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BY COURIER

January 22, 2014

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

Dear Ms. Walli:

EB-2013-0142 - Hydro One Remote Communities Inc. 4GIRM 2014 Distribution Rate Application Responses to Interrogatory Questions

Please find attached an electronic copy of responses provided by Hydro One Networks to Interrogatory questions. Two (2) copies will be sent to the Board shortly.

An electronic copy of the Interrogatories has been filed using the Board's Regulatory Electronic Submission System.

Sincerely,

ORIGINAL SIGNED BY JEFFREY SMITH

Jeffrey Smith
Attach.

Ontario Energy Board (Board Staff) INTERROGATORY #1 List 1

Interrogatory

As stated in the *Report of the Board: Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors* (the "*Report*"), issued on November 21, 2013, expected productivity gains will be included in each of the three rate setting methods (i.e. Price Cap IR, Annual IR Index and Custom IR). This is to help ensure that the benefits from increased productivity are appropriately shared throughout the rate setting term between the distributor/shareholder and its customers. Under Price Cap IR and the Annual Index, an X-factor will be used for this purpose.

Under the Board's policies as set out in the *Report*, a distributor will be assigned a 0.0% stretch factor when its actual costs are 25% or more below the predicted costs as estimated in the benchmarking analysis (i.e., the distributor is a superior cost performer).

Hydro One Remotes is excluded from the benchmarking analysis because their RRR data is not available (as noted in the *Report*). As a result, the Board is not able to determine whether Hydro One Remotes is a superior cost performer based on the Board's criteria.

(a) Is it Hydro One Remotes view that not-for-profit monopolies should not have to share any efficiency gains with their ratepayers? If so, why?

(b) Please elaborate further on why Hydro One Remotes believes it is appropriate to be given the lowest stretch factor.

(c) Absent any RRR data, is Hydro One Remotes solely relying on its unique characteristics to warrant approval of a 0.0% stretch factor? If available, please provide measureable efficiencies that Hydro One Remotes has or is expected to achieve.

Response

(a) The inference to be drawn from this question is that in the absence of a productivity factor, Remotes would effectively keep, as incremental profit, all efficiency gains it achieves. In Remotes' unique situation, the shareholder is not rewarded if it achieves efficiency gains in its operation. Any surplus is sent to the RRRP variance account and returned to the RRRP ratepayers of Ontario. The imposition of a stretch factor greater than 0% serves only to lower customer rates and increase the burden paid by RRRP ratepayers. A typical, non-standard A, residential customer in Remotes' service territory already pays an electricity rate that is among the very lowest in Ontario.

(b) Due to the small size of Remotes' customer base and the high volatility of its costs, RRRP ratepayers bear the risk associated with an operational shortfall. Therefore, it is appropriate that any reward associated with an operational surplus should be made available to those same RRRP ratepayers. Assigning a stretch factor of 0% accomplishes this objective.

(c) Unlike other LDCs' shareholders, for whom the rate mechanism in question was designed to benefit[1], Remotes' shareholder does not receive any benefit if there is an operational surplus: any surplus goes to the RRRP variance account. Therefore, imposition of a stretch factor greater than 0% offers no incremental incentive to lower costs.

[1] See EB-2010-0379, Page 2 – *"the Board's incentive rate setting … ensures that the benefits from greater efficiency are appropriately shared between the distributor/shareholder and their customers"*.

Ontario Energy Board (Board Staff) INTERROGATORY #2 List 1

Interrogatory

The Board has determined inflation and productivity factors of 1.7% and 0%, respectively, for 2014 rates. As well, the Board has determined a range of stretch factors. Please complete the following chart reflecting Hydro One Remotes' estimated revenue in 2014 for each of the stretch factors below.

	Board-Approved Stretch Factors				
	0.0%	**0.15%**	**0.30%**	**0.45%**	**0.60%**
Estimated 2014 Revenue Collected through Rates Adjusted by Stretch Factor					

Response

	Board-Approved Stretch Factors (2014 Rates)				
All costs in $M	**0.0%**	**0.15%**	**0.30%**	**0.45%**	**0.60%**
Estimated 2014 Revenue Collected through Rates Adjusted by Stretch Factor ^	**17.55**	**17.53**	**17.50**	**17.48**	**17.45**
Revenue from RRRP *	32.19	32. 19	32. 19	32. 19	32. 19
External Revenue &	0.52	0.52	0.52	0.52	0.52
Estimated Total 2014 Revenue	**50.26**	**50.24**	**50.21**	**50.19**	**50.16**
Estimated Costs for 2014 #	**50.81**	**50.81**	**50.81**	**50.81**	**50.81**
Shortfall to RRRP Variance Account	0.55	0.57	0.60	0.62	0.65
Cost/Benefit to Shareholder	**0**	**0**	**0**	**0**	**0**

^ Estimated 2013 Revenue of 17.26 after application of Inflation less Stretch factor
* RRRP amount is fixed at 2013 levels
& Assumes external revenues grow at inflation rate of 1.7%
# Assumes costs = revenue from Estimated 2013 revenue table below. Any additional efficiencies / costs flow to the RRRP variance account

1 Estimated Revenue Received in 2013:[1]

Estimated Revenue obtained in 2013 through customer rates.	$17.26M
Estimated Revenue obtained in 2013 through RRRP after removal of one-time variance account clearing	$32.19M
Estimated External Revenue	$0.51M
Total Estimated Revenue for 2013	$49.96M
Estimated Revenue Requirement for 2014 assuming increase at 1.7% inflation	**$50.81M**

[1] Refer to Exhibit J, Tab 1, Schedule 1 (Settlement Agreement), Attachment 1filed on June 17, 2013 as part of EB-2012-0137

Ontario Energy Board (Board Staff) INTERROGATORY #3 List 1

Interrogatory

As stated in the *Report*, the approach to assigning stretch factors to distributors is based on a distributor's actual costs relative to its predicted costs as estimated by benchmarking analysis. The approach does not compare one distributor to another distributor. In its updated Application filed on December 20, 2013, Hydro One Remotes states that it has minimal ability to implement marked productivity initiatives given its unique franchise and that the majority of its costs are due to forces entirely outside of its control (e.g. fuel, weather, winter road access). Also in its Application, Hydro One Remotes states that implementation of a stretch factor of 0.0% is in keeping with the actual inflationary forces experienced by Remotes.

(a) Is it Hydro One Remotes' view that it cannot achieve continuous improvement in its business and operations, which are within its control, resulting in efficiencies and lower distribution costs? If so, please explain.

Response

(a) Remotes is committed to continuous improvement throughout its operations and continues to pursue any and all productivity initiatives that benefit customers and RRRP ratepayers alike. However, the controllable costs that might be rationalized by Remotes are a small fraction of the total costs and are substantially dwarfed by the volatility inherent in the non-controllable portion of its cost base, related to diesel fuel, generation maintenance, transportation and winter road access.

Ontario Energy Board (Board Staff) INTERROGATORY #4 List 1

Interrogatory

Under the 3rd Generation IR, Hydro One Remotes was subject to a rate adjustment that reflected a 0.2% efficiency gain to benefit ratepayers. Please explain why Hydro One Remotes believes it is appropriate not to maintain for its ratepayers some level of benefits flowing from continued efficiency gains, for example, a 0.15% or 0.3% stretch factor.

Response

See response to HONI IRR to Board Staff 1.