

1 **Balsam Lake Coalition Interrogatory # 8**

2
3 **Issue:**

4 Issue 57: Are the proposed amounts, disposition and continuance of Hydro One's existing
5 deferral and variance accounts appropriate?

6
7 **Reference:**

8 Ontario Regulation 198/17

9
10 **Interrogatory:**

11 Under Ontario Regulation 198/17 Distribution Rate Protection applies specifically to base
12 distribution rates, excluding any fixed or variable rate riders or adders.

- 13
14 a) With the implementation of Distribution Rate Protection, how will credits accrued in a
15 variance account to the benefit of R1 and R2 customers be disposed of, given that any such
16 credits will relate to refunds of amounts that will likely not have been charged to R1 and R2
17 customers, but rather funded by Distribution Rate Protection?
- 18
19 b) How will debits accrued in a variance account be disposed of, given that R1 and R2
20 customers should have, arguably, benefited from Distribution Rate Protection had the costs
21 creating the debits in the variance account been accurately forecast and included in base
22 rates?

23
24 **Response:**

- 25 a) As noted in the preamble to the question, Ontario Regulation 198/07 applies specifically to
26 the base distribution rates. Section 9 of the regulation provides for the Ministry of Energy
27 (via the IESO) to reimburse distributors for providing distribution rate protection to which
28 rate-protected residential customers are entitled. The amounts to be reimbursed to Hydro
29 One and the seven other distributors impacted by the regulation are specifically described in
30 the regulation, and specifically exclude riders or adders. As such, Hydro One will dispose of
31 variance account balances (credits or debits), and calculate associated riders, in the usual
32 manner as proposed in its application.
- 33
34 b) See response to part a).

1 **Canadian Manufacturers & Exporters Interrogatory # 81**

2
3 **Issue:**

4 Issue 57: Are the proposed amounts, disposition and continuance of Hydro One's existing
5 deferral and variance accounts appropriate?
6

7 **Reference:**

8 F1-01-01 Updated
9

10 **Interrogatory:**

- 11 a) Please confirm that the balance in Account 1533 – Distribution Generation – Provincial –
12 Variance Accounts is a credit to ratepayers of \$57.7 million at the end of 2016 and is forecast
13 to increase to \$58.3 million at the end of 2017.
14
15 b) Please explain more fully why Hydro One is not proposing to dispose of the balance in this
16 account as part of the current proceeding. In particular, does Hydro One expect this credit
17 balance to decline as it continues to record the costs eligible for direct benefit treatment?
18
19 c) Based on the response to part (b) please provide the forecasted balance in this account at the
20 end of each of 2018, 2019, 2020, 2021 and 2022.
21

22 **Response:**

- 23 a) Yes, the balance in Account 1533 – Distribution Generation – Provincial – Variance Account
24 is in a credit position at the end of 2016. The 2017 forecast included in Exhibit F1, Tab 1,
25 Schedule 1 for all regulatory accounts is the December 31, 2016 balance plus accrued interest
26 for 2017. Any forecast principal movements in 2017 are not presented, in accordance with
27 OEB guidelines. The principal movement in 2017 will result in the balance of this account
28 declining to a lower credit balance than what is noted at the end of 2016. The credit balance
29 will continue to decline as Hydro One continues to record eligible costs. Please refer to
30 interrogatory response Exhibit I-33-EnergyProbe-53, part (b).
31
32 b) Please refer to response in part (a).
33
34 c) Please refer to the table below for the forecasted reduction anticipated per year that would be
35 applied to the balance in this account.
36

Filed: 2018-02-12
EB-2017-0049
Exhibit I
Tab 57
Schedule CME-81
Page 2 of 2

Year	2018	2019	2020	2021	2022
Reduction (\$ in millions)	(10.5)	(10.8)	(11.1)	(11.1)	(11.3)

1

Witness: CHHELAVDA Samir

1 **Canadian Manufacturers & Exporters Interrogatory # 82**

2
3 **Issue:**

4 Issue 57: Are the proposed amounts, disposition and continuance of Hydro One’s existing
5 deferral and variance accounts appropriate?
6

7 **Reference:**

8 F1-01-01 Updated
9

10 **Interrogatory:**

- 11 a) The amount shown in Table 20 for Account 1508 – Other Regulatory Assets – Sub Account
12 – Long-Term Load Transfer (LTLT) Rate Impact Mitigation Deferral Account is \$0.0 at the
13 end of both 2016 and 2017.
14
15 b) What is the forecast amount to be added to this account on annual basis for each of 2017
16 through 2022?
17

18 **Response:**

- 19 a) No, this account has a small balance as of December 31, 2016 and 2017, which rounds to
20 \$0.0 million. The balance as of December 31, 2016 was \$6,193.
21
22 b) The majority of the long-term load transfer applications have now been filed and approved
23 by the OEB. Hydro One estimates that this account could accumulate up to \$350K annually
24 once all LTLT eliminations are implemented in the billing system.

Canadian Manufacturers & Exporters Interrogatory # 83

Issue:

Issue 57: Are the proposed amounts, disposition and continuance of Hydro One's existing deferral and variance accounts appropriate?

Reference:

F1-02-01 Updated

Interrogatory:

If new distribution rates are not implemented and/or effective January 1, 2018, please provide Hydro One's proposal with respect to each of the following:

- a) Will the proposed recovery be on a straight-line pattern of the remainder of the period from when rates are implemented to the end of 2022, a period that will be shorter than 5 years?
- b) If the disposition period begins later than January 1, 2018, is Hydro One requesting additional interest on the balances for the period January 1, 2018 to the implementation date?
- c) Has Hydro One considered asking the OEB to deal with the recovery of the balances in the accounts requested for recovery, separate from the rates application, so that rate riders could be in place for January 1, 2018, thus spreading the costs out over the full 5 year period, reducing the level the rate adder?

Response:

- a) There is a difference between a rate implementation date and a date that rates are effective. No matter when the rates are approved, if they are effective from January 1, 2018, the recovery will be over the five-year period beginning January 1, 2018. If the implementation date is after January 1, 2018, the recovery period would be shorter than 5 years.
- b) Interest is recorded monthly on the principal balance of regulatory accounts based on the OEB prescribed interest rate. The amount of interest included in the balance requested for disposition will not change.
- c) No, Hydro One has not considered suggesting a separate hearing to deal with the recovery of the balances requested for disposition, as that would result in additional cost to the ratepayer.

