

Hydro One Networks Inc.

7th Floor, South Tower
483 Bay Street
Toronto, Ontario M5G 2P5
www.HydroOne.com

Tel: (416) 345-5680
Cell: (416) 568-5534
frank.dandrea@HydroOne.com

Frank D'Andrea

Vice President
Regulatory Affairs & Chief Risk Officer



October 24, 2017

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON
M4P 1E4

Dear Ms. Walli:

EB-2017-0050 Hydro One Networks Inc. - Distribution Rate Application – Former Service Areas of Woodstock Hydro Services Inc, Norfolk Power Distribution Inc, Haldimand County Hydro Inc.

Hydro One Networks Inc. (“Hydro One”) submitted an application on August 14, 2017 for the implementation of electricity distribution rates to be effective January 1, 2018 for the service areas formerly served by Norfolk Power Distribution Inc., Haldimand County Hydro Inc., and Woodstock Hydro Services Inc. OEB Staff subsequently contacted Hydro One, seeking clarification with a number of questions. With this letter Hydro One is submitting responses to these questions, along with two Excel file attachments.

If further clarification or additional information is needed please feel free to contact us at Regulatory@HydroOne.com.

Sincerely,

ORIGINAL SIGNED BY FRANK D’ANDREA

Frank D’Andrea

Encls.

cc Georgette Vlahos, OEB - Applications Division

Hydro One Networks Inc. (HONI)
EB-2017-0050
Former Service Areas of Norfolk Power Distribution Inc., Haldimand County
Hydro Inc., and Woodstock Hydro Services Inc.

Norfolk Power

Staff-1

Ref: Norfolk Power Rate Generator Model, Tab 3 Continuity Schedule

With respect to the columns applicable to 2012:

- (a) Please explain the \$303,838 interest adjustment in column W in Account 1595 (2010).

Response

This adjustment shown in column W in Account 1595 (2010) is to correct approved interest amounts recovered through rate riders in 2012 that were allocated to principal amounts sub-accounts incorrectly. Overall the residual balance relating to 1595 (2010) is \$14,988 (column X, row 31) which remains uncollected/unreturned through rate riders.

- (b) OEB staff is unable to reconcile the amounts entered in columns Q and V in Account 1595 (2012) for principle and interest to the OEB's decision in EB-2011-0272. The amounts entered do not summate to what was approved for disposition. Please explain and reconcile.

Response

The OEB approved disposition amounts in column Q and column V for 1595 (2012) represent the total approved disposition for group 1 variance accounts, group 2 variance accounts and 1588 RSVA Power GA Variance Account per EB-2011-0272 which were transferred to account 1595. The tables from pages 40 and 41 of the OEB-approved settlement proposal in that proceeding are reproduced below:

Group 1 & Group 2 Variance Accounts							
Customer Class	Group 1 Variance Accounts	Group 2 Variance Accounts	Total Variance Accounts	Billing Determinants Projected 2012 kWh	Projected 2012 kW	Recovery Period (Years)	Rate Rider
Residential	(\$188,282)	\$228,167	\$39,884	149,120,393		1	0.0003
General Service < 50 kW	(\$78,259)	\$65,234	(\$13,025)	61,992,882		1	-0.0002
General Service 50 to 4,999 kW	(\$165,155)	\$53,408	(\$111,747)		344,556	1	-0.3243
Sentinel Lights	(\$432)	\$1,411	\$979		879	1	1.1141
Street Lighting	(\$4,270)	\$4,944	\$674		9,791	1	0.0688
Unmetered Loads	(\$576)	\$548	(\$28)	466,025		1	-0.0001
Embedded Distributor	(\$42,800)	\$1,147	(\$41,653)	33,900,000		1	-0.0012
Total	(\$479,775)	\$354,859	(\$124,915)				

1588 - RSVA Power GA Variance Account							
Principal (Dec. 31, 2010)	Interest (Dec. 31, 2010)	Projected Interest to Dec. 31, 2011	Projected Interest to Apr. 30, 2012	Total Claim	2010 Actual non-RPP Billed kWh	Proposed Years Recovery	GA Rate Rider
\$641,162	\$6,440	\$9,425	\$3,142	\$660,169	200,252,515	1	0.0033

The sum of the OEB approved disposition amounts in column Q and column V (-\$295,269 principal plus -\$59,590 in interest which equals to -\$354,859) ties to the disposition of all accounts approved by the OEB, including Group 2 Accounts, that were transferred to 1595 (2012).

