revenue requirement and actual results related to load true-ups performed in accordance with section 6.5.3 of the Transmission System Code. As tax is a component of revenue requirement, the tax implications arising from the load true-ups are also included in this account (including any applicable grossed up tax impacts).

As at December 31, 2020, the variance account has a balance of $0.6M. This amount pertains to the differences between components of revenue requirement and actual results related to load true-ups performed with respect to the Connection Cost Agreement (CCA) in accordance with 6.5 of the TSC. This account is reported to the OEB on an annual basis consistent with the OEB's Reporting and Record Keeping Requirements. Included in the balance submitted for approval is interest forecast through to the proposed effective date. Refer to Exhibit C-07-01 for an overview of Economic Evaluation True-Ups in relation to CCRAs and CCAs.

3.6 OPEB ASYMMETRICAL CARRYING CHARGE ACCOUNT (ACCOUNT 1522)

The OPEB Asymmetrical Carrying Charge Account is an OEB established account for utilities that recover their OPEB costs on an accrual method. Hydro One maintains this account separately for each of Hydro One Transmission and Hydro One Distribution.

Hydro One Transmission calculated the reference amount using a proposed modified approach as further outlined in Exhibit G-01-02. As at December 31, 2020, the balance in this account is $(1.0M). This balance, which represents the interest attracted on the Pension and OPEB Forecast Accrual Versus Actual Cash Payment Differential Variance Account, is being proposed for disposition. The balance in this account is reported to the OEB on an annual basis, consistent with the OEB's Reporting and Record Keeping Requirements.

Refer to Exhibit G-01-02 for a detailed description of the modified method of calculation that is proposed.

3.7 TAX RATE CHANGES VARIANCE ACCOUNT (ACCOUNT 1592)

The tax rate changes variance account has been approved for both Hydro One Transmission and Hydro One Distribution. For Hydro One Transmission, this variance account was approved for creation based on the OEB’s acceptance of the Settlement Proposal for Hydro One Transmission’s 2007 and 2008 revenue requirement on August 16, 2007 (EB-2006-0501). In the OEB’s decision for 2020-2022 Transmission revenue requirement (EB-2019-0082), the OEB

approved continuance of this account. This variance account captures the tax impact to Hydro One Transmission of:

- differences that result from a legislative or regulatory change to the tax rates or rules; and
- differences that result from a change in, or a disclosure of, a new assessment or administrative policy that is published in the public tax administration or interpretation bulletins by relevant federal or provincial tax authorities.

3.7.1 SUB-ACCOUNT – CCA CHANGES (ACCOUNT 1592)

On June 21, 2019, Bill C-97, the *Budget Implementation Act, 2019, No.1* was given Royal Assent. Bill C-97 included a change in capital cost allowance (CCA) resulting in a first year increase in tax depreciation for eligible capital assets acquired after November 20, 2018 (Accelerated CCA). Pursuant to the Accounting Direction issued by the OEB on July 25, 2019, Hydro One Transmission established a separate sub-account of Account 1592 – PILs and Tax Variances – CCA Changes to track the impact of changes in CCA rules. The full tax benefit associated with the higher CCA amounts resulting from Bill C-97 has been captured in this account. In addition, in order to reflect the full revenue requirement impact pursuant to the Accounting Direction, this sub-account captures the tax impacts (tax gross ups) which are included in the balance requested for disposition.

As at December 31, 2020, Hydro One Transmission has a balance of $(20.7M), inclusive of accrued interest in the Tax Rate Changes Variance Account, which includes the CCA Changes sub-account. This account is reported to the OEB on an annual basis consistent with the OEB's Reporting and Record Keeping Requirements. The majority of this balance pertains to the full revenue impact of tax benefits related to Accelerated CCA. Included in the balance submitted for approval is interest forecast through to December 31, 2022 to reflect carrying charges anticipated through to the proposed effective date, net of drawdowns from approved dispositions. This results in a forecast account balance of $(21.0M) as at December 31, 2022. Refer to Exhibit G-01-01-05 for the calculation of the amounts being proposed for disposition.

3.8 EXCESS EXPORT SERVICE REVENUE VARIANCE ACCOUNT (ACCOUNT 2405)

This variance account was approved for creation in the OEB's decision for Hydro One's 2009 and 2010 Transmission revenue requirement on May 28, 2009 (EB-2008-0272). In the OEB's decision for 2020-2022 Transmission revenue requirement (EB-2019-0082), the OEB approved the continuance of this account. The OEB required that Hydro One Transmission continue to capture any differences between forecast export service revenue approved by the OEB, as part of its 2020-2022 transmission rates, and the actual export service revenue. The balance in this account reflects these differences. As part of the OEB's decision in EB-2019-0082, the OEB approved an Export Transmission Services (ETS) rate of $1.85/MWh and approved the Hydro One Transmission forecast at $35.9M in revenue for 2020, $35.9M in revenue for 2021, and $36.3M in revenue for 2022. Actual export service revenues were $38.1M for 2020. Actual export service revenues are included in total revenues in the audited financial statements.

As at December 31, 2020, there is a balance of $4.2M in the variance account, inclusive of accrued interest. The balance in this account is reported to the OEB on an annual basis, consistent with the OEB's Reporting and Record Keeping Requirements. Included in the balance submitted for approval is interest forecast through to December 31, 2022 to reflect carrying charges anticipated through to the proposed effective date, net of drawdowns from approved dispositions. This will result in a forecast account balance of $1.1M as at December 31, 2022. Refer to Exhibit H-09-01 for an overview of Export Transmission Service Rates.

3.9 EXTERNAL SECONDARY LAND USE REVENUE VARIANCE ACCOUNT (ACCOUNT 2405)

This variance account was approved for creation in the OEB's decision for Hydro One's 2009 and 2010 Transmission revenue requirement on May 28, 2009 (EB-2008-0272). In the OEB's decision for 2020-2022 Transmission revenue requirement (EB-2019-0082), the OEB approved the continuance of this account, which is used by Hydro One Transmission to capture any difference between the forecast external secondary land use revenue approved by the OEB, for each test year, as part of 2020-2022 transmission rates, and the actual secondary land use revenue for each of these years. The balance in the account reflects these differences.

The secondary land use revenue approved in the EB-2019-0082 Decision was $23.5M for each of the 2020-2022 years. Actual secondary land use revenue was $28.4M for 2020 for the purpose of calculating a variance in this account. Examples of secondary land use revenues are revenue generated when Hydro One licenses and leases owned transmission corridor lands to external parties for secondary land use purposes, such as parking lots, municipal and private roadways, parks and trails, agricultural areas, water mains, and other municipal infrastructure occupations, as well as public transit parking lots and station operations. Actual secondary land use revenue is included in total revenues in the audited financial statements.

As at December 31, 2020, there is a balance of $(23.4M) in the variance account, inclusive of accrued interest. This account is reported to the OEB on an annual basis consistent with the OEB's Reporting and Record Keeping Requirements. Included in the balance submitted for approval is interest forecast through to December 31, 2022 to reflect carrying charges anticipated through to the proposed effective date, net of drawdowns from approved dispositions. This will result in a forecast account balance of $(16.6M) as at December 31, 2022. Refer to Exhibit D-02-01 for an overview of Transmission External Revenues.

3.10 EXTERNAL STATION MAINTENANCE, E&CS AND OTHER EXTERNAL REVENUE VARIANCE ACCOUNT (ACCOUNT 2405)

This variance account was approved for creation in the OEB's decision for Hydro One's 2009 and 2010 Transmission revenue requirement on May 28, 2009 (EB-2008-0272). In the OEB's decision for 2020-2022 Transmission revenue requirement (EB-2019-0082), the OEB approved continuance of this account. Hydro One Transmission uses the account to capture any differences between the OEB approved and actual net external station maintenance, engineering & construction services (E&CS) revenue and other external revenue. The balance in the account reflects these differences. The external revenue approved by the OEB in the 2020-2022 Transmission decision was $13.5M for 2020, $14.6M for 2021, and $13.7M for 2022. Actual external revenue was $5.6M for 2020 for the purpose of calculating a variance in this account. External revenue is included in total revenues in the audited financial statements. The

external revenue cost of sales (COS) approved by the OEB in the 2020-2022 Transmission decision was $3.9M for 2020, and $4.0M for 2021.[7] Actual external revenues COS was $2.5M for 2020. External revenue COS is included in total OM&A in the audited financial statements.

As at December 31, 2020, there is a $12.4M balance in the variance account, inclusive of accrued interest. The balance in this account is reported to the OEB on an annual basis consistent with the OEB's Reporting and Record Keeping Requirements. Included in the balance submitted for approval is interest forecast through to December 31, 2022 to reflect carrying charges anticipated through to the proposed effective date, net of drawdowns from approved dispositions. This will result in a forecast account balance of $9.4M as at December 31, 2022. Refer to Exhibit D-02-01 for an overview of Transmission External Revenues.

3.11 RIGHTS PAYMENTS VARIANCE ACCOUNT (ACCOUNT 2405)

This account was approved for creation in the OEB's decision on Hydro One's Transmission revenue requirement for 2011 and 2012 (EB-2010-0002). In the OEB's decision for 2020-2022 Transmission revenue requirement (EB-2019-0082), the OEB approved continuance of this account. Hydro One Transmission uses this account to capture the difference between the forecast rights payments approved by the OEB for 2020-2022 and the actual rights payments incurred. The balance in the account reflects these differences.

Rights payments are generally paid when Hydro One line facilities cross and/or occupy properties owned by other groups (example – First Nations, railway companies). The total rights payments approved by the OEB in the EB-2019-0082 Decision were $6.9M for 2020, and $7.0M

[7] Approved amount for 2021 is based on an escalation factor of 1.7% on the prior year amount. 2022 escalation factor will be finalized when the inflation rate is issued by the OEB.

for 2021.[8] Actual rights payments were $6.3M for 2020. Actual rights payments are included in total OM&A costs in the audited financial statements.

As at December 31, 2020, there is a $2.5M balance in this variance account, inclusive of accrued interest. This account is reported to the OEB on an annual basis consistent with the OEB's Reporting and Record Keeping Requirements. Included in the balance submitted for approval is interest forecast through to December 31, 2022 to reflect carrying charges anticipated through to the proposed effective date, net of drawdowns from approved dispositions. This will result in a forecast account balance of $0.9M as at December 31, 2022. Refer to Exhibit E-09-04 for an overview of Rights Payments.

Hydro One Transmission is proposing a modification to this account – refer to Exhibit G-01-02 for more details.

3.12 PENSION COST DIFFERENTIAL VARIANCE ACCOUNT (ACCOUNT 2405)

Pension cost differential variance accounts have been approved for both Hydro One Transmission and Hydro One Distribution. For Hydro One Transmission, this account was approved for creation in the OEB's decision on Hydro One Transmission's revenue requirement for 2007 and 2008 (EB-2006-0501). In the OEB's decision for 2020-2022 Transmission revenue requirement (EB-2019-0082), the OEB approved continuance of this account. Hydro One Transmission uses this account to track the difference between the OM&A portion of pension cost estimates based on actuarial assessments used for the Application and the actual OM&A portion of pension contributions. The balance in the account reflects these differences.

[8] Approved amount for 2021 is based on an escalation factor of 1.7% on the prior year amount. 2022 escalation factor will be finalized when the inflation rate is issued by the OEB.

The OM&A portion of the pension cost estimates approved by the OEB in the EB-2019-0082 Decision was $9.3M for 2020, and $9.5M for 2021.[9] The actual OM&A portion of pension costs was $9.6M for 2020. Actual pension costs are included in total OM&A costs (reflecting the OM&A portion) and property, plant, and equipment balances (reflecting the capitalized portion) in the audited financial statements.

As at December 31, 2020, there is a $(7.5M) balance in this variance account, inclusive of accrued interest. This account is reported to the OEB on an annual basis consistent with the OEB's Reporting and Record Keeping Requirements. Included in the balance submitted for approval is interest forecast through to December 31, 2022 to reflect carrying charges anticipated through to the proposed effective date, net of drawdowns from approved dispositions. This will result in a forecast account balance of $(4.5M) as at December 31, 2022. Refer to Exhibit E-07-01 for an overview of Pension Costs.

3.13 EXTERNAL REVENUE – PARTNERSHIP TRANSMISSION PROJECTS DEFERRAL ACCOUNT (ACCOUNT 2405)

This account was approved as part of the Settlement Proposal for 2013 and 2014 Transmission revenue requirement (EB-2012-0031) to allow Hydro One to record costs related to services provided by Hydro One to partnership opportunities, e.g. for work not directly to the benefit of Hydro One Transmission's ratepayers prior to establishing the partnership. In the OEB's decision for 2020-2022 Transmission revenue requirement (EB-2019-0082), the OEB approved continuance of this account. These costs would be invoiced to the appropriate partnered company, and current transmission revenues equal to the invoiced amount would be recorded in this account for reduction of future transmission revenue requirement.

[9] Approved amount for 2021 is based on an escalation factor of 1.7% on the prior year amount. 2022 escalation factor will be finalized when the inflation rate is issued by the OEB.

The balance in this account reflects the residual interest since the disposition of the previously approved balance in EB-2019-0082, which was related to B2M LP. These services were provided before B2M LP was an established entity and, as such, B2M LP had no ability to procure these services independently. B2M LP has subsequently paid Hydro One for the services rendered. The services and amounts paid for services, as reflected in this account, were provided and received in accordance with the Affiliate Relationship Code.

As at December 31, 2020, this deferral account has a balance of $1,856. This account is reported to the OEB on an annual basis consistent with the OEB's Reporting and Record Keeping Requirements. Approved dispositions have been reflected in the balance submitted for approval. This results in a forecast account balance of $1,875 as at December 31, 2022.

3.14 CAPITAL IN-SERVICE VARIANCE ACCOUNT (ACCOUNT 2405)

Capital in-service variance accounts have been approved for both Hydro One Transmission and Hydro One Distribution. As part of the Settlement Agreement approved by the OEB for Hydro One's 2015 and 2016 Transmission revenue requirement in EB-2014-0140, parties agreed that Hydro One Transmission would establish a net cumulative asymmetrical variance account for 2014, 2015 and 2016 to track the impact on revenue requirement of any in-service addition shortfall compared to OEB approved amounts, for disposition in a future rates application. The balance in the account reflects these differences.

In the EB-2019-0082 decision, the OEB approved continuance of this account with the following modifications:

1. For cumulative in-service additions that are 98% of the OEB-approved level or less, the associated revenue requirement impact, in excess of the 2% dead-band, will be computed and reported on an annual basis in the variance account; and
2. The calculation will exclude variances associated with in-service additions resulting from verifiable productivity gains. This will ensure that true productivity savings are incented through the term of the Custom IR application.

Hydro One also proposed that for the annual calculation, the account should consider the 2019 forecast. For example, the 2020 calculation would include 2019 and 2020 in-service additions on a cumulative basis. The OEB did not object to this proposal. Furthermore, in the Revenue Requirement and Charge Determinant Order (EB-2019-0082 July 16, 2020, page 24), the OEB panel noted that in the next rebasing (i.e. the current application) the OEB may examine if there is any impact from the COVID-19 pandemic on the CISVA to determine if it is reasonable to make any adjustments to the calculation.

The in-service additions approved by the OEB in the EB-2019-0082 Decision were $950.7M in 2019 (bridge year in the 2020-2022 Transmission application), $930.5M in 2020, $1,056.2M in 2021, and $1,262.2M in 2022. Actual in-service additions in 2019 and 2020 were $959.5M and $944.3M respectively.

As noted above, the capital in-service variance account tracks the revenue requirement of any in-service addition shortfall. As revenue requirement includes tax, any tax impacts arising from the in-service addition short-fall must also be captured in this account. In general, there is an inverse relationship whereby lower in-service additions lead to higher regulatory taxes included in revenue requirement. Lower in-service additions effectively lower the annual capital cost allowance deductions available to Hydro One, thereby increasing Hydro One’s regulatory tax expense leading to a higher revenue requirement. The balance requested for disposition includes the applicable tax impacts.

As at December 31, 2020, the variance account has a balance of $(0.4M). This account is reported to the OEB on an annual basis consistent with the OEB's Reporting and Record Keeping Requirements. Included in the balance submitted for approval is interest forecast through to December 31, 2022 to reflect carrying charges anticipated through to the proposed effective date, net of drawdowns from approved dispositions. This will result in a forecast account balance of $(3,350) as at December 31, 2022.

Hydro One Transmission is requesting a modification to this account for the 2023 to 2027 period – refer to Exhibit G-01-02 for more details.

3.15 DEPRECIATION EXPENSE (ASSET REMOVAL COSTS) ASYMMETRICAL CUMULATIVE VARIANCE ACCOUNT (ACCOUNT 2405)

In its EB-2019-0082 decision, the OEB approved the establishment of a new asymmetrical cumulative variance account to record differences between the revenue requirement associated with asset removal cost forecasts that have been included in the proposed depreciation expenses for 2020-2022 and actual asset removal costs incurred in each of the test years, including tax impacts. The balance in the account reflects these differences. The forecast asset removal costs approved by the OEB in the EB-2019-0082 Decision were $54.1M in 2020, $59.7M in 2021, and $61.5M in 2022. Actual asset removal costs in 2020 were $39.0M for the purpose of calculating a variance in this account. An additional $0.6M will be factored into the 2021 calculation to align with actual asset removal costs in 2020 of $39.6M. Actual asset removal costs are included in total depreciation, amortization, and asset removal costs in the audited financial statements.

As revenue requirement includes tax, this account should include the tax impact associated with the difference in the asset removal costs. The balance requested for disposition includes the applicable grossed up tax impacts.

As at December 31, 2020, the variance account has a balance of $(19.4M). This account is reported to the OEB on an annual basis consistent with the OEB's Reporting and Record Keeping Requirements. Although the Accounting Order indicates that the account balance shall be brought forward for disposition in a future rate application in the event that there is an over collection on a cumulative basis over the 2020 to 2022 period, Hydro One Transmission is proposing disposition of the audited 2020 balance as it is material and believes that ratepayers would benefit from this refund in a more timely manner. Included in the balance submitted for approval is interest forecast through to December 31, 2022 to reflect carrying charges

anticipated through to the proposed effective date. This will result in a forecast account balance of $(19.6M) as at December 31, 2022. Refer to Exhibit E-08-01 for an overview of Depreciation and Amortization Expenses.

4.0 TRANSMISSION ACCOUNTS NOT SOUGHT FOR DISPOSITION

4.1 EAST WEST TIE DEFERRAL TRACKING ACCOUNT (ACCOUNT 1508)

This account was approved for creation by the OEB on July 12, 2012 in Hydro One's application (EB-2012-0180) to establish a deferral account related to the East-West Tie Line designation proceeding (EB-2011-0140). In the OEB's decision for 2020-2022 Transmission revenue requirement (EB-2019-0082), the OEB approved continuance of this account.

Hydro One is permitted to track costs in the East-West Tie Deferral Account (EWTDA) that relate to the following two categories:

1. Costs incurred by Hydro One Transmission as incumbent transmitter to support the OEB through the designation process and to eventually facilitate the line's connection; and
2. Expenditures incurred relating to preliminary engineering and other station connection work required to accommodate the East West Tie line.

As at December 31, 2020, the tracking account has a balance of $130.5M. Hydro One Transmission is not requesting disposition of the balance in this account, as this is simply a tracking account meant to provide visibility on the costs associated with this project.

Hydro One Transmission is requesting discontinuance of this account in the current application. Refer to Exhibit G-01-02 for more details.

4.2 SECTR DEFERRAL TRACKING ACCOUNT (ACCOUNT 1508)

This account was approved for creation by the OEB in its decision relating to the Supply to Essex County Transmission Reinforcement (SECTR) project (EB-2013-0421). This account was

established to record all construction costs relating to the SECTR project. In the OEB's decision for 2020-2022 Transmission revenue requirement (EB-2019-0082), the OEB approved continuance of this account.

As at December 31, 2020, the tracking account has a balance of $58.9M. Hydro One Transmission is not requesting disposition of the balance in this account, as this is simply a tracking account meant to provide visibility on the costs associated with this project.

Hydro One Transmission is requesting discontinuance of this account in the current application. Refer to Exhibit G-01-02 for more details.

4.3 WAASIGAN TRANSMISSION TRACKING DEFERRAL ACCOUNT (ACCOUNT 1508)

As indicated above in Section 3.3, on December 21, 2018, Hydro One Transmission requested that the OEB change the nature of the NWBTL deferral account to a Waasigan Transmission Tracking Deferral Account, which the OEB approved on September 12, 2019 in EB-2019-0151. Development expenditures are currently recorded in CWIP with the expectation that they will be recovered in rate base. Simultaneously, Hydro One Transmission has been tracking these expenditures in this tracking account. In the OEB's decision for 2020-2022 Transmission revenue requirement (EB-2019-0082), the OEB approved continuance of this account.

As at December 31, 2020, the tracking account has a balance of $6.5M. Hydro One Transmission is not requesting disposition of the balance in this account, as this is simply a tracking account meant to provide visibility on the costs associated with this project. The accumulated account balance will be requested for disposition in the event that the tracked expenditures are not approved for recovery in rate base.

4.4 CAPITAL CONTRIBUTION RECOVERY DIFFERENTIAL ACCOUNT – BARRIE AREA TRANSMISSION UPGRADE (BATU) (ACCOUNT 1508)

This account was approved for creation by the OEB in EB-2018-0117 on April 23, 2020, with the decision on the accounting order approved on June 11, 2020. Pursuant to Hydro One's s. 92 Application for an Order granting leave to upgrade the existing transmission line facilities in the Barrie/Innisfil area of Ontario (BATU Project), Hydro One requested a new variance account to capture the difference between the interest income that Hydro One will receive at the OEB's prescribed construction work-in-progress rate (CWIP) and Hydro One Transmission's OEB-approved weighted average cost of capital (WACC) on the unpaid capital contribution from the customer. Additionally, this account includes the applicable grossed up tax impacts.

As at December 31, 2020, the variance account has a nil balance. This account is reported to the OEB on an annual basis consistent with the OEB's Reporting and Record Keeping Requirements. Hydro One Transmission is not requesting disposition of this account as no entries have been recorded as at December 31, 2020. The earliest entry into this account would be in 2022 (the anticipated in-service year), if any.

4.5 FOREGONE REVENUE DEFERRAL ACCOUNT (ACCOUNT 1508)

In light of the COVID-19 emergency, the OEB delayed the implementation of final 2020 UTRs in the 2020 UTR Decision and Order (EB-2020-0180) on July 31, 2020, and maintained the interim 2020 UTRs.

As part of the draft rate order process in EB-2019-0082, Hydro One Transmission requested, and was given approval to establish, a Foregone Transmission Revenue Deferral Account to record the differences between revenues earned with the interim UTRs for 2020, and the revenues that would have been received based on the OEB-approved 2020 UTRs. In the OEB's decision for 2021 UTRs in the EB-2020-0251 Decision on December 17, 2020, the OEB approved a two-year disposition of the accumulated 2020 foregone revenue.

As at December 31, 2020, the deferral account has a $54.9M balance. This account is reported to the OEB on an annual basis consistent with the OEB's Reporting and Record Keeping Requirements. Hydro One Transmission is not requesting disposition of this account in the current Application as the remaining balance will be recovered as part of 2022 UTRs as indicated by the OEB's decision in EB-2020-0251: "Hydro One will provide an updated foregone revenue calculation for the remaining revenue to be recovered as part of 2022 UTRs at the time of the 2022 UTR setting which will include the use of updated carrying charge rates for the 2022 foregone revenue portion".[10]

4.6 OEB COST DIFFERENTIAL VARIANCE ACCOUNT (ACCOUNT 1508)

This variance account was approved for creation based on the approved Settlement Proposal for Hydro One's 2007 and 2008 transmission rates on August 16, 2007 (EB-2006-0501). OEB cost differential variance accounts have been authorized for use by both Hydro One Transmission and Hydro One Distribution.

In the OEB's letter to the industry dated February 9, 2016 "Revisions to the Ontario Energy Board Cost Assessment Model", the OEB authorized the establishment of Account 1508 'Other Regulatory Assets', Sub-Account 'OEB Cost Assessment Variance'. For Hydro One, the OEB authorized this account to record any material differences between the annual OEB cost assessment currently approved in rates and the actual OEB cost assessment amounts charged to Hydro One Transmission that will result from the application of the new cost assessment model effective April 1, 2016.

As Hydro One Transmission rebased since this change took effect, this account was discontinued. As at December 31, 2020, there is a balance of $(92,773) inclusive of accrued interest. This account is reported to the OEB on an annual basis consistent with the OEB's Reporting and Record Keeping Requirements. The balance is forecasted to be $(5,258) which

[10] EB-2020-0251, Decision and Rate Order, pg. 6

incorporates interest forecasted through to December 31, 2022 to reflect carrying charges anticipated through to the proposed effective date, net of drawdowns from approved dispositions. Since this account is discontinued, Hydro One Transmission will not request disposition of this amount and will write off the residual interest in 2021.

4.7 COVID-19 EMERGENCY DEFERRAL ACCOUNT (ACCOUNT 1509)

In light of the uncertainties around COVID-19, the COVID-19 Emergency Deferral account was established on a generic basis through the OEB's Accounting Orders (dated March 25, 2020; August 6, 2020; and August 14, 2020) for all electricity distributors, transmitters and OPG. As at December 31, 2020, the COVID-19 Emergency Deferral Account comprises of five sub-accounts established to track incremental costs and lost revenues related to the COVID-19 pandemic. The five sub-accounts are as follows:

1. Billing and System Changes as a Result of the Emergency Order Regarding Time-of-Use Pricing;
2. Lost Revenues Arising from the COVID-19 Emergency;
3. Other Incremental Costs;
4. Foregone Revenues from Postponing Rate Implementation; and
5. Bad Debt

Hydro One Transmission only has amounts tracked in the Other Incremental Costs sub-account. Refer to the continuity schedule in Exhibit G-01-05-01 the amount currently tracked.

On June 17, 2021, the OEB issued the *Report of the Ontario Energy Board: Regulatory Treatment of Impacts Arising from the COVID-19 Emergency* (Report) which establishes guidelines for the COVID-19 Deferral Account. The OEB determined that it will adopt a means test for recovery – the means test is based on a utility's achieved regulatory return on equity (ROE) compared to its OEB-approved ROE less 300 basis points. The net amounts recorded in the Account are subject to a 50% recovery rate. The OEB will apply a separate set of rules for the costs necessary to comply with government or OEB-initiated programs aimed at providing relief to customers

which is referred to as the Exceptional Pool. Those costs are eligible for a 100% recovery rate and are subject to an approved ROE plus 300 basis points means test.

As a result of the conclusions made in the Report, the OEB indicated that the Account will be organized under the following sub-accounts for all utilities:

1. Impacts from Complying with Government/OEB-initiated Customer Relief Programs;
2. Bad Debt;
3. Capital-related Revenue Requirement Impacts; and
4. Other Costs and Savings.

Since the decision was issued in 2021, Hydro One Transmission will reflect applicable changes in the 2021 audited balances. As a result, Hydro One Transmission is currently not requesting a disposition of any amounts based on 2020 audited balances.

4.8 PENSION AND OPEB FORECAST ACCRUAL VERSUS ACTUAL CASH PAYMENT DIFFERENTIAL VARIANCE (TRACKING ACCOUNT) - ACCOUNT 1522

This variance tracking account was established on a generic basis in the OEB's Report on the Regulatory Treatment of Pension and OPEB Costs (Pension Report, EB-2015-0040) and is thereby authorized for use, separately, by both Hydro One Transmission and Hydro One Distribution. The OEB's Pension Report established the use of the accrual accounting method as the default method on which to set rates for pension and OPEB amounts in cost of service or custom incentive rate-setting applications. This variance account tracks the difference between the forecasted accrual amount in rates and actual cash payment(s) made, with an asymmetric carrying charge in favour of ratepayers applied to the differential. The effective date on this variance account is January 1, 2018.

The balance being tracked in this account is based on Hydro One's proposed methodology for calculating the OPEB asymmetrical carrying charge account. Refer to Section 3.12 above for more information.

As at December 31, 2020, the tracking account for Hydro One Transmission has a balance of $22.1M. This account is reported to the OEB on an annual basis consistent with the OEB's Reporting and Record Keeping Requirements. Hydro One Transmission is not requesting disposition of the balance in this account, as this is simply a tracking account meant to provide visibility on the difference between the forecasted accrual amount in rates and actual cash payments made.

4.9 INTEGRATED SYSTEM OPERATING CENTER (ISOC) ASYMMETRICAL VARIANCE ACCOUNT (ACCOUNT 2405)

Integrated System Operating Centre (ISOC) asymmetrical variance accounts have been approved for both Hydro One Transmission and Hydro One Distribution. The ISOC project began in 2015 and is expected to be in service in 2021, serving as Hydro One's primary operating control centre and housing multiple lines of business through the provision of dedicated control centres, an integrated data centre, and shared back office area.[11]

In its EB-2019-0082 Decision for 2020-2022 Transmission revenue requirement, the OEB established an asymmetrical variance account for the transmission portion of the ISOC on the same basis as it previously established for the distribution portion in EB-2017-0049. The asymmetrical variance account tracks the actual cost of the transmission portion of the ISOC against the forecast cost. If the revenue requirement at the actual cost is lower than the revenue requirement at the forecast cost, Hydro One Transmission will return the difference to ratepayers.

As at December 31, 2020, the account has a nil balance. This account is reported to the OEB on an annual basis consistent with the OEB's Reporting and Record Keeping Requirements. Hydro One Transmission is not requesting disposition of this account as no entries have been recorded

[11] Details of the project were previously provided in EB-2019-0082, Exhibit B-1-1, TSP Section 3.3, ISD: GP-01

as at December 31, 2020. The earliest entry into this account would be in 2021 (the in-service year) if any.