1 **Canadian Manufacturers & Exporters Interrogatory # 84**

2
3 **Issue:**

4 Issue 57: Are the proposed amounts, disposition and continuance of Hydro One's existing
5 deferral and variance accounts appropriate?

6
7 **Reference:**

8 F1-02-01-01 Updated

9
10 **Interrogatory:**

11 The note at the end of the schedule indicates that the figures shown in the schedule do not
12 include interest improvement during the recovery period.

- 13
14 a) Will Hydro One continue to add interest to the December 31, 2017 balance during the
15 proposed 5 year recovery period?
16
17 b) If the response to part (a) is yes, please provide the additional interest cost for the 5 year
18 proposal by year (2018 through 2022) as compared to the option of recovering the balances
19 over 1 year and over 2 years.

20
21 **Response:**

22 a) Hydro One records interest monthly on principal balances using the OEB prescribed rate in
23 accordance with OEB guidelines for regulatory accounts.

24
25 b)

Recovery Period	2018 Interest	2019 Interest	2020 Interest	2021 Interest	2022 Interest
1 Year Recovery	\$0.3M	-	-	-	-
2 Years Recovery	\$0.4M	\$0.1M	-	-	-
5 Years Recovery	\$0.4M	\$0.3M	\$0.2M	\$0.1M	\$0.1M

1 **Canadian Manufacturers & Exporters Interrogatory # 85**

2
3 **Issue:**

4 Issue 57: Are the proposed amounts, disposition and continuance of Hydro One's existing
5 deferral and variance accounts appropriate?
6

7 **Reference:**

8 F1-03-01 Updated
9

10 **Interrogatory:**

11 a) On May 18, 2017, the OEB released the Report of the Ontario Energy Board – Regulatory
12 Treatment of Pension and Other Post-Employment Benefits (OPEBS) Costs. Based on this
13 Report, is Hydro One proposing any changes to the Pension Cost Deferral Account (page 2)
14 or the Other Post-Employment Benefit (“OPEB”) Cost Deferral Account (page 6). Please
15 explain fully any changes proposed, or why no changes are required.
16

17 **Response:**

18 a) No, Hydro One is not proposing any changes to the Pension Cost Deferral Account or OPEB
19 Cost Deferral Account because the OEB Report is not anticipated to impact these accounts.

1 **Canadian Manufacturers & Exporters Interrogatory # 86**
2

3 **Issue:**

4 Issue 57: Are the proposed amounts, disposition and continuance of Hydro One’s existing
5 deferral and variance accounts appropriate?
6

7 **Reference:**

8 F1-03-01 Updated
9

10 **Interrogatory:**

11 a) Given that changes to the OEB cost assessment model took place in 2016, please explain
12 why the OEB Cost Differential Account (page 3) needs to be continued for the 2018 through
13 2022 period.
14

15 **Response:**

16 a) The OEB provided direction in its letter dated February 9, 2016 to establish the account to
17 record any material differences between OEB cost assessments currently built into rates, and
18 cost assessments that will result from the application of the new cost assessment model.
19 Outside of the change to the model, various factors could affect the OEB’s cost assessment
20 which could produce a significant variance between Hydro One Distribution’s quarterly
21 invoices and the amounts included in rates, especially given the 5-year term of the filing.

1 **Energy Probe Research Foundation Interrogatory # 70**
2

3 **Issue:**

4 Issue 57: Are the proposed amounts, disposition and continuance of Hydro One's existing
5 deferral and variance accounts appropriate?
6

7 **Reference:**

8 A-03-01 Page: 2
9

10 **Interrogatory:**

- 11 a) Please update the amount of money in deferral accounts that Hydro One is proposing to clear
12 over 2018-2022
13
- 14 b) Please provide how much money Hydro One would have to "back collect" in 2019-2022 if
15 the Board were to approve Hydro One's application as is and with an effective date of
16 January, 2019.
17
- 18 c) Is Hydro One proposing to collect the difference between interim 2018 rates and approved
19 rates over four years (2019-2022)? What is the bill impact of collecting that money over two-
20 years, compared to four years?
21

22 **Response:**

- 23 a) The amount requested for recovery is based on 2016 audited balances plus accrued interest
24 for 2017. There are no updates to these amounts.
25
- 26 b) Assuming that the question is asking about an effective date of January 1, 2018 and
27 implementation date of January 1, 2019 in relation to deferral and variance accounts
28 proposed for disposition. The amount requested currently for recovery over a 5-year period
29 beginning January 1, 2018 would be recovered over a 4-year period beginning January 1,
30 2019 if the OEB decides on a January 1, 2019 implementation date in its decision.
31 Attachment 1 of Exhibit F1, Tab 2, Schedule 1 the schedule of annual recoveries. The \$6.2
32 million recovery for 2018 would be spread out equally between the following 4 years.
33
- 34 c) Assuming an effective date of January 1, 2018 and an implementation date of January 1,
35 2019, Hydro One Distribution would anticipate recording the difference between interim
36 2018 rates and the approved rates in a foregone revenue deferral account. The foregone
37 revenue is proposed to be recovered over a one year. The bill impacts by rate class in 2019

1 based on foregone revenue disposition over one year are provided in Exhibit I-04-
2 EnergyProbe-3. It is estimated that the 2018 foregone revenue would be approximately \$91
3 million, which results in a 6.4% increase to the average impact on rates in 2019. Recovering
4 the foregone revenue over two years would result in a 3.2% increase to the average impact on
5 rates in 2019. Recovering the foregone revenue over four years would result in a 1.6%
6 increase to the average impact on rates in 2019.

1 **Energy Probe Research Foundation Interrogatory # 71**

2
3 **Issue:**

4 Issue 57: Are the proposed amounts, disposition and continuance of Hydro One's existing
5 deferral and variance accounts appropriate?

6
7 **Reference:**

8 A-03-01 Page: 35 – Table 16

9
10 **Interrogatory:**

11 Please update the deferral account balances at the end of 2017 if they are materially different.

12
13 **Response:**

14 Audited balances at the end of 2017 are not available at this time.

Energy Probe Research Foundation Interrogatory # 72

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Issue:

Issue 57: Are the proposed amounts, disposition and continuance of Hydro One’s existing deferral and variance accounts appropriate?

Reference:

F1-02-01 Page: 1

Interrogatory:

Given that a decision on Hydro One’s distribution rates application isn’t likely until January 2019, is Hydro One still proposing to recover the deferral accounts over 2019-2022?

Response:

Hydro One requested a recovery over a 5-year period beginning January 1, 2018. The final recovery period and implementation date will be based on the OEB’s decision.