Staff-2

Ref: Norfolk Power Rate Generator Model, Tab 3 Continuity Schedule

With respect to the columns applicable to 2013:

- (a) Please explain the interest adjustment of -\$1,035 in column AG in Account 1595 (2012).

Response

The interest adjustment of -\$1,035 in column AG relates to the amount recovered in 2013 relating to Interest Balances Approved for Disposition in 2012 as recovered in 2013 through rate riders. Norfolk applied the recoveries to the balance of the 1595 sub-account in order to draw down the balance.

(b) OEB staff is unable to reconcile the amount entered in column AF in Account 1595 (2013). The amount entered does not summate to what was approved for disposition. Please explain and reconcile.

Response

The amount entered in column AF in Account 1595 (2013) relates to interest amounts approved for disposition for Group 1 (-\$24,513) and LRAM Interest amount approved for recovery (+\$439). The updated Rate Generator Model provided reflects the adjusted number (+\$24,513) entered in Account 1595 in 2013, column AF to include Group 1 accounts only.

Staff-3

Ref: Norfolk Power Rate Generator Model, Tab 3 Continuity Schedule

With respect to the columns applicable to 2014, please explain the interest adjustments in Accounts 1595 (2012) and Account 1595 (2013).

Response

The \$2 adjustment to 1595 (Sub-2012) relates to correction of a rounding error. The \$14,931 adjustment relates to assignment of recovery amounts to the interest portion versus the principal portion (originally allocated the recoveries to the Principal Sub-Account, but should have been allocated to the Interest Sub-Account). These adjustments were required to reconcile back to Norfolk's GL and Regulatory Filings for RRR 2.1.7.

Haldimand County Hydro

Staff-4

Ref: Haldimand County Hydro Rate Generator Model, Tab 3 Continuity Schedule

Please explain the amounts entered in columns AL and AQ in 2014 and why the continuity schedule does not start with the amounts disposed in Haldimand County Hydro's 2014 cost of service proceeding (EB-2013-0134).

Response

As part of the distribution rate application for the formerly served area by Haldimand County Hydro Inc. (EB-2016-0082) the OEB approved the disposition of Regulatory Balances as of December 31, 2015 including interest projected to December 31, 2016. As a result of the approved disposition, the continuity schedule starts with 2014 Closing Balances in the

adjustment column for 2014 in accordance with the instructions provided in the Rate Generator Model. This is consistent with the instructions provided by the OEB in cell C15 of the Continuity Schedule.

Staff-5

Ref: Haldimand County Hydro Rate Generator Model, Tab 3 Continuity Schedule

With respect to the columns applicable to 2015, please explain the principle adjustments in column AV for all accounts.

Response

The principle adjustments in column AV are as a result of two different items. The first adjustment is in relations to true-up of LTLT settlement between Hydro One Networks and Haldimand County Hydro. The second adjustment is to correct the GA settlement posting error at the end of 2014. This was previously communicated during the application follow up analysis on December 2, 2016 as part of EB-2016-0082.

The following table summarizes the two adjustments:

PER 2018 RATE GENERATOR MODEL			Column AV Explained	
Account Description	Account Number	AV	2014 LTLT (Adjust 2014 estimate accrual with 2015 actual settlement)	2014 IESO Settlement Accrual for GA (Correct for incorrect RSVA account posting)
		Principal Adjustments During 2015		
LV Variance Account	1550	88	88	
RSVA - Wholesale Market Service Charge ⁵	1580	1,538	1,538	
RSVA - Retail Transmission Network Charge	1584	1,782	1,782	
RSVA - Retail Transmission Connection Charge	1586	1,419	1,419	
RSVA - Power ⁴	1588	(1,385,987)	(9,753)	(1,376,234)
RSVA - Global Adjustment ⁴	1589	1,399,715	23,480	1,376,234
		18,555	18,555	0

Woodstock Hydro

Staff-6

Ref: Woodstock Hydro Rate Generator Model, Tab 3 Continuity Schedule

OEB staff notes that the amount of -\$1,776 entered in Account 1586 in 2012 (column V) should be a debit as per the OEB's decision in EB-2011-0207. Please make the necessary correction to the Rate Generator Model.

Response

The updated Rate Generator Model provided reflects the adjusted number (\$1,776 entered in Account 1586 in 2012, column V).