4.10 ESM DEFERRAL ACCOUNT (ACCOUNT 2435)

ESM deferral accounts have been approved for both Hydro One Transmission and Hydro One Distribution. In its EB-2019-0082 decision, the OEB approved the establishment of a new ESM deferral account for Hydro One Transmission to record 50% of earnings that exceed the approved regulatory ROE in the EB-2019-0082 Application by more than 100 basis points in any year of the three-year custom IR term. The calculation of the actual ROE uses the OEB-approved mid-year rate base for that period to avoid double counting with the amounts used in the capital in-service additions variance account. The ROE calculation is normalized for revenue impacting items such as entries recorded in the year which relate to prior years to normalize the in-year net income. The ratepayers' share of the excess earnings are grossed up for the associated tax impact.

As at December 31, 2020, the account has a nil balance. Hydro One Transmission is not requesting disposition of this account as no entries have been recorded as at December 31, 2020.

4.11 ACCOUNT 1508 – OTHER REGULATORY ASSETS, SUB-ACCOUNT MISALLOCATED FUTURE TAX SAVINGS CARRYING CHARGES

This account was approved for creation in the EB-2020-0194 proceeding on April 8, 2021. This account is used to record interest on the outstanding principal balance of the misallocated future tax savings over the approved recovery period. This account is not being requested for disposition as this account is not part of the audited 2020 balances.

5.0 DISTRIBUTION ACCOUNTS SOUGHT FOR DISPOSITION

In 2021, Hydro One will be submitting annual applications for 2022 rates in respect of both Hydro One Distribution and the Acquired Utilities. For timing and other reasons, as set out

below, Hydro One does not intend to seek disposition in those 2022 rate applications of Hydro One Distribution's Group 1 accounts or the Acquired Utilities' Group 1 accounts. Hydro One will, however, request disposition of the Group 2 accounts for the Acquired Utilities in the 2022 application based on 2020 audited balances.

In the current Application, Hydro One Distribution's Group 1 regulatory account balances at the time of filing reflect the 2020 balances of Hydro One Distribution, including the Acquired Utilities. Hydro One Distribution is requesting disposition of its Group 1 account balances, inclusive of amounts relating to the Acquired Utilities, in this proceeding.

In the current Application, Hydro One Distribution's Group 2 regulatory account balances at the time of filing reflect the 2020 balances of Hydro One Distribution, but do not include the Acquired Utilities (which as noted are going to be requested for disposition as part of their 2022 rates). Hydro One Distribution is requesting disposition of its Group 2 account balances in this proceeding.

All of the Group 1 and Group 2 balances for which disposition is being requested by Hydro One Distribution in this Application will be updated to reflect 2021 actuals for Hydro One Distribution, including the Acquired Utilities once they become available.

The reasons for this approach are as follows:

1. This is the first rate application for both Hydro One Distribution and the Acquired Utilities, which introduces the opportunity to dispose of the Group 1 regulatory balances on a consolidated basis without the need to perform an allocation between Hydro One Distribution and the Acquired Utilities. Furthermore, as the current Application is being filed before the 2022 rate applications for Hydro One Distribution and the Acquired Utilities, it is more efficient to review and consider the disposition of

the Group 1 balances in this proceeding at the same time along with the proposed dispositions for Hydro One Transmission.

2. Hydro One intends to update its Application for audited 2021 balances during the course of this proceeding. The Group 1 balances for the Acquired Utilities, when combined with Hydro One Distribution, could continue to result in a material credit balance as the fluctuations in the RSVAs are mainly driven by commodity prices and IESO published GA price changes. It is more prudent to request disposition of the consolidated Group 1 balances during this joint rate application in order to mitigate volatility impacts to ratepayers. Furthermore, in the event that Group 1 balances change based on 2021 audited transactions from a credit balance to a debit balance or a smaller credit balance, the combined disposition based on 2020 and 2021 audited balances would result in less volatility to rate payers.
3. As Hydro One receives one consolidated invoice for the settlement of commodity, bulk transmission and wholesale settlement costs for all service territories, it is no longer necessary to undertake an allocation of Group 1 balances for Acquired Utilities, which will be fully integrated with Hydro One Distribution by 2023.

5.1 GROUP 1 - SMART METER ENTITY (SME) CHARGE VARIANCE ACCOUNT (ACCOUNT 1551)

This variance account was established pursuant to the OEB's decision issued March 28, 2013 (EB-2012-0100/EB-2012-0211). The account is used to track the difference between the monthly settlement invoice received from the IESO, and the amount billed to the distributor's customers for the SME charge. As a result of the aforementioned Decision, the SME charge to be levied and collected by licensed electricity distributors from Residential and General Service <50 kW customers was $0.79 per month, effective May 1, 2013 to October 31, 2018.

A letter was issued from the OEB on March 23, 2018 to all licensed electricity distributors indicating that they expect them to continue using the smart meter entity charge variance account to record the difference between the smart metering charge paid to the Smart

Metering Entity (effectively, the IESO) and amounts charged to customers. Hydro One confirms that it is following the accounting guidance with respect to changes to the Smart Metering Entity Charge set out in the OEB's March 23, 2018 letter. As a result of the Smart Meter Entity Decision approving the SME charges for 2018-2022 in EB-2017-0290 on March 28, 2018, this charge was updated to $0.57 per month, effective January 1, 2018 to December 31, 2022.

In the application for 2018-2022 distribution rates in EB-2017-0049, the OEB approved continuance of this account. As at December 31, 2020, this variance account has a balance of $(2.4M), inclusive of accrued interest. The 2019 audited balances were disposed of in Hydro One Distribution's 2021 Annual Update (EB-2020-0030). This account is reported to the OEB on an annual basis consistent with the OEB's Reporting and Record Keeping Requirements. Included in the balance submitted for approval is interest forecast through to the proposed effective date of December 31, 2022 and is net of approved dispositions during 2021. This will result in a forecast account balance of $(0.2M) as at December 31, 2022.

5.2 GROUP 1 - RETAIL SETTLEMENT VARIANCE ACCOUNT (RSVA)

The RSVAs have been established pursuant to Article 490 of the Accounting Procedures Handbook, which requires all distributors to establish such accounts to record the differences between the amounts owed to the IESO/host distributors and the amount billed to customers and retailers. The RSVAs were most recently approved for continuance by the OEB in EB-2017-0049. The 2019 audited balances were last disposed of in Hydro One Distribution's 2021 Annual Update (EB-2020-0030). The RSVA accounts are comprised of: 1550 (Low Voltage Variance Account), 1580 (RSVA – Wholesale Market Service Charge), 1584 (RSVA – Retail Transmission Network Charge), 1586 (RSVA – Retail Transmission Connection Charge), 1588 (RSVA – Power) and 1589 (RSVA – GA).

In April 2015, as documented in the OEB's letter entitled 'Accounting Guidance on Capacity Based Recovery', the IESO established a transitional initiative entitled Capacity Based Demand Response to recover the costs of the demand response market program through uplift charges

under charge types 1350 and 1351. Hydro One has followed the OEB's accounting guidance on the disposition of the CBR variances.

As per Section 2.9 of the OEB's Chapter 2 Filing Requirements for Electricity Distribution Rate Applications, a reconciliation of energy sales and cost of power expense year-end balances for 2020 is provided in Table 6. Hydro One Distribution matches the energy sales and the cost of power, with the difference between the two values going to the variance accounts. However for USofA reporting, the higher of energy sales or cost of power is reduced to match the other, with the difference going to the variance account. The two methods result in the same variance account balance, and the same energy sales net of cost of power, as shown below.

Table 6 - 2020 Energy Sales and Cost of Power Costs ($M)[12]

Description	Audited 2020 Financial Statements	USofA Reporting	Delta
Cost of Power Revenue (Energy Sales)			
Commodity	2,339.3	2,339.3	-
Global Adjustment (GA)	876.1	876.1	-
Billed – Wholesale Market Service Charge (WMSC)	84.5	84.5	-
Billed – Networks	265.8	265.8	-
Billed – Connection	218.6	218.6	-
Billed – Low Voltage	2.5	0.4	2.0
Total	**$3,786.7**	**$3,784.7**	**$2.0**
Cost of Power Costs			
Commodity	2,339.3	2,339.3	-
Global Adjustment (GA)	876.1	876.1	-
Billed – WMSC	84.5	84.5	-
Billed – Networks	265.8	265.8	-
Billed – Connection	218.6	218.6	-
Billed – Low Voltage	2.5	0.4	2.0
Total	**$3,786.7**	**$3,784.7**	**$2.0**

The delta in Table 6 above captures the difference between Hydro One's reporting requirements for external financial statements (which is to adjust the cost of power sales to match the cost of power costs) versus the USofA methodology (which is to adjust the higher of the cost of power sales or cost of power costs). A delta exists for the low voltage account because the low voltage cost was higher than the sales; therefore, under the USofA methodology, the cost of power cost was adjusted for. For all other accounts, the sales were higher than the cost; therefore, the results were the same under both methods.

[12] Note that rounded numbers presented in charts may not add to the total due to rounding.

Furthermore, as was previously required by Section 2.9.5.1 of the Chapter 2 Filing Requirements for Electricity Distribution Rate Applications,[13] a distributor must also provide support for its Global Adjustment (GA) claims with a description of its settlement process with the IESO. These requirements are addressed below. Hydro One confirms that there has been no change in the settlement process since EB-2017-0049.

As at December 31, 2020, there is a balance of $(91.9M) in the variance account, inclusive of accrued interest. This account is reported to the OEB on an annual basis consistent with the OEB's Reporting and Record Keeping Requirements. Included in the balance submitted for approval is interest forecast through to December 31, 2022 to reflect carrying charges anticipated through to the proposed effective date, net of approved dispositions during 2021. This will result in a forecast account balance of $(69.3M) as at December 31, 2022.

5.2.1 Method of Global Adjustment Invoicing

Hydro One Distribution uses the customer specific pre-defined Peak Demand Factor applied to the IESO invoiced Class A GA amount to invoice all Class A customers. Hydro One Distribution uses the first estimate of the GA rate published by the IESO to invoice all applicable Class B customers who pay the Hourly Ontario Energy Price (also referred to as the Spot or Market Price) or customers who have signed a retail contract. Hydro One Distribution uses the actual GA rate published by the IESO to invoice all applicable Class B embedded distributors paying the Spot price.

5.2.2 Method of Settlement with the IESO

The monthly IESO settlement is completed by the fourth business day after the month end. This entails settling two amounts associated with customers: (1) the difference between Regulated Price Plan (RPP) pricing and Spot price for the actual invoices created during each fiscal month;

[13] Chapter 2 Filing Requirements for Electricity Distribution Rate Applications, 2017 Edition for 2018 Rate Applications dated July 20, 2017

and (2) the RPP Invoiced Consumption at actual GA rate. This is done for both 2-tiered rate and time-of-use rate customers. All settlement amounts are calculated automatically by the billing system which pairs the RPP customer consumption with the Spot price for each invoice.

Hydro One Distribution uses the second estimate of GA rate published by IESO to calculate RPP GA settlement amount associated with the RPP consumption during the current fiscal month. As the actual GA rate is not available until six business days after the IESO declaration, the true-up is then calculated by using the actual GA rate and declared to the IESO in the following month.

The monthly IESO settlements also include the embedded generation declaration for the difference between the rate paid to regulated and contracted generators and Spot price. On a monthly basis, embedded distributors calculate their own RPP and generation settlement amounts and declare to the IESO through Hydro One Distribution. As a host distributor, Hydro One Distribution settles with the IESO on behalf of embedded distributors and treats it as pass through costs, in the monthly IESO settlement declaration.

5.2.3 Accounting Accrual Process

The determination of customer invoicing is based on a systematic reading of meters throughout the month for all customers. Hydro One Distribution serves appropriately 1.4M customers across the province. As such, there are many meter reading schedules that do not coincide with the fiscal month end. At the end of each month, the customer consumption since the date of the last meter reading is estimated based on a standard SAP functionality. As a result, corresponding unbilled commodity revenue and GA revenue are recorded for accounting accrual purposes. Estimates are reversed in the following month and actual revenue is recorded based on the subsequent meter readings. The IESO settlement amounts discussed above are also estimated based on unbilled consumption for accounting accrual purposes. These accrual amounts are not included in the monthly IESO declaration. Only the settlement amounts based on the actual invoices are declared to the IESO.

5.2.4 Accounting Treatment for Global Adjustment

Hydro One Distribution allocates the Class B GA charge on the IESO invoices into RPP and non-RPP portions and incorporates these portions into accounts 1588 and 1589 respectively, by using the GA charge reported on the RPP settlement with the IESO.

5.2.5 February 21, 2019 OEB Accounting Guidance for Accounts 1588 – RSVA Power and 1589 – RSVA Global Adjustment

On February 21, 2019, OEB staff issued a new Accounting Guidance related to Accounts 1588 Power, and 1589 RSVA Global Adjustment (Accounting Guidance). The Accounting Guidance was effective January 1, 2019 and OEB staff proposed that it be implemented by August 31, 2019.

During that time, Hydro One Networks' RPP Settlement process was subject to an OEB inspection. On March 4, 2019, the OEB issued the results of its audit of Hydro One's RPP settlement process for Group 1 DVAs.[14] The OEB's inspection report concluded, among other things, that Hydro One Networks' RPP settlement process complied with the current regulatory requirements.

In the 2021 Annual Update proceeding (EB-2020-0030), Hydro One submitted that it would be able to implement the Accounting Guidance on a prospective basis, once significant modifications to its current information technology framework were complete. As OEB staff had also intended to conduct a Phase 2 consultation which may identify further procedures and data sets to be used in the new settlement methodology, Hydro One proposed to implement modifications to its Information Technology (IT) framework after the Phase 2 consultation (to avoid subsequent and potentially costly re-works of the modified IT framework) and to implement the Accounting Guidance in a modified manner.[15]

[14] "Inspection of the Compliance of the RPP Settlement Process and Assessment of the DVA Allocation Methodology for the Acquired Utilities in 2015 and 2016", March 4, 2019
[15] EB-2020-0030, Hydro One's Reply Submission, November 24, 2020

In the EB-2020-0030 Decision, the OEB approved Hydro One's proposal to adopt the new Accounting Guidance in a modified manner until the OEB otherwise directs Hydro One. The OEB agreed with Hydro One that changes to its current IT framework at this time, to implement the new Accounting Guidance, could be costly and can only be applied on a prospective basis.[16] Furthermore, the OEB accepted Hydro One Distribution's request to dispose of its 2015-2019 Group 1 deferral and variance accounts on a final basis.

In the current Application, Hydro One confirms that it implemented the new Accounting Guidance in a modified manner since January 1, 2021 on a prospective basis. Hydro One confirms it has not made adjustments to 2015-2019 account balances that were previously approved by the OEB on a final basis. As a result, Hydro One has requested final disposition of the regulatory accounts for Transmission and Distribution as it believes its settlement and related accounting processes are sound. The accounts requested for disposition are detailed in Exhibit G-01-03.

5.3 GROUP 1 - ACCOUNT 1595 (2018) BALANCE – NORFOLK AND WOODSTOCK

The Account 1595 (2018) balances for Norfolk and Woodstock reflect the residual balances to be brought forward for disposition in the 2023 application based on the OEB approved dispositions for the balances as at December 31, 2018 in the EB-2017-0050 decision. As these were May 1, 2018 riders whose sunset date was April 30, 2019, the 2023 rate year is the first year in which the balance is eligible for disposition.[17]

As at December 31, 2020, there is a balance of $(79,079) in the rider account (on a combined basis), inclusive of accrued interest. This account is reported to the OEB on an annual basis consistent with the OEB's Reporting and Record Keeping Requirements. Included in the balance

[16] EB-2020-0030, Decision and Rate Order, December 17, 2020, p. 17
[17] As per the Chapter 3 Filing Requirements for Electricity Distribution Rate Applications, distributors only become eligible to seek disposition of residual balances in Account 1595 two years after the expiry of the rate rider (i.e. the fourth year after the year the rate rider expires).

submitted for approval is interest forecast through to December 31, 2022 to reflect carrying charges anticipated through to the proposed effective date. This will result in a forecast account balance of $(81,318) as at December 31, 2022.

5.4 GROUP 2 - OEB COST DIFFERENTIAL VARIANCE ACCOUNT (ACCOUNT 1508)

OEB cost differential variance accounts have been approved for both Hydro One Transmission and Hydro One Distribution. For Hydro One Distribution, this account was approved for creation in the OEB's decision for 2010 and 2011 distribution rates (EB-2009-0096). In the OEB's letter to the industry dated February 9, 2016, entitled "Revisions to the Ontario Energy OEB Cost Assessment Model", the OEB authorized the establishment of Account 1508 'Other Regulatory Assets', Sub-Account 'OEB Cost Assessment Variance'. The OEB authorized this account to record any material differences between the annual OEB cost assessment currently approved in rates and the actual OEB cost assessment amounts charged to Hydro One Distribution that would result from the application of the new cost assessment model effective April 1, 2016.

As Hydro One Distribution rebased once this change was made, the account was discontinued starting in 2018 test year. The balance in this account reflects the remaining audited 2017 OEB Cost Differential amount, since the disposition of the previously approved balance in EB-2017-0049, were based on audited 2016 balances.

As at December 31, 2020, there is a balance of $(2.5M) in the variance account, inclusive of accrued interest. This account is reported to the OEB on an annual basis consistent with the OEB's Reporting and Record Keeping Requirements. Included in the balance submitted for approval is interest forecast through to the proposed effective date of December 31, 2022. This will result in a forecast account balance of $(2.5M) as at December 31, 2022.

5.5 GROUP 2 - LONG TERM LOAD TRANSFER (LTLT) RATE IMPACT MITIGATION DEFERRAL ACCOUNT (ACCOUNT 1508)

The LTLT Rate Impact Mitigation Deferral Account was approved to be established in the joint application for the elimination of load transfer arrangements between Hydro One Networks Inc. and Hydro Ottawa Limited on August 18, 2016 (EB-2016-0167). In the OEB's decision for 2018-2022 distribution rates in EB-2017-0049, the OEB approved the continuance of this account.

In the EB-2016-0167 decision, the OEB approved the elimination of the load transfer arrangements between the two distributors consistent with the OEB's LTLT policy as documented in the amended Distribution System Code (DSC) dated December 21, 2015. The OEB also recognized that the affected Residential and General Service rate class customers moving from Hydro Ottawa to Hydro One shall receive a monthly bill credit to offset the increase in delivery charges, as prescribed in section 6.5.4 of the DSC. This deferral account continues to be used to record the lost revenue resulting from the rate impact mitigation plans for various affected customer rate classes across dozens of LTLT elimination applications with neighbouring LDCs where customers are moving to Hydro One in accordance with the amended DSC. Most recently, this account is also being used for impacted Niagara Peninsula Energy Inc.'s customers (EB-2019-0298).

As at December 31, 2020, there is a balance of $0.8M in the deferral account, inclusive of accrued interest. In accordance with the Ontario Energy Board's direction provided in the Amendments to the Distribution System Code (EB-2015-0006), any customers moving from their previous geographic distributor to Hydro One Networks (the Former LTLT Customer) will receive a monthly bill credit to offset the increase in delivery charges the Former LTLT Customer will pay due to the LTLT elimination. The credit is calculated using the Former LTLT Customer's average monthly consumption over the most recent 12 months at the time the LTLT elimination application was filed with the OEB. The credit, once approved by the OEB, is fixed at the calculated level and remains in place as long as the Former LTLT Customer remains the account holder. The balance in this account is the sum of the OEB-approved monthly LTLT credits that

have been applied up until December 31, 2020 in order to satisfy the OEB requirements to eliminate all LTLTs with dozens of other utilities across the province as outlined in the DSC and directed in EB-2015-0006.

This account is reported to the OEB on an annual basis consistent with the OEB's Reporting and Record Keeping Requirements. Included in the balance submitted for approval is interest forecast through to December 31, 2022 to reflect carrying charges anticipated through to the proposed effective date. This will result in a forecast balance of $0.8M as at December 31, 2022.

5.6 GROUP 2 - BILL IMPACT MITIGATION VARIANCE ACCOUNT (ACCOUNT 1508)

The bill impact mitigation variance account was approved for creation in the decision for 2009-2010 distribution rates (EB-2009-0096) to record any revenue forgone and incremental costs associated with implementing any additional mitigation measures that might be required, as a result of completing the rate harmonization process.

As part of Hydro One's application for 2015-2019 distribution rates (EB-2013-0416), Hydro One Distribution requested to use the Bill Impact Mitigation Variance Account to mitigate the adverse total impacts for specific customers affected by the rate class review. In that decision, the OEB determined that those rate classes which experienced a bill impact in excess of 10% would qualify for rate mitigation. The costs of mitigation and related implementation costs for these customers were approved to be tracked in this account. The account was discontinued as per the EB-2017-0049 Decision. The principal balance in this account pertains to credits realized in 2017, as the last approved balance for disposition was based on the audited 2016 balance.

As at December 31, 2020, there is a balance of $5,053 in the variance account, inclusive of accrued interest. This account is reported to the OEB on an annual basis consistent with the OEB's Reporting and Record Keeping Requirements. Included in the balance submitted for approval is interest forecast through to December 31, 2022 to reflect carrying charges

anticipated through to the proposed effective date. This will result in a forecast balance of $5,039 as at December 31, 2022.

5.7 GROUP 2 - CUSTOMER CHOICE INITIATIVE DEFERRAL ACCOUNT (ACCOUNT 1508)

On September 16, 2020, the OEB issued an accounting order for the establishment of a deferral account to record impacts arising from implementing the Customer Choice Initiative, which enables electricity consumers on the Regulated Price Plan to opt out of time-of-use prices and to elect instead to be charged on the basis of tiered pricing. In this account, electricity distributors may record incremental costs directly attributable to the customer choice initiative.

As at December 31, 2020, there is a balance of $0.8M in the deferral account, inclusive of accrued interest. This account is reported to the OEB on an annual basis consistent with the OEB's Reporting and Record Keeping Requirements. Included in the balance submitted for approval is interest forecast through to the proposed effective date of December 31, 2022. This will result in a forecast balance of $0.9M as at December 31, 2022.

5.8 GROUP 2 - OPEB COST DEFERRAL ACCOUNT (ACCOUNT 1508)

OPEB cost deferral accounts have been approved for both Hydro One Transmission and Hydro One Distribution. In its EB-2019-0082 Transmission Decision, the OEB concluded that the non-service cost component of Hydro One's OPEB costs shall be recognized as OM&A for both its Transmission and Distribution businesses. However, since that Decision was made outside of a rebasing application for Hydro One Distribution, the OEB recognized that Hydro One Distribution may need to continue accumulating the impacted OPEB costs in the OPEB cost deferral account until its next rebasing application. The balance requested for disposition includes the applicable grossed up tax impacts.

As at December 31, 2020, there is a balance of $68.3M in the deferral account, inclusive of the tax-gross up and accrued interest. The principal additions reflect the actual non-service cost component of OPEBs that would have otherwise been capitalized in the absence of ASU 2017-

07. This account is reported to the OEB on an annual basis consistent with the OEB's Reporting and Record Keeping Requirements. Included in the balance submitted for approval is interest forecast through to December 31, 2022 to reflect carrying charges anticipated through to the proposed effective date. This will result in a forecast balance of $69.1M as at December 31, 2022.

Refer to Exhibit E-07-01 for an overview of OPEB Costs.

5.9 GROUP 2 - SMART GRID FUND (SGF) PILOT DEFERRAL ACCOUNT (ACCOUNT 1508)

The SGF Pilot Deferral Account was established consistent with the OEB's direction in the Decision issued September 23, 2016 for EB-2016-0201. In the EB-2017-0049 Decision, the OEB approved continuance of this account.

In EB-2016-0201, the OEB approved the establishment of a deferral account for costs associated with extending the existing SGF Pilot. The OEB required that Hydro One not record more than $1.0M in the account, and limited the time period for cost recording from October 1, 2016 to April 30, 2017. Through a Decision and Order dated November 17, 2016, the OEB established the Accounting Order for the deferral account. The OEB has twice (through Orders dated April 27, 2017 and July 28, 2017) granted Hydro One Distribution an extension of the time period for the account and increased the amount that may be recorded. In light of this, on September 28, 2017, the termination date and upper limit for recording costs imposed on this account were removed.

As at December 31, 2020, there is a balance of $2.3M in the deferral account, inclusive of accrued interest. This balance is comprised of costs associated with the pilot design. This account is reported to the OEB on an annual basis consistent with the OEB's Reporting and Record Keeping Requirements. Included in the balance submitted for approval is interest forecast through to December 31, 2022 to reflect carrying charges anticipated through to the proposed effective date. This will result in a forecast balance of $2.3M as at December 31, 2022.

5.10 GROUP 2 - RETAIL COST VARIANCE ACCOUNTS (RCVAS) – ACCOUNTS 1518 AND 1548

As a result of the deregulated electricity market, Hydro One has provided retail services to customers and recovers certain retail service costs. Hydro One Distribution has established two RCVAs to capture the differences between the revenues collected, based on OEB-approved rates, and the actual incremental costs of providing the related services. The methodology underlying the operation of these variance accounts is provided in the Accounting Procedures Handbook – Article 490, and has been followed in determining the RCVA balances.

In the February 14, 2019 EB-2015-0304 Decision and Order, the OEB set out its expectation at Section 3.2 that "electricity distributors that currently record revenues and expenses associated with the RCVAs are expected to continue to do so until their next rebasing application. At rebasing, the balances will be disposed of and the RCVAs will be eliminated."

As at December 31, 2020, there is a balance of $0.8M in the variance account, inclusive of accrued interest. This account is reported to the OEB on an annual basis consistent with the OEB's Reporting and Record Keeping Requirements. Included in the balance submitted for approval is interest forecast through to December 31, 2022 to reflect carrying charges anticipated through to the proposed effective date. This will result in a forecast balance of $0.8M as at December 31, 2022.

Hydro One has provided a schedule identifying all revenues and expenses listed by USoA account that are incorporated into the variances recorded in Accounts 1518 and 1548 in Table 7 below.

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Table 7 - RCVA Balance

	RCVA - Retail				RCVA - STR				Total RCVA		
	RCVA Retail Revenue	RCVA Retail Cost	Variance ($)	RCVA Retail - Interest	RCVA - STR Revenue	RCVA-STR Cost	Variance ($)	RCVA-STR - Interest	Principle ($)	Interest ($)	TOTAL ($)
	A	B	A + B = C	X	D	E	D + E = F	Y	C + F	X + Y	
Year-end balance: 2016 HONI Distribution	**(2,031,313)**	**2,151,782**	**120,470**	**4,860**	**(50,014)**	**543,835**	**493,821**	**7,165**	**614,291**	**12,025**	**626,316**
LTD 2016 Norfolk	(118,674)	21,268	(97,405)	(3,809)	100,053	9,993	110,046	3,637	12,641	(172)	12,469
LTD 2016 Haldimand	308,055	3,358	311,413	7,050	6,724	1,983	8,707	178	320,120	7,228	327,348
LTD 2016 Woodstock	(4,585)	5,735	1,149	19	(89)	3,387	3,297	43	4,446	62	4,508
2017 Transactions (Distribution + Norfolk + Halidmand + Woodstock)	(551,542)	743,671	192,129	5,313	(11,007)	401,399	390,392	10,088	582,521	15,400	597,921
Year-end balance: 2017 HONI Distribution	**(2,552,599)**	**2,854,658**	**302,059**	**9,881**	**(60,417)**	**923,215**	**862,798**	**16,700**	**1,164,857**	**26,580**	**1,191,437**
LTD 2017 Norfolk	(129,101)	35,327	(93,773)	(3,709)	99,844	17,582	117,426	3,828	23,653	119	23,773
LTD 2017 Haldimand	298,186	16,665	314,851	7,145	6,527	9,166	15,693	359	330,544	7,503	338,048
LTD 2017 Woodstock	(14,544)	19,162	4,618	115	(288)	10,634	10,346	225	14,965	340	15,305
2018 Transactions (Distribution + Norfolk + Halidmand + Woodstock)	(471,300)	512,707	41,407	10,549	(7,365)	292,751	285,386	21,626	326,793	32,175	358,968
Year-end balance: 2018 HONI Distribution	**(2,997,992)**	**3,339,182**	**341,190**	**19,850**	**(67,377)**	**1,199,873**	**1,132,496**	**37,137**	**1,473,686**	**56,987**	**1,530,673**
LTD 2018 Norfolk	(138,131)	45,152	(92,980)	(3,507)	99,703	23,192	122,895	4,242	29,915	736	30,651
LTD 2018 Haldimand	287,998	27,749	315,746	7,373	6,368	15,494	21,862	826	337,609	8,199	345,808
LTD 2018 Woodstock	(21,233)	26,438	5,206	264	(393)	14,789	14,396	532	19,602	797	20,399
2019 Transactions (Distribution + Norfolk + Halidmand + Woodstock)	1,331,568	(1,678,241)	(346,673)	(489)	22,282	(324,897)	(302,615)	(191)	(649,288)	(680)	(649,968)

	RCVA - Retail				RCVA - STR				Total RCVA		
	RCVA Retail Revenue	RCVA Retail Cost	Variance ($)	RCVA Retail - Interest	RCVA - STR Revenue	RCVA-STR Cost	Variance ($)	RCVA-STR - Interest	Principle ($)	Interest ($)	TOTAL ($)
	A	B	A + B = C	X	D	E	D + E = F	Y	C + F	X + Y	
Year-end balance: 2019 HONI Dx	**(1,740,889)**	**1,754,794**	**13,904**	**19,388**	**(46,341)**	**893,145**	**846,804**	**36,956**	**860,708**	**56,344**	**917,053**
LTD 2019 Norfolk	(111,155)	11,152	(100,003)	(3,516)	100,155	16,609	116,764	4,239	16,761	722	17,483
LTD 2019 Haldimand	317,495	(9,428)	308,067	7,362	6,861	8,297	15,159	822	323,225	8,184	331,409
LTD 2019 Woodstock	(3,241)	3,762	522	258	(91)	10,399	10,308	530	10,829	787	11,617
2020 Transactions (Distribution + Norfolk + Haldimand + Woodstock)	(800,732)	507,437	(293,295)	1,592	(33,429)	229,985	196,555	14,372	(96,740)	15,963	(80,776)
Year-end balance: 2020 HONI Distribution	**(2,497,375)**	**2,234,191**	**(263,184)**	**20,892**	**(77,923)**	**1,110,421**	**1,032,498**	**50,534**	**769,314**	**71,426**	**840,740**
LTD 2020 Norfolk	(127,163)	21,296	(105,866)	(3,485)	99,486	21,207	120,694	4,526	14,827	1,041	15,868
LTD 2020 Haldimand	299,610	1,906	301,516	7,397	6,115	13,434	19,549	1,143	321,065	8,540	329,605
LTD 2020 Woodstock	(13,595)	10,324	(3,271)	278	(524)	13,373	12,849	715	9,578	994	10,572
Forecasted interest from Jan 1, 2021 to Dec. 2022: HONI Distribution											**8,770**
Forecasted interest from Jan 1, 2021 to Dec. 2022: Norfolk											169
Forecasted interest from Jan 1, 2021 to Dec. 2022: Haldimand											3,660
Forecasted interest from Jan 1, 2021 to Dec. 2022: Woodstock											109
Balance as at Jan 1, 2023: HONI Distribution											**849,510**
Balance as at Jan 1, 2023: Norfolk											16,037
Balance as at Jan 1, 2023: Haldimand											333,265
Balance as at Jan 1, 2023: Woodstock											10,681

5.11 GROUP 2 - OPEB ASYMMETRICAL CARRYING CHARGE ACCOUNT (ACCOUNT 1522)

OPEB asymmetrical carrying charge accounts have been approved for both Hydro One Transmission and Hydro One Distribution. Hydro One Distribution calculated the reference amount using a proposed modified approach as further outlined in Exhibit G-01-02. As at December 31, 2020, the balance in this account is $(1.5M). This balance, which represents the interest attracted on the Pension and OPEB Forecast Accrual Versus Actual Cash Payment Differential Variance Account, is being proposed for disposition. The balance in this account is reported to the OEB on an annual basis, consistent with the OEB's Reporting and Record Keeping Requirements.

