

REGULATORY ACCOUNTS

1.0 INTRODUCTION

The purpose of this evidence is to provide a description of Hydro One Distribution's Regulatory Accounts.

All of the Regulatory Accounts reported by Hydro One Distribution have been established consistent with the Board's requirements as set out in the Accounting Procedures Handbook, subsequent Board direction, or as per specific requests initiated by Hydro One Distribution.

Hydro One Distribution's outstanding deferral and variance accounts balances are summarized in Table 1.

Table 1
Distribution
Summary of Regulatory Accounts Balances For Approval
(\$ Millions)

Description	Balance as at Dec 31, 2010	Balance as at Dec. 31, 2011	Balance as at Dec. 31, 2012	Balance as at Dec. 31, 2013	Forecast Balance as at Dec. 31, 2014
Total Regulatory Accounts	(26.2)	(67.0)	(60.7)	(44.0)	(25.9)

The forecast interest for 2014 is calculated by applying simple interest on the forecast December 31, 2013 year-end principal balances using the forecast Bankers' Acceptances three-month rate, plus a spread of 25 basis points. This is consistent with the Board's methodology on prescribing interest rates for the approved regulatory accounts under the Uniform System of Accounts for natural gas utilities and electricity distributors (EB-2006-0117).

Information on each account and its balance is described in Section 2.0 and Section 3.0 of this exhibit. Detail on regulatory accounts requested is found in Exhibit F1, Tab 1, Schedule 2. Detail on the proposed disposition of the account balances is found in Exhibit F1, Tab 1, Schedule 3. Further details on deferral and variance accounts are provided in:

- Exhibit F2, Tab 1, Schedule 1: Regulatory Accounts for Approval
- Exhibit F2, Tab 1, Schedule 2: Planned Disposition of Regulatory Accounts -
Schedule of Annual Recoveries
- Exhibit F2, Tab 1, Schedule 3: Continuity Schedule Regulatory Accounts

2.0 REGULATORY ACCOUNTS REQUESTED FOR APPROVAL

The Board's decision on Hydro One's Distribution Rates for 2010 and 2011 (EB-2009-0096) approved the establishment or continuance of certain regulatory accounts. Table 2, provides a listing of the Distribution Regulatory Account balances requested for approval and disposition in the 2015 to 2019 Distribution test years.

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2
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Table 2
Distribution
Regulatory Accounts Requested for Approval (\$ Millions)

Description	US of A Account Ref.	Balance as at Dec. 31, 2010	Balance as at Dec 31, 2011	Balance as at Dec 31, 2012	Balance as at Dec. 31, 2013	Forecast Balance as at Dec. 31, 2014
Retail Service Variance Accounts	1550 to 1588	(21.5)	(39.7)	(45.8)	(35.6)	(36.1)
Rider 9 – Disposition and Recovery of Regulatory Balances (OEB Approved)	1508	0.0	0.0	0.0	(19.1)	(0.7)
Special Purpose Charge Variance Account	1595	0.0	0.0	0.2	0.2	0.2
Retail Cost Variance Account	1518 / 1548	(0.0)	0.1	0.2	1.0	1.1
Deferred Pension Variance Accounts	1508	15.5	28.9	45.7	59.3	60.1
Microfit Connection Charge Variance Account	1508	(0.0)	(0.3)	(0.9)	(1.6)	(1.6)
Tax Changes Deferral Account (inc HST)	1592	(1.4)	(5.9)	(13.1)	(17.5)	(17.8)
Smart Meter – Minimum Functionality Variance Account	1555/ 1556	(6.7)	(17.5)	(21.6)	(17.4)	(17.6)
Smart Meter – Exceeding Minimum Functionality Variance Account	1555/ 1556	6.7	10.8	15.9	21.4	21.7
Distribution Generation – Other Costs – HONI - Variance Account	1533	(0.4)	2.3	(1.6)	(1.2)	(1.2)
Distribution Generation - Express Feeders – HONI - Variance Account	1533	0.0	(0.3)	(0.3)	(0.3)	(0.3)
Smart Grid Variance Account	1536	(5.2)	(20.5)	(9.1)	(1.1)	(1.1)
OEB Differential Account Cost	1508	1.1	3.6	6.3	9.2	9.3
Distribution System Code (DSC) Exemption Deferral Account	1508	0.8	1.0	2.3	6.6	6.7
Deferred Revenue Project Costs Account	2405	(1.7)	(1.7)	(1.7)	(1.7)	(1.8)
Generator Joint Use Revenue Deferral Account	2405	0.0	(0.1)	(0.2)	(0.3)	(0.3)
Smart Meter Entity Charge Variance Account	1551	0	0	0	0.7	0.7
Total Regulatory Accounts for Disposition		(12.8)	(39.4)	(23.5)	2.6	21.3
RRRP	1508	7.0	(8.1)	(6.2)	2.3	2.4
Cat Lake Operational Deferral Account	1508	0.6	0.8	1.6	2.8	2.9
Distribution Generation – Other Costs – Provincial - Variance Account	1533	(3.6)	(22.0)	(31.8)	(48.1)	(48.8)
Distribution Generation - Express Feeders – Provincial - Variance Account	1533	0	(1.2)	(2.4)	(3.6)	(3.7)
Others		(17.3)	2.9	1.5	0	0
Total Regulatory Accounts Not Seeking Disposition		(13.4)	(27.6)	(37.2)	(46.5)	(47.2)
Total Regulatory Accounts		(26.2)	(67.0)	(60.7)	(44.0)	(25.9)

1 For each account discussed below, simple interest is applied to the monthly opening
2 principal balance in this account according to the Board prescribed interest rate. The
3 balance of each account is an audited amount at December 31, 2013, inclusive of interest
4 accrued. Interest Improvement has then been forecast on the principal balance to the end
5 of December 31, 2014. Each account is reported to the Board on a quarterly basis
6 consistent with the Board's Reporting and Record Keeping Requirements.

7 8 **2.1 Retail Settlement Variance Accounts (“RSVAs”)**

9
10 The RSVA accounts have been established pursuant to Article 490, which requires that
11 all distributors establish such accounts to record the differences between the amount
12 owed to the IESO / host distributors and the amount billed to customers and retailers.

13
14 The RSVA accounts were previously reviewed and approved by the Board in RP-2004-
15 0117/0118, RP-2005-0020 / EB-2005-0378, EB-2007-0681 and EB-2009-0096. The
16 Board approved the disposition of the 2011 audited RSVA balance over a two year period
17 in its EB-2012-0136 Decision respecting 2013 distribution rates. The balance of the
18 aggregate RSVA account has been filed with the Board on a quarterly basis per the
19 Electricity Reporting and Record Keeping Requirements.

20
21 In its EB-2009-0096 Decision with Reasons, the Board directed Hydro One to track the
22 dollar value of variances between the Board approved losses recovered in rates and the
23 actual line losses commencing January 1, 2010.

24
25 Hydro One engaged Navigant Consulting Ltd. (“Navigant”) to prepare a line loss study
26 and followed the recommendation of the consultant and used the bill data method to
27 calculate the line loss variance analysis for 2010 through 2013. The balance in Tab 3
28 below includes amounts of line loss variance in 2010, 2011 and 2012, as the 2013 actual

line loss variance was not available when the balances of the regulatory accounts were audited. Since that time the actual 2013 balances have been determined and are discussed in Exhibit G1, Tab 8, Schedule 2.

The total Retail Settlement Variance Accounts balance is summarized in Table 3:

Table 3
Distribution
Retail Settlement Variance Account (RSVA)
\$ million

Description	USofA Account Ref	Balance as at Dec. 31, 2010	Balance as at Dec 31, 2011	Balance as at Dec 31, 2012	Balance as at Dec. 31, 2013	Forecast Balance as at Dec. 31, 2014
Low Voltage Variance Account	1550	3.7	6.8	9.0	3.9	4.0
Wholesale Market Service Charge	1580	(31.9)	(68.1)	(110.6)	(72.1)	(73.1)
Retail Transmission Network Charge	1584	8.4	20.9	58.7	39.2	39.7
Retail Transmission Connection Charge	1586	2.4	9.5	26.3	16.4	16.6
Power - Sub-Account - Power	1588	0	0	0	(0.5)	(0.6)
Power - Sub-Account - Global Adjustment	1589	(4.1)	(8.9)	(29.2)	(22.4)	(22.7)
Total RSVA		(21.5)	(39.7)	(45.8)	(54.5)	(36.6)

2.2 Recovery of Regulatory Balances Account – Sub Account - Special Purpose Charge (SPC)

As a result of the April 23, 2010 letter from the OEB, the Special Purpose Charge Variance Account was created to track the difference between the amount remitted to the Minister of Finance for the distributor's SPC assessment and the amounts that the utility recovered from customers.

The Special Purpose Charge Variance Account balance was transferred to a new sub account of 1595 – Regulatory Assets per the OEB Decision and directive of June 14,

2012 (EB-2012-0200). As per that decision, Hydro One Distribution's SPC Account was closed effective June 1, 2012.

Table 4 provides a summary of the Recovery of Regulatory Balances Account – Sub Account - Special Purpose Charge balance for Hydro One Distribution:

Table 4
Distribution
Recovery of Regulatory Balances Account – Sub Account - Special Purpose Charge
– USofA 1595
\$ million

Description	USofA Account Ref	Balance as at Dec. 31, 2010	Balance as at Dec 31, 2011	Balance as at Dec 31, 2012	Balance as at Dec. 31, 2013	Forecast Balance as at Dec. 31, 2014
Special Purpose Charge	1595	0.0	0.0	0.2	0.2	0.2

2.3 Retail Cost Variance Accounts ("RCVA")

Providing retail services to customers, as a result of the deregulated electricity market, results in the distributor having a need to recover certain retail service costs . The rates and charges used in determining these costs are set by the Board, which recognizes that the actual costs may be different in practice. In accordance with Chapter 11 of the Distribution Rate Handbook, distributors are required to establish variance accounts, for future disposition, which record the differences in these costs and revenues.