1 **The Society of Energy Professionals Interrogatory # 22**

2
3 **Issue:**

4 Issue 57: Are the proposed amounts, disposition and continuance of Hydro One's existing
5 deferral and variance accounts appropriate?
6

7 **Reference:**

8 F1-03-01 Page: 6-7
9

10 "Hydro One Distribution proposes to record the net periodic post-retirement benefit cost other
11 than service cost that would have been classified as capital prior to the issuance of ASU 2017-07
12 in a deferral account effective January 1, 2018. Alternatively, if the Board determines it is more
13 appropriate to recover these costs in 2018, Hydro One requests to revise the OM&A forecast in
14 this application."
15

16 **Interrogatory:**

- 17 a) What future disposition pattern does expect to Networks suggest for these deferred OPEB
18 costs should the OEB approve this account?
19
- 20 b) Please provide a link to the .pdf of the FASB document ASU-2017-07 or alternately file the
21 document.
22
- 23 c) Dissenting members of the FASB concluded that precluded costs will continue to be
24 capitalized by rate regulated entities as they are allowable costs (see p. 41 of ASU-2017-07).
25 Given this expectation of continued capitalization by members of the accounting standard
26 setter, has Networks considered asking the OEB for a regulatory accounting policy decision
27 to allow it to continue to capitalize these otherwise ineligible OPEB costs? Would this not be
28 a reasonable alternative to a deferral account?
29
- 30 d) If such a regulatory accounting option was adopted in place of a standard deferral account,
31 would Networks consider that the deferred costs should be treated as a component of rate
32 base for regulatory purposes?
33
- 34 e) Has Networks held any discussions with other US or Canadian utilities, regulators or industry
35 associations on the specific regulatory approach to be used in other jurisdictions for
36 employee benefits costs made ineligible for capitalization by the new accounting

1 interpretation from FASB? Please comment on or summarize findings if such a discussion
2 has occurred.

- 3
4 f) Please identify, describe and update for any changes to the proposed parameters and
5 accounting for the OPEB variance account requested by Networks in this application given
6 the new generic variance account for forecast-to-actual differences required by the OEB's
7 EB-2016-0160 report on the regulation of pension and OPEB costs.

8
9 **Response:**

- 10 a) Please refer to Exhibit I-40-Staff-217.

- 11
12 b) The link is as follows:

13 [http://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176168888120&accepted](http://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176168888120&acceptedDisclaimer=true)
14 [Disclaimer=true](http://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176168888120&acceptedDisclaimer=true)

- 15
16 c) Hydro One is not opposed to the OEB issuing a Regulatory Accounting policy decision
17 allowing the continued capitalization of costs otherwise ineligible for capitalization per
18 ASU2017-07, as it would have the same effect of continued capitalization that Hydro One is
19 proposing with the approval of the requested deferral account. However, as a Regulatory
20 Accounting policy decision would effect other entities and stakeholders, it is likely that the
21 OEB will need more time to deal with a policy decision and hence Hydro One has requested
22 a deferral account to address this impact.

- 23
24 d) The deferral account proposed by Hydro One would be a regulatory asset and therefore not
25 treated as a component of rate base. Unlike the deferral account requested, a Regulatory
26 Accounting Policy change will result in the ineligible costs being continually capitalized to
27 rate base assets for regulatory purposes.

- 28
29 e) Hydro One is aware that within certain regulatory jurisdictions of the US, regulated utilities
30 impacted by this change will be adopting guidance issued by FERC that allows for continued
31 capitalization of such costs. This is based on high-level discussions with certain US utilities
32 as well as through participation in regulatory industry specific conferences.

- 33
34 f) Hydro One does not expect any changes to proposed parameters and the accounting for the
35 OPEB variance account requested. Furthermore, Hydro One continues to support the use of
36 a modified tracking approach with respect to the tracking account proposed by the OEB in

1 order to adequately address the actual treatment of costs for recovery in rates (expense vs
2 capitalized).

OEB Staff Interrogatory # 266

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2
3 **Issue:**
4 Issue 57: Are the proposed amounts, disposition and continuance of Hydro One’s existing
5 deferral and variance accounts appropriate?
6

7 **Reference:**
8 F1-01-01-01
9

10 **Interrogatory:**
11 a) Please provide a table that compares the December 31, 2016 closing balances for each
12 account presented in the DVA continuity schedule to the corresponding December 31, 2016
13 account balance as filed by Hydro One in its RRR filing for 2016.
14
15 b) Please provide explanations for any differences. If there are no differences, Hydro One may
16 just respond by providing a statement that confirms that their 2016 balances per the DVA
17 continuity schedule in Exhibit F1-1-1, Attachment 1 agree to their 2016 RRR filing, without
18 exception.
19

20 **Response:**
21 Please see the attached reconciliation.