Refer to Exhibit G-01-02 for a detailed description of the modified method of calculation that is proposed.

5.12 GROUP 2 - PENSION COST DIFFERENTIAL VARIANCE ACCOUNT (ACCOUNT 2405)

Pension Cost Differential variance accounts have been approved for both Hydro One Transmission and Hydro One Distribution. For Hydro One Distribution, this account was approved for creation in the OEB's decision for 2010 and 2011 distribution rates (EB-2009-0096). In the OEB's decision for 2018-2022 distribution rates (EB-2017-0049), the OEB approved continuance of this account. This account tracks the difference between the OM&A portion of pension cost estimates based on actuarial assessments used in the approved revenue requirement and the actual OM&A portion of pension contributions. The balance in the account reflects these differences.

The OM&A portion of pension cost estimates approved by the OEB in the EB-2017-0049 Decision was $17.5M for 2020,[18] and $17.8M for 2021.[19] The actual OM&A portion of pension costs were $16.2M for 2020. Actual pension costs are included in total OM&A costs (reflecting the OM&A portion) and property, plant, and equipment balances (reflecting the capitalized portion) in the audited financial statements.

As at December 31, 2020, there is a balance of $(23.7M) in the deferral account, inclusive of accrued interest. This account is reported to the OEB on an annual basis consistent with the OEB's Reporting and Record Keeping Requirements. Included in the balance submitted for approval is interest forecast through to December 31, 2022 to reflect carrying charges anticipated through to the proposed effective date. This will result in a forecast balance of $(23.9M) as at December 31, 2022.

5.13 GROUP 2 - ESM DEFERRAL ACCOUNT (ACCOUNT 2435)

ESM deferral accounts have been approved for both Hydro One Transmission and Hydro One Distribution. For Hydro One Distribution, in its EB-2017-0049 Decision, the OEB approved establishment of a new ESM deferral account to record 50% of earnings that exceed the approved regulatory ROE by more than 100 basis points in any year of the custom IR term. The calculation of the actual ROE uses the OEB-approved mid-year rate base for that period to avoid double counting with amounts used in the capital in-service additions variance account. The ROE calculation is normalized for revenue impacting items such as entries recorded in the year which relate to prior years to normalize the in-year net income. The ratepayers' share of the excess earnings are grossed up for the associated tax impact.

[18] Approved amount for 2020 is based on an escalation factor of 1.55% on the prior year amount requested for in the EB-2017-0049 Application.
[19] Approved amount for 2021 is based on an escalation factor of 1.75% on the prior year amount. 2022 escalation factor will be finalized when the inflation rate has been approved by the OEB.

In the 2021 Hydro One Distribution Annual Update Application, the audited December 31, 2019 balance of $21.7M (reflecting 2018 and 2019 ESM amounts and forecast interest for 2020) was approved for disposition on an interim basis. In the OEB's decision for the 2021 Annual Update Application, the OEB indicated that a final review of the ESM account balances would take place as part of Hydro One's next rebasing application.

As at December 31, 2020, there is a balance of $(36.6M) in the deferral account, inclusive of accrued interest. This account is reported to the OEB on an annual basis consistent with the OEB's Reporting and Record Keeping Requirements. Included in the balance submitted for approval is interest forecast through to December 31, 2022 to reflect carrying charges anticipated through to the proposed effective date, net of approved dispositions during 2021. This will result in a forecast balance of $(15.2M) as at December 31, 2022.

The over-earnings for 2020 were primarily due to higher revenues from higher than anticipated loads, and lower asset removal costs. Table 8 below provides a summary of the calculations for 2018 to 2020 ESM.

Table 8 - ESM Calculation

Hydro One Distribution				
		2018	**2019**	**2020**
Mid-Year Rate base (OEB approved)	**A**	$7,636.9	$7,894.1	8,171.1
Capital Structure:				
Long-term debt	**B**	56%	56%	56%
Short-term debt	**C**	4%	4%	4%
Common equity	**D**	40%	40%	40%
Allowed Return:				
Long-term debt	**E**	4.47%	4.47%	4.47%
Short-term debt	**F**	2.29%	2.29%	2.29%
Allowed ROE	**G**	9%	9%	9%
Regulated Net Income (actual)	**H**	$307.3	$345.5	$348.9
Achieved ROE	**I = H / (A x D)**	10.06%	10.94%	10.67%
Allowed ROE	**J**	9%	9%	9%
Over/(Under) earning (%)	**K = H - J**	1.06%	1.94%	1.67%
OEB allowed earnings threshold	**L**	1%	1%	1%
Over/(Under) earning to allowed threshold (%)	**M = K - L**	0.06%	0.94%	0.67%
Excess Earnings Pool	**N = A x D x M**	**$1.8**	**$29.7**	**$21.9**
Sharing with ratepayers	**O**	50%	50%	50%
Sharing with ratepayers	**P = N x O**	$0.9	$14.9	$11.0
Tax Grossed-Up Amount[20]	**Q = P / 0.735**	**$1.2**	**$20.2**	**$14.9**

5.14 GROUP 2 - TAX RATE CHANGES VARIANCE ACCOUNT (ACCOUNT 1592)

Tax rate changes variance accounts have been approved for both Hydro One Transmission and Hydro One Distribution. For Hydro One Distribution, this variance account was approved for creation in Hydro One Distribution's 2006 distribution rates proceeding (RP-2005-0020/EB-2005-0378). In the OEB's decision for 2018-2022 distribution rates (EB-2017-0049), the OEB approved continuance of this account. The variance account captures the tax impact to Hydro One Distribution due to:

- differences that result from a legislative or regulatory change to the tax rates or rules; and

[20] Includes the tax gross-up, being the incremental tax benefit to shareholders as a result of returning excess earnings. The tax gross up (Q = P/.735) serves to return these incremental tax benefits to ratepayers.

- differences that result from a change in, or a disclosure of, a new assessment or administrative policy that is published in the public tax administration or interpretation bulletins by relevant federal or provincial tax authorities.

The sub-account for CCA changes described in Section 3.7.1 above exists for Hydro One Distribution as well.

As at December 31, 2020, Hydro One Distribution has a balance of $(48.4M), inclusive of accrued interest, in the Tax Rate Changes Variance Account, which includes the CCA Changes sub-account. This account is reported to the OEB on an annual basis consistent with the OEB's Reporting and Record Keeping Requirements. The majority of this balance pertains to the full revenue impact of tax benefits related to accelerated depreciation rules that came into effect once the 2019 federal and Ontario budgets were enacted in the second quarter of 2019. Included in the balance submitted for approval is interest forecast through to December 31, 2022. This will result in a forecast balance of $(48.9M) as at December 31, 2022. Refer to Exhibit G-01-01-05 for the calculation of the amounts being proposed for disposition.

6.0 DISTRIBUTION ACCOUNTS NOT SOUGHT FOR DISPOSITION

6.1 GROUP 1 – ACCOUNT 1595 – DISPOSITION AND RECOVERY/REFUND OF REGULATORY BALANCES, SUB-ACCOUNT PRINCIPAL BALANCES OF MISALLOCATED FUTURE TAX SAVINGS

This account was approved for establishment in the EB-2020-0194 proceeding. This account tracks the difference between the amount of misallocated future tax savings approved in the EB-2020-0194 proceeding and the amount recovered during the approved recovery period. This account is not being requested for disposition as this account is not part of the audited 2020 balances.

6.2 GROUP 1 – ACCOUNT 1595 - DISPOSITION AND RECOVERY/REFUND OF REGULATORY BALANCES, SUB-ACCOUNT MISALLOCATED FUTURE TAX SAVINGS CARRYING CHARGES

This account was approved for establishment in the EB-2020-0194 proceeding. This account records interest on the outstanding principal balance of the misallocated future tax savings over the approved recovery period. This account is not being requested for disposition as this account is not part of the audited 2020 balances.

6.3 GROUP 1 - ACCOUNT 1595 (2019) – DISPOSITION AND RECOVERY OF REGULATORY BALANCES (OEB APPROVED)

This account was created to dispose of the approved DVA balances as a result of the OEB's Decision on Hydro One Distribution's 2018-2022 rates (EB-2017-0049). The balance in this rider reflects the residual balance from the 2014 Group 1 balances and 2016 Group 2 balances approved for disposition. The balance was to be disposed of over a period of 18 months, with a sunset date on December 31, 2020. As per Section 3.2.5.5 of the Chapter 3 Filing Requirements:[21]

> *"Distributors are expected to request disposition of residual balances in Account 1595 sub-accounts for each vintage year only once, on a final basis. Distributors only become eligible to seek disposition of these residual balances two years after the expiry of the rate rider. During the two years after the expiry of the rate rider, distributors may still make billing corrections as per the Retail Settlement Code and record the related transactions in the associated Account 1595 sub-account."*

As at December 31, 2020, there is a balance of $5.5M in this rider account. This account is reported to the OEB on an annual basis consistent with the OEB's Reporting and Record Keeping Requirements. As per the OEB filing guidelines above, Hydro One Distribution cannot seek disposition of the balance until its 2024 annual update at the earliest.

[21] Chapter 3 Filing Requirements for Electricity Distributors, June 24, 2021

6.4 GROUP 1 - ACCOUNT 1595 (2021) – DISPOSITION AND RECOVERY OF REGULATORY BALANCES (OEB APPROVED)

This account was created to dispose of the approved DVA balances as a result of the OEB's Decision on Hydro One Distribution's 2021 annual update (EB-2020-0030), where it was approved to dispose of audited 2019 Group 1 balances on a final basis, and the audited 2019 ESM balance on an interim basis. This rider is currently being returned to ratepayers, and thus the residual balance is not being requested for disposition until such time Hydro One is eligible to do so. As the sunset date of the rider is on December 31, 2021, Hydro One Distribution will not be eligible to dispose of the residual balance until its 2025 annual update at the earliest.

6.5 GROUP 2 - MICROFIT CONNECTION CHARGE VARIANCE ACCOUNT (ACCOUNT 1508)

The OEB approved the MicroFIT Connection Charge Variance Account for Hydro One Distribution in the Decision of April 9, 2010 for 2010 and 2011 distribution rates (EB-2009-0096) to record revenue collected from the new fixed meter charge applied to micro-generators, and have it tracked in a variance account to be refunded to customers in the future.

The account was established on a province-wide basis for all distributors in 2010, as part of the EB-2009-0326 proceeding, with subsequent updates in EB-2010-0219. The rate was subsequently updated to require the recording of the collection of revenue from this monthly charge as per the OEB's September 20, 2012 letter to all distributors entitled "*Update to Fixed Monthly Charge for microFIT Generator Service Classification Board File Numbers EB-2009-0326 and EB-2010-0219."* This account was approved by the OEB for discontinuance in EB-2013-0416.

As at December 31, 2020, there is a balance of $(2,135) which represents differences in interest forecasted for disposition and actual interest disposed from the last rebasing application (EB-2017-0049). This account is reported to the OEB on an annual basis consistent with the OEB's Reporting and Record Keeping Requirements. Since this account is discontinued, Hydro One Distribution will not request disposition of this amount and will write off the residual interest in 2021.

6.6 GROUP 2 - DSC EXEMPTION DEFERRAL ACCOUNT (ACCOUNT 1508)

The OEB ordered Hydro One Distribution to establish the Distribution System Code Exemption Deferral Account in the EB-2010-0229 Decision on December 20, 2010. In the Decision, the OEB recognized that costs to mitigate certain unforeseen technical issues should not be visited upon generators who have already executed Connection Costs Agreements, but should instead be eligible for recovery through Hydro One's distribution rate base, subject to the OEB's final review in a future rate proceeding. Specifically, the OEB ruled that expenditures for the three specific categories included in that proceeding be recorded in sub-accounts of 1508, Other Regulatory Assets, subject to the OEB's review at a future date. These three categories are:

- Sub-Account Category 1 - Distance Limitation - Capital and OM&A Expenses;
- Sub-Account Category 2 - Delta-Y Transformers - Capital and OM&A Expenses; and
- Sub-Account Category 3 - Dual Secondary Winding Transformers - Capital and OM&A Expenses.

In its Decision in Hydro One's distribution rate application (EB-2013-0416), the OEB approved Hydro One's request for the discontinuance of this account commencing in 2015. As at December 31, 2020, there is a balance of $25,918 which represents differences in interest forecasted for disposition and actual interest disposed from the last rebasing application (EB-2017-0049). This account is reported to the OEB on an annual basis consistent with the OEB's Reporting and Record Keeping Requirements. Since this account is discontinued, Hydro One Distribution will not request disposition of this amount and will write off the residual interest in 2021.

6.7 GROUP 2 – DISTRIBUTION GENERATION – HYDRO ONE - OTHER COSTS – DEFERRAL ACCOUNT (ACCOUNT 1533)

The OEB directed Hydro One Distribution to establish deferral accounts related to the Green Energy Plan in the OEB's decision for EB-2009-0096 for 2010 and 2011 distribution rates. This deferral account captured the revenue requirement associated with the in-servicing of certain Distributed Generation connection assets.

In the OEB's decision on Hydro One Distribution's application for 2015-2019 rates (EB-2013-0416), the OEB approved Hydro One's request for the discontinuance of this account commencing in 2015. A small balance accrued after 2013 and was approved for disposition in the 2018-2022 rates application (EB-2017-0049). As at December 31, 2020, there is a balance of $1,610 which represents differences in interest forecasted for disposition and actual interest disposed from EB-2017-0049. This account is reported to the OEB on an annual basis consistent with the OEB's Reporting and Record Keeping Requirements. Since this account is discontinued, Hydro One Distribution will not request disposition of this amount and will write off the residual interest in 2021.

6.8 GROUP 2 - SMART GRID VARIANCE ACCOUNT (ACCOUNT 1536)

The OEB directed Hydro One Distribution to establish deferral accounts related to the Green Energy Plan in its Decision on April 9, 2010 for 2010 and 2011 distribution rates (EB-2009-0096). Hydro One established the Smart Grid Variance Account to record the interim funding received in respect of the expenditures made for this program.

In EB-2013-0416, the OEB approved Hydro One's request for the discontinuance of this account commencing in 2015. As at December 31, 2020, there is a balance of $(32,589) which represents differences in interest forecasted for disposition and actual interest disposed from the last rebasing application (EB-2017-0049). This account is reported to the OEB on an annual basis consistent with the OEB's Reporting and Record Keeping Requirements. Since this account is discontinued, Hydro One Distribution will not request disposition of this amount and will write off the residual interest in 2021.

6.9 GROUP 2 - INTEGRATED SYSTEM OPERATING CENTER (ISOC) ASYMMETRICAL VARIANCE ACCOUNT (ACCOUNT 2405)

Integrated System Operating Center (ISOC) asymmetrical variance accounts have been approved for both Hydro One Transmission and Hydro One Distribution. During the Draft Rate Order

process in the Hydro One Distribution 2018-2022 proceeding, it was clarified that the ISOC project was expected to be placed in-service in 2021.

In its EB-2017-0049 Decision, the OEB established an asymmetrical variance account for Hydro One Distribution to track the actual cost of the distribution portion of the ISOC against the forecast cost. If the revenue requirement at the actual cost is lower than the revenue requirement at the forecast cost, Hydro One Distribution will return the difference to ratepayers.[22]

Hydro One Distribution is not requesting disposition of this account as no entries have been recorded as at December 31, 2020. The earliest entry into this account would be in 2021 (the in-service year), if any.

6.10 GROUP 2 - REVENUE DIFFERENCE – POLE ATTACHMENT CHARGE VARIANCE ACCOUNT (ACCOUNT 2405)

The Revenue Difference – Pole Attachment Charge Variance Account was established consistent with OEB direction in its Decision dated August 4, 2016, in EB-2015-0141. The pole attachment charge relates to the charge Hydro One Distribution collects from cable and telecommunications companies for connecting their overhead wires to Hydro One poles.

In its Accounting Order of September 28, 2016, the OEB directed Hydro One Distribution to establish a variance account effective January 1, 2015 to record the differences in the revenue offsets related to forecast pole attachment revenues included in rates in EB-2013-0416/EB-2015-0079 and revenue offsets based on the pole attachment charge approved by the OEB in EB-2015-0141. The OEB had approved distribution rate revenues based on a pole attachment charge of $37.05 per pole per year. The final approved charge was $41.28 per pole per year. This

[22] For Distribution, Updated ISOC costs filed as part of updated I-29-Staff-173, GP-18 (EB-2017-0049)

account was used to track this variance, including accrued interest charges based on the OEB prescribed interest rates.

In its Decision in Hydro One's 2018-2022 distribution rate application (EB-2017-0049) the OEB approved Hydro One's request for the discontinuance of this account. As at December 31, 2020, there is a balance of $23,632 which represents differences in interest forecasted for disposition and actual interest disposed from the last rebasing application (EB-2017-0049). This account is reported to the OEB on an annual basis consistent with the OEB's Reporting and Record Keeping Requirements. Since this account is discontinued, Hydro One Distribution will not request disposition of this amount and will write off the residual interest in 2021.

6.11 GROUP 2 - PENSION AND OPEB FORECAST ACCRUAL VERSUS ACTUAL CASH PAYMENT DIFFERENTIAL VARIANCE (TRACKING ACCOUNT) - ACCOUNT 1522

Pension and OPEB forecast accrual versus actual cash payment differential variance tracking accounts have been approved for both Hydro One Transmission and Hydro One Distribution. Refer to Section 4.8 above for a detailed overview of this account.

The amount being tracked is based on Hydro One's proposed modified methodology for the OPEB Asymmetrical Carrying Charge Account. Refer to Exhibit G-01-02 for more information on this calculation.

As at December 31, 2020, the tracking account for Hydro One Distribution has a balance of $35.9M. This account is reported to the OEB on an annual basis consistent with the OEB's Reporting and Record Keeping Requirements. Hydro One Distribution is not requesting disposition of the balance in this account, as this is simply a tracking account meant to provide visibility on the difference between the forecasted accrual amount in rates and actual cash payments made.

6.12 GROUP 2 - DISTRIBUTION GENERATION – PROVINCIAL – OTHER COSTS - DEFERRAL ACCOUNT (ACCOUNT 1533)

Hydro One Distribution established the Distribution Generation – Provincial - Variance Account, consisting of separate Distribution Generation - Express Feeders, and Distribution Generation – Other Costs sub-accounts to record the interim funding received in respect of the expenditures made for these programs related to the provincially-funded portion of the investments.

Hydro One Distribution received the Board's approval to discontinue the collection of revenue through the funding adder from the provincial rate payers on December 31, 2014. In light of the continuation of renewable distributed generation connection investments, Hydro One Distribution is anticipating that it will require funding as it continues to incur costs eligible for direct benefit treatment as per Ontario Regulation 330/09.

As at December 31, 2020, the deferral account has a balance of $(21.5M). This account is reported to the OEB on an annual basis consistent with the OEB's Reporting and Record Keeping Requirements. Hydro One Distribution continues to record the costs eligible for the treatment according to Ontario Regulation 330/09; therefore, disposition of this account is not required.

As part of the 2022 Distribution Annual Update (EB-2021-0032), Hydro One intends to request to resume collection of the previously approved provincial funding through the funding adder.

6.13 GROUP 2 - COVID-19 EMERGENCY DEFERRAL ACCOUNT (ACCOUNT 1509)

Hydro One Transmission and Hydro One Distribution are both authorized to have established this account. Refer to Section 4.7 above for a detailed overview of this account and subsequent updates as a result of the June 17, 2021 OEB issued report on the COVID-19 Emergency Deferral Account.

Hydro One Distribution has amounts tracked in the following sub-accounts as at December 31, 2020:

1. Billing and System Changes as a Result of the Emergency Order Regarding Time-of-Use Pricing: $0.0M;
2. Lost Revenues Arising from the COVID-19 Emergency: $9.5M;
3. Other Incremental Costs: $18.9M; and
4. Bad Debt: $14.4M

Since the OEB's report was issued in 2021, Hydro One Distribution will reflect applicable changes in the 2021 audited balances. As a result, Hydro One Distribution is currently not requesting a disposition of any amounts tracked based on 2020 audited balances.

6.14 GROUP 2 - CAPITAL IN-SERVICE ADDITIONS VARIANCE ACCOUNT (CISVA) – ACCOUNT 2405

CISVAs have been approved for both Hydro One Transmission and Hydro One Distribution. For Hydro One Distribution, this account was approved for establishment in EB-2017-0049. The variance account tracks, on a cumulative basis, capital in-service additions that are 98% of the OEB-approved amount or less over the five-year term. The calculation excludes the revenue requirement from in-service capital additions resulting from verifiable productivity gains. No amount would be recorded if the cumulative capital additions exceed 98% of the OEB-approved amount – the account is asymmetrical to the benefit of ratepayers.

The in-service additions approved by the OEB in the EB-2017-0049 Decision were $627.8M in 2018, $556.5M in 2019, $676.8M in 2020, $705.5M in 2021, and $610.1M in 2022. Actual in-service additions from 2018-2020 were $627.8M, $585.1M, and $668.1M respectively. Therefore, no entries have been recorded from 2018-2020 since the actual in-service additions exceeded 98% of the OEB approved amounts on a yearly basis. This account also captures the applicable tax gross-up impacts.

Hydro One Distribution is not requesting disposition of this account as no entries have been recorded as at December 31, 2020. This account is reported to the OEB on an annual basis consistent with the OEB's Reporting and Record Keeping Requirements.

7.0 ACQUIRED UTILITIES ACCOUNT BALANCES

As discussed in Section 5.0 above, all Acquired Utilities Group 1 RSVA balances have been integrated with HONI Distribution's RSVA balances. In the 2021 Annual Update Application for Hydro One Distribution (EB-2020-0030), the OEB accepted Hydro One's proposed Group 1 allocation methodology for Hydro One Distribution and the Acquired Utilities.[23] Hydro One has not produced an allocation of Group 1 balances for the Acquired Utilities as the consolidated Group 1 balances are brought forth for disposition in this proceeding on a combined basis.

Hydro One will be making a separate request for approval to dispose of the Acquired Utilities' audited Group 2 balances as at December 31, 2020 as part of the 2022 rates application for the Acquired Utilities rather than through this rebasing application. The Acquired Utilities' Group 2 balances have been presented in Exhibit G-01-05-03 for information purposes.

[23] EB-2020-0031, Application filed by Hydro One Networks Inc. for new rates effective January 1, 2021 for the legacy service areas of the former Norfolk Power Distribution Inc. (Norfolk Power), the former Haldimand County Hydro Inc. (Haldimand County Hydro) and the former Woodstock Hydro Services Inc. (Woodstock Hydro).

2020 GA ANALYSIS WORKFORM

This exhibit has been filed separately in MS Excel format.

Certification of Evidence

TO: ONTARIO ENERGY BOARD

I, Chris Lopez, Hydro One's Chief Financial Officer (CFO), hereby certify that:

1. I am the CFO of Hydro One Networks Inc. (Hydro One);
2. This certificate is given pursuant to section 2.9.1.2 of the Chapter 2 *Filing Requirements for Electricity Distribution Rate Applications;* and
3. Hydro One has robust processes and internal controls in place for the preparation, review, verification and oversight of the account balances being proposed for disposition.

Dated June 7, 2021

CHRIS LOPEZ

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CALCULATION OF THE 2018 AND 2019 CDM AND DEMAND RESPONSE (DR) VARIANCE ACCOUNT

1.0 OVERVIEW

A Local Distribution Company (LDC) Conservation and Demand Management (CDM) and Demand Response (DR) Variance Account for Hydro One Transmission (Hydro One) was approved for creation as part of approved the Settlement Agreement in EB-2012-0031 relating to the 2013-2014 transmission revenue requirement.

This account was not approved for continuation for the 2020-2022 test years pursuant to the Decision in EB-2019-0082, but it remained open to record any variances relating to Hydro One Transmission's 2018 and 2019 years due to the lag in obtaining IESO issued information. With respect of the 2019 year, Hydro One filed an application for its 2019 transmission revenue requirement (EB-2018-0130) to adjust the 2019 Transmission revenue requirement (Revenue Cap Index adjustment) relative to 2018 revenue requirement. The load forecast for 2019 remained at the level previously approved by the OEB for 2018, which is the basis for the CDM and DR Variance Account amounts recorded for the 2019 year.

In its EB-2016-0160 decision, the OEB directed Hydro One to use its best efforts to obtain the peak savings information needed to determine the variances to be recorded in this account. In its EB-2019-0082 Decision the OEB approved the peak savings information and methodology used to calculate the 2017 CDM and DR Variance Account amount.[1] In this Application, Hydro One has applied the same data sources and methodology approved by the OEB in calculating the 2017 CDM and DR Variance Account to calculate the variances for 2018 and 2019.

[1] EB-2019-0082, Decision and Order, April 23, 2020, pp. 164-165

2.0 2018 AND 2019 FORECASTED CDM PEAK SAVINGS

The CDM peak savings assumptions in HONI's load forecast include the impact due to energy efficiency programs (EE), Code and standards (C&S) and DR programs, which include the impact from the Industrial Conservation Initiative (ICI), Dispatched Load program, and DR auctions. The forecasted savings due to EE and C&S programs included in the OEB approved load forecast was based on the 2016 IESO Ontario Planning Outlook (OPO) which includes savings due to the historical programs (2006-2014) and the conservation first framework (2015-2020). Hydro One's CDM forecast for 2018 and 2019 are shown in Table 1.[2]

Table 1 - 2016-2019 CDM peak saving assumptions in the approved load forecast

Year	Cumulative CDM imapct on peak demand *	Cumulative CDM impact on 12-month average peak demand **
2016	2167	1638
2017	2099	1638
2018	2391	1924
2019	2391	1924

**** The figures represent the load imapct of CDM on summer peak.***

***** The figures represent load impact of CDM on monthly peaks, aveaged over 12 month in the year.***

3.0 CALCULATION OF ACTUAL PEAK SAVINGS FOR 2018-2019

EE Amounts

The 2006-2017 EE programs' persistence peak savings in 2018 and 2019 were provided by the IESO. The IESO released its Conservation First Framework Programs & Interim Framework Programs' saving evaluation reports[3] and Hydro One has used this information to derive the total EE peak savings for 2018 and 2019. The monthly peak savings was derived using the monthly EE savings profile from the approved load forecast applied to the reported annual peak

[2] EB-2016-0160, Exhibit E1, Tab 3, Schedule 1, p. 20

[3] https://www.ieso.ca/en/Sector-Participants/Energy-Efficiency/Evaluation-Measurement-and-Verification

savings. The difference between the incremental change in actual EE monthly peak savings and the incremental change in monthly peak amounts assumed in the approved forecast was used to calculate the revenue impact tracked in the CDM and DR Variance Account.

ICI Amounts

Hydro One has calculated the ICI peak impacts using a methodology similar to that used by the IESO:

- Compared ICI participant consumption against a baseline consumption value.
- Determined the baseline consumption by taking the hourly average for the previous 90 days excluding weekends, holidays and other ICI days. Used the 30 top peak demand days to capture the impact of customer actions related to the ICI program in recognition of the fact that Class A customers will take actions to reduce their demand on all potential peak days when the temperature is extremely high or low, and not just on the high-five peak days associated with the calculation of Global Adjustment costs.
- Class A customers include both transmission-connected and distribution-connected customers. Given that Hydro One only has meter data to estimate the ICI peak savings for its own distribution Class A participants, the calculation used Hydro One's 16.03% share of all distribution Class A participants in Ontario to estimate the total ICI peak savings from all distribution Class A customers.

The hourly peak data for transmission-connected and distribution-connected ICI participants required to determine the ICI peak impacts was collected from Hydro One's Itron Enterprise Edition (IEE) meter data management system.

Hydro One's approved load forecast for 2017, 2018 and 2019 does not include incremental ICI from the base year of 2016. As such, the difference in ICI peak impacts observed in 2018 and

2019 versus 2016 was used to calculate the revenue impact tracked in the CDM and DR Variance Account.

Dispatched Load and DR Auction Amounts

The IESO provided Hydro One with the information related to the demand measures that were dispatched over the 2016-2019 timeframe. The demand measures include both the dispatchable loads and the resources secured through the demand response auction. The difference between 2018 and 2019 versus 2016 is used to calculate the revenue impact tracked in the CDM and DR Variance Account.

Determination of the Peak Impacts (MW)

Table 2 and Table 3 show the monthly actual and forecasted peak savings for the ICI, dispatchable load & DR auction, and EE programs in 2018 and 2019. Consistent with the methodology previously approved by the OEB in calculating the 2017 peak savings amounts, the difference between the forecasted and actual peak savings is the variance amount used for the calculation.