Hydro One Distribution has established RCVA accounts to capture the differences between the revenues collected by the distributor, based on Board approved rates, and the actual incremental costs of providing the related services. The methodology underlying the operation of these variance accounts is given in the Accounting Procedures Handbook – Article 490.

Table 5 provides a summary of RCVA balance for Hydro One Distribution:

Table 5
Distribution
Retail Cost Variance Accounts (RCVA)
\$ million

Description	USofA Account Ref	Balance as at Dec. 31, 2010	Balance as at Dec 31, 2011	Balance as at Dec 31, 2012	Balance as at Dec. 31, 2013	Forecast Balance as at Dec. 31, 2014
RCVA Accounts	1518/1548	0.0	0.1	0.2	1.0	1.1

2.4 Pension Cost Differential Account

1508 - Other Regulatory Assets – Sub Account - Pension Cost Differential Account was approved for use by Hydro One Distribution in the Board’s Decision of April 9, 2010 (EB-2009-0096).

The account tracks the difference between the non-capital portion of pension cost estimates, based on actuarial assessments and other forecasts, upon which Hydro One Distribution's Rate application is based, and the actual pension contributions charged to OM&A.

The balance in Hydro One Distribution's Pension Cost Differential Account is summarized in Table 6.

Table 6
Distribution
1508 - Other Regulatory Assets – Sub Account - Pension Cost Differential Balances
\$ million

Description	USofA Account Ref	Balance as at Dec. 31, 2010	Balance as at Dec 31, 2011	Balance as at Dec 31, 2012	Balance as at Dec. 31, 2013	Forecast Balance as at Dec. 31, 2014
Pension Cost Differential Account	1508	15.5	28.9	45.7	59.3	60.1

2.5 Fixed Charge for Micro-Generators

The Board established the Fixed Charge for Micro-Generators account for Hydro One Distribution business in its April 9, 2010 (EB-2009-0096) decision for 2010 and 2011 rates.

1 This account was established province-wide, for all distributors, in OEB proceedings EB-
2 2009-0326 and EB-2010-0219. The rate was subsequently updated to require the
3 recording of the collection of revenue from this monthly charge as per the Board's
4 September 20, 2012 letter to all distributors entitled "*Update to Fixed Monthly Charge*
5 *for microFIT Generator Service Classification Board File Numbers EB-2009-0326 and*
6 *EB-2010-0219.*".

7
8 1508 - Other Regulatory Assets – Sub Account - Fixed Charge for Micro-Generators was
9 approved for use by Hydro One Distribution in the Board's Decision of April 9, 2010
10 (EB-2009-0096).

11
12 This account records revenue collected from the new fixed meter charge that is applied to
13 micro-generator connections. The amounts are deferred for refunding to customers in a
14 future period.

15
16 The balance in Hydro One Distribution's Fixed Charge for Micro-Generators Account is
17 summarized in Table 7:

Table 7
Distribution
1508 - Other Regulatory Assets – Sub Account – Microfit Connection Charge
Variance Account Balances
\$ million

Description	USofA Account Ref	Balance as at Dec. 31, 2010	Balance as at Dec 31, 2011	Balance as at Dec 31, 2012	Balance as at Dec. 31, 2013	Forecast Balance as at Dec. 31, 2014
Fixed Charge for Micro-Generators	1508	(0.0)	(0.3)	(0.9)	(1.6)	(1.6)

2.6 Tax Changes Account

In the Board communiqué to distributors in December 2005, and the Board's April 12, 2006 Decision with Reasons (RP-2005-0020 / EB-2005-0378) regarding Hydro One's 2006 Distribution Rates, the Board authorized the creation of an account to capture the tax impact of the following differences between the tax assumptions included in revenue requirement and actual results, specifically:

- Those differences that result from a legislative or regulatory change to the tax rates or rules; and
- Those differences that result from a change in, or a disclosure of, a new assessing or administrative policy that is published in the public tax administration or interpretation bulletins by relevant federal or provincial tax authorities.

The Tax Changes account also captures the savings in provincial sales tax (PST) cost included in revenue requirement due to the introduction of flow-through Harmonized Sales Tax (HST).

Impacts of \$1.4 million have been recorded in the account from the HST introduction date of July 1, 2010 to December 31, 2010, and \$4.3 million annually in each of the 2011, 2012, 2013 rate years.

In 2011, an adjustment of \$(0.2) million was recorded in respect of a change in capital cost allowance (CCA) rates. This was consistent with Hydro One Transmission's treatment of Class 50 and 52 asset additions as addressed in its 2010 and 2011 rate application in EB-2010-0002.

In both 2010 and 2011, actual and Board-approved tax rates were equal. However, in 2012, \$(2.9) million of savings were recognized in the account as a result of the difference between the actual statutory tax rate (26.50%) and the statutory rate incorporated in approved rates (28.25%).

The balance in Hydro One Distribution's Tax Rate Changes Account is summarized in Table 8:

Table 8
Distribution
Tax Rate Changes Account Balances
\$ million

Description	USofA Account Ref	Balance as at Dec. 31, 2010	Balance as at Dec 31, 2011	Balance as at Dec 31, 2012	Balance as at Dec. 31, 2013	Forecast Balance as at Dec. 31, 2014
Tax Rate Changes	1592	0.0	(0.2)	(3.1)	(3.2)	(3.3)
PST Savings		(1.4)	(5.7)	(10.0)	(14.3)	(14.5)
Total		(1.4)	(5.9)	(13.1)	(17.5)	(17.8)

2.7 Smart Metering Minimum Functionality Expenditures incurred from January 1, 2009 up to December 31, 2014

On June 23, 2004, the Minister of Energy issued a directive to the Ontario Energy Board that established targets for the installation of smart meters for all Ontario customers. The cumulative total number of smart meters now installed in Hydro One service territory as of the end of 2013 is 1,229,800.

Hydro One has previously provided its smart meter plans (EB-2006-0246) to the Board, where it outlined its assessment of minimum functionality (including advanced metering communication devices, local area network, advanced regional collectors, and advanced metering central computers) as well as the required architecture; its procurement process and contracts with vendors; updated plans for smart meter deployment; risk assessment and mitigation plans; and the associated costs. Detailed evidence describing this work was filed in the EB-2007-0063, EB-2007-0681 and EB-2008-0187, and EB-2009-0096 proceedings.

The Provincial Smart Meter Functional Specification imposed a very high standard for smart meter data retrieval and availability for processing and customer use. In very rural and sparsely populated areas of Hydro One's service territory, achieving these specifications economically is a significant challenge. For this reason, Hydro One was granted an exemption until December 31, 2014 from the requirement to apply TOU pricing by a mandatory date under the Standard Supply Service Code for Electricity Distributors in respect of approximately 122,000 Regulated Price Plan (RPP) customers. There are currently no cost effective options to meet full compliance for these customers and this situation is not expected to be resolved until there is improved telecommunications infrastructure or when there are advancements in telecommunications infrastructure. During the extension period, those "hard to reach"

1 customers will remain on two-tier pricing and Hydro One is reporting to the Board on
2 any progress that is made in this area.

3
4 As part of the EB-2007-0681 Proceeding, the Board reviewed and approved Hydro One
5 Distribution's actual Smart Meter Minimum Functionality spending up to December 31,
6 2007. The Board directed Hydro One Distribution to track subsequent Smart Meter
7 Minimum Functionality spending and file for approval and recovery in a subsequent
8 application.

9
10 As part of the EB-2009-0096 rate hearing proceeding, the April 9, 2010 Board Decision
11 approved the recovery of Smart Meter balances to December 31, 2008. The Board also
12 approved an updated Smart Meter Funding Adder for 2010 of \$2.17 and for 2011 of
13 \$4.45 per metered customer per month following the Board's G-2008-0002 *Guideline for*
14 *Smart Meter Funding and Cost Recovery* issued October 22, 2008. This adder has
15 continued through 2013 and will continue until December 31, 2014.

16
17 Table 9 details the revenue requirement (net of interim recoveries received) related to
18 smart meter minimum functionality up to December 31, 2013 plus interest improvement
19 for 2014. The revenue requirement was calculated consistent with prior periods and the
20 approach illustrated in Appendix E of the decision for proceeding EB-2007-0063.

Table 9
Distribution
Smart Meter Minimum Functionality Under-Recovery
Expenditures incurred from 1 January 1, 2009 up to December 31, 2013
\$ million

Description	USofA Account Ref	Balance as at Dec. 31, 2010	Balance as at Dec 31, 2011	Balance as at Dec 31, 2012	Balance as at Dec. 31, 2013	Forecast Balance as at Dec. 31, 2014
Smart Metering - Minimum Functionality	1555/6	(6.7)	(17.5)	(21.6)	(17.4)	(17.6)

**2.8 Smart Metering Expenditures Exceeding Minimum Expenditures incurred
from 1 January 1, 2009 up to December 31, 2013**

Costs beyond minimum functionality, as defined in O.Reg.425/06 include:

- Costs for technical capabilities in smart meters or related communications infrastructure that exceed those specified in O.Reg 425/06 and include costs for meter and collector outage detection capability; and
- Costs for time of use rate implementation, CIS system upgrades, web presentation, and integration with the SME.

More specifically, these costs include:

- Legacy system changes to enable TOU implementation;
- Architecture, new systems, and integration with the SME;
- Consumer TOU education including direct mail TOU notification kits, brochures, TOU period decals, bill inserts, web presentment, and call handling;
- Business process redesign and training;
- Head End and other systems operations and support; and

- Costs for deployment of smart meters to customers other than residential and small general service customers

A Board review of these costs was done in EB-2007-0681. The Board granted approval to Hydro One Distribution for actual Smart Meter Exceeding Minimum Functionality spending up to December 31, 2007. The Board directed Hydro One Distribution to track subsequent Smart Meter Exceeding Minimum Functionality spending and file for approval and recovery in a subsequent application.