Reconciling Items

Account Name	DVA December		Non-OEB Accounts	Cat Lake	Other Reconciling Items	Total HONI	USofA	RRR Report	
	31, 2016	LDCs						Balance	Balance
LV Variance Account	7,064,286.86	377,232.00				7,441,518.86	1550	7,441,519.31	
RSVA - Wholesale Market Service Charge	(85,070,290.59)	(6,255,786.60)				(91,326,077.19)	1580	(91,326,077.33)	
RSVA - Retail Transmission Network Charge	13,208,655.41	(603,449.34)				12,605,206.06	1584	12,605,206.07	
RSVA - Retail Transmission Connection Charge	68,211,126.06	116,081.84				68,327,207.89	1586	68,327,207.89	
RSVA - Power - Sub-Account -Power	26,946,328.05	3,810,725.61				30,757,053.66	1588	30,757,053.60	
RCVA	651,215.45	319,425.66				970,641.11	1518/1548	970,641.15	
Tax Rate Changes Account	(4,368,061.96)					(4,368,061.96)	1592	(4,368,061.96)	
DG - Other Costs - HONI - Variance Account	588,846.60	290,580.28				879,426.88			
DG - Express Feeders - HONI - Variance Account	(1,503.03)					(1,503.03)			
DG - Other Costs - Provincial Pool - Variance Account	(52,734,997.29)	(329,007.45)				(53,064,004.74)			
DG - Express Feeders - Provincial Pool - Variance Account	(4,952,470.78)					(4,952,470.78)			
	(57,100,124.50)	(38,427.17)				(57,138,551.67)			
Smart Grid Variance Account	(12,060,817.83)	396,583.63				(11,664,234.20)	1536	(11,664,234.20)	
Smart Meter Entity Charge Variance Account	(100,421.30)	251.31				(100,169.99)	1551	(100,169.99)	
RSVA - Power - Sub-Account -Gobal adjustment	116,622,165.86	245,692.59				116,867,858.44		116,867,858.50	
Rider 2015-2017 - Disposition and Recovery of Regulatory Balances	6,717,281.41					6,717,281.41			
LDCs Reg Asset Disposition and Recovery		98,288.91				98,288.91			
Regulatory Recovery	6,717,281.41	98,288.91				6,815,570.32	1595	6,815,569.63	
Smart Meters Minimum Functionality	-	(28,716.22)				(28,716.22)	1555/1556	(28,716.00)	
CGAAP Accounting Changes		(2,811,217.77)				(2,811,217.77)	1576	(2,811,217.77)	
Bill Impact Mitigation Variance Account	2,342,180.77					2,342,180.77			
DSC Exemption Deferral Account	9,610,295.70					9,610,295.70			
Microfit Connection Charge Variance Account	(799,358.48)				799,358.48	-			
OEB Cost Differential Account	(1,260,240.60)					(1,260,240.60)			
Revenue Difference Account - Pole Attachment Charge	1,010,783.44					1,010,783.44			
Long Term Load Transfer (LTLT) Rate Impact Mitigation Deferral Account	6,192.91					6,192.91			
Cat Lake				4,429,604.16		4,429,604.16			
Share-based Compensation			16,604,975.25			16,604,975.25			
Accounts for Norfolk/Haldimand/Woodstock		2,436,650.41				2,436,650.41			
Other Regulatory Assets					573,877.81	573,877.81			
Other Regulatory Assets	10,909,853.74	2,436,650.41	16,604,975.25	4,429,604.16	1,373,236.29	35,754,319.85	1508	35,754,319.85	
Pension Cost Differential Account	7,859,526.02					7,859,526.02			
Revenue Offset Difference Account - Pole Attachment Charge	(2,246,778.77)					(2,246,778.77)			
Re-class of Microfit Connection Charge					(799,358.48)	(799,358.48)			
Re-class to current assets for reporting					(23,337,920.00)	(23,337,920.00)			
Re-class to long-term assets for reporting					(57,608,642.00)	(57,608,642.00)			
Other Regulatory Liabilities	5,612,747.25	-	-	-	(81,745,920.48)	(76,133,173.23)	2405	(76,133,173.23)	

1 **OEB Staff Interrogatory # 267**

2
3 **Issue:**

4 Issue 57: Are the proposed amounts, disposition and continuance of Hydro One's existing
5 deferral and variance accounts appropriate?

6
7 **Reference:**

8 F1-01-01

9
10 **Interrogatory:**

11 Section 2.5.9.1 in Chapter 2 of Filing Requirements For Electricity Distribution Rate
12 Applications - 2017 Edition for 2018 Rate Applications requires all distributors to complete a
13 GA Analysis Workform in order to support the reasonability of its balance in account 1589.

- 14
- 15 a) In accordance with the filing requirements, please complete and submit the GA Analysis
16 Workform. Please note that a separate GA Analysis Workform must be completed for each
17 year since the year that account 1589 was last disposed.
- 18
- 19 b) Section 2.5.9.1 also requires a certification by the CEO, CFO, or equivalent, confirming that
20 the distributor has robust processes and internal controls in place for the preparation, review,
21 verification and oversight of the account balances being disposed. Please provide this
22 certification.

23
24 **Response:**

- 25 a) Please refer to the filed MS Excel I-57-Staff-267-01.
- 26
- 27 b) Please refer to Attachment 2 - Certification of Evidence.

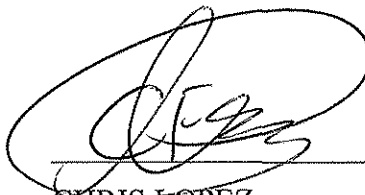
CERTIFICATION OF EVIDENCE

TO: ONTARIO ENERGY BOARD

The undersigned, being Hydro One's Senior Vice President, Finance, Chris Lopez hereby certifies for and on behalf of Hydro One that:

1. I am the Senior Vice President, Finance of Hydro One;
2. This certificate is given pursuant to section 3.2.5.3 of Chapter 3 of the Ontario Energy Board's *Filing Requirements for Electricity Distribution Rate Applications* (last revised on July 20, 2017); and
3. That Hydro One has robust processes and internal controls in place for the preparation, review, verification and oversight of the account balances being disposed.

DATED this 6th day of February, 2018.



CHRIS LOPEZ

OEB Staff Interrogatory # 268

Issue:

Issue 57: Are the proposed amounts, disposition and continuance of Hydro One's existing deferral and variance accounts appropriate?

Reference:

F1-01-01

Interrogatory:

In booking expense journal entries for Charge Type 1142 (formerly 142), and Charge Type 148 from the IESO invoice, please confirm which of the following approaches is used:

- a) Charge Type 1142 is booked into Account 1588. Charge Type 148 is pro-rated based on RPP/non-RPP consumption and then booked into Account 1588 and 1589, respectively¹.
- b) Charge Type 1142 is booked into Account 1588. In relation to Charge Type 148, the non-RPP quantities multiplied by the GA rate is booked to account 1589 and the remainder of Charge Type 148 is booked to account 1588.
- c) Charge Type 148 is booked into Account 1589. The portion of Charge Type 1142 equaling RPP-HOEP for RPP consumption is booked into Account 1588. The portion of Charge Type 1142 equaling GA RPP is credited into Account 1589.
- d) If another approach is used, please explain in detail.

Response:

The approach used is c).

¹ Note, the following in all references in OEB Staff questions relating to amounts booked to accounts 1588 and 1589. Amounts are not booked directly to accounts USoA 1588 and 1589 relating to power purchase and sale transactions, but are rather booked to the cost of power USoA 4705 Power Purchased/4707 Charges - Global Adjustment and the respective Energy Sales USoA accounts, respectively. However, accounts 1588 and 1589 are impacted the same way as accounts 4705/4707 are for cost of power transactions, and the same way as the Energy Sales accounts are for revenue transactions.

OEB Staff Interrogatory # 269

Issue:

Issue 57: Are the proposed amounts, disposition and continuance of Hydro One’s existing deferral and variance accounts appropriate?

Reference:

F1-01-01

Interrogatory:

With regard to the amount recorded in USoA 1589 at December 31, 2016, all components that flow into Account 1589 (i to iv in table below) should be based on actuals in the DVA continuity schedule. Please complete the following table to:

- a) Indicate whether each of the components are based on estimates or actuals at year end, and
- b) Quantify the adjustment amount pertaining to each component that is trued-up from estimate to actual.