Staff-7

Ref: Woodstock Hydro Rate Generator Model, Tab 3 Continuity Schedule

With respect to the columns applicable to 2014, OEB staff is unable to reconcile the amounts entered for principal and interest for Account 1595 (2011) of -\$18,748 and \$34,734 respectively to the OEB's decision in EB-2013-0182. Please reconcile these amounts. If any changes are required, please make them to the Rate Generator Model.

Response

The updated Rate Generator Model reflects the revised principal and interest for Account 1595 (2011) of -\$18,667 and \$34,873 respectively. Additionally, Account 1586 in 2014 (column AP) is adjusted to \$7,646 to match the OEB's decision in EB-2013-0182.

General - Deferral and Variance Accounts

Staff-8

Ref: Application, Review and Disposition of Group 1 Deferral and Variance Account Balances, Pages 16-17

HONI indicates that because it receives one consolidated invoice from the IESO for the settlement of commodity, bulk transmission and wholesale settlement costs across all of its service areas, actual deferral and variance account balances for **certain** Group 1 accounts are no longer directly identifiable by the individual acquired utility **[emphasis added]**.

- (a) In referring to “one consolidated invoice”, please confirm if this is for only the three acquired utilities, or all of HONI.

Response

The consolidated IESO invoice is for all of HONI, including the three acquired utilities and Hydro One Distribution.

- (b) Please indicate which account balances **are** directly identifiable for each acquired utility.

Response

The balances in account 1595 are directly identifiable for each acquired utility.

Staff-9

Ref: Application, Review and Disposition of Group 1 Deferral and Variance Account Balances, Page 17

HONI indicates that Norfolk Power was integrated in 2015 and as such 2014 kWh information is used to calculate the disposition amount (\$/kWh) for its deferral and variance accounts.

HONI then goes on to say that “HONI does not have the former NPDI’s 2014 RRR filing data readily available and therefore, submits that it is appropriate to use the former NPDI’s most recent Board Approved volumetric forecast.”

If 2014 data is used to calculate disposition amounts, how can 2014 RRR data not be available? Please reconcile these statements and explain the apparent discrepancy. Please also explain why HONI believes it is more appropriate to use the most recent Board Approved volumetric forecast (i.e. 2012) than 2013 RRR information.

Response

As mentioned in page 17 of HONI’s application, the derivation of the threshold test claim of \$0.009 per kWh for NPDI was calculated using their total metered kWh from the Board’s 2014 Yearbook of Electricity Distributors. The Yearbook does not contain the more detailed information (such as, kWh and kW by rate class) required to allocate the total Group 1 balance among the rate classes and to calculate the rate riders.

HONI does not believe that using the 2012 OEB approved volumetric forecast is more appropriate, however, HONI does not have access to NPDI's 2013 RRR data, and as such, NPDI's 2012 data was considered the best available data for calculating the rate riders.

Staff-10

Ref: Norfolk Power Rate Generator Model, Tab 3 Continuity Schedule

Ref: Haldimand County Hydro Rate Generator Model, Tab 3 Continuity Schedule

Ref: Woodstock Hydro Rate Generator Model, Tab 3 Continuity Schedule

No adjustments pertaining to impacts of RPP settlement true-up is indicated in each continuity schedule for Account 1588 or Account 1589 for any of the three acquired utilities.

Please confirm if this is because true-ups with the IESO are done by HONI on an overall basis. If yes, please explain why wasn't an allocation done for the true up, similar to the allocation to the DVA balances for each of the three acquired utilities.

Response

Adjustments pertaining to impacts of RPP settlement true-up have been included in the schedule for each of acquired utilities. 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; and (2) the RPP Invoiced Consumption at actual GA rate. This is done for both 2-tiered rate and time-of-use rate customers for each acquired utility. All settlement amounts are calculated automatically by the billing system which pairs the RPP customer consumption with the Spot price for each invoice. The RPP settlement amounts with IESO are considered as part of the Power and GA cost when deriving the RSVA 1588 and 1589 balances for each individual utility. Therefore, the impact has been taken into the account in the yearly transactions.