Table 2 - Actual Peak Savings Achieved (MW) in 2018

	2016 MW			2018 MW			Incremental MW (2018 vs 2016)		
Month	ICI	Dispatched load and DR	EE	ICI	Dispatched load and DR	EE	ICI	Dispatched load and DR	EE
JAN	-	11	333	506	40	355	506	29	22
FEB	-	50	329	-	72	351	-	22	21
MAR	-	42	305	-	72	325	-	30	20
APR	-	54	312	-	80	329	-	26	18
MAY	-	94	329	-	27	348	-	(67)	19
JUN	788	55	435	928	23	460	140	(32)	25
JUL	915	50	473	1,769	230	484	855	180	11
AUG	926	406	431	1,151	55	456	225	(351)	25
SEP	735	94	390	905	82	413	170	(12)	22
OCT	-	40	308	-	47	326	-	7	18
NOV	-	40	314	-	72	334	-	32	20
DEC	-	72	334	-	195	356	-	123	22
Total MW	3,364	1,008	4,294	5,259	995	4,536	1,895	(13)	242

Table 3 - Actual Peak Savings Achieved (MW) in 2019

Month	2016 MW			2019 MW			Incremental MW (2019 vs 2016)		
	ICI	Dispatched Load and DR	EE	ICI	Dispatched Load and DR	EE	ICI	Dispatched Load and DR	EE
Jan	-	11	333	999	72	377	999	61	44
Feb	-	50	329	274	23	373	274	(27)	43
Mar	-	42	305	-	32	345	-	(10)	40
Apr	-	54	312	-	18	350	-	(36)	38
May	-	94	329	-	74	369	-	(20)	40
Jun	788	55	435	-	13	489	(788)	(42)	53
Jul	915	50	473	1,873	22	515	958	(28)	41
Aug	926	406	431	857	75	484	(69)	(331)	54
Sep	735	94	390	-	104	439	(735)	10	48
Oct	-	40	308	-	59	347	-	19	39
Nov	-	40	314	-	70	355	-	30	40
Dec	-	72	334	616	82	378	616	10	44
Total MW	**3,364**	**1,008**	**4,294**	**4,620**	**644**	**4,820**	**1,256**	**(364)**	**526**

4.0 CALCULATION OF VARIANCE ACCOUNT AMOUNT

Consistent with the methodology previously approved by the OEB, the variance account balance is determined by multiplying the amounts in Table 2 and Table 3 by the approved Uniform Transmission Rates ($/kW) and revenue allocation factors in effect over that period, which are shown in Table 4.

Table 4 - Uniform Transmission Rates and Revenue Allocation Factors

Charge Determinants	2018		2019	
	Uniform Transmission Rates ($/kW)	Ratio of Charge Determinants to Ontario Peak (12-month avereage peak in MW)	Uniform Transmission Rates ($/kW)	Ratio of Charge Determinants to Ontario Peak (12-month avereage peak in MW)
Network	3.61	0.92462	3.83	0.93542
Line Connection	0.95	0.96484	0.96	0.96873
Transformation Connect	2.34	0.96484	2.3	0.96873

The resulting 2018 and 2019 total dollar variances by transmission rate pool are summarized in Table 5 and Table 6.

Table 5 - Total Variance for 2018 Peak Savings by Rate Pool ($ Millions)

	ICI	Dispatched Load anad DR	EE	Total
Network Variance	6.32	(0.04)	0.81	7.09
Line Connection Variance	1.74	(0.01)	0.22	1.95
Transformation Connection Variance	4.28	(0.03)	0.55	4.79
Total Variance $	**12.34**	**(0.09)**	**1.57**	**13.83**

Table 6 - Total Variance for 2019 Peak Savings by Rate Pool ($ Millions)

	ICI	Dispatched Load and DR	EE	Total
Network Variance	4.50	(1.30)	1.88	5.08
Line Connection Variance	1.17	(0.34)	0.49	1.32
Transformation Connection Variance	2.80	(0.81)	1.17	3.16
Total Variance $	**8.46**	**-2.45**	**3.54**	**9.55**

Note that there is an approximately $2M difference between the amounts presented in this calculation compared to what is currently being proposed for disposition.

The audited December 31, 2020 balance is based on the IESO's best estimate of energy efficiency savings at that time; however, in early 2021, the IESO issued an official 2019 program evaluation report which changed the energy efficiency assumptions used in the calculation. The 2018 and 2019 amounts were adjusted for these changes in 2021 and will be included as part of the audited 2021 balances. The audited 2021 balances will be requested for disposition during the course of the proceeding.

This calculation supports the audited 2021 balances that will be requested for disposition during the course of the proceeding.

ACCOUNTING ORDERS FOR UTILITY SPECIFIC ACCOUNTS SOUGHT FOR DISPOSITION

1.0 ACCOUNTING ORDERS FOR TRANSMISSION

1.1 LDC CDM AND DEMAND RESPONSE VARIANCE ACCOUNT:

Transmission Accounting Order – LDC CDM and Demand Response Variance Account

Hydro One Transmission will establish a new revenue variance account, "LDC CDM and Demand Response Variance Account". The account would track the impact of actual CDM and Demand Response results on the Load Forecast and the resulting impact on revenue requirement. The variance would be recorded in a separate sub account of 1508 – Other Regulatory Assets – sub account – CDM Variance Account.

Hydro One Transmission proposes to establish the new sub-account effective January 1, 2013 for the test years 2013 and 2014.

Hydro One Transmission proposes to record the following two elements in the CDM Variance account:

1) **CDM Variance**

In the variance account, Hydro One Transmission will track the difference between the forecast of 755 MW for 2013 and 1158 MW for 2014 and the actual CDM savings related to the OPA-funded, LDC-delivered programs. Hydro One will use the annual results reported by the OPA in September of each year for the verified results of the previous year in accordance with the CDM Guidelines issued by the Board in EB-2012-0003. Time-of-use savings will not be included in this variance account because they are currently not included in the annual province-wide CDM program results reported by the OPA. The charge determinant variance of the OPA-funded, LDC-delivered program results will be determined using the resulting impact on Ontario Demand and the ratios between the Ontario Demand and the three charge determinants (Network, Transformation Connection, Line Connection) to determine the CDM program impacts on these three charge determinants. The dollar amount of the variance recorded will be

based on the three charge determinant variances multiplied by the applicable Uniform Transmission Rates as approved by the Board effective for the 2013 and 2014 test years.

2) Demand Response Variance

In the variance account, Hydro One Transmission will track the actual Demand Response results against the forecast as set out in Exhibit A, Tab 15, Schedule 2, Attachment 1, Appendix A, Table 8 of 836 MW in 2013 and 880 MW in 2014 (net of 317 MW and 410 MW respectfully for 2013 and 2014 already included in CDM program results delivered by LDCs) in this variance account. Hydro One will use annual Demand Response results provided by the OPA each September for results of the previous year in a similar format as the province-wide CDM results delivered by the LDCs. The charge determinant variance of the demand response program results will be determined using the resulting impact on the Ontario Demand and the ratios between the Ontario Demand and the three charge determinants. The dollar amount of the variance will be based on the three charge determinant variances multiplied by the applicable Uniform Transmission Rates as approved by the Board effective for the test years.

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

Attachment A

Proposed Accounting Entries

	USofA #	Account Description

LDC CDM – Demand Response Variance Account

Cr:	4066	Billed Network Revenue
Cr:	4068	Billed Line Connection Revenue
Cr:	4105	Transmission Charge Revenue
Dr:	1100	Accounts Receivable

To record preliminary recognition of Revenues.

Dr/Cr:	4066	Billed Network Revenue
Dr/Cr:	4068	Billed Line Connection Revenue
Dr/Cr:	4105	Transmission Charge Revenue
Dr/Cr	1508	Other Regulatory Assets – sub Account – LDC CDM and Demand Response Variance Account

To record the variance between Board-approved and actual LDC CDM and Demand Response.

Dr/Cr:	1508	Other Regulatory Assets – Sub account - LDC CDM and Demand Response Variance Account
Cr/Cr:	6035	Other Interest Expense

To record interest improvement on the principal balance of the LDC CDM and Demand Response Variance Account.

1.2 OPEB COST DEFERRAL ACCOUNT:

ACCOUNTING ENTRIES
OPEB COST DEFERRAL ACCOUNT

The Other Post- Employment Benefit (OPEB) Cost Deferral Account will record all elements of the net periodic benefit cost other than the service cost that would have been classified as capital prior to the adoption of ASU 2017-07.

The account will capture actual costs and will be effective until the Ontario Energy Board has made a determination on the regulatory treatment of these costs at Hydro One's application for 2020-2022 transmission rates in EB-2019-0082. A Decision on the disposition of the deferral account and the calculation and treatment of interest will be made as part of Hydro One's application for 2020-2022 transmission rates in EB-2019-0082.

The account was established as Account 1508, Other Regulatory Assets – Sub-Account "OPEB Cost Deferral Account" effective January 1, 2018. Hydro One Transmission 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 following outlines the proposed accounting entries for this account:

USofA #	**Account Description**
Dr: 1508	Other Regulatory Assets – Sub-Account "OPEB Cost Deferral Account"
Cr: 2055	Construction Work In Progress - Electric

To record the capitalized elements of the net periodic post-retirement benefit cost other than service cost.

USofA #	**Account Description**
Dr: 1508	Other Regulatory Assets – Sub-Account "OPEB Cost Deferral Account"
Cr: 6035	Other Interest Expense

To record interest improvement on the principal balance of the "OPEB Cost Deferral Account".

1.3 CUSTOMER CONNECTION AND COST RECOVERY AGREEMENTS (CCRA) TRUE-UP VARIANCE ACCOUNT:

TRANSMISSION ACCOUNTING ORDER – CCRA TRUE-UP VARIANCE ACCOUNT

Hydro One proposes to create a new variance account to track the differences between components of revenue requirement and actual results related to load true-ups performed in accordance with Transmission System Code section 6.5.3.

The account will be established as Account 1508, Other Regulatory Asset, sub-account "CCRA True-up Variance Account" effective January 1, 2020. Hydro One 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 following outlines the proposed accounting entries for this deferral account.

USofA #	Account Description
CR/DR: 4110	Transmission Services Revenue
DR/CR: 1508	Other Regulatory Assets – Sub account "CCRA True-up Variance Account"

Initial entry to record the CCRA true-up variance.

CR/DR: 6035	Other Interest Expense
DR/CR: 1508	Other Regulatory Assets – Sub account "CCRA True-up Variance Account"

To record interest improvement on principal balance of CCRA True-up Variance Account.

1.4 EXCESS EXPORT SERVICE REVENUE VARIANCE ACCOUNT:

In the EB-2008-0272 Decision, the OEB concluded that it was appropriate to establish a variance account to capture any difference between forecast and actual export revenues and that the account should be symmetrical.[1]

1.5 EXTERNAL SECONDARY LAND USE REVENUE VARIANCE ACCOUNT:

In the EB-2008-0272 Decision, the OEB concluded that, as with export revenues and station maintenance and engineering and construction, ratepayers' interests are best protected by establishing a variance account to ensure that the full extent of these revenues is to the benefit of ratepayers while at the same time protecting Hydro One.[2]

1.6 EXTERNAL STATION MAINTENANCE, E&CS AND OTHER EXTERNAL REVENUE ACCOUNT:

In the EB-2008-0272 Decision, the OEB concluded that, as with export revenues, ratepayers' interests are best protected by establishing a variance account to ensure that the full extent of these revenues is to the benefit of ratepayers while at the same time protecting Hydro One.[3]

[1] EB-2008-0272, Decision with Reasons, page 12
[2] EB-2008-0272, Decision with Reasons, page 15
[3] EB-2008-0272, Decision with Reasons, page 14

Filed: November 30, 2012
EB-2012-0031
Draft Rate Order
Exhibit 7.3
Page 1 of 3

Transmission Accounting Order – Other External Revenues Variance Account

Hydro One Transmission will establish a new variance account, "Other External Revenue Variance Account", to record the differences between forecast net other external revenues included in this application and net other external revenues actually received in the test years.

Hydro One Transmission will establish the following new sub-account effective January 1, 2013:

Other External Revenues Variance Account

Other External Revenues include two components: Inergi Royalties and Miscellaneous Revenues.

Inergi Royalties

As a result of the outsourcing agreement with Inergi LP, Hydro One Transmission receives royalty revenue to compensate it for the use of Hydro One's resources by Inergi LP in servicing other third party customers.

Miscellaneous Revenues

Miscellaneous Revenues relate to telecommunications services provided to other Ontario Hydro successor companies such as lease of fibre, special transmission planning studies, customer shortfall payments (e.g. true-ups, temporary bypass), and other miscellaneous revenue. Transfer prices charged to Hydro One Telecom and Hydro One Remote Communities and revenues from the lease of idle transmission lines are also included in Other Miscellaneous Revenue.

Hydro One Transmission 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.

Attachment A

Proposed Accounting Entries

	USofA #	Account Description
Other External Revenues Variance Account		
Dr:	1105	Accounts Receivable, Merchandising, Jobbing Etc.
Cr:	4235	Miscellaneous Service Revenues

To record preliminary recognition of Other External Revenues.

Dr	4330	Cost and Expenses of Merchandising, Jobbing, etc.
Cr	2205	Accounts Payable

To record preliminary recognition of the Cost of Goods (COGS) sold in respect of Other External Revenues.

Dr/Cr:	4235	Miscellaneous Service Revenues
Dr/Cr:	2405	Other Regulatory Liabilities – Sub-account – Other External Revenues Variance Account

To record the variance between Board-approved and actual Other External Revenues.

Dr/Cr:	4330	Cost and Expenses of Merchandising. Jobbing, etc.
Dr/Cr:	2405	Other Regulatory Liabilities – Sub-account – Other External Revenues Variance Account

To record the variance between Board-approved and actual Other External Revenues - COGS.

Dr/Cr:	1508	Other Regulatory Assets – Sub account - Other External Revenues Variance Account
Dr/Cr:	6035	Other Interest Expense

1.7 RIGHTS PAYMENTS VARIANCE ACCOUNT:

In the EB-2010-0002 Decision, the OEB established a rights payments variance account to track the difference between the amount provided for in the revenue requirement and the actual payments.[4]

See Exhibit G-01-02-04 for the proposed modified accounting order.

1.8 PENSION COST DIFFERENTIAL VARIANCE ACCOUNT:

In the EB-2006-0501 Decision, the OEB accepted the settlement proposal to establish the pension cost differential variance account.[5]

[4] EB-2010-0002, Decision with Reasons, December 23, 2010, page 21
[5] EB-2006-0501, Decision with Reasons, Appendix 3: Settlement Proposal Decision, page 6

1.9 DEPRECIATION EXPENSE (ASSET REMOVAL COSTS) ASYMMETRICAL CUMULATIVE VARIANCE ACCOUNT:

TRANSMISSION ACCOUNTING ORDER – DEPRECIATION EXPENSE (ASSET REMOVAL COSTS) ASYMMETRICAL CUMULATIVE VARIANCE ACCOUNT

Hydro One Transmission proposes the establishment of a new "Depreciation Expense (Asset Removal Costs) Asymmetrical Cumulative Variance Account" to record the difference between the revenue requirement associated with asset removal costs forecasts that have been included in the proposed depreciation expenses for 2020-2022 and actual asset removal costs incurred in each of the test years, net of tax. The account calculation will be cumulative by the end of 2022 – the account balance will be brought forward for disposition in a future rate application in the event that there is an over collection on a cumulative basis over the 2020 to 2022 period. This account will be asymmetrical to the benefit of ratepayers - if the actual asset removal costs are lower than the forecasted asset removal costs, Hydro One Transmission will return the difference to ratepayers.

The account will be established as Account 2405, Other Regulatory Liabilities – Sub-Account "Asset Removal Costs Asymmetrical Cumulative Variance Account" effective January 1, 2020. Hydro One Transmission will record interest on the 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.

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

USofA #	Account Description
DR 4110	Transmission Services Revenue
CR 2405	Other Regulatory Liabilities – Sub-Account "Asset Removal Costs Asymmetrical Cumulative Variance Account"

2.0 ACCOUNTING ORDERS FOR DISTRIBUTION

2.1 OTHER REGULATORY ASSETS - SUB-ACCOUNT - LONG TERM LOAD TRANSFER (LTLT) RATE IMPACT MITIGATION DEFERRAL ACCOUNT:

Hydro One Networks Inc. Accounting Order
EB-2016-0167

Account 1508 Other Regulatory Assets – Sub-account LTLT Rate Impact Mitigation Deferral Account

Hydro One Networks Inc. shall establish this new deferral account effective August 18, 2016 to record costs associated with lost revenue resulting from the rate impact mitigation plan associated with the transfer of long term load transfer customers and any costs involved in the set-up of such a plan, as per the OEB's direction set out in its decision for EB-2016-0167.

The disposition of the deferral account will be subject to an OEB determination of prudence.

The accounting entries to be recorded are as follows:

USofA #	Account Description
Dr: 1508	Other Regulatory Assets – Sub account "LTLT Rate Impact Mitigation Deferral
Cr: 1100	Customer Accounts Receivable

To record the lost revenue resulting from the rate impact mitigation plan.

USofA #	Account Description
Dr: 1508	Other Regulatory Assets – Sub account "LTLT Rate Impact Mitigation Deferral
Cr: 6035	Other Interest Expense

To record interest improvement on the principal balance of the "LTLT Rate Impact Mitigation Deferral Account"

2.2 OTHER REGULATORY ASSETS - SUB-ACCOUNT - OPEB COST DEFERRAL ACCOUNT:

Distribution Accounting Order – OPEB Cost Deferral Account

Hydro One Distribution proposes the establishment of a new "Other Post-Employment Benefit (OPEB) Cost Deferral Account" to record all elements of the net periodic benefit cost other than the service cost that would have been classified as capital prior to the issuance of ASU 2017-07. The account will capture actual costs to be recovered in future applications.

The account will be established as Account 1508, Other Regulatory Assets – Sub-Account "OPEB Cost Deferral Account" effective January 1, 2018. Hydro One Distribution 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.

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

	USofA #	Account Description
DR	1508	Other Regulatory Assets – Sub-Account "OPEB Cost Deferral Account"
CR	2055	Construction Work in Progress - Electric

To record the capitalized elements of the net periodic post-retirement benefit cost other than service cost.

DR	1508	Other Regulatory Assets – Sub-Account "OPEB Cost Deferral Account"
CR	6035	Other Interest Expense

To record interest improvement on principal balance of OPEB Cost Deferral Account.

2.3 OTHER REGULATORY ASSETS - SUB-ACCOUNT - SMART GRID FUND (SGF) PILOT DEFERRAL ACCOUNT:

Appendix A

HONI Accounting Order

Board Order No: EB-2016-0201

Dated September 28, 2017

Hydro One Networks Inc. Accounting Order
EB-2016-0201

Account 1508 Other Regulatory Assets – Sub-account SGF Pilot Deferral Account

Hydro One Networks Inc. shall establish this deferral account effective October 1, 2016 to record costs associated with extending the existing SGF Pilot as approved by OEB in its decision for EB-2016-0201. As noted in the decision, these costs shall be limited to the costs for extending the pilots from October 1, 2016 to the later of: the end of the month following the date the OEB issues a decision on Hydro One's application, or the end of the last billing period when SGF prices are being applied to SGF pilot participants, as laid out in HONI's RPP pilot project schedule.

The disposition of the deferral account will be subject to an OEB determination of prudence.

The accounting entries to be recorded are as follows:

USofA #	Account Description
Dr: 53XX	Billing and Collecting Expense account range
Cr: 2205	Accounts Payable

USofA #	Account Description
Dr: 1508	Other Regulatory Assets – Sub account "SGF Pilot Deferral Acct"
Cr: 53XX	Billing and Collecting Expense account range

To record rebates to customers as well as implementation and maintenance costs associated with the extension of the SGF pilot program.

USofA #	Account Description
Dr: 1508	Other Regulatory Assets – Sub account "SGF Pilot Deferral Acct"
Cr: 6035	Other Interest Expense

To record carrying charges on the principal balance of the "SGF Pilot Deferral Acct".

2.4 PENSION COST DIFFERENTIAL VARIANCE ACCOUNT:

Pension Cost Differential Account:

The Pension Cost Differential account was first approved as part of EB-2009-0096 to track the difference between the actual pension costs booked using the actuarial assessment provided by the actuary, and the estimated pension costs used in the filing. The difference between the non-capital portion of pension cost estimates, based on actuarial assessments and other forecasts upon which Hydro One's distribution rate application is based, and the actual pension contributions charged to OM&A is recorded in this account.

Hydro One Distribution 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.

The following entry is recorded to book the variance:

DR/CR 4050 Revenue Adjustment
CR/DR 1508 Other Regulatory Asset – Sub Account Pension Cost Differential

Witness: CHHELAVDA Samir

Filed: 2018-02-12
EB-2017-0049
Exhibit I
Tab 57
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Page 4 of 5

The following entry is recorded to book monthly interest:

DR/CR 6035 Other Interest Expense
DR/CR 1508 Other Regulatory Asset – Sub Account Pension Cost Differential

2.5 EARNINGS SHARING MECHANISM (ESM) DEFERRAL ACCOUNT:

Updated: 2017-06-07
EB-2017-0049
Exhibit F1
Tab 3
Schedule 1
Page 10 of 12

Distribution Accounting Order – ESM Deferral Account

Hydro One Distribution proposes the establishment of a new "Earnings Sharing Mechanism ("ESM") Deferral Account" to record any over-earnings realized during any year of the five-year term through Hydro One's distribution rates, as documented in Section 2.7 above.

The account will be established as Account 2435, Accrued Rate-Payer Benefit effective January 1, 2018. Hydro One Distribution 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.

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

	USofA #	Account Description
DR	4395	Rate-Payer Benefit Including Interest
CR	2435	Accrued Rate-Payer Benefit

Initial entry to record the over-earnings realized in any year of the five-year term.

DR	4395	Rate-Payer Benefit Including Interest
CR	2435	Accrued Rate-Payer Benefit

To record interest improvement on principal balance of ESM deferral account.

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Hydro One Networks Inc. - Transmission and Distribution
Tax Variance relating to Accelerated CCA for Distribution (2018-2020) and Transmission (2018-2019)

Background

On June 21, 2019, Bill C-97, the Budget Implementation Act, 2019, No. 1 was enacted and among the various federal income tax measures, it included the accelerated investment incentive program (Accelerated CCA) which provides for an enhanced first year capital cost allowance (CCA) deductions for eligible capital assets acquired after November 20, 2018 and placed into service on or before December 31, 2027 (Eligible Additions). For Eligible Additions placed into service after November 20, 2018 and before January 1, 2023, the taxpayer may claim enhanced CCA deductions of three times the normal first year allowable amounts (i.e. effectively this means the utility can claim an additional two times of CCA on top of what is normally claimed). The enhanced CCA deduction is reduced to two times the normal first year allowable amount for any Eligible Additions placed into service on January 1, 2024 to December 31, 2027. The enhanced CCA deductions cannot exceed the amount of additions in the current year.

Methodology

To calculate the impact of accelerated CCA, the updated CCA calculations incorporate the enhanced Accelerated CCA rules for each of Transmission 2018-2019 and Distribution 2018-2022 application periods to determine the additional CCA deductions and the associated reduction in regulatory tax amounts to be returned to customers. As the 2019 transmission revenue requirement was based on 2018 with inflationary adjustments, the 2018 CCA schedules have been used to approximate the Accelerated CCA impact for 2019. The application of the Accelerated CCA results in a lower UCC for future years which reduces the CCA that can be claimed subsequently (Consequential CCA). Therefore, Consequential CCA amounts have been incorporated for purposes of determining the net benefits of additional CCA deductions under Accelerated CCA.

Summary of Tax Variance relating to Accelerated CCA

	Distribution	Transmission
2018	(3.2)	(0.2)
2019	(24.5)	(20.0)
2020	(21.1)	-
Total	(48.8)	(20.2)

2018

Additions eligible for accelerated CCA 12.4% **D - Note 1**

DISTRIBUTION

	A	B	C	E = B/2*C*D	F = A * C	G = E+ F	H = A + G	
CCA Class	**Opening UCC ADJ**	**Tax Additions**	**CCA Rate**	**Incremental CCA under Accelerated CCA**	**Incremental reduction/ (increase) Consequential CCA**	**Net incremental CCA under Accelerated CCA**	**Ending UCC Adjustment**	
Class 1	-	28.9	4%	(0.1)	-	(0.1)	(0.1)	
Class 2	-	-	6%	-	-	-	-	
Class 3	-	-	5%	-	-	-	-	
Class 6	-	-	10%	-	-	-	-	
Class 7	-	-	15%	-	-	-	-	
Class 8	-	36.8	20%	(0.9)	-	(0.9)	(0.9)	
Class 9	-	-	25%	-	-	-	-	
Class 10	-	24.2	30%	(0.9)	-	(0.9)	(0.9)	
Class 12	-	23.9	100%	(1.5)	-	(1.5)	(1.5)	**Note 2**
Class 13	-	7.0	N/A	-		-	-	
Class 14.1	-	5.1	5%	(0.0)	-	(0.0)	(0.0)	
Class 17	-	-	8%	-	-	-	-	
Class 42	-	-	12%	-	-	-	-	
Class 45	-	-	45%	-	-	-	-	
Class 46	-	-	30%	-	-	-	-	
Class 47	-	431.2	8%	(4.3)	-	(4.3)	(4.3)	
Class 50	-	19.8	55%	(1.3)	-	(1.3)	(1.3)	
ECE	-	-	7%	-	-	-	-	
-		576.9		(9.0)	-	(9.0)	(9.0)	
			Tax Rate	26.5%	26.5%	26.5%		
			Tax Effected	(2.4)	-	(2.4)		
			Gross up	(3.2)	-	(3.2)		

2018 Amount in Variance Account	(3.2)
Recorded in 2020	

Additions eligible for accelerated CCA 0.5% **M - Note 1**

TRANSMISSION

	I	J	K	N = J/2*K*M	O = I * K	P = N + O	Q
CCA Class	**Opening UCC ADJ**	**Tax Additions**	**CCA Rate**	**Incremental CCA under Accelerated CCA**	**Incremental reduction/ (increase) Consequential CCA**	**Net incremental CCA under Accelerated CCA**	**Ending UCC Adjustment**
Class 1	-	37.41	4%	(0.01)	-	(0.01)	(0.01)
Class 2	-	-	6%	-	-	-	-
Class 3	-	-	5%	-	-	-	-
Class 6	-	-	10%	-	-	-	-
Class 7	-	-	15%	-	-	-	-
Class 8	-	43.29	20%	(0.04)	-	(0.04)	(0.04)
Class 9	-	-	25%	-	-	-	-
Class 10	-	18.61	30%	(0.03)	-	(0.03)	(0.03)
Class 12	-	10.94	100%	(0.03)	-	(0.03)	(0.03)
Class 13	-	(0.20)	N/A	-	-	-	-
Class 14.1	-	-	5%	-	-	-	-
Class 17	-	3.84	8%	(0.00)	-	(0.00)	(0.00)
Class 42	-	-	12%	-	-	-	-
Class 45	-	-	45%	-	-	-	-
Class 46	-	-	30%	-	-	-	-
Class 47	-	967.45	8%	(0.39)	-	(0.39)	(0.39)
Class 50	-	15.17	55%	(0.04)	-	(0.04)	(0.04)
ECE	-	15.16	7%	(0.01)	-	(0.01)	(0.01)
435.24		1,096.51		(0.54)	-	(0.54)	(0.54)
			Tax Rate	26.5%	26.5%	0.3	
			Tax Effected	(0.14)	-	(0.1)	
			Gross up	(0.20)	-	(0.2)	

2018 Amount in Variance Account	(0.2)
Recorded in 2020	

2019

Additions eligible for accelerated CCA 91.0% **D - Note 1**

DISTRIBUTION	A	B	C	E = B/2*C*D	F = A * C	G = E+ F	H = A + G	
CCA Class	Opening UCC ADJ	Tax Additions	CCA Rate	Incremental CCA under Accelerated CCA	Incremental reduction/ (increase) Consequential CCA	Net incremental CCA under Accelerated CCA	Ending UCC Adjustment	
Class 1	(0.14)	11.72	4%	(0.4)	0.0	(0.4)	(0.6)	
Class 2	-	-	6%	-	-	-	-	
Class 3	-	-	5%	-	-	-	-	
Class 6	-	-	10%	-	-	-	-	
Class 7	-	-	15%	-	-	-	-	
Class 8	(0.91)	23.94	20%	(4.4)	0.2	(4.2)	(5.1)	
Class 9	-	-	25%	-	-	-	-	
Class 10	(0.90)	20.44	30%	(5.6)	0.3	(5.3)	(6.2)	
Class 12	(1.48)	30.47	100%	(13.9)	1.5	(12.4)	(13.9)	**Note 2**
Class 13	-	2.75	N/A	-		-	-	
Class 14.1	(0.03)	2.24	5%	(0.1)	0.0	(0.1)	(0.1)	
Class 17	-	-	8%	-	-	-	-	
Class 42	-	-	12%	-	-	-	-	
Class 45	-	-	45%	-	-	-	-	
Class 46	-	-	30%	-	-	-	-	
Class 47	(4.26)	421.15	8%	(30.7)	0.3	(30.3)	(34.6)	
Class 50	(1.34)	25.76	55%	(12.9)	0.7	(12.2)	(13.5)	
ECE	-	-	7%	-	-	-	-	
	(9.06)	538.47		(67.9)	3.0	(64.9)	(73.9)	
			Tax Rate	26.5%	26.5%	26.5%		
				(18.0)	0.8	(17.2)		
			Grossed up	(24.5)	1.1	(23.4)		

Total CCA Claimed		(23.4)
Less Consequential CCA related to 2018		(1.1) **Note 3**
2019 Amount in Variance Account		(24.5)

2020

Additions eligible for accelerated CCA 96.6% **D - Note 1**

DISTRIBUTION	A	B	C	E = B/2*C*D	F = A * C	G = E+ F	H = A + G	
CCA Class	Opening UCC ADJ	Tax Additions	CCA Rate	Incremental CCA under Accelerated CCA	Incremental reduction/ (increase) Consequential CCA	Net incremental CCA under Accelerated CCA	Ending UCC Adjustment	
Class 1	(0.6)	25.8	4%	(1.0)	0.0	(1.0)	(1.5)	
Class 2	-	-	6%	-	-	-	-	
Class 3	-	-	5%	-	-	-	-	
Class 6	-	-	10%	-	-	-	-	
Class 7	-	-	15%	-	-	-	-	
Class 8	(5.1)	18.0	20%	(3.5)	1.0	(2.5)	(7.5)	
Class 9	-	-	25%	-	-	-	-	
Class 10	(6.2)	22.1	30%	(6.4)	1.9	(4.5)	(10.8)	
Class 12	(13.9)	35.3	100%	(17.0)	13.9	(3.2)	(17.0)	**Note 2**
Class 13	-	4.8	N/A	-		-	-	
Class 14.1	(0.1)	7.2	5%	(0.3)	0.0	(0.3)	(0.5)	
Class 17	-	-	8%	-	-	-	-	
Class 42	-	-	12%	-	-	-	-	
Class 45	-	-	45%	-	-	-	-	
Class 46	-	-	30%	-	-	-	-	
Class 47	(34.6)	505.8	8%	(39.0)	2.8	(36.2)	(70.8)	
Class 50	(13.5)	32.5	55%	(17.2)	7.4	(9.8)	(23.3)	
	(73.9)	651.5		(84.5)	27.0	(57.5)		
			Tax Rate	26.5%	26.5%	26.5%		
				(22.4)	7.1	(15.2)		
			Grossed up	(30.5)	9.7	(20.7)		

Total CCA Claimed		(20.7)
Less Consequential CCA related to 2018		(0.3) **Note 3**
2020 Amount in Variance Account		(21.1)

2019

Additions eligible for accelerated CCA 51.2% **M - Note 1**

TRANSMISSION	I	J	K	N = J/2*K*M	O = I * K	P = N + O	Q
CCA Class	Opening UCC ADJ	Tax Additions	CCA Rate	Incremental CCA under Accelerated CCA	Incremental reduction/ (increase) Consequential CCA	Net incremental CCA under Accelerated CCA	Ending UCC Adjustment
Class 1	(0.01)	37.41	4%	(0.77)	0.0	(0.77)	(0.77)
Class 2	-	-	6%	-	-	-	-
Class 3	-	-	5%	-	-	-	-
Class 6	-	-	10%	-	-	-	-
Class 7	-	-	15%	-	-	-	-
Class 8	(0.04)	43.29	20%	(4.44)	0.0	(4.43)	(4.47)
Class 9	-	-	25%	-	-	-	-
Class 10	(0.03)	18.61	30%	(2.86)	0.0	(2.85)	(2.88)
Class 12	(0.03)	10.94	100%	(2.80)	0.0	(2.77)	(2.80)
Class 13	-	(0.20)	N/A	-	-	-	-
Class 14.1	-	-	5%	-	-	-	-
Class 17	(0.00)	3.84	8%	(0.16)	0.0	(0.16)	(0.16)
Class 42	-	-	12%	-	-	-	-
Class 45	-	-	45%	-	-	-	-
Class 46	-	-	30%	-	-	-	-
Class 47	(0.39)	967.45	8%	(39.65)	0.0	(39.62)	(40.01)
Class 50	(0.04)	15.17	55%	(4.27)	0.0	(4.25)	(4.29)
ECE	(0.01)	15.16	7%	(0.54)	0.0	(0.54)	(0.55)
	(0.54)	1,111.67		(55.49)	0.1	(55.39)	(55.93)
			Tax Rate	26.5%	26.5%	0.3	
			Tax Effected	(14.70)	0.0	(14.7)	
			Grossed up	(20.0)	0.0	(20.0)	

Total CCA Claimed		(20.0)
Less Consequential CCA related to 2018		0.0
2019 Amount in Variance Account		(20.0)

2020

NA for Transmission since accelerated CCA was included in the Transmission 2020-2022 rate application

Note 1: The percentage represents the proportion of the total annual in-service additions that were Eligible Assets (i.e., costs incurred after November 20, 2018 and placed in service before December 31 of each year).