	Component	Estimate or Actual	Notes/Comments	Quantify True Up Adjustment \$ Amount
i	Revenue (i.e. is an unbilled revenue true-up adjustment reflected in the balances being requested for disposition?)			
ii	Expenses - GA non-RPP: Charge Type 148 with respect to the quantum dollar amount (i.e. is expense based on IESO invoice at year end)			
iii	Expenses - GA non-RPP: Charge Type 148 with respect to the RPP/non-RPP kWh volume proportions.			
iv	Credit of GA RPP: Charge Type 142 if the approach under Staff Question 1c is used			

- c) For each item in the table above, please confirm that the GA Analysis Workform for 2016 and the DVA Continuity Schedule for 2016 have been adjusted for settlement true-ups where settlement was originally based on estimate and trued up to actuals subsequent to 2016.

Witness: CHHELAVDA Samir

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Response:

a)

	Component	Estimate or Actual	Notes/Comments	Quantify true up adjustment \$ Amount
i	Revenue (i.e. is an unbilled revenue true-up adjustment reflected in the balances being requested for disposition)	Estimate		Can't be quantified
ii	Expense – GA non RPP: Charge Type 148 with respect to the quantum dollar amount (i.e. is expense based on IESO invoice at year end)	Actual		
iii	Expenses – GA non RPP: Charge type 148 with respect to the RPP/non-RPP kwh Volume proportions.	Actual		
iv	Credit of GA RPP: Charge type 142 if the approach under Staff Question 1c is used	Estimate		Can't be quantified

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b) Hydro One has more than 1.3 million customers across the province of Ontario who are invoiced on various billing cycles. These billing cycles are based on reading schedules, meter reading availabilities, among other factors. As a result, at the end of each month, electricity delivered to customers from their last billing date to the end of the month is estimated, and a corresponding unbilled revenue, unbilled IESO Declaration for RPP vs. SPOT and unbilled IESO declaration for RPP kWh at GA rate are recorded on the financial statements. As a result of the various billing cycles, the unbilled period varies for each customer. When a customer is invoiced in the following periods, their invoices are based on their billing period, not Hydro One's financial reporting periods, and will not agree to their unbilled revenue estimation. For this reason RSVA balances at the end of a fiscal period contain both actual billing amounts as well as estimates that will not line up with actual customers charges in subsequent periods making it impossible to true-up to the fiscal month end.

- 1 c) The DVA Continuity Schedule has not been adjusted for these true-ups. The DVA Continuity
- 2 Schedule reflects the balances of the accounts as reported in Hydro One Distribution's
- 3 financial statements as at December 31, 2016.

OEB Staff Interrogatory # 270

Issue:

Issue 57: Are the proposed amounts, disposition and continuance of Hydro One's existing deferral and variance accounts appropriate?

Reference:

F1-01-01

Interrogatory:

With regard to the disposition of account 1589, Hydro One has indicated that it will be receiving a GA refund from the IESO of \$121.8 million due to errors in meter readings for the period from January 2005 through to August 2016. Since the expected GA refund from the IESO is greater than the December 31, 2016 balance in account 1589 (117.9 million), the applicant is not proposing to seek disposition of account 1589 as part of this proceeding.

- a) The applicant expected to receive the refund monthly during the period April through November 2017. Please confirm that these amounts have now been received and provide the actual dollar amount that was recovered.
- b) Does the issue that gave rise to the refund only impact account 1589 or are other DVA accounts also impacted as a result. Please explain.
- c) Was the refund allocated entirely to Hydro One Distribution? If not, please provide the amount of the total refund that relates to Hydro One Distribution.
- d) How much of the recovery from the IESO was allocated to account 1588 relating to RPP customers and how much was allocated to account 1589 relating to non-RPP customers?
 - i. How was the portion that was allocated to account 1588 for RPP customers settled with the IESO.
 - ii. If no portion of or the recovery from the IESO was allocated to account 1588 for RPP customers, please explain why.
- e) As the amounts have been fully recovered from the IESO, utilizing the adjustments column of the DVA Continuity Schedule please adjust the relevant account balances of December 2016 to reflect the impact of this recovery from the IESO.

1 **Response:**

- 2 a) Yes, the refund was received during the period from April to November 2017 in the amount
3 of \$121.8 million.
- 4
- 5 b) Only RSVA GA 1589 was impacted, since the entire refund is associated with charge type
6 148 only.
- 7
- 8 c) The refund was allocated entirely to Hydro One Networks Distribution as it only relates to
9 Hydro One Distribution.
- 10
- 11 d) The refund was allocated entirely to account 1589. Please refer to the response in part b) of
12 this question for an explanation of the 100% allocation to 1589.
- 13
- 14 e) Hydro One Distribution received the refund in 2017 and therefore it is our position that we
15 record the refund to be consistent with when it was actually received, and when the IESO
16 clarified the rules that resulted in the refund. As noted in Exhibit F1, Tab 1, Schedule 1, the
17 IESO funded the credit to Hydro One Distribution through a monthly charge to all LDCs
18 during the same period, for which a portion was applicable to Hydro One Distribution. Only
19 an estimate of the total amount of the charge was available at the time of the application. The
20 refund and corresponding charge were received by Hydro One Distribution from April
21 through November 2017. The total charge to Hydro One Distribution by the IESO was \$26.0
22 million, as part of the monthly IESO published actual GA price during 2017.

OEB Staff Interrogatory # 271

Issue:

Issue 57: Are the proposed amounts, disposition and continuance of Hydro One’s existing deferral and variance accounts appropriate?