Staff-11

Ref: Hydro One Inc./Norfolk Power Distribution Inc. EB-2013-0196/EB-2013-0187/EB-2013-0198

Ref: Hydro One Inc./Haldimand County Hydro Inc. EB-2014-0244

Ref: Hydro One Inc./Woodstock Hydro Services Inc. EB-2014-0213

Ref: Application, Review and Disposition of Group 1 Deferral and Variance Account Balances, Pages 16-17

In the previous MAADs applications decisions, the OEB made similar findings for all three acquired utilities in granting approval to continue to track costs to the deferral and variance accounts currently approved by the OEB for those specific service areas and to seek disposition of their balances at a future date.

In the current application, HONI indicates that as of 2016, each acquired utility's billing system and wholesale settlement process has been fully integrated into HONI and now it "receives one consolidated invoice from the IESO for settlement of commodity, bulk transmission and wholesale settlement costs across all of its service areas."

Considering this change, actual DVA balances are no longer directly identifiable by individual acquired utility, and therefore HONI has developed an approach to allocate overall variances.

- (a) Please explain why HONI is separating and allocating the deferral and variance account balances to the three acquired utilities and not just requesting disposition of the total HONI balances in HONI's rate application, given that HONI is considered a consolidated entity for reporting purposes.

Response

The Group 1 account balances sought for disposition in the current application include actual transactions attributable to each acquired utility from periods prior to operational integration, as well as, some transactions that are allocated following operational integration. Since some of the amounts sought for disposition in this application are directly identifiable for each acquired utility, it is not appropriate to dispose of the balances on an overall basis in order to maintain the principle of cost causality.

- (b) Has HONI removed the amounts allocated to the acquired utilities from the overall HONI deferral and variance account balances?

Response

The RSVA account balances allocated to the acquired utilities in this application were removed from the HONI variance account balances submitted in its Custom IR rate application (EB-2017-0049). Subsequent to filing the HONI Custom IR application (EB-2017-0049) it was discovered that the Smart Meter Entity Charge Variance Account (SMECVVA) balances allocated to the acquired utilities in this application were inadvertently included in the Custom IR application, as well. The total amount of SMECVVA relating to the acquired LDCs is -\$8,355.08, as shown in this Application.

The total requested regulatory account disposition in the HONI Custom IR application is \$30.9 million, including -\$0.1 million for SMECVA. As the amount relating to SMECVA allocated to the acquired LDCs that was inadvertently included in the HONI Custom IR application does not change the total requested regulatory account disposition of \$30.9 million or the amount of SMECVA included in that total of -\$0.1million due to rounding, HONI intends to update the SMECVA account balance for disposition in the Custom IR proceeding so that the amount disposed to the HONI customers is exclusive of the -\$8,355.08 allocated to the acquired LDCs in this application. No changes are required to balances in this application.

- (c) Please explain why HONI wouldn't only dispose of the last actual balances attributable to each acquired utility prior to the acquisition and then disposing HONI's accounts on a combined basis going forward after the acquisition.

Response

As stated in part (a) the current application includes the last actual Group 1 account balances attributable to each acquired utility prior to operational integration. Hydro One would take no issue with disposing of Group 1 deferral and variance account balances on a combined basis following this proceeding should the OEB prefer that approach.

Hydro One notes that there are still Group 2 account balances directly attributable to each acquired utility that have not yet been disposed of which will likely be addressed in a future stand-alone rate application.

- (d) Please provide any relevant excerpts from each respective utilities' MAADs decision that makes HONI believe allocating balances based on a unique approach is appropriate.

Response

During the hearing process for all these acquisitions HONI indicated that in order to maximize the benefits of consolidation, e.g., cost savings to rate payers, some of the specific-utility reporting would no longer be available.

On page 20 of the OEB's decision in the MAAD decision for the former Norfolk Power Distribution Inc., the OEB states that [emphasis added]:

Based on Hydro One's evidence and submissions, the Board considers it probable that there will be significant downward pressure on NPDI's OM&A and capital costs because of efficiencies due to geographic integration, economies of scale, **integration of common administrative**

and management functions and asset management, lower financing costs and integrated planning of the distribution system.

The integration of the wholesale settlement process of the acquired utilities within HONI represents an example of common administrative function whose integration leads to cost savings. As shown by the reference above, this type of activity was considered appropriate by the OEB when granting its approval of the acquisitions.

A consequence of the integration of the wholesale settlement function is that Group 1 balances related to wholesale settlement are no longer directly attributable to each acquired utility. The approach to the allocation of certain Group 1 balances proposed in this application represents HONI's attempt to ensure that the principle of cost causality continues to be maintained when recovering balances from all of HONI's customers, including those of the acquired utilities.