Note 2 - The Accelerated CCA formula for Class 12 is modified to only be 1X normal CCA, since the CCA cannot exceed in-year additions

Note 3 - In accordance with the Transmission 2020-2022 decision issued in 2020, the benefit of Accelerated CCA for 2018 has been included in the variance account for both transmission and distribution. However, the Consequential CCA impact relating to reduced UCC balances in subsequent years has not been incorporated. Rather than adjusting the prior 2019 and 2020 audited tax variance balances to incorporate the 2018 Consequential CCA, the cumulative Consequential CCA (i.e. from 2019 to 2022) related to 2018 Accelerated CCA will be recorded in 2022 for efficiency as the estimated cumulative amount is not material.

REGULATORY ACCOUNTS REQUESTS

1.0 INTRODUCTION

This exhibit describes Hydro One's requests to continue, discontinue, modify and establish new regulatory accounts, both for its Transmission business and for its Distribution business. Tables 1 and 2, below, provide a listing of the accounts, based on the type of request, for each of the Transmission and Distribution businesses. Hydro One's requests to continue, discontinue, and to modify or establish new Transmission accounts are discussed in Sections 2, 3 and 4, and its requests to continue, discontinue, and to modify or establish new Distribution accounts are discussed in Sections 5, 6 and 7, respectively.

Table 1 - Summary of Transmission Account Requests

Accounts to be Continued – Transmission
1. Long-Term Transmission Future Corridor Acquisition and Development Deferral Account 2. Waasigan Transmission Line Tracking Deferral Account[1] 3. Other Post-Employment Benefit (OPEB) Cost Deferral Account 4. Customer Connection and Cost Recovery Agreements (CCRA) True-Up Variance Account 5. Tax Rate Changes Variance Account 6. Excess Export Service Revenue Variance Account 7. External Secondary Land Use Revenue Variance Account 8. External Station Maintenance, E&CS Revenue and Other External Revenue Variance Account 9. Pension Cost Differential Variance Account 10. External Revenue – Partnership Transmission Projects Deferral Account 11. Depreciation Expense (Asset Removal Costs) Asymmetrical Cumulative Variance Account 12. Earnings Sharing Mechanism (ESM) Deferral Account 13. Capital Contribution Recovery Differential Account – Barrie Area Transmission Upgrade (BATU) 14. COVID-19 Emergency Deferral Account 15. Account 1508 – Other Regulatory Assets, Sub-account Misallocated Future Tax Savings Carrying Charges for Transmission

[1] Formerly known as the North West Bulk Transmission Line (NWBTL) Deferral Account

Accounts to be Discontinued – Transmission
1. East West Tie Tracking Account 2. Supply to Essex County Transmission Reinforcement (SECTR) Tracking Account 3. Integrated System Operating Center (ISOC) Asymmetrical Variance Account – Transmission 4. Foregone Revenue Deferral Account
New or Modified Accounts Requested – Transmission
1. Capitalized Overheads Tax Variance Account – *New* 2. Externally Driven Transmission Projects Variance Account – *New* 3. Capital In-Service Variance Account (CISVA) – *Modification* 4. Rights Payments Variance Account – *Modification* 5. Other Post-Employment Benefit (OPEB) Asymmetrical Carrying Charge Variance Account – *Modification* 6. Pension and OPEB Forecast Accrual Versus Actual Cash Payment Differential Variance Tracking Account – *Modification*

Table 2 - Summary of Distribution Account Requests

Accounts to be Continued – Distribution
1. Smart Meter Entity Charge (SME) Variance Account 2. Retail Settlement Variance Account (RSVA) Accounts a. Low Voltage (LV) Variance Account b. RSVA – Wholesale Market Service Charge c. RSVA – Retail Transmission Network Charge d. RSVA – Retail Transmission Connection Charge e. RSVA – Power – Sub-Account – Power f. RSVA – Power – Sub-Account – Global Adjustment 3. Pension Cost Differential Variance Account 4. Tax Rate Changes Deferral Account 5. Long Term Load Transfer (LTLT) Rate Impact Mitigation Deferral Account 6. Earnings Sharing Mechanism (ESM) Deferral Account 7. OPEB Cost Deferral Account 8. Distributed Generation – Other Costs – Provincial – Deferral Account 9. Capital In-Service Variance Account (CISVA) 10. COVID-19 Emergency Deferral Account 11. Account 1595 – Disposition and Recovery/Refund of Regulatory Balances, Sub-account Principal Balances of Misallocated Future Tax Savings for Distribution 12. Account 1595 – Disposition and Recovery/Refund of Regulatory Balances, Sub-account Misallocated Future Tax Savings Carrying Charges for Distribution 13. Account 1595 (2019) – Disposition and Recovery of Regulatory Balances (OEB Approved) Deferral Account

14. Account 1595 (2021) – Disposition and Recovery of Regulatory Balances (OEB Approved) Deferral Account 15. Acquired Utilities' Group 2 Regulatory Accounts
Accounts to be Discontinued – Distribution
1. Integrated System Operating Center (ISOC) Asymmetrical Variance Account – Distribution 2. Customer Choice Initiative Deferral Account 3. Smart Grid Fund (SGF) Pilot Deferral Account 4. Retail Cost Variance Account
New or Modified Accounts Requested – Distribution
1. Capitalized Overheads Tax Variance Account – *New* 2. Externally Driven Distribution Projects Variance Account – *New* 3. Distribution Connection Cost Agreement (CCA) Variance Account – *New* 4. AMI 2.0 Variance Account – *New* 5. Depreciation Expense (Asset Removal Costs) Asymmetrical Cumulative Variance Account 6. Other Post-Employment Benefit (OPEB) Asymmetrical Carrying Charge Variance Account – *Modification* 7. Pension and OPEB Forecast Accrual Versus Actual Cash Payment Differential Variance Tracking Account – *Modification*

TRANSMISSION REGULATORY ACCOUNT REQUESTS

2.0 REQUESTS FOR CONTINUANCE OF TRANSMISSION REGULATORY ACCOUNTS

2.1 LONG-TERM TRANSMISSION FUTURE CORRIDOR ACQUISITION AND DEVELOPMENT DEFERRAL ACCOUNT (ACCOUNT 1508)

This account is a continuation of the account originally approved in proceeding EB-2012-0031 and in subsequent proceedings for continuation. This deferral account records transmission planning and study costs associated with preliminary corridor routing considerations for new transmission infrastructure which would otherwise be expensed. This account is requested for continuation for 2023-2027 due to the variable and unpredictable nature of any unforeseen work, which is outside of Hydro One's control that is not initially included in revenue requirement.

2.2 WAASIGAN TRANSMISSION LINE TRACKING DEFERRAL ACCOUNT2 (ACCOUNT 1508)

Hydro One Transmission submitted an application to the OEB in EB-2021-0169 to establish a deferral account for Affiliate Transmission Projects (ATP). In that application, Hydro One Transmission requested that if the ATP Account was approved, the Waasigan Transmission Line Tracking Deferral Account be closed and the balance would be transferred to and tracked in the ATP Account.

In the interim, Hydro One Transmission proposes to continue this account for 2023-2027, on the same basis as presented in Exhibit G-01-01, to record the development expenditures associated with the Waasigan (NWBTL) Project as the project is not expected to go in-service until 2024 at the earliest. The decision for the ATP request is expected to be received while the current Application is before the OEB. Hydro One Transmission will update and clarify its request with respect to this account as part of the current proceeding.

2.3 OTHER POST-EMPLOYMENT BENEFITS (OPEB) COST DEFERRAL ACCOUNT (ACCOUNT 1508)

In its EB-2019-0082 Decision, the OEB concluded that the non-service cost component of Hydro One's OPEB costs shall be recognized as OM&A for both its Transmission and Distribution businesses. During the draft revenue requirement/charge determinant process of the EB-2019-0082 proceeding, Hydro One Transmission had reflected the decision both by adjusting the test year (2020) OM&A to reflect the non-service cost component as part of revenue requirement and also disposed of the 2018 audited balance to reflect those findings. In the current Application, Hydro One Transmission is submitting the audited 2019 balance for disposition in this proceeding, which is the only remaining balance in this account. Hydro One Transmission proposes to continue this account as it is expected that there will be interest accumulation during the approved disposition period.

[2] Formerly known as the North West Bulk Transmission Line (NWBTL) Deferral Account

2.4 CUSTOMER CONNECTION AND COST RECOVERY AGREEMENTS (CCRA) TRUE-UP VARIANCE ACCOUNT (ACCOUNT 1508)

Hydro One Transmission proposes to continue to record the variance between the revenue requirement impact of capital contributions collected and the corporate income tax payments related to load true-ups performed in accordance with the Transmission System Code, section 6.5.3. As revenue requirement includes taxes, this account will also capture any applicable tax gross-up. Refer to Exhibit C-07-01 for an overview of Economic Evaluation True-Ups/CCRA and CCA.

2.5 TAX RATE CHANGES VARIANCE ACCOUNT (ACCOUNT 1592)

Hydro One Transmission will continue to use this account to track both positive and negative revenue requirement impacts arising from legislative or regulatory changes to tax rates or rules compared to costs approved by the OEB as part of the 2023-2027 transmission revenue requirement. As the revenue requirement includes taxes, this account will also capture any applicable tax gross-up. This account was established by the OEB for utilities as per the Accounting Procedures Handbook.

2.6 EXCESS EXPORT SERVICE REVENUE VARIANCE ACCOUNT (ACCOUNT 2405)

Hydro One Transmission proposes to continue to record the difference between the actual export service revenue and the revenues approved by the OEB as part of 2023-2027 transmission revenue requirement in the current application. Export transmission revenues are directly dependent on the findings of the OEB on the Export Transmission Service Rate (ETSR). This account has been approved for continuance since 2009 and there have been no changes to the application of the ETSRs. This account ensures that ratepayers receive the benefit of any export transmission revenues in excess of forecast, and enables Hydro One to ensure recovery of shortfalls in revenues relative to forecasts provided. Refer to Exhibit H-09-01 for an overview of ETSRs.

2.7 EXTERNAL SECONDARY LAND USE REVENUE VARIANCE ACCOUNT (ACCOUNT 2405)

Hydro One Transmission proposes to continue to record the difference between the actual External Secondary Land Use Revenues and the revenues approved by the OEB as part of 2023-2027 transmission revenue requirement. This account has been approved for continuance since 2009 and the external secondary land use revenues continue to be removed from rates revenue requirement. This account ensures that ratepayers receive the benefit of any external secondary land use revenues, which might be under-forecast compared to actuals, and enables Hydro One to ensure recovery of shortfalls in revenues relative to the forecasts provided. Refer to Exhibit D-02-01 for an overview of Transmission External Revenues.

2.8 EXTERNAL STATION MAINTENANCE, E&CS REVENUE AND OTHER EXTERNAL REVENUE VARIANCE ACCOUNT (ACCOUNT 2405)

Hydro One Transmission proposes to continue to record the difference between the actual External Station Maintenance, E&CS Revenues and Other External Revenues against the estimated revenues approved by the OEB as part of 2023-2027 transmission revenue requirement application. This account has been approved for continuance since 2009 and these external revenues continue to be removed from rates revenue requirement. This account ensures that ratepayers receive the benefit of any external revenues, which might be under-forecast compared to actuals, and enables Hydro One to ensure recovery of shortfalls in revenues relative to the forecasts provided. Refer to Exhibit D-02-01 for an overview of Transmission External Revenues.

2.9 PENSION COST DIFFERENTIAL VARIANCE ACCOUNT (ACCOUNT 2405)

Hydro One Transmission proposes to continue this account to record the difference between the OM&A portion of pension cost estimates based on actuarial assessments used for this Application and the actual OM&A portion of pension contributions made in respect of Hydro One Transmission as part of 2023-2027 transmission revenue requirement. This account has been approved for continuance since 2011 and Hydro One has consistently been permitted to recover pension costs through rates. This account ensures that ratepayers receive the benefit of

any shortfall in actual pension contributions made, and enables Hydro One to recover pension contributions made in excess of the forecasts provided. Refer to Exhibit E-07-01 for an overview of Pension costs.

2.10 EXTERNAL REVENUE – PARTNERSHIP TRANSMISSION PROJECTS DEFERRAL ACCOUNT (ACCOUNT 2405)

Hydro One Transmission proposes to continue this account to record costs for services provided by Hydro One Transmission employees for work they are performing for partnership opportunities, whether they are anticipated to be partnered with Hydro One Networks Inc. or Hydro One Inc., working on competitive or other potential partnership transmission projects, prior to establishment of any partnership. This account has been approved for continuance since 2013. Hydro One Transmission has and will identify specific employees to work with these potential partnership opportunities in which it has a vested interest. Hydro One Transmission will track employee time and any expenses and the resulting costs will be invoiced to the appropriate parties. The amount of invoiced costs will be recorded in the External Revenue - Partnership Transmission Project Deferral Account for reduction to future Transmission revenue requirement.

2.11 DEPRECIATION EXPENSE (ASSET REMOVAL COSTS) ASYMMETRICAL CUMULATIVE VARIANCE ACCOUNT (ACCOUNT 2405)

Hydro One Transmission proposes to continue to record differences between the revenue requirement associated with asset removal cost forecasts that have been included in the proposed depreciation expenses from 2023-2027 and actual asset removal costs incurred in each of the test years, including tax impacts on a cumulative basis. Due to the asymmetrical nature of this account, the account ensures that ratepayers receive the benefit of any shortfall in asset removal costs incurred. Refer to Exhibit E-08-01 for an overview of Depreciation and Amortization Expenses, including asset removal costs.

2.12 EARNINGS SHARING MECHANISM (ESM) DEFERRAL ACCOUNT (ACCOUNT 2435)

Hydro One Transmission proposes to continue this account to record 50% of earnings that exceed the regulatory return on equity (ROE) reflected in this Application by more than 100 basis points in any year of the five-year term. Due to the asymmetrical nature of this account, this account ensures that ratepayers receive the benefit of any applicable over-earnings. This account will also capture any applicable tax gross up on earnings to be shared with ratepayers. Refer to Exhibit A-04-01 for an overview of Earnings Sharing Mechanism (ESM).

2.13 CAPITAL CONTRIBUTION RECOVERY DIFFERENTIAL ACCOUNT – BARRIE AREA TRANSMISSION UPGRADE – BATU (ACCOUNT 1508)

Hydro One Transmission proposes to continue to capture the tax grossed-up difference between the interest income Hydro One will receive at the OEB's prescribed CWIP rate and Hydro One Transmission's OEB-approved weighted average cost of capital on the unpaid capital contribution from the customer as approved in EB-2018-0117. Hydro One Transmission will be receiving the capital contribution over the term of this Application after the asset is placed in-service as per the Transmission System Code, section 6.1.3. Refer to Exhibit C-07-01 for an overview of Economic Evaluation True-Ups/CCRA and CCA.

2.14 COVID-19 EMERGENCY DEFERRAL ACCOUNT (ACCOUNT 1509)

This account was the subject of an OEB consultation process (EB-2020-0133), with respect of the scope and operation of the account, as well as the timing and process for its disposition. On June 17, 2021, the OEB issued the *Report of the Ontario Energy Board: Regulatory Treatment of Impacts Arising from the COVID-19 Emergency* (Report) which establishes guidelines for the COVID-19 deferral account. As a result of the conclusions made in the Report, Hydro One Transmission intends to reflect applicable changes in the 2021 audited balances. In the interim, Hydro One Transmission proposes to continue this account.

2.15 ACCOUNT 1508 – OTHER REGULATORY ASSETS, SUB-ACCOUNT MISALLOCATED FUTURE TAX SAVINGS CARRYING CHARGES FOR TRANSMISSION

This account was approved for establishment in the EB-2020-0194 proceeding. This account records interest on the outstanding principal balance of the Misallocated Future Tax Savings over the approved recovery period. Hydro One Transmission proposes to continue this account so that the accumulated balance can be requested for disposition in the next rebasing application.

3.0 REQUESTS FOR DISCONTINUANCE OF TRANSMISSION REGULATORY ACCOUNTS

3.1 EAST-WEST TIE TRACKING ACCOUNT (ACCOUNT 1508)

This account was established in EB-2012-0031. However, following the EB-2016-0160 Decision, Hydro One only continued the second category of the prior approved account whereby, as the incumbent transmitter, Hydro One would track costs for expenditures incurred relating to preliminary engineering and other station connection work required to accommodate the East West Tie line. Hydro One Transmission proposes discontinuation of this tracking account as the major components of the East West Tie Line will be completed and placed in service in 2021 and 2022, with minor portions expected to be concluded in early 2023; therefore, there is no need to maintain this tracking for visibility to the OEB and relevant stakeholders.

3.2 SUPPLY TO ESSEX COUNTY TRANSMISSION REINFORCEMENT (SECTR) TRACKING ACCOUNT (ACCOUNT 1508)

This account was approved by the OEB in EB-2013-0421 for the purpose of recording construction costs relating to the OEB-approved SECTR Project. The major portions of the SECTR project was completed and placed in-service during 2017 and 2018. Work on certain minor potions of the project concluded this year. The SECTR cost allocation issue that gave rise to the account has been resolved in EB-2019-0120; therefore, Hydro One Transmission proposes discontinuation of this tracking account.

3.3 INTEGRATED SYSTEM OPERATING CENTER (ISOC) ASYMMETRICAL VARIANCE ACCOUNT – TRANSMISSION (ACCOUNT 2405)

This account was established as part of the EB-2019-0082 proceeding, whereby the account would track the revenue requirement of the actual cost for the ISOC project against the forecast revenue requirement, with any actual shortfall being returned to ratepayers. Hydro One Transmission proposes discontinuation of this account as the project is expected to be in-serviced prior to 2023.

3.4 FOREGONE REVENUE DEFERRAL ACCOUNT (ACCOUNT 1508)

This account was established as part of the EB-2019-0082 proceeding. The account records the differences between revenues earned with the interim UTRs for 2020, and the revenues that would have been received based on the OEB-approved 2020 UTRs. In the OEB's decision for 2021 UTRs in EB-2020-0251 Decision on December 17, 2020, the OEB approved a two-year disposition of the accumulated 2020 foregone revenue. Hydro One Transmission expects collection of this account to conclude prior to January 1, 2023; therefore, Hydro One Transmission proposes discontinuation of this account.

4.0 REQUESTS FOR NEW OR MODIFIED TRANSMISSION REGULATORY ACCOUNTS

4.1 CAPITALIZED OVERHEADS TAX VARIANCE ACCOUNT (TRANSMISSION) – *NEW*

The following is in support of Hydro One's requests for new Capitalized Overheads Tax Variance Accounts for each of its Transmission and Distribution businesses. The rationale for and proposed operation of the accounts is identical.

As noted in Exhibit E-09-01, Hydro One regularly reviews its tax filing positions to ensure that they continue to be supportable, that they reflect the tax landscape Hydro One operates in, that

current tax deductions are optimized,[3] and that Regulatory Taxes to be recovered from ratepayers are minimized (Tax Review). In connection with a recent Tax Review, and in recognition of the OEB's direction for Hydro One to review its approach to overhead capitalization[4], Hydro One revisited the tax treatment of accounting capitalized overheads and concluded that there is potential to accelerate its deductions of capitalized overheads for tax purposes (Tax Deductible Capitalized Overheads) on its income tax returns (the Updated Approach) as compared to the capitalized overheads it had been deducting previously (the Original Approach). The Original Approach was established while Hydro One was subject to the PILs regime and was based on a 2004 agreement with the Ministry of Finance (MOF). That agreement is no longer relevant as Hydro One's tax assessments have been subject to the Canada Revenue Agency (CRA) income tax regime post initial public offering (IPO). The Tax Review identified a supportable basis for accelerating the tax deduction relating to capitalized overheads, thereby enabling Hydro One to reduce its Regulatory Taxes in the near term. See Section 6.4 of Exhibit E-09-01 for additional details.

Hydro One's forecasted 2023-2027 Regulatory Taxes for Transmission and Distribution have been calculated on the basis of the Updated Approach, thereby reducing Hydro One's Regulatory Taxes and overall revenue requirement over the test period in this Application by approximately $73M.

Moreover, through its Tax Review, Hydro One determined that there is an opportunity for Hydro One to amend prior year income tax returns and apply the Updated Approach to each of its annual income tax returns going back to 2016, being the first full year Hydro One was subject to federal income tax following the IPO.

[3] As mandated by the OEB; See 2006 EDR Handbook and 2016 Transmission Rate Filing Requirements, which require utilities to claim maximum annual allowable tax deductions.

[4] In EB-2019-0082, the OEB ordered that a detailed review of Hydro One's methodology regarding overhead capitalization be filed in its next rebasing application. See Decision and Order dated April 23, 2020, p. 183.

Doing so enables Hydro One to access potential immediate tax savings from those prior years. Hydro One wishes to provide the benefit of any such tax savings that it may ultimately realize to ratepayers despite the general prohibition against retroactive and retrospective ratemaking because Hydro One recognizes that its Regulatory Taxes from 2016 to 2022 would have been lower had the Updated Approach been adopted. As such, Hydro One intends to adopt the Updated Approach retroactively starting in 2016 and has filed with the CRA an amendment request to its 2016 tax return to reflect the additional deductions. The company also intends to amend its 2017 to 2019 tax filings pending CRA's concurrence with the proposed 2016 amendment.

While Hydro One believes that the Updated Approach is supportable and has confirmed the approach with its external tax advisors, there is no definitive test for what constitutes a current expense as opposed to a capital expenditure for tax purposes. Consequently, the Updated Approach to deduct additional Tax Deductible Capitalized Overheads is subject to CRA concurrence. More particularly, until a taxation year is statute-barred, Hydro One is subject to the risk of a CRA audit. Should the CRA disagree with Hydro One's additional deductions for Tax Deductible Capitalized Overheads in a particular tax year, whether for a prior tax year back to 2016 or a future tax year during the 2023-2027 period, CRA may deny some or all of those deductions through its audit and reassessment process. Moreover, concurrence by CRA in one year is not a guarantee that CRA will concur with the approach in a subsequent year.

Hydro One is therefore requesting variance accounts, for each of its Transmission business and its Distribution business, to enable it to provide the benefits of any realized tax savings from the Updated Approach in respect of the 2016 to 2022 tax years to ratepayers, as well as to protect Hydro One from the risk that the tax savings from the Updated Approach, which have been built into the proposed Transmission and Distribution revenue requirements for the 2023-2027 period, are ultimately rejected, in whole or in part, by CRA. These variance accounts are intended to capture the full revenue requirement arising from the consequential impact of

adopting the Updated Approach.[5] Hydro One's intention is to bring forward the balance of the account for disposition, along with applicable carrying costs, in its next rebasing application.[6]

To further elaborate, if the CRA accepts the Updated Approach, this account would capture the grossed up regulatory tax variance arising from the additional Capitalized Overheads deductions under the Updated Approach compared to that under the Original Approach less any associated consequential CCA impact as illustrated below (the Capitalized Overheads Tax Variance) for the 2016 to 2022 tax years. Conversely, if CRA denies the Updated Approach, this account would capture the recovery of the grossed up tax benefits that has been given to rate-payers as a result of adopting the Updated Approach in the 2023 to 2027 rate application. The Capitalized Overheads Tax Variance for a particular tax year will only be recorded when that year is statute-barred or has been audited by the CRA with no adjustments related to the Updated Approach.

In relation to the 2016 – 2022 period, the example below illustrates the computation of the Capitalized Overheads Tax Variance (before interest). Using the 2016 taxation year as an example, in the event the CRA accepts the Updated Approach the calculation is as follows:

[5] Including the associated tax impact (i.e., any applicable tax gross-up)

[6] Due to the time period between filing amendments to the tax returns and the time when such year is either accepted by the CRA through audit or becomes statute barred, the majority of the tax benefits associated with adopting the Updated Approach in 2016 to 2022 will be recognized in the 2023-2027 period. Consequently, the account should be disposed of at the next rebasing period, since more tax years would have been statute barred and audited by the CRA by then.

	Ref	Amounts
Capitalized overhead deductions as filed	A	$62M
Capitalized overhead deductions with Updated Approach	B	$128M
Additional Capitalized overhead deducted for tax	C =B-A	$66M
Less: Associated CCA Impact from 2016- 2027[7]	D	$45M[8]
Net Tax Deduction	E = C-D	$21M
Tax Rate	F	26.5%
Net Tax Benefit to be returned (before tax gross-up)	G = E * F	$6M
Net Tax Benefit to be returned (with tax gross-up)	G/0.735	$8M

For greater certainty, Hydro One clarifies that the proposed accounts, for Transmission and Distribution, are intended only to capture the consequential impact to Regulatory Taxes, if any, solely attributable to the CRA's assessment or reassessment of the Updated Approach for any or all of the years from 2016 to 2027. As previously stated, the amounts to be recorded will be recognized when there is certainty that the Updated Approach has been accepted for a particular year, which is the earlier of (i) when a particular tax year is audited and the Updated Approach is accepted by the CRA and (ii) when the particular tax year has become statute barred.[9]

Given the risk Hydro One is taking on by building the savings from the Updated Approach into the current Application prior to receiving CRA concurrence, it is appropriate for the proposed variance accounts to be symmetrical and enable Hydro One to record any future recovery from

[7] The Updated Approach accelerates tax deductions resulting in an immediate tax deduction that is partially offset through lower tax depreciation (lower CCA from lower undepreciated capital cost (the UCC)) inclusive to 2027. This represents the cumulative CCA impact up to 2027 from lower UCC until the next rebasing application.
[8] The $45M CCA impact in the example is cumulative reduction in CCA deductions for the period from 2016 to 2027, assuming an average CCA rate of 10% on a declining balance basis.
[9] The statute barred period begins four years from the mailing date of the original Notice of Assessment.

ratepayers arising from any additional income tax amounts that Hydro One is assessed in the event the CRA disagrees with the Updated Approach.

