

2015-2019 Custom Distribution Rate Application

Technical Conference #1
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Panelists:

Susan Frank,
VP, Regulatory Affairs
& Senior Regulatory
Officer

Glenn Scott,
Director, Corporate
Planning & Finance

Rob Berardi,
Director, Sourcing



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Topic:

- the framework of the application, including the proposed approach to ratemaking over the 5-year planning horizon, proposed annual adjustment mechanisms, adjustments outside the normal course of business, off-ramps, outcome measures, and the consistency of the framework of the application with Board policy

Application Overview

The 5-year Custom Cost-of-Service Application is submitted under the Board's *Renewed Regulatory Framework for Electricity Distributors*. This custom approach:

- Accommodates the significant multi-year capital program needed to maintain service levels, while preserving the company's financial viability;
- Facilitates rate-smoothing for the customer's benefit, minimizing the impact of a rate base increase in 2015 after a 3-year IRM period; and
- Reflects feedback received through extensive stakeholder consultation.

Application - Consistency with OEB Policy

1. Rate-setting

- Falls within RRFE for custom filing, which enables large capital requirements, and benefits from embedded efficiencies

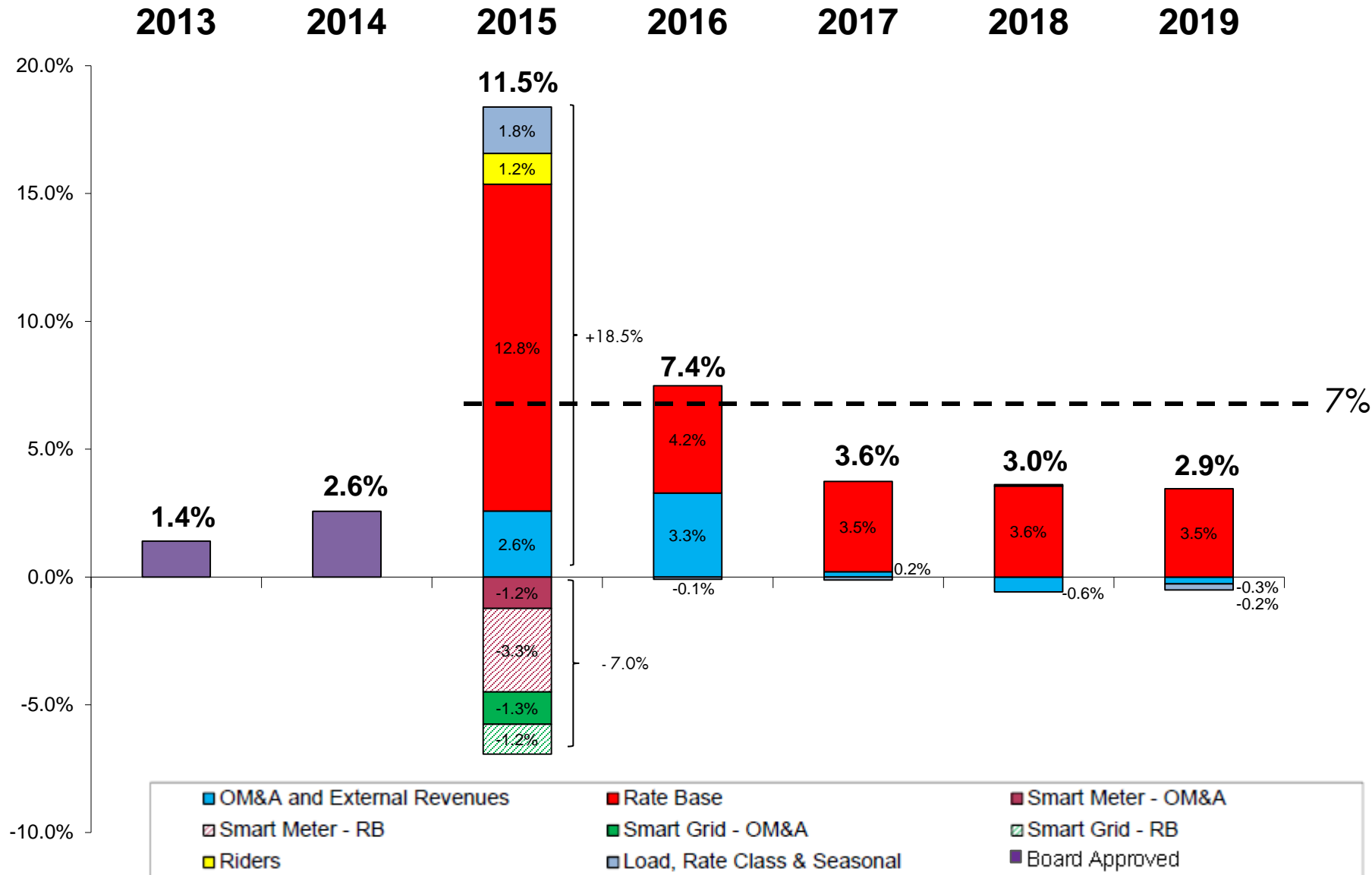
2. Planning

- Based on a 5-year capital plan which is developed through an integrated planning process

3. Measuring Performance

- Tracks performance against business plan, using 8 concrete and transparent metrics, which are independent from the OEB performance scorecard

Distribution Rate Increase



Annual Adjustments

Externally-driven outside applicant's control; ongoing or recurring changes up/downward; formula-based

1. Cost of Capital

- OEB-issued Return On Equity and deemed short-term debt rate and actual long-term debt rate

2. Working Capital

- Change in Commodity Prices (incl. global adjustment)

3. Tax Rate Changes (100%)

4. 3rd party flow-through costs

- RTSR, WMSC, SME, RRRP, OEB Charges

5. Clearing of Variance Accounts (e.g. RSVA, pension)

Adjustments Outside of Normal Course of Business

Externally-driven events beyond utility's control, unexpected, with a very material impact

- Legislative or Regulatory Changes
- Technical standard changes
- Investments necessitated by New Regional Plans
- Material unforeseen weather events
- Accounting Framework changes

Off-Ramps

Conditions justifying termination or modification of the Custom Cost-of-Service Rate Plan

1. Return on equity outside the +/- 300 basis point earnings deadband
2. Performance erodes to unacceptable levels
3. Industry Restructuring
4. Significant changes to Hydro One licensed service territory

Annual Reporting: Outcome Measures

Measuring Hydro One's performance against its business plan

8 measurable, controllable, transparent metrics:

1. Vegetation management
2. Pole replacement
3. PCB line equipment
4. Substation refurbishments
5. Distribution line equipment refurbishments
6. Customer experience
7. Handling of unplanned outages
8. Estimated bills