As part of the EB-2009-0096 rate hearing proceeding, the April 9, 2010 Board Decision approved the recovery of Smart Meter Exceeding Minimum Functionality balances to December 31, 2008. Continuation of the variance account was also approved for 2010 and 2011. This account has continued through 2012 – 2014 as described above.

Table 10 details the revenue requirement (net of adder interim recoveries received) related to Smart Meter minimum Exceeding Functionality up to December 31, 2013, plus interest improvement for 2014. The revenue requirement was calculated consistent with prior periods and the approach illustrated in Appendix E of the decision for proceeding EB-2007-0063.

Table 10
Distribution
Smart Meter Exceeding Minimum Functionality Under-Recovery
Expenditures incurred from 1 January 1, 2009 up to December 31, 2013
\$ million

Description	USofA Account Ref	Balance as at Dec. 31, 2010	Balance as at Dec 31, 2011	Balance as at Dec 31, 2012	Balance as at Dec. 31, 2013	Forecast Balance as at Dec. 31, 2014
Smart Meter - Exceeding Minimum Functionality	1555/6	6.7	10.8	15.9	21.4	21.7

2.9 Distribution Generation Variance Account

The Board directed Hydro One Distribution to establish deferral accounts related to its Green Energy Plan in its Decision of April 9, 2010 (EB-2009-0096).

The Distribution Generation Variance Account, consisting of separate Express Feeders and Distribution Generation – Other Sub Accounts, records the interim funding received in respect of the expenditures made for these programs.

The balance in Hydro One’s Distribution Generation Variance Account is summarized in Table 11.

Table 11
Distribution
1533 – Distribution Generation Variance Account Balances
\$ million

Description	USofA Account Ref	Balance as at Dec. 31, 2010	Balance as at Dec 31, 2011	Balance as at Dec 31, 2012	Balance as at Dec. 31, 2013	Forecast Balance as at Dec. 31, 2014
Distribution Generation Variance Account	1533	(0.4)	(2.0)	(1.8)	(1.5)	(1.5)

2.10 Smart Grid Variance Account

The Smart Grid Variance Account was established consistent with Board direction to Hydro One Distribution to establish deferral accounts related to the Green Energy Plan in its HONI Distribution Rate Hearing Decision of April 9, 2010 (EB-2009-0096). The account records the interim funding received in respect of the expenditures made under this work program.

In the Board's Decision of December 20, 2012 (EB-2012-0136), the Smart Grid Variance account was continued and a continuance of interim funding for Hydro One's Smart Grid OM&A expenditures in 2013 was approved in 2013 rates.

Under the Board's Partial Decision (EB-2013-0141) on September 26, 2013, the Smart Grid Variance Account was again continued and interim funding was again approved in 2014 rates. The Board accepted Hydro One's proposal relating to Smart Grid as filed in Hydro One Distribution's Settlement Proposal dated September 17, 2013 and the settlement agreement between Hydro One and the intervenors that the expenditures recorded in account 1536 will not be subject to a future prudence review.

The balance in Hydro One Distribution's Smart Grid Variance Account is summarized in Table 12.

Table 12
Distribution
1536 – Smart Grid Variance Account Balances
\$ million

Description	USofA Account Ref	Balance as at Dec. 31, 2010	Balance as at Dec 31, 2011	Balance as at Dec 31, 2012	Balance as at Dec. 31, 2013	Forecast Balance as at Dec. 31, 2014
Smart Grid Variance Account	1536	(5.2)	(20.5)	(9.1)	(1.1)	(1.1)

2.11 OEB Cost Differential Account

The board established the OEB Cost Differential Account for Hydro One Distribution in its April 9, 2010 (EB-2009-0096) Decision for 2010 and 2011 rates. The Board approved the account on the basis that it be used for variances in Board cost assessments only.

The account records the difference between the annual amounts of OEB assessment costs approved in rates and the actual OEB Cost Assessment amounts charged to Hydro One Distribution.

The balance in Hydro One Distribution’s OEB Cost Differential Account is summarized in Table 13.

Table 13
Distribution
1508 - Other Regulatory Assets – Sub Account - OEB Cost Differential Account
Balances
\$ million

Description	USofA Account Ref	Balance as at Dec. 31, 2010	Balance as at Dec 31, 2011	Balance as at Dec 31, 2012	Balance as at Dec. 31, 2013	Forecast Balance as at Dec. 31, 2014
OEB Cost Differential Account	1508	1.1	3.6	6.3	9.2	9.3

2.12 Distribution System Code Exemption Deferral Account

The Board ordered Hydro One to establish the Distribution System Code Exemption Deferral Account for Hydro One Distribution in its December 20, 2010 (EB-2010-0229) Decision and Order. In it, the Board recognized that costs to mitigate certain unforeseen technical issues should not be visited upon generators who have already executed Connection Costs Agreements, but should instead be eligible for recovery through Hydro One’s distribution rate base, subject to the Board’s final review “in a future rate proceeding”. Specifically, the Board ruled that expenditures for the three specific categories of expenditure included in that proceeding be recorded in sub-accounts of 1508, Other Regulatory Assets, subject to the Board’s review at a future date. These three categories are:

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

The balance in Hydro One Distribution’s Distribution System Code Exemption Deferral Account is summarized in Table 14.

Table 14
Distribution
1508 - Other Regulatory Assets – Sub Account - Distribution System Code
Exemption Deferral Account Balances
\$ million

Description	USofA Account Ref	Balance as at Dec. 31, 2010	Balance as at Dec 31, 2011	Balance as at Dec 31, 2012	Balance as at Dec. 31, 2013	Forecast Balance as at Dec. 31, 2014
Distance Limitation	1508	0.8	0.9	2.2	6.3	6.4
Delta-Y Transformers	1508	0.0	0.1	0.1	0.3	0.3
Dual Secondary Winding Transformers	1508	0.0	0.0	0.0	0.0	0.0
Total	1508	0.8	1.0	2.3	6.6	6.7

2.13 Deferred Revenue Project Costs Variance Account (2009)

The Board directed Hydro One Distribution to track the 2009 revenue requirement variance related to four categories of proposed Capital expenditure in its May 13, 2009 EB-2008-0187 Decision. Specifically, the following categories of investment were to be recorded:

- 1 • a reduction to the proposed capital expenditures for leasehold improvements for the
2 new head office on the basis that there will be offsetting payments from the landlord;
3
- 4 • elimination of the proposed three pilots for Hydro One's smart grid project on the
5 basis that this project should be deferred until the Green Energy Act is proclaimed
6 and regulations are made and the Board develops standards and processes for
7 implementation;
- 8 • reductions in Hydro One's 2009 capital budget for new connections and upgrades in
9 light of economic conditions in 2009; and
10
- 11 • reductions in the capital budget for the Cornerstone multi-year computer project on
12 the basis that this project is not incremental or, in the alternative, recognition of the
13 project's savings in 2009.
14

15 The 2045 - Other Regulatory Liabilities – Sub Account – Deferred Revenue Projects
16 Costs Account was created for the return of these amounts to future distribution
17 customers.
18

19 The balance in Hydro One Distribution's Deferred Revenue Projects Costs Account is
20 summarized in Table 15.
21

Table 15
Distribution
2045 - Other Regulatory Liabilities – Sub Account - Deferred Revenue Projects
Costs Account Balances
\$ million

Description	USofA Account Ref	Balance as at Dec. 31, 2010	Balance as at Dec 31, 2011	Balance as at Dec 31, 2012	Balance as at Dec. 31, 2013	Forecast Balance as at Dec. 31, 2014
Deferred Revenue Projects Costs Account	2405	(1.7)	(1.7)	(1.7)	(1.7)	(1.8)

2.14 Joint Use Revenue Variance Account

The Board established the Joint Use Revenue Variance Account Hydro One Distribution's in its Decision on December 17, 2010 on Hydro One's application EB-2010-0228.

This account records Generator Joint Use revenues in a variance account entitled account 2045 - Other Regulatory Liabilities – Sub Account - Joint Use Revenue Variance Account.

The balance in Hydro One Distribution's Joint Use Revenue Variance Account is summarized in Table 16.

Table 16
Distribution
2045 - Other Regulatory Liabilities – Sub Account - Joint Use Revenue Variance
Account Balances
\$ million

Description	USofA Account Ref	Balance as at Dec. 31, 2010	Balance as at Dec 31, 2011	Balance as at Dec 31, 2012	Balance as at Dec. 31, 2013	Forecast Balance as at Dec. 31, 2014
Joint Use Revenue Variance Account	1508	0.0	(0.1)	(0.2)	(0.3)	(0.3)

**3.0 REGULATORY ACCOUNTS NOT BEING REQUESTED FOR
DISPOSITION**

The accounts Hydro One Distribution is not currently seeking recovery of are discussed below.

Account 1508 – RRRP Variance: the treatment of the balance the Rural and Remote Rate Protection (RRRP) is not within the scope of this application.

Account 1508 – Cat Lake: in respect of the Cat Lake regulatory Account, the Board has not yet provided guidance or instruction how these balances will be disposed as Hydro One Distribution continues to be the caretaker and operator of those assets.

Account 1533 – Express Feeders and other Renewable Generation Connection Expenditures Provincial Portion: in respect to the variance account which relates to the provincial funded portion of the investments, Hydro One is requesting the Board's approval to discontinue the collection of revenue through the funding adder from the provincial rate payers on December 31, 2014. In light of the continuation of renewable distributed generation connection investments from the 2015 to 2019 period, Hydro One is not seeking disposition of the balance in this account at this time and will continue to record the costs eligible for direct benefit treatment according to Ontario Regulation 330/09.