With respect to the OEB's eligibility criteria for establishing new regulatory accounts, Hydro One notes as follows:

The costs proposed to be captured in each of the Transmission and Distribution Capitalized Overhead Tax Variance Accounts meet the causation criterion. This is due to the fact that the forecasted amounts in these accounts will be clearly outside of the bases upon which the previously approved rates were derived, and outside of the bases upon which the rates proposed in the current Application will be derived. The Updated Approach was not incorporated in the 2016 to 2022 applications for Transmission or Distribution. Therefore, any tax benefits from the CRA accepting the Updated Approach for those years would be outside of the Regulatory Taxes reflected in revenue requirement during the 2016-2022 years. Moreover, because the Updated Approach has been incorporated into the current Application for 2023 to 2027, any tax impact arising from the CRA rejecting the Updated Approach for those tax years would also be outside of the Regulatory Taxes incorporated into the current Application and would thereby meet the test for causation.

With respect to prudence, the costs that will be captured in the proposed accounts meet the eligibility criterion for prudence as the tax benefits related to capitalized overheads incorporated in rate applications is based upon tax legislation and CRA guidance. Once it was identified that there was an opportunity to deduct incremental Tax Deductible Capitalized Overheads to reduce recent and near-term tax costs, Hydro One incorporated this Updated Approach into the current 2023 to 2027 rate Application.

With respect to materiality, the costs that Hydro One proposes to capture in each of the Transmission and Distribution Capitalized Overhead Tax Variance Accounts meet the materiality threshold for each of Transmission and Distribution. This is due to the fact that, should the CRA

accept the Updated Approach, the amount to be returned to rate-payers is expected to be $42M for Transmission and $29M for Distribution relating to the 2016 to 2022 tax years. The net tax benefit to be collected from rate-payers should the CRA deny the Updated Approach is expected to be $36M for Transmission and $37M for Distribution over the 2023-2027 period.

A copy of the Draft Accounting Order for the Capitalized Overheads Tax Variance Account (Transmission) is provided in Attachment 1. A copy of the Draft Accounting Order for the Capitalized Overheads Tax Variance Account (Distribution) is provided in Attachment 5.

4.2 EXTERNALLY DRIVEN TRANSMISSION PROJECTS VARIANCE ACCOUNT - *NEW*

Hydro One Transmission requests a new symmetrical variance account (Account 1508 – Other Regulatory Assets, Sub-Account Externally Driven Transmission Projects Variance Account) to record the revenue requirement impact, including tax, of variances between the in-service additions embedded in Hydro One's approved revenue requirement relating to mandatory transmission construction, expansion, reinforcement, modification and relocation work required by governmental authorities, including indirectly through agencies, Crown corporations, or similar parties through regulation, policy changes or other official directives (Externally Driven Work) and the actual in-service additions arising from Externally Driven Work during the 2023-2027 period.

From time to time, Hydro One is directed or otherwise required by governmental authorities, including indirectly through agencies, Crown corporations, or similar parties to undertake development and/or construction work in relation to new, expanded or modified transmission facilities. Pursuant to various legislative and regulatory mechanisms, Hydro One Transmission may receive directions from the IESO, Orders in Council from the Province or directions from the Minister of Energy, Northern Development and Mines (the Ministry), to undertake certain work. Alternatively, the Ministry or Province may direct the OEB to require Hydro One to undertake certain work as a condition of its Electricity Transmission Licence or as a result of a policy change. In addition, Hydro One Transmission may be required to relocate existing transmission

facilities to accommodate infrastructure projects on roads. In these circumstances, the work is typically complex and large in scale, externally driven by third party authorities and it is mandatory for Hydro One to perform the work. Moreover, the timing and pacing for such externally driven work can be difficult to forecast as it is typically subject to the discretion of the relevant third-party authorities.

In developing its investment plans, Hydro One Transmission uses the best information available to forecast investment needs including for Externally Driven Work. Those forecasts are based on reasonably anticipated customer and system requirements developed through detailed engineering analysis, integrated system and customer studies, and third-party requests. However, due to Externally Driven Work being mandatory, significant in scale and outside of Hydro One's control, there are significant risks in relation to cost and schedule for this work. Projects may be announced or cancelled, and their timing may be advanced or delayed, all at the discretion of the relevant third-party. Where the scope or timing of an externally driven project changes as a result of Hydro One receiving new instructions from the appropriate authority, this can have significant impacts on Hydro One's ability to fulfill its other transmission investment plans.

Moreover, there is a risk that over the rate period Hydro One receives additional directions or orders to undertake externally driven projects not currently contemplated. This can have significant impacts on Hydro One's ability to complete other planned transmission system investments based on the capital funding envelope approved in this Application. Previously, during the course of two or three year rate terms, IESO direction has been received between application periods, for significant investments such as the enhancement to the Northwest Special Protection System as an interim measure between the retirement of coal generation and the completion of the East-West Tie, and the installation of reactors at Lennox TS to address high system voltage on lightly loaded circuits. Given the five year term for the current application, any future IESO direction, which is not currently contemplated and may have a more significant impact on the proposed capital plan, can be received during the term of the

current application. As such, the Externally Driven Transmission Projects Variance Account would ensure that any future IESO direction can be accommodated without having to defer the required investments in system needs.

The transmission investment plans underlying Hydro One Transmission's proposed revenue requirement in this Application include the following Externally Driven Work:

		In-Service Additions[10] (2023-2027)
ISD	ISD Name	
System Access		
T-SA-04	Connect Metrolinx Traction Substations	8
T-SA-07	Secondary Land Use Projects	50
System Service		
T-SS-02	St. Lawrence TS: Phase Shifters Replacement	34
T-SS-03	Merivale TS to Hawthorne TS: 230kV Conductor Upgrade	9
T-SS-04	Richview x Trafalgar 230kV Conductor Upgrade	50
T-SS-07	West of Chatham Reinforcement	36
T-SS-09	West of London Reinforcement	77

With respect to the potential for new externally driven work requirements that may arise during the 2023-2027 period, as an example, Hydro One Transmission could receive directives or orders to undertake material transmission investments as governmental authorities seek to address factors such as changes in the provincial supply mix, transportation electrification and

[10] The referenced Investment Summary Documents cover the capital expenditures associated with each of the investments and the table covers the in-service additions with respect to the associated capital expenditures.

expansion, as well as strategic infrastructure expansion that facilitates targeted industrial, residential or telecommunication infrastructure development.

Rather than increasing the current capital forecast and the associated revenue requirement to accommodate this unpredictable capital work, or risking the accomplishment of the capital plan once approved by the OEB by having to redirect significant resources away from planned investments should new externally driven needs arise, Hydro One Transmission requests establishment of the Externally Driven Transmission Projects Variance Account. As a symmetrical account, the impact of any variation in Externally Driven Work relative to what is recovered in revenue requirement will be recorded in this account, with the revenue requirement related impact of the underspending returned to ratepayers and the revenue requirement related impact of increased spending recorded in the account for future recovery.

As the revenue requirement includes tax, any associated tax impacts, such as capital cost allowance and tax gross-ups, will also be captured in this account. To mitigate the risk of double-counting impacts, the in-service amounts used to calculate the balance in this account would not be factored into the calculation of the Transmission Capital In-Service Additions Variance Account. Moreover, this proposed account would not include any Externally Driven Work that is expected to be owned and included in the rate base of any new project partnership affiliated with Hydro One Transmission, as those amounts would instead be recorded in the proposed Affiliate Transmission Projects (ATP) Account.[11] However, to the extent that the affiliate/partnership projects captured by that account require Hydro One Transmission to undertake Externally Driven Work for facilities that will be owned by and included in Hydro One Transmission's rate base, such as stations work, those particular amounts would be reflected in the Externally Driven Transmission Projects Variance Account.

[11] The Affiliate Transmission Projects Account was requested by Hydro One on May 28, 2021 in EB-2021-0169.

With respect to the OEB's eligibility criteria for establishing new regulatory accounts, Hydro One notes as follows:

The costs proposed to be captured in the Externally Driven Transmission Projects Variance Account meet the causation criterion because the amounts to be recorded in these accounts will be clearly outside of the base upon which the rates proposed in the current Application will be derived. With respect to prudence, the costs that will be captured in the proposed account meet the eligibility criterion for prudence as the investments to be undertaken in connection with Externally Driven Work are required to respond to directives and other legal obligations that are imposed on Hydro One Transmission by legislation, and other regulatory requirements. While Hydro One makes significant efforts to forecast reasonable expenditures, the pacing and level of expenditures related to Externally Driven Work can significantly deviate from the levels forecasted in the Application. As per the OEB's Filing Requirements (section 2.1.1), Hydro One Transmission materiality threshold is $3M. Hydro One believes that the amounts to be recorded in the proposed variance account will likely be material and exceed the $3M threshold given the large scale of Transmission projects and the capital work.

A copy of the Draft Accounting Order for the Externally Driven Transmission Projects Variance Account is provided in Attachment 2.

4.3 CAPITAL IN SERVICE VARIANCE ACCOUNT (CISVA) (ACCOUNT 2405) – *MODIFICATION*

Hydro One Transmission proposes to continue this account, subject to modification requested below, to record the revenue requirement impact related to the net cumulative variance over the 2023-2027 period between the OEB-approved in-service capital additions forecast and the actual in-service capital additions. As the revenue requirement includes tax, any associated tax impact, such as capital cost allowance and tax gross-ups, will also be captured in this account.

The CISVA currently measures the revenue requirement impact associated with the difference between actual in-service additions in relation to OEB-approved in-service additions.[12] It excludes verifiable productivity savings to ensure that true productivity savings are incented through the Custom IR term. In addition, the account includes a 2% dead-band.

Hydro One Transmission requests that the CISVA be modified to enable the balance in the account to be calculated yearly using the cumulative in-service additions over the Custom IR term so as to provide an opportunity for Hydro One to "catch-up" in later years within the term on any shortfalls in in-service additions that may occur in earlier years, and thereby to reverse the applicable impact recorded in a prior year of under in-servicing to the extent it makes up for such a shortfall. This modification would remove the incentive to complete projects in December of any given year when it would be more appropriate and cost-effective to instead complete such projects in January of the following year, which is an issue that is particularly significant for the Transmission business where projects are large in scale and multi-year in nature. This ensures that funding is being used in the most prudent manner.

Additionally, this modification ensures that if there are projects that are delayed outside of Hydro One's control, Hydro One is not unfairly penalized. While Hydro One is open to having the Distribution CISVA operate in the same manner for consistency, it is only proposing this modified revenue requirement calculation for its Transmission CISVA because of the recognition that the issue being addressed by the modification is uniquely relevant to the Transmission business.

[12] As noted in the Revenue Requirement and Charge Determinant Order (EB-2019-0082 July 16, 2020, page 24), the OEB panel in the next rebasing (i.e. the current application) may examine if there is any impact from the COVID-19 pandemic on the CISVA to determine if it is reasonable to make any adjustments to the calculation.

Additionally, as indicated in Section 4.2 above, the in-service amounts used to calculate the balance in the Externally Driven Transmission Projects Variance Account would not be factored into the calculation of the CISVA.

A Draft Accounting Order reflecting the proposed modification to the CISVA is provided in Attachment 3. An illustrative example for the proposed CISVA mechanics is provided in Attachment 10 for Transmission, together with a supplementary illustrative example for Distribution.

4.4 RIGHTS PAYMENTS VARIANCE ACCOUNT (ACCOUNT 2405) – *MODIFICATION*

Hydro One Transmission proposes to continue this account subject to the modification described below. As explained in Exhibit G-01-01, this account is used to capture the difference between forecast rights payments and the actual costs incurred by Hydro One Transmission for rights payments. Rights payments are generally paid when Hydro One's line facilities cross and/or occupy properties owned by other parties, such as First Nations or railway companies. This account has been approved for continuance since 2011. The account ensures that ratepayers receive the benefit of any shortfall in actual rights payments made, and enables Hydro One to recover rights payments made in excess of the forecast used to establish the Transmission revenue requirement. In addition to continuing to use the account to record such variances over the 2023-2027 period, Hydro One Transmission requests approval to modify the terms of the account to provide greater clarity on the nature and scope of rights payments that may be captured.

When the account was initially established in EB-2010-0002, it was established on the basis of Hydro One's description of its rights payments as being inclusive of (i) payments of fees under agreements or permits with railway companies and government entities for rights to cross and/or occupy their properties, (ii) payments of annual rental fees under permits and agreements from or with the Department of Indian and Northern Affairs Canada, through which Hydro One had approvals for its lines and stations to cross and/or occupy First Nation Reserves,

and (iii) amounts it has to pay to obtain all required consents necessary to complete the transfer of title to Hydro One for lands relating to approximately 82 km of transmission lines, in respect of which Hydro One incurs continuing payments and is engaged in ongoing negotiations with various First Nation bands.[13]

Hydro One continues to incur costs for rights payments that clearly fall within the first two categories described above. With respect to the third category of rights payments described above, Hydro One has found through its continued efforts to obtain the consents that the form and characterization of payments ultimately required in connection with securing such consents can be varied. For example, Hydro One has had discussions with First Nations in the context of entering into "Long Term Relationship Agreements" under which there may be payments made as part of relationship commitments to address ongoing utility activities within traditional territories, as well as payments for releases for historical utility activities carried out within traditional territories. While such payments may not be expressly for the use of lands, the context is such that the payments must be made as a prerequisite to securing the consents that are required to complete the transfer of title to Hydro One for the relevant lands, or as an essential component in reaching an overall settlement of issues which enables Hydro One to secure the consents required to complete the transfer of title to Hydro One for the relevant lands. As such, Hydro One requests approval for the Rights Payments Variance Account to be used to capture amounts in relation to payments that Hydro One is required to make under Long Term Relationship Agreements or similar, regardless of how those payments are characterized or their form, so long as the payments are necessary for Hydro One to obtain the consents required to complete the transfer of title to Hydro One for the relevant lands. Refer to Exhibit E-09-04 for an overview of Rights Payments.

A Draft Accounting Order reflecting the proposed modification to Rights Payments Variance Account is provided in Attachment 4.

[13] See Exhibit C1-2-13, EB-2010-0002.

4.5 OPEB ASYMMETRICAL CARRYING CHARGE VARIANCE ACCOUNT (ACCOUNT 1522) – *MODIFICATION*

Hydro One Transmission proposes to continue this account in accordance with the *OEB's Report on the Regulatory Treatment of Pension and OPEB Costs* (EB-2015-0040), subject to the modification described below, to record the carrying charges to be returned to ratepayers based on the Pension and OPEB forecast accrual versus actual cash payment differential variance tracking account balance.

In EB-2019-0082, Hydro One Transmission proposed an alternative approach to calculating the amounts to be recorded in the account, as contemplated in the OEB's Report from EB-2015-0040. In its Decision in the EB-2019-0082 proceeding, the OEB indicated that it did not agree with Hydro One's proposed alternative approach to calculating the OPEB Asymmetrical Carrying Charge Account and it therefore did not approve Hydro One's calculation for the balance in the account.[14] In reaching this conclusion, the OEB stated the following:

> *The OEB accepts that Hydro One may not have the information to adopt the alternate approach proposed by OEB staff and therefore will not order that methodology. Hydro One may either adopt the default methodology, or propose a methodology that reflects the OPEB costs in the total depreciation expense based on reasonable assumptions. The OEB will assess Hydro One's approach for both the transmission and distribution businesses in the joint application for 2023 rates.*[15]

In the current Application, Hydro One is proposing a new alternative methodology that responds to the OEB's findings and reflects the OPEB costs in total depreciation expense based on reasonable assumptions. Hydro One performed a review of readily available Hydro One Transmission and Distribution financial statements from 1999 (the formation date of Hydro One) to 2019. The capitalized OPEBs and useful lives of capital assets are disclosed in the

[14] EB-2019-0082, Decision and Order, April 23, 2020, p. 165
[15] EB-2019-0082, Decision and Order, April 23, 2020, p. 167

financial statements. Using this information, Hydro One created a record of historical OPEB capitalization that estimates a yearly depreciation expense based on the OPEB amounts capitalized. Note that overall, the useful lives for transmission assets are longer than distribution assets.

With respect to the determination of the accrual amount in rates, Hydro One obtained the 2018-2020 OPEB amounts recovered through OM&A for both transmission and distribution businesses from the respective rate applications. The 2018-2020 OPEB amounts recovered through depreciation were obtained from the historical OPEB capitalization file as previously noted.

With respect to the determination of actual cash payments made, Hydro One obtained the information from the Hydro One Transmission and Hydro One Distribution financial statements.

The OPEB Asymmetrical Carrying Charge account calculation was performed, commencing January 1, 2018 and through to the effective date of the account, based on this updated methodology which Hydro One believes is in line with the OEB's direction. Hydro One requests that the OEB approve this proposed new alternative methodology for the OPEB Asymmetrical Carrying Charge account calculation.

4.6 PENSION AND OPEB FORECAST ACCRUAL VERSUS ACTUAL CASH PAYMENT DIFFERENTIAL VARIANCE TRACKING ACCOUNT (ACCOUNT 1522) – MODIFICATION

Hydro One Transmission proposes to continue this account in accordance with the *OEB's Report on the Regulatory Treatment of Pension and OPEB Costs* (EB-2015-0040), to track the difference between the forecasted accrual amount in rates and actual cash payment(s) made. Hydro One Transmission seeks to continue this account on the same basis as currently calculated for the OPEB Asymmetrical Carrying Charge Variance Account discussed in Section 4.5 above.

DISTRIBUTION REGULATORY ACCOUNT REQUESTS

5.0 REQUESTS FOR CONTINUANCE OF DISTRIBUTION REGULATORY ACCOUNTS

5.1 SMART METER ENTITY (SME) CHARGE VARIANCE ACCOUNT (ACCOUNT 1551)

This account is a continuation of the account that was established consistent with the direction in the OEB's decision in proceeding EB-2012-0100/EB-2012-0211, dated March 28, 2013. As outlined in Exhibit G-01-01, a letter was issued from the OEB on March 23, 2018 to all licensed electricity distributors indicating that they expect them to continue using the smart meter entity charge variance account to record the difference between the smart metering charge paid to the Smart Metering Entity (effectively, the IESO) and amounts charged to customers. As a result of the Smart Meter Entity Decision approving the SME charges for 2018-2022 in EB-2017-0290 on March 28, 2018, this charge was updated to $0.57 per month, effective January 1, 2018 to December 31, 2022.

Hydro One Distribution requests continuance of this account so that any of the accumulated balance captured in the account can be requested for disposition in the next rebasing rates application.

5.2 RETAIL SETTLEMENT VARIANCE ACCOUNT

Hydro One Distribution will continue to use this account (which encompasses several sub-accounts as further described in Exhibit G-01-01) to record the differences between the amounts owed to the IESO/host distributors and the amount billed to customers and retailers. This is an account that was established by the OEB for all distributions as per the Accounting Procedures Handbook.

5.3 PENSION COST DIFFERENTIAL VARIANCE ACCOUNT (ACCOUNT 2405)

Hydro One Distribution proposes to continue to record the difference between the OM&A portion of pension cost estimates based on actuarial assessments used for this Application and

the actual OM&A portion of pension contributions made in respect of Hydro One Distribution as part of 2023-2027 distribution revenue requirement. This account has been approved for continuance since 2012 and Hydro One has consistently been permitted to recover pension costs through rates. This account ensures that ratepayers receive the benefit of any shortfall in actual pension contributions made, and enables Hydro One to recover pension contributions made in excess of the forecasts provided. Refer to Exhibit E-07-01 for an overview of Pension costs.

5.4 TAX RATE CHANGES VARIANCE ACCOUNT (ACCOUNT 1592)

Hydro One Distribution will continue to use this account to track the revenue requirement impact of legislative or regulatory changes to tax rates or rules compared to costs approved by the OEB as part of 2023-2027 distribution rates. As the revenue requirement includes taxes, this account will also capture any applicable tax gross up. This is an account that was established by the OEB for utilities as per the Accounting Procedures Handbook.

5.5 LONG TERM LOAD TRANSFER (LTLT) RATE IMPACT MITIGATION DEFERRAL ACCOUNT (ACCOUNT 1508)

Hydro One Distribution proposes to continue to record lost revenue resulting from the rate impact mitigation plan for Residential and General Service rate class customers affected by the move from Hydro Ottawa and other local distribution companies (LDCs) to Hydro One as well as any costs involved in the set-up of such a plan. The impacted customers receive a monthly bill credit to offset the increase in delivery charges, as prescribed in Section 6.5.4 of the Distribution System Code (DSC). This account enables Hydro One Distribution to be kept whole and recover its lost revenues in order to be compliant with Section 6.5.4 of the DSC.

5.6 EARNINGS SHARING MECHANISM DEFERRAL ACCOUNT (ACCOUNT 2435)

Hydro One Distribution proposes to continue this account to record 50% of earnings that exceed the regulatory ROE reflected in this Application by more than 100 basis points in any year of the five-year term. Due to the asymmetrical nature of this account, the account ensures that

ratepayers receive the benefit of any applicable over-earnings. This account will also capture any applicable tax gross up on earnings to be shared with rate-payers. Refer to Exhibit A-04-01 for an overview of ESM.

5.7 OPEB COST DEFERRAL ACCOUNT (ACCOUNT 1508)

In its EB-2019-0082 Decision, the OEB concluded that the non-service cost component of Hydro One's OPEB costs shall be recognized as OM&A for both its Transmission and Distribution businesses. Since that Decision was made outside of a rebasing application for Hydro One Distribution, the OEB recognized that Hydro One Distribution would need to continue accumulating the impacted OPEB costs in the OPEB cost deferral account until its next rebasing application. Hydro One Distribution is requesting disposition of audited 2020 balances in this Application and requests continuance of this account, so that the residual balance for 2021 and 2022 can be brought forth for disposition in the next rebasing application.

5.8 DISTRIBUTED GENERATION – OTHER COSTS – PROVINCIAL – DEFERRAL ACCOUNT (ACCOUNT 1533)

Hydro One Distribution proposes to continue this account to record funding relating to renewable distributed generation connection investments, as Hydro One Distribution continues to incur costs eligible for direct benefit treatment as per Ontario Regulation 330/09. Refer to Exhibit G-01-01 for more information.

5.9 CAPITAL IN-SERVICE VARIANCE ACCOUNT (CISVA) – ACCOUNT 2405

Hydro One Distribution proposes to continue this account to record the revenue requirement impact related to net cumulative variance over 2023-2027 between the OEB-approved in-service capital additions forecasts and the actual amounts. As the revenue requirement includes tax, any associated tax impact, such as capital cost allowance and tax gross ups, will also be captured in this account. The account calculation excludes verifiable productivity savings to ensure that true productivity savings are incented through the Custom IR term.

Additionally, as indicated in Sections 7.2 and 7.4 of this exhibit, the in-service amounts used to calculate the balance in the Externally Driven Distribution Projects Variance Account and AMI 2.0 Variance Account would not be factored into the calculation of the CISVA. Refer to Attachment 10 for an illustrative example of the Distribution account calculations.

5.10 COVID-19 EMERGENCY DEFERRAL ACCOUNT (ACCOUNT 1509)

This account was the subject of an OEB consultation process (EB-2020-0133), with respect of the scope and operation of the account, as well as the timing and process for its disposition. On June 17, 2021, the OEB issued the Report which establishes guidelines for the COVID-19 deferral account. As a result of the conclusions made in the Report, Hydro One Distribution intends to reflect applicable changes in the 2021 audited balances. In the interim, Hydro One Distribution proposes to continue this account.

5.11 ACCOUNT 1595 – DISPOSITION AND RECOVERY/REFUND OF REGULATORY BALANCES, SUB-ACCOUNT PRINCIPAL BALANCES OF MISALLOCATED FUTURE TAX SAVINGS FOR DISTRIBUTION

This account was approved for establishment in the EB-2020-0194 proceeding. This account tracks the difference between the amount of Misallocated Future Tax Savings approved in the EB-2020-0194 proceeding and the amount recovered during the approved recovery period. Hydro One Distribution proposes to continue this account so that the accumulated balance can be requested for disposition in the next applicable annual update or rates rebasing application.

5.12 ACCOUNT 1595 – DISPOSITION AND RECOVERY/REFUND OF REGULATORY BALANCES, SUB-ACCOUNT MISALLOCATED FUTURE TAX SAVINGS CARRYING CHARGES FOR DISTRIBUTION

This account was approved for establishment in the EB-2020-0194 proceeding. This account records interest on the outstanding principal balance of the Misallocated Future Tax Savings over the approved recovery period. Hydro One Distribution proposes to continue this account so

that the accumulated balance can be requested for disposition in the next applicable annual update or rates rebasing application.

5.13 ACCOUNT 1595 (2019) – DISPOSITION AND RECOVERY OF REGULATORY BALANCES (OEB APPROVED) DEFERRAL ACCOUNT

This rider was approved for establishment in the EB-2017-0049 proceeding. Hydro One Distribution proposes to continue this account so that the accumulated balance can be requested for disposition in the next applicable annual update or rebasing application. As per section 2.9.1.4 of the Filing Requirement for Electricity Distribution Rate Applications, distributors only become eligible to seek disposition of residual balances in Account 1595 two years after the expiry of the rate rider (i.e – the fourth year after the year the rate rider expires).

5.14 ACCOUNT 1595 (2021) – DISPOSITION AND RECOVERY OF REGULATORY BALANCES (OEB APPROVED) DEFERRAL ACCOUNT

This rider was approved for establishment in the EB-2020-0030 proceeding. Hydro One Distribution proposes to continue this account so that the accumulated balance can be requested for disposition in the next applicable annual update or rebasing application. As per section 2.9.1.4 of the Filing Requirements for Electricity Distribution Rate Applications, distributors only become eligible to seek disposition of residual balances in Account 1595 two years after the expiry of the rate rider (i.e – the fourth year after the year the rate rider expires).

5.15 ACQUIRED UTILITIES' GROUP 2 REGULATORY ACCOUNTS

Hydro One Distribution proposes the continuance of all Group 2 accounts for the Acquired Utilities, as the harmonization of customer classes will not commence until January 1, 2023. Group 2 audited balances as at December 31, 2020 are being requested for disposition in the 2022 Acquired Utilities' rate application. Pending the decision on the 2022 Acquired Utilities' rate application, Hydro One Distribution may update the requests for continuance or discontinuance of the Group 2 accounts.

The accounts being proposed for continuance for the Acquired Utilities are as follows:

Accounts to be Continued – Norfolk
1. Deferred IFRS Transition Costs Deferral Account 2. Retail Cost Variance Account 3. Distribution Generation – Other Costs – Provincial – Deferral Account 4. Revenue Offset Difference Account – Pole Attachment Charge Variance Account 5. Smart Meter OM&A Variance Account 6. Tax Rate Changes Variance Account 7. Lost Revenue Adjustment Mechanism Variance Account

Accounts to be Continued – Haldimand
1. Energy East Consult Deferral Account 2. Retail Cost Variance Account 3. Revenue Offset Difference Account – Pole Attachment Charge Variance Account 4. Smart Meter OM&A Variance Account 5. Accounting Changes under CGAAP 6. Tax Rate Changes Variance Account 7. Lost Revenue Adjustment Mechanism Variance Account

Accounts to be Continued – Woodstock
1. Deferred IFRS Transition Costs Deferral Account 2. Incremental Capital Module Deferral Account 3. Retail Cost Variance Account 4. Distribution Generation – Other Costs – Provincial – Deferral Account 5. Smart Grid Funding Adder Deferral Account 6. Revenue Offset Difference Account – Pole Attachment Charge Variance Account 7. Accounting Changes under CGAAP 8. Tax Rate Changes Variance Account 9. Lost Revenue Adjustment Mechanism Variance Account

6.0 REQUESTS FOR DISCONTINUANCE OF DISTRIBUTION REGULATORY ACCOUNTS

6.1 INTEGRATED SYSTEM OPERATING CENTER (ISOC) ASYMMETRICAL VARIANCE ACCOUNT – DISTRIBUTION (ACCOUNT 2405)

This account was established as part of the EB-2017-0049 proceeding, whereby the account would track the revenue requirement of the actual cost for the ISOC project against the forecast revenue requirement, with any actual shortfall being returned to ratepayers. Hydro One Distribution proposes discontinuation of this account as the project is expected to be in-serviced prior to 2023.

6.2 CUSTOMER CHOICE INITIATIVE DEFERRAL ACCOUNT (ACCOUNT 1508)

The associated costs for the customer choice initiative are anticipated to be captured by the end of 2021 in this account. As Hydro One intends to update the application to reflect 2021 audited balances, this account will no longer be required. Therefore, Hydro One Distribution proposes discontinuation of this account.

6.3 SMART GRID FUND (SGF) PILOT DEFERRAL ACCOUNT (ACCOUNT 1508)

This account was established consistent with the OEB's direction in the Decision issued September 23, 2016 for EB-2016-0201 to record costs associated with extending the existing SGF Pilot at the time. Hydro One, in partnership with McMaster University, extended the participation of the existing SGF Pilot to allow participants to seamlessly transition to the OEB Pilot. The OEB Pilot ultimately did not advance following the conclusion of the SGF and IESO funded pilot. The final costs recorded for this program concluded in 2019; therefore, Hydro One Distribution proposes discontinuance of this account.

6.4 RETAIL COST VARIANCE ACCOUNT – ACCOUNTS 1518 AND 1548

In the Decision and Order dated February 14, 2019 (EB-2015-0304), the OEB set out its expectation at Section 3.2 that "electricity distributors that currently record revenues and expenses associated with the RCVAs are expected to continue to do so until their next rebasing

application. At rebasing, the balances will be disposed of and the RCVAs will be eliminated." As this Application is a rebasing application, Hydro One Distribution proposes discontinuance of this account in accordance with the OEB's decision.

7.0 REQUESTS FOR NEW OR MODIFIED DISTRIBUTION REGULATORY ACCOUNTS

7.1 CAPITALIZED OVERHEADS TAX VARIANCE ACCOUNT (DISTRIBUTION) – *NEW*

This proposed account is identical to that which is proposed for the Transmission business under Section 4.1 above, and is supported by the rationale set out therein. A copy of the Draft Accounting Order for the Capitalized Overheads Tax Variance Account (Distribution) is provided in Attachment 5.