Reference:

F1-01-01

Interrogatory:

With regard to the USoA account 1588 balance as at December 31, 2016, all components that flow into Account 1588 (i to iv in table below) should be based on actuals at year end. Please complete the following table to:

- a) Indicate whether each of the below components is based on estimates or actuals at year end, and
- b) Quantify the adjustment pertaining to each component that requires a true-up from estimate to actual

	Component	Estimate or Actual?	Notes/Comments	Quantify True Up Adjustment \$ Amount
i	Revenues (i.e. is an unbilled revenue true-up adjustment reflected in the balances being requested for disposition?)			
ii	Expenses – Commodity: Charge Type 101 (i.e. is expense based on IESO invoice at year end)			
ijj	Expenses - GA RPP: Charge Type 148 with respect to the quantum dollar amount (i.e. is expense based on IESO invoice at year end)			
iv	Expenses - GA RPP: Charge Type 148 with respect to the RPP/non-RPP kWh volume proportions.			
v	RPP Settlement: Charge Type 142 including any data used for determining the RPP/HOEP/RPP GA components of the charge type			

Witness: CHHELAVDA Samir

1 c) For each item in the table above, please confirm that the DVA Continuity Schedule for 2016
 2 has been adjusted for settlement true-ups where settlement was originally based on estimate
 3 and trued up to actuals subsequent to 2016.
 4

5 **Response:**

6 a)

	Component	Estimate or Actual?	Notes/Comments	Quantify True Up Adjustment \$ Amount
i	Revenues (i.e. is an unbilled revenue true-up adjustment reflected in the balances being requested for disposition?)	Estimate		Can't be quantified
ii	Expenses – Commodity: Charge Type 101 (i.e. is expense based on IESO invoice at year end)	Estimate		+\$199,757.63
iii	Expenses - GA RPP: Charge Type 148 with respect to the quantum dollar amount (i.e. is expense based on IESO invoice at year end)	N/A	Charge Type 148 is all related RSVA GA 1589	N/A
iv	Expenses - GA RPP: Charge Type 148 with respect to the RPP/non-RPP kWh volume proportions.	N/A	Charge Type 148 is all related RSVA GA 1589	N/A
v	RPP Settlement: Charge Type 142 including any data used for determining the RPP/HOEP/RPP GA components of the charge type	Estimate		Can't be quantified

7
 8 b) Please refer to Exhibit I-57-Staff-269 part (b)
 9

10 c) The DVA Continuity Schedule has not been adjusted for these true-ups. The DVA Continuity
 11 Schedule reflects the balances of the accounts as reported in Hydro One Distribution's
 12 financial statements as at December 31, 2016.

OEB Staff Interrogatory # 272

Issue:

Issue 57: Are the proposed amounts, disposition and continuance of Hydro One’s existing deferral and variance accounts appropriate?

Reference:

F1-01-01

Interrogatory:

Hydro One is proposing to dispose of several sub-accounts of account 1508:

- a) Pension Cost Differential Account – Since the last disposition of this account balance, please provide a table that compares on an annual basis the pension amount approved in rates and the actual pension contributions made, with the total of this table agreeing to the December 31, 2016 balance being sought for disposition. For each of the years, please provide support for the actual contributions made including how the applicant has performed the allocation between capital and non-capital in respect to these actual contributions.
- b) Distribution System Code Exemption Deferral Account – Since the last disposition of this account, please provide a table that summarizes by year, and by cost category (as approved by the OEB), the amounts incurred in each year up to December 31, 2016. Provide explanations of the costs included in each category along with other relevant evidence to support the balance.
- c) OEB Cost Differential Account – Please provide the calculation to support the balance in the account at December 31, 2016.
- d) Bill Impact Mitigation Variance Account – please provide a table that summarizes, by year, the costs that have been included in this account.
- e) Please provide the relevant accounting orders for each of the accounts above.

Response:

a) The following outlines the calculation of the variance account for the years 2014-2016, including the allocation between capital and non-capital in respect of the actual contributions:

	2014	2015	2016
Total Pension Contributions	167,537,936	171,169,291	103,608,124
DX OM&A Percentage	33.00%	26.18%	28.65%
DX Allocation of Actual Contributions Paid	55,280,102.55	44,805,547	29,680,022
Pension Cost Included in Rates	111,052,557.84	156,808,496	157,274,191
DX OM&A Percentage	33.00%	26.18%	28.65%
DX OM&A Included in Rates	36,642,428.17	41,046,442.90	45,053,430.52
Annual Variance	18,637,674.38	3,759,104.58	(15,373,408.75)
Cumulative Variance	18,637,674.38	22,396,778.96	7,023,370.21

b) The following summarizes the amounts incurred in each year:

	2014*	2015**	2016**
Distance Limitation	9,164,597.65	-	-
Delta Y Transformers	158,527.57	-	-
Dual Secondary Winding Transformers	-	-	-
Annual Variance	9,323,125.22	-	-
Cumulative Variance	9,323,125.22	9,323,125.22	9,323,125.22

* The reported principal balances at December 31, 2016 in the continuity schedule are \$8.9M and \$0.4M for the two sub-categories, respectively. This difference in allocation was due to the 2014 disposition all being allocated to the Distance Limitation sub-account. \$260K should have been drawn down from the Delta-Y Transformers sub-account as this amount pertained to approved disposition of Delta-Y Transformer related balances. This only impacts the allocation between sub-accounts, not the total in the account.

** Account was approved for discontinuance as part of the EB-2013-0416 decision.

The costs included in each category are as per OEB direction included in EB-2010-0229 in its December 20, 2010 decision and include OM&A and capital costs to address technical issues identified in that application. Hydro One was directed to record these costs in the three sub-accounts listed above.

c) The following calculation supports the balance at December 31, 2016:

	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Total
OEB Invoices Received:	2,469,935	1,416,802	1,416,802	1,416,699	6,720,238
OEB Approved Amount:					7,977,300
Variance					(1,257,062)

d) The following summarizes the costs that have been included in this account:

	2015	2016
Recorded in year:	1,810,384.20	499,322.05
Cumulative Balance	1,810,384.20	2,309,706.25

e) The accounting orders are provided below:

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

1 The following entry is recorded to book monthly interest:

2
3 DR/CR 6035 Other Interest Expense
4 DR/CR 1508 Other Regulatory Asset – Sub Account Pension Cost Differential

5
6 **Distribution System Code Exemption Deferral Account:**

7 The Distribution System Code Exemption Deferral account was approved as part of EB-2010-
8 0229 to capture costs to mitigate certain unforeseen technical issues incurred in connecting
9 certain renewable generation facilities. Specifically, the OEB identified:

10 “Subaccount Category 1 - Distance Limitation – Capital and OM&A Expenses”;
11 “Subaccount Category 2 - Delta-Y Transformers – Capital and OM&A Expenses”; and
12 “Subaccount Category 3 - Dual Secondary Winding Transformers – Capital and OM&A
13 Expenses”

14
15 Hydro One Distribution will record interest on any balance in the sub account using the interest
16 rates set by the Board. Simple interest will be calculated on the opening monthly balance of the
17 account until the balance is fully disposed.