1 **REGULATORY ACCOUNTS RESTATED FOR ANNUAL**
2 **REPORTING AND RECORD KEEPING REQUIREMENTS (RRR)**

3
4 **1.0 INTRODUCTION**

5
6 In February 2014, Hydro One Networks was requested by the OEB Audit and
7 Performance Assessment group to restate the balances of all accounts associated with
8 Renewable Generation Connection and Smart Grid in the 2012 annual RRR report 2.1.7 ,
9 as well as in the evidence of this application, in accordance with the *Accounting*
10 *Procedure Handbook* (the “**Handbook**”).

11
 In a letter¹ sent to the Audit and Performance Assessment group, dated on January 15,
 2014, Hydro One explained that its intention to report under the alternative method was
 to provide more helpful information to the Board and intervenors, and Hydro One
 believed that this approach has been consistent with the Board’s previous decisions in
 Hydro One’s last Cost of Service Application (EB-2009-0096) and its subsequent IRM
 applications (EB-2012-0136 and EB-2013-0141).

 Hydro One has restated the balances for the above-mentioned accounts in the RRR report
 2.1.7 for 2012, and reported the balances in the RRR report 2.1.7 for 2013, consistent
 with the approach stated in Mr. Babaie’s letter².

 The continuity of the account balances for restatement is shown in Table 1.

¹ Hydro One’s letter dated January 15, 2014 has been attached in Appendix A of this exhibit.

² The letter from Mr Babaie, Manager of the Audit and Performance Assessment group at the OEB, has
been attached in Appendix B of this exhibit.

Table1
Continuity of Regulatory Accounts 1531, 1532, 1533 and 2405 (\$ Millions)

Description	US of A Account Ref.	Balance as at Dec 31, 2012	Balance as at Dec. 31, 2013
Renewable Connection Capital Deferral Account	1531	8.4	9.6
Renewable Connection OM&A Deferral Account	1532	9.6	11.4
Renewable Generation Connection Funding Adder Deferral Account	1533	(45.8)	(65.7)
Smart Grid Funding Adder Deferral Account	2405	(9.1)	(1.1)

For the purposes of seeking approvals for distribution rates, Hydro One has chosen to present the regulatory account balances in the format presented in Exhibit F1, Tab 1, Schedule as it explicitly shows the details supporting the amount for disposition being sought in front of the Board.

Hydro One respectfully requests that the Board accept Hydro One' methodology as a more helpful way of identifying the amount for disposition.

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Filed: 2014-05-30
EB-2013-0416
Exhibit F1-1-1
Appendix A
Page 1 of 2

Allan Cowan
Director, Major Applications
Regulatory Affairs



BY COURIER

January 15, 2014

Mr. Daria Babaie
Manager, Regulatory Audit & Accounting
Ontario Energy Board
Suite 2700, 2300 Yonge Street
Toronto, ON.
M4P 1E4

Dear Mr. Babaie:

Request for Restatement of 2012 RRR 2.1.7 Balance for Regulatory Accounts 1531, 1532, 1533, 1534, 1535 and 1536

On December 6, 2013, representatives from Hydro One Networks met with Board Staff to discuss an issue raised with regards to the reporting of the above mentioned regulatory accounts. In this meeting, Ontario Energy Board Staff requested that Hydro One Networks restate the balances of all such accounts associated with Renewable Generation Connection and Smart Grid in the 2012 annual RRR report 2.1.7 in accordance with the *Accounting Procedure Handbook* (the "**Handbook**").

In response to this request, Hydro One Networks has restated the data in Table 1 below:

Table 1
Annual RRR 2.1.7 for Accounts 1531 to 1536 as at Dec 31, 2012

	Balances As Filed	Balances Requested For Restatement
1531 Renewable Connection Capital Deferral Account	0	\$30,987,334
1532 Renewable Connection OM&A Deferral Account	0	\$9,374,122
1533 Renewable Generation Connection Funding Adder Deferral Account	-\$36,047,699	-\$46,035,400
1534 Smart Grid Capital Deferral Account	0	\$94,562,742
1535 Smart Grid Capital OM&A Account	0	\$10,434,667
1536 Smart Grid Funding Adder Deferral Account	-\$9,103,300	-\$26,318,923

Hydro One Networks has adopted an alternate reporting approach to these account balances, understanding that the stated purpose of the Handbook is to create accounting records that provide "an adequate information base for establishing rates and monitoring distributor performance". Hydro One Networks described its alternate reporting approach in a letter to the Board dated April 16, 2010, wherein it summarized its response to the Board's direction in EB-2009-0096 to establish a number of deferral/variance accounts. This alternate response was also adopted in Hydro One Networks' subsequent IRM applications for 2013 and 2014 distribution rates, without further comment or inquiry by the Board.

Distribution rates are based on a distributor's revenue requirement, which is the sum of the following expenses: OM&A, depreciation and amortization, return on capital, and income tax liability. In the interest of furthering the stated purpose of the Handbook (i.e. providing "an adequate information base to establish rates"), Hydro One Networks has reflected the impact of all these expenses in accounts 1533 and 1536. We respectfully submit that the omission of this information is material. The other accounts referenced in Table 1 above only reflect OM&A and capital expenditures.

Also, Hydro One Networks' approach accurately captures the impact of capital expenditures on revenue requirement. The return on capital component of revenue requirement is based on the distributor's in-service capital, not capital expenditures. Restated, capital expenditures, alone, have no impact on revenue requirement. They only impact revenue requirement when the project incurring this expense goes into service. Projects may incur capital expenditures over a lengthy period of time before they go into service.

As a result of more accurately reflecting the revenue requirement for the Renewable Generation Connection and Smart Grid projects, Hydro One Networks could not input its OM&A and capital expenditures into accounts 1531, 1532, 1534 and 1535 in its annual RRR report 2.1.7 because this action would result in a double-counting of costs, which would then cause an inaccurate trial balance and problematic inconsistencies with the company's financial statements.

In addition to providing more complete information, Hydro One Networks' alternative approach offers the added benefit of showing a surplus or deficit for the relevant account, enabling the Board and interveners to easily determine whether the company has collected more or less than it is entitled to.

Hydro One Networks respectfully requests that the Board Staff consider Hydro One Networks' alternative approach as a useful and beneficial while consistent with the Handbook.

Sincerely,

A handwritten signature in cursive script that reads "Allan Cowan".

Allan Cowan

**Ontario Energy
Board**

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BY EMAIL

February 27, 2014

Allan Cowan
Director, Major Applications, Regulatory Affairs
Hydro One Networks Inc.
7th Floor, South Tower
483 Bay Street
Toronto, Ontario M5G 2P5
allan.cowan@HydroOne.com

Dear Mr. Cowan:

Re: Review and Applicable Adjustments to the 2012 RRR 2.1.7 Balances for Deferral
Accounts 1531, 1532, 1533, 1534, 1535 and 1536

Thank you for meeting with the Audit and Performance Assessment ("Audit") staff of the Ontario Energy Board (the "Board") on February 14, 2014. As you recall, Audit had reviewed the balances of the deferral accounts 1531, 1532, 1533, 1534, 1535, 1536 ("Accounts") that Hydro One Networks Inc. ("Hydro One") had reported in its 2012 RRR 2.1.7 filing with the Board and raised a number of concerns with the Hydro One regarding the regulatory accounting and reporting of these Accounts. We had noted that Hydro One was not applying the regulatory accounting treatment of the Accounts as specified in the Accounting Procedures Handbook (APH). We also raised earlier these issues regarding Hydro One's reported Account balances in a meeting with the Hydro One's representatives on December 6, 2013.

The meeting of February 14, 2014 was a follow-up to your letter dated January 15, 2014, in which Hydro One provided the balances requested for potential restatement for the Accounts as at December 31, 2012. Hydro One had proposed an alternative approach of recording and reporting of the balances for the Accounts in its cost of service (CoS) rate application and its RRR filings.

In both meetings of December 6, 2013 and February 14, 2014, we reviewed the requirements of the APH and the Board's Decision (EB-2013-0146) dated April 9, 2013 for Hydro One with you, and discussed our expectation for Hydro One to follow the APH with respect to regulatory accounting treatment of the Accounts or as directed by the Board in its Decision, and need for an update of the RRR Accounts balances.

Based on our discussion and the information Hydro One provided in the meeting of February 14, 2014, Hydro One agreed to update the 2012 RRR based on the changes discussed below.

Renewable Generation Accounts (accounts 1531, 1532 and 1533)

With respect to renewable generation accounts, Hydro One indicated that the amount collected from customers through funding adders was \$46,035,400 as at December 31, 2012. In addition, Hydro One indicated at the meeting on February 14, that it believed there were no in-service capital assets as at December 31, 2012. However upon final review, Hydro One has determined that \$8,352,865 of in-service capital should be recorded in account 1531 and \$9,584,991 of OM&A should be recorded in account 1532. In addition, Hydro One has stated that the credit balance should be changed from \$46,035,400 to \$45,829,107. Audit notes that the original filed 2012 RRR balance and the restated balances provided by Hydro One are as follows:

Account # and Description	2012 RRR 2.1.7 Balances as originally filed	Restated 2012 Balances provided in the letter dated January 15, 2014	Restated 2012 Balances indicated by Hydro One in the meeting dated February 14, 2014	Restated 2012 Balances provided by Hydro One in its email dated February 27, 2014
1531 Renewable Connection Capital Deferral Account	0	\$30,987,334	0	\$8,352,865
1532 Renewable Connection OM&A Deferral Account	0	\$9,374,122	0	\$9,584,991
1533 Renewable Generation Connection Funding Adder Deferral Account	-\$36,047,699	-\$46,035,400	-\$46,035,400	-\$45,829,107

Based on the information provided by Hydro One in its email dated February 27, 2014, Audit notes that Account 1533 should be re-filed with the restated credit balance of (\$45,829,107) as at December 31, 2012, representing the amounts collected from customers through funding adders approved by the Board. Hydro One had been recording the revenue requirement variance in this account. Audit also notes that Account 1531 should be re-filed with the restated balance of \$8,352,865 and Account 1532 should be re-filed with the restated balance of \$9,584,991 as at December 31, 2012.

