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File 20741

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VIA EMAIL & COURIER

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, Ontario M4P 1E4

Dear Ms. Walli:

**Re: Hydro One Networks Inc. 3GIRM 2014 Distribution Rate Application
(EB-2013-0141)**

Attached please find the Power Workers' Union's submission with regard to Hydro One Networks Inc.'s application to the Ontario Energy Board for its electricity distribution rates to be effective January 1, 2014.

We hope you will find the PWU's comments useful.

Yours very truly,

PALIARE ROLAND ROSENBERG ROTHSTEIN LLP



Richard P. Stephenson
RPS:jr

Encl.

cc: John Sprackett
Judy Kwik

PALIARE ROLAND ROSENBERG ROTHSTEIN LLP

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

AND IN THE MATTER OF an application by Hydro One
Networks Inc. for an order approving just and reasonable
rates and other charges for electricity distribution to be
effective January 1, 2014

Power Workers' Union's Submission

1. INTRODUCTION

Pursuant to Partial Decision and Procedural Order No. 3 the Power Workers' Union ("PWU") is filing its submission with the Ontario Energy Board ("OEB" or the "Board") on non-Smart Grid aspects of the application filed by Hydro One Networks Inc. ("Hydro One") in respect of its electricity distribution rates to be effective January 1, 2014.

In the Partial Decision and Procedural Order No. 3 the Board approved a Settlement Proposal which dealt only with the Smart Grid Rate Rider issue and not the other aspects of the application including the Incentive Rate Mechanism ("IRM") adjustment, the Retail Transmission Service Rates ("RTSR"), the current Incremental Capital Module ("ICM") Rate Rider and the Income Tax Sharing Rate Rider.

2. PWU COMMENTS

The PWU makes submissions on each of these non-Smart Grid aspects of the application.

2.1 The Incentive Rate Mechanism Adjustment

Under 3rd Generation IRM for adjusting electricity distribution rates the Board uses a Price Cap Index Adjustment which is determined as the annual percentage change in the Inflation Factor less the X-Factor which is made up of the Productivity Factor plus the Stretch Factor.

Consistent with the Board's findings in the Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors, issued on July 14, 2008, the Board uses the annual percent change in the Implicit Price Index for National Gross Domestic Product for Final Domestic Demand ("GDP-IPI FDD") as the inflation factor.

In the pre-filed evidence Hydro One submitted that it understood that the Board will adjust this inflation factor to be the annual percentage change in the GDP-IPI FDD for the period 2012 Q3 - 2013 Q2 to 2011 Q3 - 2012 Q2, in order to reflect the 2013 price escalator in the final distribution rate effective January 1, 2014.¹ In the PWU's view the methodology proposed by Hydro One for calculating the inflation factor underpinning the final distribution rate effective January 1, 2014 is consistent with the methodology that the Board has been using in recent years for those distributors whose rate year has been aligned with their fiscal year.

The PWU notes that in the July 14, 2008 Report, the Board determined that X-factors assigned to individual distributors will consist of an empirically derived industry productivity trend (productivity factor) and stretch factor. Hydro One has applied the X-factor productivity value of 0.72 per cent as per the IRM3 model. The PWU submits that the X-factor productivity value of 0.72 per cent is consistent with the Board's determination and is the appropriate value for the industry productivity trend (productivity factor) for 3rd Generation IR as set out in the Supplemental Report of the Board.²

With respect to the stretch factor, in the PWU's view the distribution rates, effective January 1, 2014, will be based on the Board's update to Hydro One's specific 2014

¹ Hydro One Networks Inc. Pre-filed Evidence. EB-2013-0141, Exhibit B, Tab 1, Schedule 1, Page 1.

² Ontario Energy Board. Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors. September 17, 2008.

stretch factor which is expected to be available before the implementation date of the 2014 Tariff of Rates and Charges.

2.2 The Incremental Capital Module Rate Rider

The PWU supports Hydro One's request to continue applying until the next rebasing application the ICM Rate Rider approved by the Board in Hydro One's 2013 electricity distribution rate application (EB-2012-0136). The PWU submits that it is inherent to the ICM to consider incremental capital expenditures that arise during the IR term for their recovery until the next rebasing application.

2.3 The Income Tax Sharing Rate Rider

Hydro One is proposing a Shared Tax Savings Rate Rider in 2014 to refund to customers the shared tax savings of \$1,091,750. Hydro One submitted that in addition the rider is designed to include 13% for an HST rebate shortfall on the 2013 Shared Tax Savings Rate Rider that is currently in effect. Hydro One noted that when the 2013 Shared Tax Savings Rate Rider was implemented in the CSS system, it was deemed to be HST exempt although it should not have been. As a result, Hydro One proposed to refund an amount of \$141,928 to customers and the rider for 2014 will include the 2014 Shared Tax Savings of \$1,091,750 as well as the HST rebate shortfall of \$141,928 totaling to an amount of \$1,233,678 to be refunded to customers.

The PWU submits that the inclusion in the 2014 Shared Tax Savings Rate Rider of the HST rebate shortfall of \$141,928 related to the HST exemption of the 2013 Shared Tax Savings Rate Rider is appropriate. The PWU also submits that the methodology used by Hydro One as set out in Exhibit D1, Tab 1, Schedule 1 for calculating the 2014 Shared Tax Savings Rate Rider is appropriate.

In the PWU's view the Board should approve the 2014 Shared Tax Savings Rate Rider by customer class as filed by Hydro One in D1, Tab 1, Schedule 1, Attachment 2.

2.4 Retail Transmission Service Rates

The PWU submits that the Board should approve Hydro One's proposed methodology for calculating the 2014 RTSR. The PWU is of the view that Hydro One's proposed methodology is consistent with the methodology employed in the 3rd Generation IRM proceeding EB-2008-0187 and EB-2012-0136.

In the PWU's view the Board should approve the 2014 RTSR as filed by Hydro One in Exhibit C, Tab 2, Schedule 1, Page 3, Table 2.

All of which is respectfully submitted.