7.2 EXTERNALLY DRIVEN DISTRIBUTION PROJECTS VARIANCE ACCOUNT – *NEW*

Hydro One Distribution requests a new symmetrical variance account (Account 1508 – Other Regulatory Assets, Sub-Account Externally Driven Distribution Projects Variance Account) to record the revenue requirement impact, including tax, of overspending or underspending relative to Hydro One's distribution capital investment plan which underlies the proposed revenue requirement for the 2023-2027 period, where such overspending or underspending is for work related to third-party initiated relocation, Distributed Energy Resource (DER) connections, or service upgrades, which Hydro One is required to undertake.

For most capital investments, Hydro One Distribution, through its investment planning processes, generally has control over the identification of investment needs and the prioritization and pacing of forecast capital expenditures over the Custom IR period. However, some investments have drivers that are external to Hydro One and, as such, the need, pacing and prioritization of those investments generally rests with third-parties or is driven by other factors outside of Hydro One Distribution's control. These drivers are generally rooted in Hydro One's obligations to serve, to provide non-discriminatory access, and to respond to directives and other mandatory obligations that may be imposed on Hydro One to undertake distribution

related investments. For example, Hydro One may be required to connect variable volumes of distributed energy resources, or to upgrade connection assets to accommodate increased customer demand resulting from public policy drivers or consumer behaviour in response to electrification or decarbonisation.

As a consequence of being subject to such externally driven capital needs, the pacing and level of distribution capital expenditures can unexpectedly change and materially deviate from the forecasted levels reflected in the investment plans underlying this Application and ultimately approved for recovery in revenue requirement. The risk is that, over the rate period, externally driven distribution work may be required at a pace and level not contemplated in the approved capital envelope. This could mean that capital needs are lower than the forecast embedded in rates, or that they are significantly higher than the forecast embedded in rates, as a direct result of external factors outside of Hydro One's control.

When faced with increased distribution investment needs as a result of external drivers, Hydro One has to choose between spending more than the overall OEB approved capital envelope, or redirecting capital expenditures away from other priority areas, such as planned investments in System Renewal, System Service and General Plant. To the extent it redirects expenditures away from these other areas of planned investments; Hydro One faces the operational risks associated with not being able to proceed with the planned work. Moreover, from a customer perspective, there is a significant impact from redirection because investments that have been identified, planned and prioritized through Hydro One's investment planning process, and which are thereby expected to address important customer needs, may no longer be able to be completed within the intended timeframe and available funding. The proposed Externally Driven Distribution Projects Variance Account is being requested to address these concerns. As an example, during the course of the of the 2018-2022 approved term, externally driven System Access investments are forecasted to exceed approved amounts by close to 20%, contributing to an approximate 2% overage on a five-year envelope basis.

The account will capture variances relating to externally driven investments that have been included in Hydro One Distribution's investment plans. The distribution investment plans underlying Hydro One Distribution's proposed revenue requirement in the present Application include:

		In-Service Additions (2023-27)[16]
ISD	ISD Name	
System Access		
D-SA-01	Joint Use and Relocations	134
D-SA-03	Customer Demand Distributed Energy Resources	9
D-SA-02	New Load Connections, Upgrades, Cancellations – (Service Upgrades portion only)	152

In addition, the account will capture variances resulting from new externally driven work requirements that may arise during the 2023-2027 period, but which were not contemplated in the investment plan. As an example Hydro One Distribution could be required to respond to enable increasing DER connections, new DER procurement programs or assume a new or expanded role in the deployment of coordinated infrastructure solutions to facilitate electrification, transportation or other policy objectives. Additionally, objectives related to decarbonisation and electrification may result in increased adoption of electric vehicle or fuel switching, which are likely to drive changes to forecasts for service upgrades.

As a symmetrical account, any variation in the revenue requirement impact of expenditures on externally driven work will be recorded in the account, with the impact of underspend returned to ratepayers and the impact of increased spending recorded in the account for future recovery.

[16] The referenced Investment Summary Documents cover the capital expenditures associated with each of the investments and the table covers the in-service additions with respect to the associated capital expenditures.

This would enable Hydro One, in the circumstances where externally driven work is greater than forecast, to complete its capital plan without the need for material redirections to respond to unforeseeable increases in externally driven investment needs. In circumstances where externally driven work is lower than forecast, the account would ensure that ratepayers do not pay for work that due to external drivers does not ultimately materialize.

As the revenue requirement includes tax, any associated tax impacts, such as capital cost allowance and tax gross-ups, will also be captured in this account. To mitigate the risks of double-counting impacts, the in-service amounts used to calculate the balance in this account would not be factored into the calculation of the Distribution Capital In-Service Additions Variance Account.

With respect to the OEB's eligibility criteria for establishing new regulatory accounts, Hydro One notes as follows:

The costs to be captured in the Externally Driven Distribution Projects Variance Account meet the causation criterion because they will be clearly outside of the base upon which the rates proposed in the current Application will be derived. With respect to prudence, the costs that will be captured in the proposed account meet this criterion because externally driven investments are required to ensure that Hydro One is able serve, to provide non-discriminatory access, and to respond to directives and other obligations that may be imposed on Hydro One. While Hydro One makes significant efforts to forecast reasonable expenditures, as discussed above, the pacing and level of expenditures related to externally driven work can significantly deviate from the levels forecasted in the Application. As per the OEB's Filing Requirements (section 2.0.8), Hydro One Distribution's materiality threshold is $1M. Hydro One believes that the amounts recorded in the proposed account will be material and over time, exceed the $1M threshold given the large scale and variability of the work.

A copy of the Draft Accounting Order for the Externally Driven Distribution Projects Variance Account is provided in Attachment 6.

7.3 DISTRIBUTION CONNECTION COST AGREEMENT (CCA) VARIANCE ACCOUNT – *NEW*

Hydro One Distribution proposes to establish a new variance account, referred to as the Distribution CCA Variance Account to track the impacts on the Distribution revenue requirement of capital contribution true-ups paid by Hydro One Distribution to Hydro One Transmission and the capital contributions collected by Hydro One Distribution from its embedded distributors and large customers. The requirement for this Distribution CCA Variance Account was triggered by the amendments to the DSC in 2018 that extended economic evaluations for Transmission connections and upgrades to large users and embedded distributors. The account is intended to function in a similar manner as the Transmission CCRA Variance Account that was approved in EB-2019-0082. Additional background information is provided in Exhibit C-07-01.

During the five year period of this Application, numerous CCAs, which were entered into with large distribution customers after the TSC and DSC amendments in EB-2016-0003 came into effect, are expected to require at least one load true up (mostly related to the Leamington region). For example, one CCRA between Hydro One Distribution and Transmission has resulted in 14 CCAs downstream between Hydro One Distribution and large customers (greater than 5MW) subject to the new DSC requirements, with over $100M of capital associated with the economic evaluations. Due to the different risk and load profiles of the individual customers embedded in the Distribution System (Hydro One Distribution is a Low Risk Customer while embedded industrial customers have different classifications), as well as the fact that a portion of expenditures was allocated to serve Hydro One Distribution customers less than 5MW, the quantum and timing of the capital contribution from Distribution to Transmission will not match the contributions to Distribution from large customers.

The proposed variance account will track the revenue requirement impacts of actual capital contributions received or rebates paid as a result of performing load true ups, including the one-

time tax impacts. For example, a capital contribution from a large customer following a true up would result in the variance account including a regulatory asset from the one-time tax paid by Hydro One on the contribution as well as an annual regulatory liability to rate payers to reflect that the revenue requirement is lower due to the reduced rate base (impacting cost of capital, depreciation and tax gross-up on equity return) until the next rate application to the OEB.

The variance account will not include the impact of the Notional Account, section 6.5.7 of the TSC, prior to the final true up. Notional Accounts do not trigger a payment by Hydro One and therefore do not adjust rate base nor result in a tax implication.

This account will also not include the impact of the Initial Economic Evaluation (IEE) based upon actual costs as the capital contributions can be forecasted based on initial customer commitments in their individual contract and will not trigger an immediate tax obligation as these are collected within the time frame allowed under the *Income Tax Act*. For capital contributions collected in accordance with TSC Section 6.5.2 for the IEE as well as when the transmitter subsequently recalculates the customer capital contribution based on actual cost, these are individually disclosed for each project in the relevant Investment Summary Documents. Each of these capital contributions is an offset to rate base when the asset is placed into service.

Hydro One Distribution has not included a forecast of true up payments in its application as it does not have the information necessary to create this forecast nor the ability to acquire this information. While Hydro One Distribution is able to perform a macro forecast of the total distribution load in Ontario, an individual analysis of the forecasted true ups required during the 2023-2027 period and resulting capital contribution calculation subjects both the Company and ratepayers to a number of significant forecasting risks that are beyond the control of Hydro One. The primary risks, as previously described in Exhibit C-07-01 of EB-2019-0082 for Hydro One Transmission, also apply to Hydro One Distribution, and are reiterated in Exhibit C-07-01 of the current Application.

With respect to the OEB's eligibility criteria for establishing new regulatory accounts, Hydro One notes as follows:

The costs proposed to be captured in this account meet the causation criterion because the forecasted amounts in these accounts will be clearly outside of the bases upon which the rates proposed in the current Application will be derived.

With respect to prudence, this account is necessary to ensure that neither Hydro One Distribution nor its ratepayers are harmed or inappropriately benefit from the capital contribution true-up calculations.

Hydro One Distribution anticipates that the amounts captured in the proposed Distribution CCA Variance Account will meet or exceed the OEB's materiality threshold for establishing new regulatory accounts. However, due to the large number of contracts across different industries, the amounts cannot be forecasted and could vary significantly.

A Draft Accounting Order for the proposed Distribution CCA Variance Account is provided in Attachment 7.

7.4 AMI 2.0 VARIANCE ACCOUNT – *NEW*

Advanced Metering Infrastructure (AMI) refers to the components involved in retail revenue metering (including but not limited to smart meters) that work together as a system to reliably obtain over-the-air meter readings for accurate and reliable Time-of-Use and Two-Tier customer billing, and which can also provide a platform for improving customer service and reducing costs through a range of enabling technologies. Beginning in 2007, Hydro One deployed its first-generation AMI system (AMI 1.0) in response to a provincial policy initiative that resulted in Ontario having one of the first large-scale AMI deployments in the world. Hydro One's AMI 1.0 system consists of approximately 1.4M smart meters across a hybrid network of both "mesh" and "cellular point-to-point" systems, along with 11,000 collectors and 40,000 repeaters, with

coverage provided by three distinct AMI vendor systems that operate separately. As the AMI 1.0 system will begin to reach the end of its expected 15-year service life in 2022, and to address the associated risks (including high meter failure rates, impacts on critical operations, customer service impacts, compliance risks and increased costs associated with replacing failed meters reactively), Hydro One is embarking on a significant, multi-year program to replace its legacy AMI 1.0 system with a new AMI 2.0 system, with deployment beginning in 2023 and continuing beyond the 2023 to 2027 period. A detailed description of the AMI 2.0 program is provided in D-SR-12 – Advanced Meter Infrastructure 2.0 (AMI 2.0).

Due to the timing of the AMI 2.0 program, including in particular the fact that competitive procurement processes for key vendors will not be completed by the time of application filing, Hydro One's cost estimates currently reflect a significant degree of uncertainty. Given this uncertainty, as well as the materiality of the planned investments during the test period, Hydro One Distribution proposes to establish a new Advanced Metering Infrastructure 2.0 Variance Account (the AMIVA) to record the difference between the revenue requirement associated with the planned in-service additions included in the forecasted cost of the AMI 2.0 program over the 2023-2027 period and the revenue requirement associated with the actual in-service additions achieved as part of the AMI 2.0 program over the 2023-2027 period. As revenue requirement includes tax, any tax impacts arising from the in-service addition shortfall must also be captured in this account. In general, there is an inverse relationship whereby lower in-service additions lead to, all else equal, higher regulatory taxes included in revenue requirement. Lower in-service additions effectively lower the annual capital cost allowance deductions available to Hydro One, thereby increasing Hydro One's regulatory tax expense leading to a higher revenue requirement. Consequently, any associated tax impact along with the applicable tax gross-up will also be captured in this account. To mitigate the risks of double-counting, the in-service amounts used to calculate the balance in this account, would not be factored into the calculation of the Capital In-Service Additions Variance Account for Distribution.

Hydro One proposes that the AMIVA be asymmetrical to the benefit of ratepayers, such that if the revenue requirement for achieved in-service additions based on actual costs is lower than the revenue requirement for planned in-service additions at the forecast cost, Hydro One Distribution would return the difference to ratepayers. If the revenue requirement for achieved in-service additions based on actual costs is higher than for planned in-service additions at the forecast cost, Hydro One would forgo seeking to recover the return on this difference over the Custom IR term. However, Hydro One will incorporate the higher actual costs into the rate base at the next rebasing rate application.

As noted, the cost uncertainties associated with the AMI 2.0 program are largely due to the fact that procurement processes for key vendors have not yet been completed. Of particular significance is that the program schedule contemplates obtaining Board of Directors approval to enter into a contract with the preferred AMI 2.0 equipment vendor in approximately Q3, 2021. Completing this and other milestones, after the present Application is filed, will enable Hydro One to refine its AMI 2.0 forecast costs particularly based on the higher degree of program cost certainty realized through finalization of the equipment contract.

With respect to the OEB's eligibility criteria for establishing new regulatory accounts, Hydro One notes as follows:

The total AMI 2.0 program cost estimate is $671M, with a range of $570M to $805M (-15% to +20%).[17] This estimate has various assumptions built into it, such as with respect to equipment cost, labour, time, efficiency, etc.) For the 2023-2027 test period, the forecast capital expenditure amount for the AMI 2.0 program is $558.3M, with a range of $475M to $670M (-15% to +20%), and planned in-service additions of $558.3M over the term of 2023 - 2027. Based on the forecast levels of capital expenditures and planned in-service additions, and Hydro One

[17] D-SR-12 – Advanced Meter Infrastructure 2.0 (AMI 2.0)

Distribution's materiality threshold for deferral and variance account requests of $1M, the proposed AMIVA satisfies the OEB's eligibility criterion for materiality.

Moreover, with respect of the causation criterion, as the amount that would be recorded in the AMIVA would represent a variance from the forecast revenue requirement that will be used to establish rates, the relevant amounts are clearly outside of the base upon which rates will be derived.

Furthermore, the costs associated with the proposed AMIVA meet the eligibility criterion for prudence because they are based on a comprehensive investment plan for replacing critical metering infrastructure that are approaching end of life, and which includes competitive procurement processes for key program elements and other measures to ensure the costs will be reasonably incurred and that the overall program will be cost-effectively implemented, as described in detail in D-SR-12 – Advanced Meter Infrastructure 2.0 (AMI 2.0).

A Draft Accounting Order for the proposed AMIVA is provided in Attachment 8.

7.5 DEPRECIATION EXPENSE (ASSET REMOVAL COSTS) ASYMMETRICAL CUMULATIVE VARIANCE ACCOUNT – NEW

Hydro One Distribution proposes to establish a new variance account, referred to as the Depreciation Expense (Asset Removal Costs) Asymmetrical Cumulative Variance Account, to record the difference between the revenue requirement associated with asset removal cost forecasts that have been included in the proposed depreciation expenses for 2023-2027 and actual asset removal costs incurred in each of the test years, inclusive of tax. The account calculation will be cumulative to the end of 2027 and the account balance will be brought forward for disposition in a future rate application in the event that there is an over collection on a cumulative basis over the 2023 to 2027 period.

This account will be asymmetrical to the benefit of ratepayers such that if the actual asset removal costs are lower than the forecasted asset removal costs, Hydro One Distribution will

return the difference to ratepayers. This account is intended to function in the same manner and provide the same protection to the Distribution ratepayers as the similarly named account that was approved for Hydro One Transmission in EB-2019-0082, and which Hydro One Transmission seeks to continue as set out in Section 2.11 of this exhibit.

Asset removal costs are a component of Hydro One Distribution's depreciation expense. For context, asset removal costs consist of the costs associated with removing old assets, such as the costs of digging up old foundations or removing old equipment. Most of these costs are labour and equipment costs, rather than costs for materials. Asset removal costs are included as a component of depreciation expense because, functionally, expenses such as depreciation, amortization and asset removal costs have similar characteristics and are therefore grouped together on Hydro One's income statement. Asset removals are prudently incurred costs that are necessary for the development of assets.

In EB-2019-0082, Hydro One acknowledged that its Transmission business had historically experienced variances between its forecast/approved asset removal costs and its actual asset removal costs. To address the issue, Hydro One (i) updated its transmission planning assumptions to reflect updated removal costs, (ii) committed to continued monitoring, assessment and refinement of its approach to transmission asset removal costs, and (iii) proposed to establish an asymmetrical cumulative variance account to record differences between forecast transmission asset removal costs included in depreciation expense and actual transmission asset removal costs incurred. The OEB approved the account for the Transmission business.[18] As discussed in greater detail below, Hydro One acknowledges that its Distribution business has also experienced variances between its forecast/approved asset removal costs and its actual asset removal costs.[19] As such, it is requesting a similar account as the OEB previously approved for the Transmission business.

[18] In EB-2019-0082, see Hydro One, Reply Argument dated January 17, 2020, p. 190; and the Decision and Order dated April 23, 2020, pp. 118-119
[19] See Exhibit E-08-01

In its efforts to monitor and assess this issue, Hydro One has determined that a contributor to the historical variances for its Distribution business has been the need to reprioritize and redirect capital work, due to various internal and external drivers, away from System Renewal work and towards System Access and System Service work. While Hydro One has previously recognized the impacts of such reprioritization and redirection on its ability to achieve forecasted in-service additions, and has established or proposed certain mechanisms to address those impacts,[20] it now recognizes that a further consequence of having to reprioritize or redirect work away from System Renewal and towards System Access and System Service, is that there are less asset removals associated with System Access and System Service investments (as there are for System Renewals). This is because of the inherent differences in the nature of the work under each category. The differences would be outside of the base upon which rates will be derived (causation). While Hydro One Distribution expects that the variances between forecast/approved and actual asset removal costs will decline significantly, as it fully captures these consequences when reprioritizing and redirecting work going forward, as well as from its greater capacity to complete planned renewal work as a result of introducing the proposed Externally Driven Distribution Projects Variance Account, until it can demonstrate that material variances are no longer occurring, Hydro One believes it is appropriate to further protect ratepayers by establishing the proposed account.

Based on the foregoing, the proposed account satisfies the OEB's criteria for materiality, causation and prudence. A Draft Accounting Order for the proposed Depreciation Expense (Asset Removal Costs) Asymmetrical Cumulative Variance Account is provided in Attachment 9.

[20] These include the CISVA and the proposed Externally Driven Distribution Projects Variance Account.

7.6 OPEB ASYMMETRICAL CARRYING CHARGE VARIANCE ACCOUNT (ACCOUNT 1522) – MODIFICATION

Hydro One Distribution proposes to continue this account in accordance with the *OEB's Report on the Regulatory Treatment of Pension and OPEB Costs* (EB-2015-0040), to record the carrying charges to be returned to ratepayers based on the Pension and OPEB forecast accrual versus actual cash payment differential variance tracking account balance. Hydro One Distribution seeks to continue this account on the same basis as currently described in Section 4.5 above.

7.7 PENSION AND OPEB FORECAST ACCRUAL VERSUS ACTUAL CASH PAYMENT DIFFERENTIAL VARIANCE TRACKING ACCOUNT (ACCOUNT 1522) – *MODIFICATION*

Hydro One Distribution proposes to continue this account in accordance with the OEB's Report on the Regulatory Treatment of Pension and OPEB Costs (EB-2015-0040), to track the difference between the forecasted accrual amount in rates and actual cash payment(s) made. Hydro One Distribution seeks to continue this account on the same basis as currently described in Section 4.6 above.

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HYDRO ONE TRANSMISSION ACCOUNTING ORDER
ACCOUNT 1508 – OTHER REGULATORY ASSETS, SUB-ACCOUNT CAPITALIZED OVERHEADS TAX VARIANCE ACCOUNT

Hydro One Transmission proposes the establishment of a new Account 1508 – Other Regulatory Assets, Sub-Account "Capitalized Overhead Tax Variance Account" to record the revenue requirement impact associated with the net incremental tax benefits arising from additional capitalized overheads deductions for the 2016-2022 period as a result of Hydro One amending its prior tax returns or filing the future returns based on the new tax filing position (the Updated Approach). Amounts will be recorded at the earlier of (i) when the tax return of a particular year is audited by the CRA and the new filing position is accepted as filed or (ii) when the taxation year becomes statute barred.

This account will also capture variances in the revenue requirement associated with CRA reassessments with respect to net incremental tax benefits from the Updated Approach that have been incorporated in the OEB approved revenue requirement for 2023 to 2027 as described in Exhibit G-01-02, Section 4.1.

This account will be established as Account 1508, Other Regulatory Assets – Sub-Account "Capitalized Overhead Tax Variance Account" effective January 1, 2023. Hydro One Transmission will record interest on the balance in the sub-account using the interest rates as set by the OEB. Simple interest will be calculated on the opening monthly balance of the account until the balance is fully disposed of.

The following outlines the proposed accounting entries for the deferral account.

USofA#	Account Description
DR. 4110	Transmission Services Revenue
CR. 1508	Other Regulatory Assets, Sub-Account "Capitalized Overhead Variance Account"

To record the benefits to be returned to rate-payers to the extent the CRA accepts the Updated Approach for the 2016 to 2022 period.

DR. 6035	Other Interest Expense
CR. 1508	Other Regulatory Assets, Sub-Account “Capitalized Overhead Variance Account”

To record interest improvement on the principal balance of the Capitalized Overhead Variance Account.

OR

USofA#	Account Description
DR. 1508	Other Regulatory Assets, Sub-Account “Capitalized Overhead Variance Account”
CR. 4110	Transmission Services Revenue

To record the benefits to be collected from rate-payers to the extent the CRA reassesses the Capital Overheads deductions currently incorporated into the proposed Transmission revenue requirements for the 2023 to 2027 period.

DR. 1508	Other Regulatory Assets, Sub-Account “Capitalized Overhead Variance Account”
CR. 6035	Other Interest Expense

To record interest improvement on the principal balance of the Capitalized Overhead Variance Account.

HYDRO ONE TRANSMISSION ACCOUNTING ORDER
ACCOUNT 1508 – OTHER REGULATORY ASSETS, SUB-ACCOUNT EXTERNALLY DRIVEN TRANSMISSION PROJECTS VARIANCE ACCOUNT

Hydro One Transmission proposes the establishment of a new Account 1508 - Other Regulatory Assets, Sub-Account "Externally Driven Transmission Projects Variance Account" to record the revenue requirement impact including tax, if any, of variances between the in-service additions embedded in Hydro One's approved revenue requirement relating to mandatory transmission construction, expansion, reinforcement, modification and relocation work required by governmental authorities, including indirectly through agencies, Crown corporations, or similar parties through regulation, policy changes or other official directives (Externally Driven Work) and the actual in-service additions arising from Externally Driven Work during the 2023-2027 rate period.

As a symmetrical account, the variation in the Externally Driven Work detailed in Exhibit G-01-02 Section 4.2 relative to what is recovered in revenue requirement will be recorded in the account, with underspend returned to ratepayers and overspend to be recovered from ratepayers. To mitigate the risks of double-counting impacts, the in-service amounts used to calculate the balance in this account, would not be factored into the calculation of the Transmission Capital In-Service Additions Variance Account.

The account will be established as Account 1508, Other Regulatory Assets – Sub-Account "Externally Driven Transmission Projects Variance Account" effective January 1, 2023. Hydro One Transmission will record interest on the 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 following outlines the proposed accounting entries for this variance account.

USofA #	Account Description
DR/CR 4110	Transmission Services Revenue
CR/DR 1508	Other Regulatory Assets, Sub-Account "Externally Driven Transmission Projects Variance Account"

Initial entry to record the revenue requirement impact of variances between Externally Driven Work in-service additions included in the forecast and actuals.

USofA #	Account Description
DR/CR 6035	Other Interest Expense
CR/DR 1508	Other Regulatory Assets, Sub-Account "Externally Driven Transmission Projects Variance Account"

To record interest improvement on the principal balance of the Externally Driven Transmission Projects Variance Account.

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HYDRO ONE TRANSMISSION ACCOUNTING ORDER
ACCOUNT 2405 – OTHER REGULATORY LIABILITIES, SUB-ACCOUNT CAPITAL IN-SERVICE ADDITIONS VARIANCE ACCOUNT

Hydro One Transmission proposes a continuation of the currently established Account 2405 – Other Regulatory Liabilities, Sub-Account "Capital In-Service Additions Variance Account (CISVA)" subject to a modification, to record the yearly modified revenue requirement impact related to the net cumulative variance over the 2023-2027 period between the OEB-approved in-service capital additions forecast and the actual in-service capital additions. The CISVA modification enables the balance in the account to be calculated yearly using the cumulative in-service additions over the Custom IR term so as to provide an opportunity for Hydro One to "catch-up" in later years within the term on any shortfalls in in-service additions that may occur in earlier years in the term, and thereby to reverse the applicable impact recorded in a prior year of under in-servicing to the extent it makes up for such a shortfall. As the revenue requirement includes tax, any associated tax impact, such as capital cost allowance and tax gross ups, will also be captured in this account. The account calculation will be cumulative by the end of 2027 – the account balance will be brought forward for disposition in a future rate application in the event that there is an under in-servicing on a cumulative basis over the 2023 to 2027 period. This account will be asymmetrical to the benefit of ratepayers.

A variance into the account will not be recorded if there is a capital in-service achievement of 98% or higher (2% dead-band). If a calculation is required and a variance is to be recorded, the amount to be recorded shall be limited to the amount that is up to 98%. For example, if there is a capital in-service achievement level of 95% then only the incremental 3% to get to 98% would be recorded in the account for that year.

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

USofA #	Account Description
DR. 4110	Transmission Services Revenue
CR. 2405	Other Regulatory Liabilities – Sub-Account "CISVA"

Initial entry to record the differences between the revenue requirement associated with the actual capital in-service additions and the revenue requirement associated with the OEB-approved in-service capital additions.

USofA #	Account Description
DR. 6035	Other Interest Expense
CR. 2405	Other Regulatory Liabilities – Sub-Account “CISVA”

To record interest improvement on the principal balance of the CISVA.

HYDRO ONE TRANSMISSION ACCOUNTING ORDER
ACCOUNT 2405 – OTHER REGULATORY LIABILITIES, SUB-ACCOUNT RIGHTS PAYMENTS VARIANCE ACCOUNT

Hydro One Transmission proposes a continuation of the currently established Account 2405 - Other Regulatory Liabilities, Sub-Account "Rights Payments Variance Account" subject to a modification, to capture the difference between forecast rights payments underlying the 2023-2027 period, and the actual rights payments incurred by Hydro One Transmission. Rights payments shall include the following: 1) Payments of fees under agreements or permits with railway companies and government entities for rights to cross and/or occupy their properties; 2) Payments of annual rental fees under permits and agreements from or with the Department of Indian and Northern Affairs Canada, through which Hydro One had approvals for its lines and stations to cross and/or occupy First Nation Reserves; and 3) Payments required to obtain all required consents necessary (including Long Term Relationship Agreements or similar, regardless of how those payments are characterized or their form) to complete the transfer of title to Hydro One for lands relating to transmission lines.

The account will be established as Account 2405 - Other Regulatory Liabilities, Sub-Account "Rights Payments Variance Account" effective January 1, 2023. Hydro One Transmission will record interest on the 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 following outlines the proposed accounting entries for this variance account.

USofA #	Account Description
DR/CR 4110	Transmission Services Revenue
CR/DR 2405	Other Regulatory Liabilities, Sub-Account "Rights Payments Variance Account"

Initial entry to record the difference between forecast rights payments, and actual rights payments.

USofA #	Account Description
DR/CR 6035	Other Interest Expense
CR/DR 2405	Other Regulatory Liabilities, Sub-Account "Rights Payments Variance Account"

To record interest improvement on the principal balance of the Rights Payments Variance Account.

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HYDRO ONE DISTRIBUTION ACCOUNTING ORDER
ACCOUNT 1508 – OTHER REGULATORY ASSETS, SUB-ACCOUNT CAPITALIZED OVERHEADS TAX VARIANCE ACCOUNT

Hydro One Distribution proposes the establishment of a new Account 1508 – Other Regulatory Assets, Sub-Account "Capitalized Overhead Tax Variance Account" to record the revenue requirement impact associated with the net incremental tax benefits arising from additional capitalized overheads deductions for the 2016-2022 period as a result of Hydro One amending its prior tax returns or filing the future returns based on the new tax filing position (the Updated Approach). Amounts will be recorded at the earlier of (i) when the tax return of a particular year is audited by the CRA and the new filing position is accepted as filed or (ii) when the taxation year becomes statute barred.

This account will also capture variances in the revenue requirement associated with CRA reassessments with respect to the capitalized overhead tax benefits that have been incorporated in the OEB approved revenue requirement for 2023 to 2027 as described in Exhibit G-01-02, Section 7.1.

This account will be established as Account 1508, Other Regulatory Assets – Sub-Account "Capital Overhead Tax Variance Account" effective January 1, 2023. Hydro One Distribution will record interest on the balance in the sub-account using the interest rates as set by the OEB. Simple interest will be calculated on the opening monthly balance of the account until the balance is fully disposed of.

The following outlines the proposed accounting entries for the deferral account.

USofA#	Account Description
DR. 4080	Distribution Services Revenue
CR. 1508	Other Regulatory Assets, Sub-Account "Capitalized Overhead Variance Account"

To record the benefits to be returned to rate-payers to the extent the CRA accepts the new tax filing position from 2016 to 2022.

DR. 6035	Other Interest Expense
CR. 1508	Other Regulatory Assets, Sub-Account “Capitalized Overhead Variance Account”

To record interest improvement on the principal balance of the Capitalized Overhead Variance Account.

OR

USofA#	Account Description
DR. 1508	Other Regulatory Assets, Sub-Account “Capitalized Overhead Variance Account”
CR. 4080	Distribution Services Revenue

To record the benefits to be collected from rate-payers to the extent the CRA reassess the Capital Overheads deductions currently incorporated into the proposed Distribution revenue requirements for the 2023 to 2027 period.