Smart Grid Accounts (accounts 1534, 1535 and 1536)

With respect to the smart grid accounts, Hydro One reported the variance for a credit of \$9,103,300 in Account 1536 Smart Grid Funding Adder Deferral Account in 2012 RRR 2.1.7. This reporting of a variance balance appears consistent with the Board's direction provided to Hydro One in its decision. However, Audit noted that the account used by Hydro One (i.e. Account 1536) does not correspond to the Account 2405 that was proposed to be used by Hydro One in its April 16, 2013 letter filed to implement the Board directions in its Decision (EB-2013-0146). As a result, I expect that Hydro One will re-submit the balance for the smart grid variance in Account 2405.

Hydro One indicated that the balances for the Accounts as at December 31, 2013 are being sought for disposition in its current CoS rate application EB-2013-0416. It is expected that Hydro One updates its evidence in its current CoS rate application for the accurate balances for the Accounts based on actual in-service assets (exclusive of construction work in progress amounts) and OM&A expenses.

Please note that Audit's review of balances in these accounts was comprised of inquiry and discussion only, and as such, Audit did not perform any audit to verify the accuracy of the balances (original or restated) for the Accounts. As a result, Audit is not providing any assurance or an opinion on the accuracy of the Accounts.

Please do not hesitate to contact me if you have any questions relating to this matter.

Yours truly,



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Lynne Anderson, Vice President - Applications (Ontario Energy Board)
Ceiran Bishop, Manager – Applications (Ontario Energy Board)
Harold Thiessen, Senior Advisor – Applications (Ontario Energy Board)

Rate Smoothing Rider Calculation

Line		2014	2015	2016	2017	2018	2019	
	OM&A		564.3	610.2	614.0	603.9	600.0	
1	Depreciation		355.4	374.9	390.2	402.9	413.6	
2	Return on Capital		442.7	477.0	510.8	543.3	576.5	
3	Income Tax		52.5	60.5	63.0	65.4	69.5	
4	External Revenues and Others		(47.9)	(48.9)	(49.9)	(49.2)	(49.9)	
5	Revenue Requirement less External Revenue (E1-1-1)		1,367.0	1,473.7	1,528.1	1,566.1	1,609.9	
6	Smart Meters		0.8	0.8	0.8	0.8	0.8	
7	Renewable Generation and Smart Grid		(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	
8	Other Riders		4.0	4.0	4.0	4.0	4.0	
9	Total Rider Disposition		4.3	4.3	4.3	4.3	4.3	
10	Rates Revenue Requirement	1,254.0	1,371.3	1,478.0	1,532.4	1,570.4	1,614.1	Total 7,566.1
11	Increase in Rev Requirement compared to 2014	(\$M)	117.3	224.0	278.3	316.4	360.1	1,296.1
12	Annual Increase in Rev Requirement	%	9.4%	7.8%	3.7%	2.5%	2.8%	
13	Calculated Rate Impact after Smoothing		6.32%	6.33%	6.35%	6.34%	6.33%	
14	Calculated Bill Impact (Dx) after Smoothing		2.08%	2.09%	2.10%	2.09%	2.09%	
15	Total Increase		65.0	155.3	256.0	357.5	462.2	1,296.1
16	Revenue Requirement (Smoothed)		1,319.0	1,409.3	1,510.0	1,611.5	1,716.3	7,566.1
17	Adjustment to Revenue Requirement (Line 16 - Line 10)		(52.2)	(68.7)	(22.4)	41.1	102.1	(0.0)
18	Load Adjustment		14.4	(6.8)	(11.4)	(5.8)	(2.6)	
19	Smoothed Increase (%)		6.34%	6.34%	6.34%	6.34%	6.34%	

REGULATORY ACCOUNTS REQUESTED

1.0 INTRODUCTION

This Exhibit documents Hydro One Distribution's request for Board's approval to continue existing or to establish new regulatory accounts and to discontinue certain regulatory accounts.

Approval is requested to continue or establish the following accounts:

- Tax Rate Changes Account
- Pension Cost Differential Account
- Bill Impact Mitigation Variance Account
- Rate Smoothing Deferral Account

The need for these accounts and the accounting and control process is described in further detail in the remainder of this exhibit.

1.1 Discontinued Regulatory Accounts

Hydro One Distribution is not seeking continuance of the following accounts for the 2015 to 2019 rate setting period:

- Smart Meter – Minimum Functionality;
- Smart Meter – Exceeding Minimum Functionality;
- Distribution Generation – Other Costs – HONI - Variance Account;
- Distribution Generation - Express Feeders – HONI - Variance Account;

- Smart Grid Variance Account;
- Distribution System Code (DSC) Exemption Deferral Account;
- Deferred Revenue Project Costs Variance Account (2009); and
- Generator Joint Use Revenue Variance Account.
- Special Purpose Charge Variance Account (1595 - Recovery of Regulatory Balances Account – Sub Account);
- Microfit Connection Charge Variance Account (1508 - Other Regulatory Assets – Sub Account); and
- OEB Cost Differential Account

2.0 DESCRIPTION OF REGULATORY ACCOUNTS REQUESTED

2.1 Tax Rate Changes Account

This account is a continuation of the account accepted in EB-2009-0096.

This account will track the revenue requirement impact of legislative or regulatory changes to tax rates or rules compared to costs approved by the Board as part of 2015 to 2019 Distribution Rates. More detail on this account is available in Exhibit F1, Tab 1, Schedule 1.

2.2 Pension Cost Differential Account

This account is a continuation of the account accepted in EB-2009-0096.

Hydro One Distribution proposes to continue to record differences between the OM&A portion of actual pension costs recorded consistent with the actuarial assessment provided by the Hydro One Distribution external actuary and the estimated pension costs approved by the Board as part of 2015 to 2019 Distribution Rates. The principle cause for such differences will likely be variances in pension plan contributions driven by periodic actuarial valuations, which must be performed at a minimum every three years. As such, it is not possible for Hydro One Distribution to accurately predict its pension costs for the entire 5-year rate setting periods as it is reasonably likely that actuarial changes will occur. Such changes could be material.

2.3 Bill Impact Mitigation Variance Account

As a result of the rate class review, there are some customers that may experience total bill impacts in excess of 10% in 2015 due to being moved to their appropriate rate class (see Exhibit G1, Tab 7, Schedule 1). Specific customer classes affected by this review may experience adverse total impacts that Hydro One proposes to mitigate through the use of this account, consistent with the Board's historical use of a 10% mitigation threshold. The proposed use of this account is consistent with Board approvals in EB-2007-0681 and EB-2009-0096.

The costs of mitigation and related implementation costs will be tracked in a Bill Impact Mitigation Variance Account. The required mitigation will apply only in 2015, the year in which the move between rate classes due to the rate class review occurs.

2.4 Rate Smoothing Deferral Account

Due to the significant increase in revenue requirement in 2015, Hydro One Distribution proposes to establish a new Rate Smoothing Deferral Account to allow rates to be charged to customers on a smoothed annual basis over the five-year rate setting period. In the first 3 years of the 5-year rate setting period, rates will be charged at a lower amount than full recovery of annual revenue requirements would require. In essence, billing of part of the 2015, 2016 and 2017 revenue requirement will be deferred until 2018 and 2019. While this method of charging may conflict with the notion of ensuring intergenerational equity, Hydro One Distribution considers that the benefits of stability in rates through the 5-year period provides significant benefits to customers. The adjustments to rates revenue requirement as a result of using the new deferral account are as follows:

Table 1
Requested Adjustment to Revenue Requirement
(\$ Millions)

2015	2016	2017	2018	2019
(52.3)	(68.7)	(22.4)	41.1	102.1

The proposed adjustment amounts shown in Table 1 do not include any carrying charges. If the Board approves the proposed account, it will be managed consistent with other Hydro One Distribution variance and deferral account and Board prescribed interests rates will be applied to the account balances as discussed in section 3.0 below. Hydro One proposes to debit the new deferral account in 2015 to 2017 by attaching a negative rate rider to base rates. This will be offset in 2018 and 2019 by a positive rate rider that will act as a surcharge on calculated rates.

1 The amount of rate rider for each of the test years is derived as follows:

- 2 1. Hydro One calculated the incremental annual revenue requirement over and above the
3 current 2014 rates revenue requirement in each of the 2015 through 2019 years;
- 4 2. Hydro One calculated a consistent annual rate increase required to recover that
5 incremental revenue requirement amount over the 5 years. That rate was determined
6 to be 6.33%;
- 7 3. The difference between the calculated annual revenue requirement and the smoothed
8 revenue requirement is the amount included in the smoothing rider. It is essentially a
9 revenue deferral account to smooth out the rate impact during the test years.
- 10 4. The sum of smoothing rider over the 5 year period is nil.

11
12 Hydro One has provided the numerical calculation of how the rider amounts were
13 determined in Attachment 1 of this exhibit. The allocation of the rate rider amount among
14 the different rate classes is discussed in Exhibit G1, Tab 5, Schedule 3.

15 16 **3.0 ACCOUNTING AND CONTROL PROCESS**

17
18 The accounts requested above will be managed in the same manner as existing Hydro
19 One Distribution variance and deferral accounts. They will be updated monthly and
20 simple interest will be applied consistent with the Board-approved rate. Balances will be
21 reported to the Board as part of the quarterly reporting process. The outstanding
22 balances, whether in a debit or credit position, will be submitted for disposition approval
23 by the Board as part of a future Hydro One Distribution filing.