18
19 The following entry is recorded to book the variance:

20 DR 1508 Other Regulatory Asset – Sub Account DSC Exemption Deferral Account
21 CR 2055 CWIP

22
23 The following entry is recorded to book monthly interest:

24 DR 1508 Other Regulatory Asset – Sub Account DSC Exemption Deferral Account
25 CR 6035 Other Interest Expense

26
27 **OEB Cost Differential Account:**

28 In its letter dated February 9, 2016 entitled Revisions to the Ontario Energy Board’s Cost
29 Assessment Model, the OEB directed utilities to commence using the OEB Cost Assessment
30 Variance account for electricity distributors and transmitters to record any material differences
31 between OEB cost assessments currently built into rates, and cost assessments that will result
32 from the application of the new cost assessment model effective April 1, 2016.

33
34 As this is an OEB-directed account, an accounting order is not provided.

1 **Bill Impact Mitigation Variance Account:**

2 The Bill Impact Mitigation Variance account was approved as part of EB-2013-0416, as a result
3 of the rate class review accepted by the OEB in that same decision. Certain customers were
4 expected to experience significant bill impacts in 2015. The account was used to mitigate the
5 adverse total impacts for specific customers affected by the review. The OEB determined that
6 those rate classes which experienced a bill impact in excess of 10% would qualify for rate
7 mitigation. The costs of mitigation and related implementation costs for these customers have
8 been tracked in this account.

9
10 Hydro One Distribution will record interest on any balance in the sub account using the interest
11 rates set by the Board. Simple interest will be calculated on the opening monthly balance of the
12 account until the balance is fully disposed.

13
14 The following entry is recorded to book the variance:

15 DR 1508 Other Regulatory Asset – Sub Account Bill Impact Mitigation Variance Account
16 CR 1100 Customer Accounts Receivable

17
18 The following entry is recorded to book monthly interest:

19 DR 1508 Other Regulatory Asset – Sub Account Bill Impact Mitigation Variance Account
20 CR 6035 Other Interest Expense

1 **OEB Staff Interrogatory # 273**

2
3 **Issue:**

4 Issue 57: Are the proposed amounts, disposition and continuance of Hydro One's existing
5 deferral and variance accounts appropriate?

6
7 **Reference:**

8 F1-01-01

9
10 **Interrogatory:**

11 For all draft accounting orders, the accounting orders themselves should be stand-alone in that
12 they contain sufficient detail necessary for the reader to understand the purpose and functionality
13 of the account. Currently several of the draft accounting orders state "as documented in section
14 XX of the application" in lieu of providing the required detail.

15
16 Please update accordingly.

17
18 **Response:**

19 The updated draft accounting orders follow for the LRAM Variance Account, the ESM Deferral
20 Account, the Bill Impact Mitigation Variance Account, and the OPEB Cost Deferral Account.
21 For the Capital ISA Variance Account, please see the response to Exhibit I-58-Staff-274.

Distribution Accounting Order – LRAM Variance Account

Hydro One Distribution proposes the establishment of a “Lost Revenue Adjustment Mechanism Variance Account (“LRAMVA”)” consistent with the Board’s Conservation and Demand Management (“CDM”) Requirement Guidelines for Electricity Distributors updated August 11, 2016, to reflect the LRAMVA Report (EB-2016-0182). In the account, Hydro One Distribution will record the differences between the Board-approved Conservation and Demand Management (“CDM”) adjustment to Hydro One Distribution’s load forecast (in relation to the 2015 to 2020 energy saving target) and the IESO’s actual verified CDM results. Hydro One Distribution will apply an adjustment to remove the CDM amounts of its Acquired Utilities from the verified results provided for Hydro One until such time that these Acquired Utilities are incorporated into Hydro One Distribution rates.

The account will be established as Account 1568, LRAMVA 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.

	<u>USofA #</u>	<u>Account Description</u>
DR/CR	1568	LRAMVA
CR/DR	4080	Distribution Services Revenue

Initial entry to record the variance between the Board-approved CDM adjustment to the load forecast, and the actual CDM results.

DR/CR	1568	LRAMVA
CR/DR	6035	Other Interest Expense

To record interest improvement on principal balance of LRAMVA.

Distribution Accounting Order – ESM Deferral Account

1
2
3 Hydro One Distribution proposes the establishment of a new “Earnings Sharing Mechanism
4 (“ESM”) Deferral Account” to record any over-earnings realized during any year of the five-year
5 term through Hydro One’s distribution rates. Hydro One Distribution will share with customers
6 50% of any earnings that exceed the regulatory return on equity reflected in the Application by
7 more than 100 basis points in any year of the five-year term. The customer share of the earnings
8 will be adjusted for any tax impacts.

9
10 The account will be established as Account 2435, Accrued Rate-Payer Benefit effective January
11 1, 2018. Hydro One Distribution will record interest on any balance in the sub-account using the
12 interest rates set by the Board. Simple interest will be calculated on the opening monthly balance
13 of the account until the balance is fully disposed. The account will be put forward for disposition
14 at the time of Hydro One Distribution’s next rates rebasing application.

15
16 The following outlines the proposed accounting entries for this deferral account.

	<u>USofA #</u>	<u>Account Description</u>
20	DR 4395	Rate-Payer Benefit Including Interest
21	CR 2435	Accrued Rate-Payer Benefit

22
23 Initial entry to record the over-earnings realized in any year of the five-year term.

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

27
28 To record interest improvement on principal balance of ESM deferral account.

1 **Distribution Accounting Order – Bill Impact Mitigation Variance Account**

2
3 Some customers may experience adverse bill impacts in the test years 2021 and 2022 when they
4 are integrated from the Acquired Utilities into Hydro One Distribution’s existing rate classes in
5 2021. Hydro One Distribution proposes to mitigate these bill impacts through the establishment
6 of a new “Bill Impact Mitigation Variance Account” to track mitigation costs and related
7 implementation costs as a result of integrating these customers, consistent with similar accounts
8 approved by the Board in proceedings EB-2007-0681, EB-2009-0096 and EB-2013-0416.

9
10 The account will be established as Account 1508, Other Regulatory Assets – Sub-Account “Bill
11 Impact Mitigation Variance Account” effective January 1, 2021. Hydro One Distribution will
12 record interest on any balance in the sub-account using the interest rates set by the Board. Simple
13 interest will be calculated on the opening monthly balance of the account until the balance is
14 fully disposed.

15
16 The following outlines the proposed accounting entries for this variance account.