DR. 1508	Other Regulatory Assets, Sub-Account “Capitalized Overhead Variance Account”
CR. 6035	Other Interest Expense

To record interest improvement on the principal balance of the Capitalized Overhead Variance Account.

HYDRO ONE DISTRIBUTION ACCOUNTING ORDER
ACCOUNT 1508 – OTHER REGULATORY ASSETS, SUB-ACCOUNT EXTERNALLY DRIVEN DISTRIBUTION PROJECTS VARIANCE ACCOUNT

Hydro One Distribution proposes the establishment of a new Account 1508 - Other Regulatory Assets, Sub-Account "Externally Driven Distribution Projects Variance Account" to record the revenue requirement impact, including tax, of overspending or underspending relative to Hydro One's distribution capital investment plan which underlies the proposed revenue requirement for the 2023-2027 rate period, where such overspending or underspending is for work related to third-party initiated relocation or expansion projects (externally driven capital work) (e.g. in relation to legislative, municipal, or governmental authorities) which Hydro One is required to undertake but without full cost recovery from the requesting party.

As a symmetrical account, the variation in externally driven investments detailed in Exhibit G-01-02 Section 7.2 will be recorded in the account, with underspend returned to ratepayers and overspend to be recovered from ratepayers. To mitigate the risks of double-counting impacts, the in-service amounts used to calculate the balance in this account, would not be factored into the calculation of the Distribution Capital In-Service Additions Variance Account.

The account will be established as Account 1508, Other Regulatory Assets – Sub-Account "Externally Driven Distribution Projects Variance Account" effective January 1, 2023. Hydro One Distribution will record interest on the 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 following outlines the proposed accounting entries for this variance account.

USofA #	Account Description
DR/CR 4080	Distribution Services Revenue
CR/DR 1508	Other Regulatory Assets, Sub-Account "Externally Driven Distribution Projects Variance Account"

Initial entry to record the revenue requirement impact of variances between externally driven distribution projects in-service additions included in the forecast and actuals.

USofA #	Account Description
DR/CR 6035	Other Interest Expense
CR/DR 1508	Other Regulatory Assets, Sub-Account "Externally Driven Distribution Projects Variance Account"

To record interest improvement on the principal balance of the Externally Driven Distribution Projects Variance Account.

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HYDRO ONE DISTRIBUTION ACCOUNTING ORDER
ACCOUNT 1508 – OTHER REGULATORY ASSETS, SUB-ACCOUNT DISTRIBUTION CONNECTION COST AGREEMENT (CCA) VARIANCE ACCOUNT

Hydro One Distribution proposes the establishment of a new Account 1508 – Other Regulatory Assets, Sub-Account "Distribution Connection Cost Agreement (CCA) Variance Account" to track the impacts on the Distribution revenue requirement inclusive of tax relating to capital contribution true-ups paid by Hydro One Distribution to Hydro One Transmission, and the capital contributions collected by Hydro One Distribution from its embedded distributors and large customers, in accordance with amendments made to the Distribution System Code in 2018.

The account will be established as Account 1508 – Other Regulatory Assets, Sub-Account "Distribution Connection Cost Agreement (CCA) Variance Account" effective January 1, 2023. Hydro One Distribution will record interest on the 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 following outlines the proposed accounting entries for this deferral account.

USofA #	Account Description
CR/DR 4080	Distribution Services Revenue
DR/CR 1508	Other Regulatory Assets, Sub-Account "Distribution CCA Variance Account"

Initial entry to record into the Distribution CCA variance account.

USofA #	Account Description
CR/DR 6035	Other Interest Expense
DR/CR 1508	Other Regulatory Assets, Sub-Account "Distribution CCA Variance Account"

To record interest improvement on the principal balance of the Distribution CCA variance account.

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HYDRO ONE DISTRIBUTION ACCOUNTING ORDER
ACCOUNT 2405 – OTHER REGULATORY LIABILITIES, SUB-ACCOUNT ADVANCED METERING INFRASTRUCTURE (AMI) 2.0 VARIANCE ACCOUNT

Hydro One Distribution proposes the establishment of a new Account 2405 - Other Regulatory Liabilities, Sub-Account "Advanced Metering Infrastructure (AMI) 2.0 Variance Account" to record the difference between the revenue requirement impact including tax, if any, associated with the planned in-service additions included in the forecasted cost of the AMI 2.0 program over the 2023-2027 period and the revenue requirement associated with the actual in-service additions achieved as part of the AMI 2.0 program over the 2023-2027 period. As revenue requirement includes tax, any associated tax impacts arising from the in-service addition short-fall, such as capital cost allowance and tax gross ups must also be captured in this account. To mitigate the risks of double-counting impacts, the in-service amounts used to calculate the balance in this account, would not be factored into the calculation of the Distribution Capital In-Service Additions Variance Account. This account will be asymmetrical to the benefit of ratepayers.

The account will be established as Account 2405, Other Regulatory Liabilities – Sub-Account "AMI 2.0 Variance Account" effective January 1, 2023. Hydro One Distribution will record interest on the 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 following outlines the proposed accounting entries for this variance account.

USofA #	Account Description
DR. 4080	Distribution Services Revenue
CR. 2405	Other Regulatory Liabilities – Sub-Account "AMI 2.0 Variance Account"

Initial entry to record the revenue requirement impact difference between the planned in-service additions for AMI 2.0 and actual in-service additions for AMI 2.0

USofA #	Account Description
DR. 6035	Other Interest Expense
CR. 2405	Other Regulatory Liabilities – Sub-Account "AMI 2.0 Variance Account"

To record interest improvement on the principal balance of the AMI 2.0 Variance Account.

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HYDRO ONE DISTRIBUTION ACCOUNTING ORDER
ACCOUNT 2405 – OTHER REGULATORY LIABILITIES, SUB-ACCOUNT DEPRECIATION EXPENSE (ASSET REMOVAL COSTS) ASYMMETRICAL CUMULATIVE VARIANCE ACCOUNT

Hydro One Distribution proposes the establishment of a new Account 2405 - Other Regulatory Liabilities, Sub-Account "Depreciation Expense (Asset Removal Costs) Asymmetrical Cumulative Variance Account" to record the difference between the revenue requirement (including tax impact, if any) associated with asset removal costs forecasts that have been included in the proposed depreciation expenses for 2023-2027 and actual asset removal costs incurred in each of the test years. The account calculation will be cumulative by the end of 2027 – the account balance will be brought forward for disposition in a future rate application in the event that there is an over collection on a cumulative basis over the 2023 to 2027 period. This account will be asymmetrical to the benefit of ratepayers - if the actual asset removal costs are lower than the forecasted asset removal costs, Hydro One Distribution will return the difference to ratepayers.

The account will be established as Account 2405, Other Regulatory Liabilities – Sub-Account "Asset Removal Costs Asymmetrical Cumulative Variance Account" effective January 1, 2023. Hydro One Distribution will record interest on the 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 following outlines the proposed accounting entries for this variance account.

USofA #	Account Description
DR. 4080	Distribution Services Revenue
CR. 2405	Other Regulatory Liabilities – Sub-Account "Asset Removal Costs Asymmetrical Cumulative Variance Account"

Initial entry to record the difference between actual asset removal costs and forecasted asset removal costs.

USofA #	Account Description
DR. 6035	Other Interest Expense
CR. 2405	Other Regulatory Liabilities – Sub-Account "Asset Removal Costs Asymmetrical Cumulative Variance Account"

To record interest improvement on the principal balance of the Asset Removal Costs Asymmetrical Cumulative Variance Account.

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Hydro One Transmission CISVA Calculation - Illustrative Example

$M

	2023	2024	2025	2026	2027
Transmission ISA OEB Approved per Rate Application	920	950	980	1000	1100
2% Deadband	98%	98%	98%	98%	98%
Transmission ISA OEB Approved per Rate Application (adjusted for 2% deadband)	**901.6**	**931.0**	**960.4**	**980.0**	**1,078.0**
Transmission ISA Actuals	**902.0**	**932.0**	**840.0**	**982.0**	**1,200.0**
Cumulative Difference	0.40	1.40	(119.00)	(117.00)	5.00
Cumulative ISA Percentage of Forecast Adjusted for 2% Deadband	100.04%	100.08%	95.74%	96.90%	100.10%

Assumptions for all years:	
ROE	8.34%
Short-term debt	1.56%
Long-term debt	4.04%
Average depreciation rate	2.55%
Average CCA Rate	8.00%

Gross Fixed Assets	**2023**	**2024**	**2025**	**2026**	**2027**
Opening	-	-	-	-	-
Additions	0	1	(119)	(117)	5
closing	0	1	(119)	(117)	5

Acc. Dep	**2023**	**2024**	**2025**	**2026**	**2027**
Opening	-	-	-	-	-
Additions	0	0	(2)	(1)	0
closing	0	0	(2)	(1)	0

Rate base	**2023**	**2024**	**2025**	**2026**	**2027**
Gross	0	1	(119)	(117)	5
Acc. Dep	0	0	(2)	(1)	0
Net	0	1	(117)	(116)	5
avg.	0.20	0.69	(58.74)	(57.75)	2.47
Depreciation	0.01	0.02	(1.52)	(1.49)	0.06
Fixed Rate Debt (56%)	0.00	0.02	(1.33)	(1.31)	0.06
Floating Rate Debt (4%)	0.00	0.00	(0.04)	(0.04)	0.00
ROE (40%)	0.01	0.02	(1.96)	(1.93)	0.08
Tax Impact (Note 1)	(0.01)	(0.03)	2.18	2.14	(0.09)
Total Modified Revenue Requirement Impact Balance for the Year	0.00	0.03	(2.66)	(2.62)	0.11
IF POSITIVE - ADJUST TO HAVE $0	3,184.78	31,337.22	(2,663,663.39)	(2,618,895.94)	111,918.63
This is an asymmetrical account to the benefit of ratepayers			Adjustment Entry Required		
				Adjustment Entry Required	

By the end of the Custom IR term, there is $0 balance in this account

Tax Impacts:					
ROE	0.01	0.02	(1.96)	(1.93)	0.08
Lower depreciation add-back	0.01	0.02	(1.52)	(1.49)	0.06
Lower CCA	(0.05)	(0.11)	9.52	9.36	(0.40)
Taxable Income	(0.04)	(0.1)	6.04	5.9	(0.3)
Tax Rate	27%	27%	27%	27%	27%
Additional Tax Expense	(0.01)	(0.02)	1.60	1.57	(0.07)
Grossed up Tax Expense	(0.01)	(0.03)	2.18	2.14	(0.09)

CCA Impact - Cumulative					
Opening UCC	-	-	-	-	-
Addition	0.4	1.4	(119.0)	(117.0)	5.0
CCA Reduction/(Addition)	(0.0)	(0.1)	9.5	9.4	(0.4)
Ending UCC	0.4	1.3	(109.5)	(107.6)	4.6

Notes:

1) ISA amounts and modified revenue requirement impact are intended for demonstrational purposes only.

2) Illustration assumes that there is no ISA actual to forecast impact flowing into opening 2023 rate base.

3) Interest improvement is not included in these calculations.

4) This illustrative example highlights the proposed modification to enable the balance in the account to be calculated, on a yearly basis, using the cumulative in-service additions over the Custom IR term. It provides an opportunity for Hydro One to "catch-up" in later years within the term on any shortfalls in in-service additions that may occur in earlier years in the term, and to reverse applicable impacts recorded in a prior years of under in-servicing to the extent it makes up for such shortfalls.

Hydro One Distribution CISVA Calculation - Illustrative Example

$M

	2023	2024	2025	2026	2027
Distribution ISA OEB Approved per Rate Application	920	950	980	1000	1100
2% Deadband	98%	98%	98%	98%	98%
Distribution ISA OEB Approved per Rate Application (adjusted for 2% deadband)	**901.6**	**931.0**	**960.4**	**980.0**	**1,078.0**
Distribution ISA Actuals	**902.0**	**932.0**	**840.0**	**982.0**	**1,200.0**
Cumulative Difference	0.40	1.40	(119.00)	(117.00)	5.00
Cumulative ISA Percentage of Forecast Adjusted for 2% Deadband	100.04%	100.08%	95.74%	96.90%	100.10%

Assumptions for all years:	
ROE	8.34%
Short-term debt	1.56%
Long-term debt	4.04%
Average depreciation rate	2.55%
Average CCA Rate	8.00%

Gross Fixed Assets	2023	2024	2025	2026	2027
Opening	-	-	-	-	-
Additions	0	1	(119)	(117)	5
closing	0	1	(119)	(117)	5

Acc. Dep	2023	2024	2025	2026	2027
Opening	-	-	-	-	-
Additions	0	0	(2)	(1)	0
closing	0	0	(2)	(1)	0

Rate base	2023	2024	2025	2026	2027
Gross	0	1	(119)	(117)	5
Acc. Dep	0	0	(2)	(1)	0
Net	0	1	(117)	(116)	5
avg.	0.20	0.69	(58.74)	(57.75)	2.47
Depreciation	0.01	0.02	(1.52)	(1.49)	0.06
Fixed Rate Debt (56%)	0.00	0.02	(1.33)	(1.31)	0.06
Floating Rate Debt (4%)	0.00	0.00	(0.04)	(0.04)	0.00
ROE (40%)	0.01	0.02	(1.96)	(1.93)	0.08
Tax Impact (Note 1)	(0.01)	(0.03)	2.18	2.14	(0.09)
Total Revenue Requirement Impact Entry for the Year	0.00	0.03	(2.66)	(2.62)	0.11
IF POSITIVE - NO ENTRY REQUIRED	3,184.78	31,337.22	(2,663,663.39)	(2,618,895.94)	111,918.63

By the end of the Custom IR term, there is a -$5.3M balance in this account

This is an asymmetrical account to the benefit of ratepayers

Tax Impacts:					
ROE	0.01	0.02	(1.96)	(1.93)	0.08
Lower depreciation add-back	0.01	0.02	(1.52)	(1.49)	0.06
Lower CCA	(0.05)	(0.11)	9.52	9.36	(0.40)
Taxable Income	(0.04)	(0.1)	6.04	5.9	(0.3)
Tax Rate	27%	27%	27%	27%	27%
Additional Tax Expense	(0.01)	(0.02)	1.60	1.57	(0.07)
Grossed up Tax Expense	(0.01)	(0.03)	2.18	2.14	(0.09)

CCA Impact - Cumulative					
Opening UCC	-	-	-	-	-
Addition	0.4	1.4	(119.0)	(117.0)	5.0
CCA Reduction/(Addition)	(0.0)	(0.1)	9.5	9.4	(0.4)
Ending UCC	0.4	1.3	(109.5)	(107.6)	4.6

Notes:

1) ISA amounts and revenue requirement impact are intended for demonstrational purposes only.

2) Illustration assumes that there is no ISA actual to forecast impact flowing into opening 2023 rate base.

3) Interest improvement is not included in these calculations.

PROPOSED DISPOSITION OF REGULATORY ACCOUNTS

1.0 INTRODUCTION

This exhibit outlines the proposed disposition of Hydro One's Transmission and Distribution regulatory account balances in this proceeding. As outlined in Exhibit G-01-01, the regulatory balances brought forth for disposition have been established pursuant to the applicable accounting orders approved by the OEB, consistent with the Accounting Procedures Handbook and any subsequent OEB direction. The account balances proposed for disposition are based on 2020 audited balances (before forecasted interest and approved dispositions) and match the audited financial statements.

For Hydro One Transmission, Hydro One proposes to recover from ratepayers a total debit balance of $5.6M, which is based on audited 2020 balances. In Exhibit G-01-05-01, Hydro One presents the 2019 and 2020 transactions in the regulatory accounts. Most recently, Hydro One was approved to dispose of its deferral and variance account balances, as at December 31, 2018, in the 2020-2022 Transmission Application (EB-2019-0082) effective January 1, 2020.

For Hydro One Distribution, Hydro One proposes to return to ratepayers a total credit balance of $87.7M, which is comprised of (i) audited 2020 balances for Hydro One Distribution and Acquired Utilities (Norfolk, Haldimand and Woodstock) for Group 1 accounts as those balances are tracked on a combined basis, and (ii) audited 2020 Hydro One Distribution's Group 2 accounts. In Exhibit G-01-05-02, Hydro One presents the 2020 transactions in the Group 1 regulatory accounts, and 2017-2020 transactions in the Group 2 regulatory accounts.

Most recently, Hydro One Distribution's Group 1 accounts were last disposed of on a final basis based on audited 2019 balances in the 2021 Annual Update Application (EB-2020-0030). The Group 1 accounts for each of the Acquired Utilities were last approved for disposition based on audited 2019 balances in EB-2020-0031. Hydro One Distribution's Group 2 accounts were last approved for disposition, as of December 31, 2016, in the 2018-2022 Custom IR Application (EB-

2017-0049). To date, the Group 2 balances for each of the Acquired Utilities has not been brought forth for disposition since each of the legacy distributor's rebasing applications. For presentation purposes, the Deferral and Variance Accounts (DVA) continuity schedules start in the year of amalgamation with Hydro One. As noted in Section 7.0 of Exhibit G-01-01, the disposition of Group 2 balances for the Acquired Utilities is planned to be submitted as a separate application in Hydro One's 2022 application for the Acquired Utilities (EB-2021-0033).

In this Application, Hydro One proposes to dispose of its account balances for Transmission and Distribution on a final basis, and confirms that no adjustments were made to prior approved balances. Attachment 2 of Exhibit G-01-01 includes Hydro One's CFO certification on the preparation, review, verification and oversight of the account balances being proposed for disposition.

2.0 DISPOSITION OF REGULATORY ACCOUNTS FOR TRANSMISSION

Hydro One is seeking to recover from ratepayers a total debit balance of $5.6M which is based on audited December 31, 2020 balances, adjusted for carrying charges anticipated through to the proposed effective date of January 1, 2023 and net of drawdowns from approved dispositions as outlined in Table 1. See Attachment 1 of Exhibit G-01-05 for details.

Table 1 - Disposition of Regulatory Account Balances (Transmission)

Group 2 Accounts	Account	Total Balance (inclusive of carrying charges)
Long-Term Transmission Future Corridor Acquisition and Development Deferral Account	1508	$(1,292)
Local Distribution Company (LDC), Conservation and demand management (CDM), and Demand Response Variance Account	1508	$26,797,560
Waasigan Transmission Deferral Account – OM&A	1508	$18,406
OPEB Cost Deferral Account	1508	$29,454,272
Customer Connection and Cost Recovery Agreements (CCRA) True-Up Variance Account	1508	$648,530
OPEB Asymmetrical Carrying Charge Account	1522	$(1,024,277)
Tax Rate Changes Variance Account	1592	$(20,958,738)
Excess Export Service Revenue Variance Account	2405	$1,050,352
External Secondary Land Use Revenue Variance Account	2405	$(16,598,314)
External Station Maintenance, E&CS and Other External Revenue Account	2405	$9,438,217
Rights Payments Variance Account	2405	$935,301
Pension Costs Differential Variance Account	2405	$(4,506,807)
External Revenue – Partnership Transmission Projects Deferral Account	2405	$1,875
Capital In-Service Variance Account	2405	$(3,350)
Depreciation Expense (Asset Removal Costs) Asymmetrical Cumulative Variance Account	2405	$(19,624,977)
Total Transmission Regulatory Accounts for Disposition		**$5,626,758**

The disposition of regulatory accounts for Transmission is proposed over a five-year period starting on the proposed effective date of January 1, 2023, as further discussed in Exhibit G-01-04.

3.0 DISPOSITION OF REGULATORY ACCOUNTS FOR DISTRIBUTION

Hydro One Distribution is seeking to return to ratepayers a total credit balance of $87.7M which is based on audited balances as at December 31, 2020, adjusted for carrying charges anticipated through to the proposed effective date of January 1, 2023 and net of approved dispositions. See Attachment 2 of Exhibit G-01-05 for details.

3.1 GROUP 1 ACCOUNTS

The Group 1 accounts proposed for disposition have a total credit balance of $69.5M which is based on audited balances as at December 31, 2020, adjusted for carrying charges anticipated through to the proposed effective date of January 1, 2023 and net of approved dispositions as outline in Table 2 below. This balance is inclusive of Hydro One Distribution, and the Acquired Utilities.

3.1.1 GLOBAL ADJUSTMENT (GA) ANALYSIS WORKFORM

The 2019 Account 1589 balance was last approved for disposition on a final basis. In this Application, the 2020 Account 1589 balance of a credit of $13.8M is assessed to be reasonable as the unexplained discrepancies are within 1% of the total annual IESO GA charges, as shown at Attachment 1 of Exhibit G-01-01. Hydro One provided the reconciliation of any discrepancy between the actual and expected balance by quantifying the differences in the GA Analysis Workform. Consistent with how Tab 'Principal Adjustment' has been completed in past filings, Hydro One has not separated the principal adjustments to its 2020 audited 1588 and 1589 balances from annual transactions, as it disposes of its account balances consistent with its audited financial statements.

The 2019 Account 1588 balance was last approved for disposition on a final basis. As shown on Tab '1588' of the GA Analysis Workform, the 2020 Account 1588 balance meets the reasonability test to support the allocation of GA charges between customer classes.

3.1.2 ACCOUNT 1595 ANALYSIS WORKFORM

The Group 1 accounts requested for disposition include the Account 1595 (2018) residual balances for Norfolk and Woodstock, as it is the first year in which these account balances are eligible for disposition.

- The 1595 Analysis Workform for Norfolk, filed at Attachment 1 of Exhibit G-01-03. Residual balances have been identified and explained in this workform.
- The 1595 Analysis Workform for Woodstock, filed at Attachment 2 of Exhibit G-01-03.

Hydro One confirms that it does not have any 1595 residual balances with any amounts that have yet to result in associated rate riders.

3.1.3 CAPACITY BASED RECOVERY (CBR) CLASS B ACCOUNTING GUIDANCE

Hydro One confirms that the proposed disposition of Account 1580 sub-account CBR Class B is in accordance with the CBR Accounting Guidance.[1]

3.2 GROUP 2 ACCOUNTS

The Group 2 accounts have a total credit balance of $18.1M which is based on audited balances as at December 31, 2020, adjusted for carrying charges anticipated through to the proposed effective date of January 1, 2023 and net of approved dispositions as outlined in Table 2 below. The Group 2 accounts include the Hydro One Distribution Earnings Sharing Mechanism (ESM) Deferral Account. The audited 2019 ESM Deferral Account balance was previously approved for interim disposition in EB-2020-0030.

[1] Accounting Guidance on Capacity Based Recovery, July 25, 2016

Table 2 - Disposition of Regulatory Account Balances (Distribution)

Account Descriptions	Account	Total Balance (inclusive of carrying charges)
Group 1 Accounts Requesting Disposition		
Low Voltage (LV) Variance Account	1550	$2,082,129
Smart Meter Entity (SME) Charge Variance Account	1551	(154,183)
RSVA - Wholesale Market Service Charge	1580	(21,004,947)
Variance WMS – subaccount CBR class B	1580	(3,727,474)
RSVA - Retail Transmission Network Charge	1584	(15,023,985)
RSVA - Retail Transmission Connection Charge	1586	(14,830,900)
RSVA - Power - Sub-Account -Power	1588	(3,003,132)
RSVA - Power - Sub-Account -Global Adjustment	1589	(13,805,865)
Account 1595 (2018) Balance – Norfolk	1595	(54,944)
Account 1595 (2018) Balance – Woodstock	1595	(26,374)
Subtotal		**$ (69,549,677)**
Group 2 Regulatory Accounts Requesting Disposition		
OEB Cost Differential Variance Account	1508	$ (2,477,472)
Long Term Load Transfer (LTLT) Rate Impact Mitigation Deferral Account	1508	775,758
Bill Impact Mitigation Variance Account	1508	5,039
Customer Choice Initiative Deferral Account	1508	855,727
OPEB Cost Deferral Account	1508	69,077,055
Smart Grid Fund (SGF) Pilot Deferral Account	1508	2,332,544
Retail Cost Variance Accounts (RCVA)	1518/1548	849,510
OPEB Asymmetrical Carrying Charge Account	1522	(1,527,293)
Pension Cost Differential Variance Account	2405	(23,949,182)
Earnings Sharing Mechanism (ESM) Deferral Account	2435	(15,150,738)
Tax Rate Changes Variance Account	1592	(48,925,870)
Subtotal		**$ (18,134,923)**
Total Regulatory Accounts Requesting Disposition		**$ (87,684,599)**

The disposition of regulatory accounts for Distribution is proposed over a five-year period starting on the proposed effective date of January 1, 2023, as further discussed in Exhibit G-01-04.

3.3 VARIANCES BETWEEN RRR 2.1.7 AND DVA CONTINUITY SCHEDULE

Hydro One Distribution has completed a review of its Group 1 and 2 DVA balances as at December 31, 2020 and provides the following explanations for variances between its RRR 2.1.7 filing and the DVA continuity schedule for the accounts below. This is detailed in Tab 'Appendix A' of Attachment 2 of Exhibit G-01-05:

- Account 1518/1548 – Retail Cost Variance Account: there is variance of debit $356,046 between RRR 2.1.7 amount and DVA continuity, as the RRR 2.1.7 amount includes the Group 2 balances from Norfolk: $15,868, Haldimand: $329,605 and Woodstock: $10,572.
- Account 1533 – DG – Other Costs – Deferral Account: there is variance of debit $380,301 between RRR 2.1.7 amount and DVA continuity, as the RRR 2.1.7 amount includes the Group 2 balances from Norfolk: $377,234 and Woodstock: $3,067.
- Account 1536 – Smart Grid Variance Account: there is variance of debit $422,195 between RRR 2.1.7 amount and DVA continuity, as the RRR 2.1.7 amount includes the Group 2 balance from Woodstock.
- Account 2405 – Revenue Difference Account – Pole Attachment Charge Variance: there is variance of credit $532,456 between RRR 2.1.7 amount and DVA continuity, as the RRR 2.1.7 amount includes the Group 2 balances from Norfolk: $(194,318), Haldimand: $(236,934) and Woodstock: $(101,204).
- Account 1533 – DG – Provincial – Other Feeders - Deferral Account: there is variance of credit $1,078,676 between RRR 2.1.7 amount and DVA continuity, as the RRR 2.1.7 amount includes the Group 2 balance from Haldimand.

In summary, there are differences between the RRR 2.1.7 balances and DVA continuity schedules because the RRR 2.1.7 balances are inclusive of the Acquired Utilities and Hydro One has prepared separate continuity schedules for Hydro One Distribution and the Acquired Utilities.

4.0 GROUP 2 REGULATORY ACCOUNTS FOR ACQUIRED UTILITIES

As discussed in Section 7.0 of Exhibit G-01-01, and noted above, Hydro One is not seeking disposition of the Group 2 Acquired Utilities balances in this proceeding. Rather, it plans on requesting disposition of these balances in its forthcoming 2022 Application to be filed with the OEB (EB-2021-0033).

1595 (2018) ANALYSIS WORKFORM - NORFOLK

This exhibit has been filed separately in MS Excel format.

1595 (2018) ANALYSIS WORKFORM - WOODSTOCK

This exhibit has been filed separately in MS Excel format.

SCHEDULE OF ANNUAL RECOVERIES

Hydro One proposes to dispose of its Transmission and Distribution regulatory account balances over a five-year period, starting on the proposed effective date of January 1, 2023. Hydro One believes that a five-year disposition period for its regulatory account balances which is aligned with the duration of the Custom IR term, can allow for appropriate smoothing of bill impacts over time to the benefit of ratepayers.

Hydro One proposes to use a consistent approach to dispose of its transmission regulatory account balances, by seeking to recover these amounts over the same five-year period, from 2023 to 2027, as with the disposition of its distribution regulatory account balances. The proposal to recover the regulatory account balances over the Custom IR term is aligned with the last filed Transmission Application, in which Hydro One proposed and the OEB approved the disposition of the regulatory account balances over the Custom IR term (2020-2022).

Returning the credit balance of $87.7M to Hydro One Distribution customers over the course of five years would reduce any unnecessary fluctuations in customer bills. If the default disposition of one-year was adopted, it would result in a large bill decrease in 2023, followed by substantial bill increase in 2024 as compared to the bill impacts resulting from Hydro One's proposed approach. As a result, allowing for a longer period to dispose of the significant credit balance from Distribution regulatory accounts would spread out the refund more evenly and have a rate smoothing effect over the five-year period.

The recovery of the total debit balance of $5.6M from Transmission ratepayers over the five-year period or over a one-year period should not result in significant differences to ratepayers.

The proposed bill impacts for Hydro One customers are shown at Exhibits H-10-01 (Transmission Bill Impacts) and L-06-01 (Distribution Bill Impacts).

Based on a five-year disposition period for the regulatory account balances, the annual recoveries from and refunds to customers are presented in Table 1 and Table 2.

Table 1 - Schedule of Annual Recoveries for Transmission Regulatory Accounts

HYDRO ONE NETWORKS - TRANSMISSION **Planned Disposition of Regulatory Accounts** Schedule of Annual Recoveries* Year Ending December 31 ($ Millions)						
	2023	**2024**	**2025**	**2026**	**2027**	**TOTAL**
Adjustment to Revenue Requirement	**1.12**	**1.12**	**1.12**	**1.12**	**1.12**	**5.6**

** Note: Above figures do not include interest improvement during the recovery period.*

Table 2 - Schedule of Annual Recoveries for Distribution Regulatory Accounts

HYDRO ONE NETWORKS - DISTRIBUTION **Planned Disposition of Regulatory Accounts** Schedule of Annual Refunds* Year Ending December 31 ($ Millions)						
	2023	**2024**	**2025**	**2026**	**2027**	**TOTAL**
Adjustment to Revenue Requirement	**(17.54)**	**(17.54)**	**(17.54)**	**(17.54)**	**(17.54)**	**(87.7)**

** Note: Above figures do not include interest improvement during the recovery period.*

CONTINUITY SCHEDULES - REGULATORY ACCOUNTS

Attachment 1: Transmission Continuity Schedule (provided as MS Excel file only)

Attachment 2: Distribution Continuity Schedule (provided as MS Excel file only)

Attachment 3: Acquired Utilities Continuity Schedule (provided as MS Excel file only)

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