Rate Smoothing Rider Calculation

Line		2014	2015	2016	2017	2018	2019	
	OM&A		564.3	610.2	614.0	603.9	600.0	
1	Depreciation		355.4	374.9	390.2	402.9	413.6	
2	Return on Capital		442.7	477.0	510.8	543.3	576.5	
3	Income Tax		52.5	60.5	63.0	65.4	69.5	
4	External Revenues and Others		(47.9)	(48.9)	(49.9)	(49.2)	(49.9)	
5	Revenue Requirement less External Revenue (E1-1-1)		1,367.0	1,473.7	1,528.1	1,566.1	1,609.9	
6	Smart Meters		0.8	0.8	0.8	0.8	0.8	
7	Renewable Generation and Smart Grid		(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	
8	Other Riders		4.0	4.0	4.0	4.0	4.0	
9	Total Rider Disposition		4.3	4.3	4.3	4.3	4.3	
10	Rates Revenue Requirement	1,254.0	1,371.3	1,478.0	1,532.4	1,570.4	1,614.1	Total 7,566.1
11	Increase in Rev Requirement compared to 2014	(\$M)	117.3	224.0	278.3	316.4	360.1	1,296.1
12	Annual Increase in Rev Requirement	%	9.4%	7.8%	3.7%	2.5%	2.8%	
13	Calculated Rate Impact after Smoothing		6.32%	6.33%	6.35%	6.34%	6.33%	
14	Calculated Bill Impact (Dx) after Smoothing		2.08%	2.09%	2.10%	2.09%	2.09%	
15	Total Increase		65.0	155.3	256.0	357.5	462.2	1,296.1
16	Revenue Requirement (Smoothed)		1,319.0	1,409.3	1,510.0	1,611.5	1,716.3	7,566.1
17	Adjustment to Revenue Requirement (Line 16 - Line 10)		(52.2)	(68.7)	(22.4)	41.1	102.1	(0.0)
18	Load Adjustment		14.4	(6.8)	(11.4)	(5.8)	(2.6)	
19	Smoothed Increase (%)		6.34%	6.34%	6.34%	6.34%	6.34%	

1 **PLANNED DISPOSITION OF REGULATORY ACCOUNTS**

2
3 **1.0 INTRODUCTION**

4
5 The purpose of this evidence is to outline the planned disposition of Hydro One
6 Distribution's Regulatory Accounts.

7
8 **2.0 PLANNED DISPOSITION OF REGULATORY ACCOUNTS**

9
10 Hydro One Distribution is requesting disposition of its audited Regulatory Account
11 balances as at December 31, 2013, plus forecast interest for 2014 on the forecast principal
12 balances as at December 31, 2013.

13
14 It is expected that new Distribution rates will be effective and implemented on January 1,
15 2015 and that the disposition of the accounts requested will commence on that date.
16 Hydro One Distribution's requested recovery in 2015 to 2019 of a total \$21.3 million is
17 detailed in Table 1:
18

Table 1
Distribution
Disposition of Regulatory Account Balances (\$ Millions)

Description	US of A Account Ref.	Forecast Balance as at Dec. 31, 2014
Retail Service Variance Account	1550 to1588	(36.1)
Rider 9 – Disposition and Recovery of Regulatory Balances (OEB Approved)	1508	(0.7)
Special Purpose Charge Variance Account	1595	0.2
Retail Cost Variance Account	1518 /1548	1.1
Deferred Pension Variance Account	1508	60.1
Microfit Connection Charge Variance Account	1508	(1.6)
Tax Changes Deferral Account (inc HST)	1592	(17.8)
Smart Meter – Minimum Functionality Variance Account	1555/ 1556	(17.6)
Smart Meter – Exceeding Minimum Functionality Variance Account	1555/ 1556	21.7
Distribution Generation – Other Costs – HONI - Variance Account	1533	(1.2)
Distribution Generation - Express Feeders – HONI - Variance Account	1533	(0.3)
Smart Grid Variance Account	1536	(1.1)
OEB Incremental Assessment Costs	1508	9.3
Distribution System Code (DSC) Exemption Deferral Account	1508	6.7
Deferred Revenue Project Costs Account	2405	(1.8)
Generator Joint Use Revenue Deferral Account	2405	(0.3)
Smart Meter Entity Charge Variance Account	1551	0.7
Total Regulatory Accounts for Disposition		21.3

With the setting of new Distribution rates between 2015 to 2019, Hydro One Distribution is requesting that the \$21.3 million balance be recovered in a straight-line pattern over the 5 year (60-months) period that are the test years of this application.

The costs associated with the request for final disposition of the Smart Meter – Minimum Functionality Variance Account (1555) and the Smart Meter – Exceeding Minimum Functionality Variance Account (1556) as of December 31, 2014 are described in Attachments 1 and 2 to this exhibit.

1 The costs associated with the Distribution Generation – Other Costs – HONI - Variance
2 Account and the Distribution Generation - Express Feeders – HONI - Variance Account
3 are described in Attachment 3 to this exhibit.

4

5 The costs associated with the Smart Grid Variance Account are described in Attachment
6 4 to this exhibit.

FINAL DISPOSITION OF THE SMART METER VARIANCE ACCOUNTS COVER PAGE

On June 23, 2004, the Minister of Energy issued a directive to the Ontario Energy Board that established targets for the installation of smart meters for all Ontario customers. The cumulative total number of smart meters now installed in Hydro One service territory as of the end of 2013 is 1,229,800. This accomplishment is among the largest smart meter implementations in North America.

Hydro One is accountable for owning and installing the smart meters, collecting customer metering data over a telecommunications network passing daily hourly consumption data to the Smart Meter Entity's (SME's) Meter Data Management Repository (MDMR), and receiving the time-of use data back for customer billing purposes.

The focus of Hydro One smart meter project over the 2009-2014 period has been to build the necessary infrastructure, systems and processes to successfully migrate eligible customers to Time-of-Use prices. In this regard, Hydro One successfully achieved its Ontario Energy Board target of migrating 1.05M customers to TOU prices by June, 2011. Hydro One made a number of significant accomplishments over the 2009-2014 period including:

- Installing 514,539 smart meters, 8,303 regional collectors, and 36,771 repeaters across our 640,000 square km service territory;
- Installing and commissioning two new Advanced Metering Control Computer (AMCC) Head End Systems and successfully performed multiple associated software and firmware upgrades;
- Upgrading, testing, and successfully integrating multiple existing legacy information technology systems;

- 1 • Supporting the SME in MDMR testing and completing MDMR self-certification and
2 registration by successfully implementing all of the systems and business process
3 requirements to interface with the MDMR;
- 4 • Implementing the required system enhancements and regression testing in support of
5 two major and lengthy SME system upgrades (E-meter 7.0 and 7.2);
- 6 • Implementing a Time-of-Use education campaign through direct mail education kits
7 (letter, brochure, and TOU decals), bill inserts, bill messages, consumer and
8 stakeholder seminars, web content, and responsive Call Centre scripting;
- 9 • Implementing the Time-of-Use Consumer web portal;
- 10 • Migrating 1,102,062 customers to Time-of-Use Prices and successfully achieving the
11 Ontario Energy Board target of migrating 1.05M customers by June 2011;
- 12 • Instituting new sustainment business processes; and
- 13 • Completing the significant first wave of network tuning to optimize the
14 communication network.

15
16 The project did take longer to complete than originally forecast due to a number of
17 factors including:

- 18
19 • The need to prudently manage the inherent risks associated with any new, leading
20 edge and complex technology-based project;
- 21 • Vendor delays in delivering production ready software and firmware upgrades;
- 22 • The process of communication network tuning (establishing the optimum number and
23 location of communication infrastructure) is labour intensive, time consuming and
24 necessarily iterative. This is due to the unique nature of Hydro One's service territory
25 (e.g, rugged terrain, very low customer density, foliage, and areas that are
26 underserviced by private cellular networks);
- 27 • The need to review and validate the first wave of network tuning for prudence prior
28 to implementing the final wave of network tuning; and

- Competing work demands of field staff during storms resulting in resource shortfalls which needed to be managed.

Operational efficiencies and cost savings have been realized by Hydro One with the installation of Smart Meters including:

- The smart meters are equipped to communicate outage event information to the Ontario Grid Control Centre after the loss of electrical supply. This will identify outages in rural areas in a timely manner resulting in an increased ability for field crew to locate faults on the distribution system faster and decrease the restoration time required to restore power to customers.
- The ultimate benefit of smart meters is to provide proper price signals to customers based on when they use electricity. Time Of Use (TOU) functionality allows customers to make informed decisions regarding their usage profile to conserve energy and realize a reduction their electricity bills.
- The Independent Electricity System Operator (IESO) was appointed by the Ontario Ministry of Energy to coordinate the establishment of the metering infrastructure (DataCo) in cooperation with the province's local distribution companies (LDC). DataCo is responsible for the collection, management, processing and storage of consumers' consumption information and data received from the LDC's smart metering infrastructure. The Hydro One TOU functionality provided through the communication network work integrates the meter information into the format needed for the Independent Electricity System Operator to use in the meter data management and meter data repository in a timely manner to meet the smart meter directive.

- 1 • The smart meter program has resulted in a reduction in the number of manual
2 meter reads for Hydro One Distribution's 1.2 million customers. This has
3 therefore reduced the manual meter program costs including ancillary charges
4 required for support activities, such as reviewing demand charges annually and
5 updating 911 customer addresses.
6
- 7 • Hydro One recognized that implementing smart meters in a primarily rural
8 geography would be challenging due to the then-existing limitations in metering
9 technology and the lack of metering communications options for data transfer.
10 Hydro One undertook to influence the market to develop robust back office
11 metering solutions with standards-based communications to enable the daily
12 aggregation of over a million meters. This culminated in Hydro One leading
13 Canadian utilities in acquiring dedicated spectrum for the use of the electrical
14 sector.
15
- 16 • The deployment of the smart meter solution has facilitated improvement in billing
17 accuracy specifically resulting in a reduction in the number of Customer
18 Information System (CIS) estimated bills being issued to customers.
19

20 Hydro One Distribution is requesting final disposition of the smart meter costs recorded
21 in the Minimum Functionality (1555) and Exceeding Minimum Functionality (1556)
22 variance accounts as of December 31, 2014. Hydro One is seeking the cost recovery
23 associated with smart meter activities from 2009 through 2014 consistent with the
24 Board's filing instructions set out in the OEB guideline G-2011-0001 "Smart Meter
25 Funding and Cost Recovery – Final Disposition Guideline" ("Guideline") issued on
26 December 15, 2011. Information requested in the Guidelines regarding previous
27 approvals may be found in Exhibit F1, Tab 1, Schedule 1.