17

	<u>USofA #</u>	<u>Account Description</u>
20	DR 1508	Other Regulatory Assets – Sub-Account “Bill Impact Mitigation Variance
21		Account”
22	CR 1100	Customer Accounts Receivable

23

24 To record the mitigation costs resulting from the rate impact mitigation plan.

25

26	DR 1508	Other Regulatory Assets – Sub-Account “Bill Impact Mitigation Variance
27		Account”
28	CR 6035	Other Interest Expense

29

30 To record interest improvement on principal balance of Bill Impact Mitigation Variance
31 Account.

Distribution Accounting Order – OPEB Cost Deferral Account

Changes in US GAAP effective January 1, 2018 allow only the service cost component of the net periodic post-retirement benefit cost to be eligible for capitalization when applicable. The re-classification of these elements to OM&A would have an adverse impact on rates in a given year. Therefore 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 the new accounting rules.

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.

	<u>USofA #</u>	<u>Account Description</u>
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.

Canadian Manufacturers & Exporters Interrogatory # 8

Issue:

Issue 58: Are the proposed new deferral and variance accounts appropriate?

Reference:

A-03-02 Updated

Interrogatory:

With respect to the proposed capital in-service variance account:

- a) Assume that for each year of the Custom IR that in-service additions are 98% of the OEB-approved level. Please provide a table that shows the difference in the revenue requirement for each year based on this 98% level of in-service capital additions relative to the 100% OEB-approved level as proposed by Hydro One.
- b) Please explain why Hydro One has picked a 98% factor rather than the 100% factor that is built into rates.
- c) What interest rate would apply to the account?
- d) Please explain why the account could not be cleared each year, rather than clearing the account after 5 years.

Response:

- a) The reduction in revenue requirement associated with a level of in-service additions (“ISA”) that is 98% of forecast each year is shown in the table below.

	2018	2019	2020	2021	2022
ISA (@ Forecast)	\$ 635.1	\$ 755.2	\$ 748.5	\$ 704.6	\$ 784.4
ISA (@ 98% of forecast)	\$ 622.4	\$ 740.1	\$ 733.5	\$ 690.5	\$ 768.7
Revenue Requirement Impact	(\$0.5)	(\$1.7)	(\$3.1)	(\$4.5)	(\$5.7)

Note 1: All figures are in \$ million.

Note 2: The calculations assume the average depreciation rate for the ISA reductions.

Note 3: ISA as shown in the December application update filed in Exhibit Q, Tab 1, Schedule 1.

- b) See Hydro One’s response to Exhibit I-17-EnergyProbe-14.

Witness: D'ANDREA Frank

- 1
- 2 c) The standard OEB interest rate for deferral and variance accounts would apply to this
- 3 account.
- 4
- 5 d) The proposal to clear the account at the next rebasing is consistent with the OEB's policy of
- 6 limiting annual updates for applicants under Custom IR, as articulated in the OEB's
- 7 *Handbook for Utility Rate Applications*,. The proposal is also consistent with the OEB's
- 8 *Report of the Board on Electricity Distributors' Deferral and Variance Account Review*
- 9 *Initiative (EDDVAR)*, issued July 31, 2009, which states that only Group 1 deferral and
- 10 variance accounts are to be reviewed and disposed of during an IR term.

- 1 c) The productivity factor in Hydro One's proposed Revenue Cap Index is applied to Hydro
- 2 One's total costs (i.e. both OM&A and the revenue requirement associated with capital
- 3 placed in-service) and results in customers paying rates that are lower than forecast costs in
- 4 order to incent Hydro One to find additional savings over Custom IR term. Given that the In-
- 5 service account calculation is based on forecast costs and Hydro One is being incented to
- 6 achieve savings above its forecast, it stands to reason that the variance in in-service additions
- 7 should exclude any verifiable productivity savings.

OEB Staff Interrogatory # 274

Issue:

Issue 58: Are the proposed new deferral and variance accounts appropriate?

Reference:

F1-01-01

Interrogatory:

Hydro One has proposed to create a new variance account to capture the difference between the revenue requirement associated with actual in-service additions and the revenue requirement associated with the OEB approved in-service capital additions, on a cumulative basis. From the description provided in the accounting order and related evidence filed in the application, it is not clear if this variance account will also capture the impact on the test period revenue requirement from a short-fall in the bridge year (2017) in-service additions.

- a) Will the test period revenue requirement impact of a shortfall in the in-service additions for the bridge year be captured in this variance account?
- b) If the response above is no, please explain why.
- c) The accounting order should clearly specify the period over which the revenue requirement impact will be captured, please update the accounting order accordingly.

Response:

- a) The impact on the test period Distribution Revenue Requirement due to an actual amount for 2017 in-service additions that are 98% of the Board-approved level or less will be captured in this variance account.
- b) N/A
- c) The updated accounting order below also includes the changes in response to Exhibit I-57-Staff- 273.

Distribution Accounting Order – Capital ISA Variance Account

Hydro One Distribution proposes the establishment of a new “Capital In-Service Additions (“ISA”) Variance Account” to record the differences between the revenue requirement associated with the actual in-service capital additions for 2018 through 2022 and the revenue requirement associated with the Board-approved in-service capital additions for those years; along with the impact on 2018-2022 Distribution Revenue Requirement due to a shortfall of 2017 in-service additions that is 2% or more.

Hydro One Distribution will track the impact on revenue requirement of any capital in-service additions that are 98% of the Board-approved amount or less for each year of the five-year term, on a cumulative basis. For cumulative in-service additions that are 98% of the Board-approved level or less, the associated revenue requirement impact will be computed and reported on an annual basis in this account, net of the revenue requirement associated with variances in in-service additions resulting from verifiable productivity gains.

At the end of the five-year term, Hydro One Distribution will seek disposition of the sum of the variances in each year for the benefit of customers. The variance account will be asymmetrical; should the cumulative in-service additions in any year of the five-year term exceed 98% of the cumulative Board-approved amount, no entry will be made in the variance account.

The account will be established as Account 1508, Other Regulatory Assets – Sub-Account “Capital ISA Variance 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.

<u>USofA #</u>	<u>Account Description</u>
DR/CR 1508	Other Regulatory Assets – Sub-Account “Capital ISA Variance Account”
CR/DR 4080	Distribution Services Revenue

1 Initial entry to record the differences between the revenue requirement associated with the actual
2 in-service capital additions during a rate year and the revenue requirement associated with the
3 Board-approved in-service capital additions for that year.
4
5 DR/CR 6035 Other Interest Expense
6 CR/DR 1508 Other Regulatory Assets – Sub-Account “Capital ISA Variance Account”
7 To record interest improvement on principal balance of Capital ISA variance account.