- 1 Appendix 2-Q Smart Meter from the Filing Requirements for Transmission and
- 2 Distribution Rate Applications - Chapter 2 follows. 2013 figures have been updated to
- 3 reflect audited actual numbers.

OEB Appendix 2-Q Smart Meters

Irrespective of whether a distributor is actively deploying smart meters (except if the distributor has completed its smart meter deployment program and has had Board-approved disposition of the balances in accounts 1555 and 1556) the distributor should provide a completed table as follows:

Year	Smart Meters Installed			Percentage of applicable customers converted	\$M's		\$M's	
	Residential	GS < 50 kW	Other ¹		Account 1555		Account 1556	
					Funding Adder Revenues Collected	Capital Revenue Requirement	Operating Expenses	
				%	\$	\$	\$	
2009	393,762	30,497	395	35.00%	-\$ 19	\$ 12	\$ 10	
2010	66,487	16,309	3,145	6.10%	-\$ 30	\$ 22	\$ 5	
2011	656	14,019	6,449	1.20%	-\$ 57	\$ 42	\$ 8	
2012	10,579	2,689	4,256	1.10%	-\$ 57	\$ 51	\$ 8	
2013	9,193	907	2,685	0.80%	\$ 58	\$ 57	\$ 11	
2014					-\$ 58	\$ 61	\$ 11	

Note: Column "E" is derived based on the sum of the Residential and GS < 50kW Smart Meters installed in the year divided by the total customer population eligible for Smart Meter/TOU in that year.

Note: In 2006 to 2008 inclusive 630,406 Residential and 37,366 GS < 50kW Smart Meters were installed equalling 55.8%.

¹ The distributor should provide details of Other. (e.g. Toronto Hydro-Electric System Ltd. has some legacy non-interval GS > 50 kW customers being converted to "smart" meters.)

In addition, a distributor that is requesting an increase to its current approved smart meter funding adder (e.g. to \$1.00 or another utility-specific amount), should provide the information required to support such a request in accordance with section 1.4 of *Guideline G-2008-0002: Smart Meter Funding and Cost Recovery*, or any successor document. Applicants should note that continuation of a smart meter funding adder past April 30, 2012 will only be allowed by the Board in exceptional circumstances.

Any request for disposition or partial disposition of the balances in accounts 1555 and 1556 should be supported by smart meter costs information that has been audited in accordance with the requirements of Guideline G-2008-0002 or further information communicated by the Board.

SMART METER MODEL COVER PAGE

As required in the Filing Requirements for Transmission and Distribution Rate Applications - Chapter 2, section 2.12.9, and in the OEB guideline G-2011-0001 “Smart Meter Funding and Cost Recovery – Final Disposition Guideline” (“Guideline”) issued on December 15, 2011, Hydro One has completed a Smart Meter Model found in this Attachment. Hydro One’s model meets the intent of the OEB Smart Meter Model. All equivalent information as requested in the OEB’s model has been included. The application of this model is well established and has been used consistently to determine revenue requirements for riders including the Smart Meter Funding Adder calculation in the past (EB-2009-0096).

2013 figures have been updated in this Attachment to reflect audited actual results.
2014 forecasts are also provided.

Smart Meter Expenditure 2010-14

Distribution CAPTL

Description	Includes	2010 Actuals	2011 Actuals	2012 Actuals	2013 Actuals
CMOM & MWP Enhancement	various Smart Meters, installations, logistics, tools and equipment	47,158,344	21,414,142	6,126,022	3,462,397
Network Engineering, Equipment & Implementation	professional services, distribuion development, equipment, Repeaters, Collectors, installation	58,529,003	33,367,233	25,102,673	15,375,670
Head-end Systems Enhancement	infrastructure, software, computer system	1,642,799	1,493,872	2,275,560	792,108
Legacy Systems Enhancement	billing system, infrastructure	4,149,758	2,469,767	2,429,714	(75,315)
Program Management Office	project management services, standards definition & development	4,079,100	2,175,757	1,200,830	964,809
Smart Meter Entity Integration	system design, architecture and support integration, interfaces	14,136,186	5,113,414	1,485,328	542,873
Distribution Capital		129,695,190	66,034,184	38,620,128	21,062,542

Distribution OM&A

Description	Includes	2010 Actuals	2011 Actuals	2012 Actuals	2013 Actuals
Work Estimation	estimations	264,126	241,056	151,976	16,742
Integrated Business	meter process redesign	1,335,604	134,079	35,415	0
Change Management	change management and training	675,782	637,453	0	(139,838)
Communication	smart meter project communications, customer communications	1,254,464	1,372,353	321,535	246,199
Incremental Billing	meter data operations, customer contact centre, billing, call handling & settlements, manual TOU reads	7,491,224	8,736,929	(85,682)	0
Telecom Operations	infrastructure management, software license & support, Telecom Ops & sustainment, Bell telecom, customer access pts	3,494,050	4,318,552	192,212	195,566
Distribution OM&A		14,515,251	15,440,423	615,455	318,669

Section 1 - Smart Meter Sustainment

Includes	2011 Actuals	2012 Actuals	2013 Actuals
operations & carrier management, base services, IT contracts & application upgrade, leased telecom costs, network operations			
OMA	1,305,055	15,473,875	21,828,678

Section 2 - Costs for Minimum Functionality - Capital

	2010 Actuals	2011 Actuals	2012 Actuals	2013 Actuals
Costs Exceeding Minimum Functionality	20,071,062	8,992,169	5,289,816	1,109,873
Costs for Minimum Functionality	109,624,128	57,042,015	33,330,313	19,952,669
TOTAL CAPITAL COSTS	129,695,190	66,034,184	38,620,128	21,062,542

Section 3 - Costs for Minimum Functionality - OMA

Minimum Functionality (Pre-2008 Costs)	6,186,905	8,321,752	8,169,995	11,503,665
Minimum Functionality (Post 2008 Costs)	4,928,555	6,612,214	5,532,715	7,664,218
Costs for Minimum Functionality - OMA	11,115,459	14,933,966	13,702,710	19,167,883
Exceeding Minimum Functionality	3,399,792	1,811,511	2,386,621	2,979,464
TOTAL OMA COSTS	14,515,251	16,745,477	16,089,331	22,147,347
Minimum Functionality (Post 2008 Costs)	4,928,555	6,612,214	5,532,715	7,664,218
Exceeding Minimum Functionality	3,399,792	1,811,511	2,386,621	2,979,464
Total OMA included in the Smart Meter Variance Account	8,328,346	8,423,725	7,919,335	10,643,682

Smart Meter 2010 to 2014 : OM&A & Capital Expenditures & Revenue Requirement						
	(\$M) 2009 Actuals	(\$M) 2010 Actuals	(\$M) 2011 Actuals	(\$M) 2012 Actuals	(\$M) 2013 Actuals	2014 Forecast
Capital	172.1	129.7	66.0	38.6	21.1	
Minimum	130.8	109.6	56.4	33.3	20.0	
> Minimum	8.4	20.1	9.6	5.3	1.1	
Smart Meters - Hardware (minimum)	143.3	104.4	48.5	53.2	18.0	
Smart Meters - Hardware (> minimum)	17.2	-	-	-	-	
Smart Meters - Hardware - Total	160.5	104.4	48.5	53.2	18.0	
Smart Meters - Software (minimum)	-	5.6	23.3	10.7	1.6	
Annual In-Serviced Additions - Total	160.5	110.0	71.9	64.0	19.6	
In-Serviced Additions - Cumulative total	160.5	270.5	342.4	406.4	425.9	
In-Service Assets						
Cummulative Year End In-Service Asset	160.5	270.5	342.4	406.4	425.9	
Annual In-Service Additions	160.5	110.0	71.9	64.0	19.6	
OM&A Total	9.6	8.3	8.4	7.9	10.6	
OM&A Minimum	9.0	4.9	6.6	5.5	7.7	
OM&A > Minimum	0.6	3.4	1.8	2.4	3.0	
Revenue Requirement						
Minimum						
OM&A	9.0	4.9	6.6	5.5	7.7	
Depreciation	4.8	16.7	21.2	26.3	29.3	
Capital tax	0.2	0.1	-	-	-	
Return on rate base	4.8	13.1	18.5	21.6	20.5	
Grossed up PILs	0.7	(10.6)	(0.3)	0.3	4.7	
Revenue requirement - minimum Fuctionality	19.5	24.3	45.9	53.7	62.2	
>Minimum						
OM&A	0.6	3.4	1.8	2.4	3.0	
Depreciation	0.6	1.1	1.1	1.1	1.1	
Capital tax	0.0	0.0	-	-	-	
Return on rate base	0.6	1.2	1.1	1.0	0.8	
Grossed up PILs	0.1	0.2	0.2	0.2	0.2	
Revenue requirement - > minimum Fuctionality	1.8	5.93	4.23	4.7	5.2	
Total						
OM&A	9.6	8.3	8.4	7.9	10.6	
Depreciation	5.4	17.9	22.3	27.4	30.4	
Capital tax	0.2	0.2	-	-	-	
Return on rate base	5.4	14.3	19.5	22.6	21.4	
Grossed up PILs	0.8	(10.4)	(0.1)	0.5	4.9	
Total Revenue requirement	21.3	30.3	50.1	58.5	69.7	
	-	-	-	-	(2.3)	
Net Annual funding Status						
Revenue Requirement	21.3	30.3	50.1	58.5	67.4	
Less: Smart Meter Revenue Collected	(19.3)	(30.19)	(56.8)	(57.3)	(57.7)	
Net Funding Status - per annum	2.1	0.10	(6.7)	1.2	9.7	-
Smart Meter Variance Account Continuity Schedule						
Opening Balance	13.7	15.9	(0.0)	(6.8)	(5.7)	4.0
Add Net Annual Funding Status	2.1	0.1	(6.7)	1.2	9.7	-
Less: Smart Meter Balance cleared to Rider 6	-	(16.0)	-	-	-	-
Closing Principal Balance	15.8	(0.0)	(6.7)	(5.5)	4.1	4.1
Plus: Interest Improvement Closing Balance	0.1	0.0	(0.1)	(0.2)	(0.2)	(0.1)
Variance Account Closing Balance	15.9	(0.0)	(6.8)	(5.7)	4.0	4.0
The Total Variance Account Balance consists of the following categories:						
C/Balance of Smart Meter Minimum Fuctionality	11.6	(6.7)	(17.6)	(21.6)	(17.4)	
C/Balance of Smart Meter > Minimum Fuctionality	4.3	6.7	10.8	15.9	21.4	

Total of 1) Smart Meter Minimum Fuctionality and 2) Smart Meter > Minimum Functionality

(\$ millions)	2009	2010	2011	2012	Actual 2013
Return on rate base					
Opening fixed assets:					
Gross assets	-	160.5	270.5	342.4	406.4
Less: Accumulated depreciation	-	(5.4)	(21.1)	(43.4)	(70.8)
Net fixed assets	-	155.2	249.4	299.0	335.5
Closing fixed assets:					
Gross assets	160.5	270.5	342.4	406.4	425.9
Less: Accumulated depreciation	(5.4)	(21.1)	(43.4)	(70.8)	(101.3)
Net fixed assets	155.2	249.4	299.0	335.5	324.7
Average fixed assets	77.6	202.3	274.2	317.3	330.1
Working capital	1.2	1.0	1.0	1.0	1.0
Total rate base	78.7	203.3	275.2	318.2	331.1
Cost of debt	2.7	6.6	8.9	10.3	9.6
Return on equity	2.7	7.6	10.6	12.3	11.8
Return on rate base	5.4	14.3	19.5	22.6	21.4
Revenue requirement before PILs					
OM&A	9.6	8.3	8.4	7.9	10.644
Depreciation	5.4	17.9	22.3	27.4	30.4
Capital tax	0.2	0.2	-	-	-
Return on rate base	5.4	14.3	19.5	22.6	21.4
Revenue requirement before PILs	20.5	40.6	50.3	57.9	62.5
PILs					
Revenue requirement before PILs	20.5	40.6	50.3	57.9	62.5
Less: OM&A	(9.6)	(8.3)	(8.4)	(7.9)	(10.6)
Less: Depreciation	(5.4)	(17.9)	(22.3)	(27.4)	(30.4)
Less: Capital tax	(0.2)	(0.2)	-	-	-
Less: Interest	(2.7)	(6.6)	(8.9)	(10.3)	(9.6)
Income for PILs purposes	2.7	7.6	10.6	12.3	11.8
Add depreciation	5.4	17.9	22.3	27.4	30.4
Deduct CCA	(6.4)	(52.0)	(33.2)	(38.3)	(28.6)
Taxable income for PILs purposes	1.6	(26.5)	(0.2)	1.4	13.7
PILs before gross up	0.5	(7.5)	(0.1)	0.4	3.6
Grossed up PILs	0.8	(10.4)	(0.1)	0.5	4.9
Revenue requirement					
Revenue requirement before PILs	20.5	40.6	50.3	57.9	62.5
Grossed up PILs	0.8	(10.4)	(0.1)	0.5	4.9
Revenue requirement	21.3	30.2	50.2	58.4	67.4

Total of 1) Smart Meter Minimum Functionality and 2) Smart Meter > Minimum Functionality

(\$ millions)	2009	2010	2011	2012	Fcst 2013
Under-recovery	-	-	-	-	-
Revenue requirement	21.3	30.2	50.2	58.4	67.4
Less: Revenue earned	-	(30.4)	(56.8)	(57.3)	(57.7)
	21.3	(0.2)	(6.6)	1.1	9.7
Carrying charge	0.1	0.3	0.3	0.2	0.3
Under-recovery	21.4	0.1	(6.3)	1.4	10.0
	-	-	-	-	-
	-	-	-	-	-
Inputs	-	-	-	-	-
	-	-	-	-	-
OM&A	9.6	8.3	8.4	7.9	10.6
Base OM&A	-	-	-	-	-
I/S additions - meters	160.5	104.4	48.5	53.2	18.0
I/S additions - software	-	5.6	23.3	10.7	1.6
I/S additions - hardware	-	-	-	-	-
Interim revenue	-	30.4	56.8	57.3	57.7
Number of months in period		12	12	12	12
Working capital (% of OM&A)	12%	12%	12.30%	12.30%	9.20%
Depreciation rate - meters (%)	6.67%	6.67%	6.67%	6.67%	6.67%
Depreciation rate - software (%)	10.12%	10.12%	10.12%	10.12%	10.12%
Depreciation rate - hardware (%)	20.00%	20.00%	20.00%	20.00%	20.00%
CCA rate - meters (%)	8%	8%	8.00%	8.00%	8.00%
CCA rate - software (%)	100%	100%	100.00%	100.00%	100.00%
CCA rate - hardware (%)	55%	55%	55.00%	55.00%	55.00%
Cost of debt (%)	5.64%	5.43%	5.39%	5.39%	4.810%
Cost of equity (%)	8.57%	9.85%	9.66%	9.66%	8.93%
Deemed equity (%)	40%	40%	40.00%	40.00%	40.00%
Income tax rate (%)	33.00%	31.00%	28.25%	26.50%	26.50%
Capital tax rate (%)	0.225%	0.075%	0.00%	0.00%	0.00%
Interest rate on reg assets	0.79%	1.56%	1.96%	1.47%	1.45%

Detailed calculations

Depreciation

Meters

Opening gross fixed assets	-	123.5	227.9	276.4	329.6
Closing gross fixed assets	160.5	227.9	276.4	329.6	347.6
Average gross fixed assets	80.3	175.7	252.1	303.0	338.6
Depreciation	5.4	11.7	16.8	20.2	22.6

Software

Opening gross fixed assets	-	37.0	42.6	66.0	76.7
Closing gross fixed assets	-	42.6	66.0	76.7	78.3
Average gross fixed assets	-	39.8	54.3	71.4	77.5
Depreciation	-	4.0	5.5	7.2	7.8

Total of 1) Smart Meter Minimum Fuctionality and 2) Smart Meter > Minimum Functionality

(\$ millions)	2009	2010	2011	2012	Fcst 2013
<u>Hardware</u>	-	-	-	-	-
Opening gross fixed assets	-	-	-	-	-
Closing gross fixed assets	-	-	-	-	-
Average gross fixed assets	-	-	-	-	-
Depreciation	-	-	-	-	-
Total depreciation	5.4	15.7	22.3	27.4	30.4
CCA	-	-	-	-	-
<u>Meters</u>	-	-	-	-	-
Opening UCC	-	118.6	209.3	239.1	271.1
Plus: Additions	160.5	104.4	48.5	53.2	18.0
Less: CCA	(6.4)	(13.7)	(18.7)	(21.3)	(22.4)
Closing UCC	154.1	209.3	239.1	271.1	266.7
UCC for CCA	80.3	170.8	233.5	265.7	280.1
CCA	6.4	13.7	18.7	21.3	22.4
<u>Software</u>	-	-	-	-	-
Opening UCC	-	35.5	2.8	11.7	5.4
Plus: Additions	-	5.6	23.3	10.7	1.6
Less: CCA	-	(38.3)	(14.5)	(17.0)	(6.2)
Closing UCC	-	2.8	11.7	5.4	0.8
UCC for CCA	-	38.3	14.5	17.0	6.2
CCA	-	38.3	14.5	17.0	6.2
<u>Hardware</u>	-	-	-	-	-
Opening UCC	-	-	-	-	-
Plus: Additions	-	-	-	-	-
Less: CCA	-	-	-	-	-
Closing UCC	-	-	-	-	-
UCC for CCA	-	-	-	-	-
CCA	-	-	-	-	-
Total CCA	6.4	52.0	33.2	38.3	28.6

Total of Smart Meter Minimum Fucntionality
(\$ millions)

Return on rate base

	2009	2010	2011	2012	Actual 2013
Opening fixed assets:					
Gross assets	0.0	143.3	253.4	325.2	389.2
Less: Accumulated depreciation	0.0	(4.8)	(19.4)	(40.5)	(66.8)
Net fixed assets	0.0	138.6	234.0	284.7	322.4
Closing fixed assets:					20
Gross assets	143.3	253.4	325.2	389.2	408.8
Less: Accumulated depreciation	(4.8)	(19.4)	(40.5)	(66.8)	(96.1)
Net fixed assets	138.6	234.0	284.7	322.4	312.6
Average fixed assets	69.3	186.3	259.3	303.5	317.5
Working capital	1.1	0.6	0.8	0.7	0.7
Total rate base	70.4	186.8	260.1	304.2	318.2
Cost of debt	2.4	6.09	8.4	9.8	9.2
Return on equity	2.4	6.98	10.1	11.8	11.4
Return on rate base	4.8	13.069	18.5	21.6	20.5

Revenue requirement before PILs

OM&A	9.0	4.9	6.6	5.5	7.7
Depreciation	4.8	16.738	21.2	26.3	29.3
Capital tax	0.2	0.1	0.0	0.0	0.0
Return on rate base	4.8	13.069	18.5	21.6	20.5
Revenue requirement before PILs	18.8	34.9	46.2	53.4	57.5

PILs

Revenue requirement before PILs	18.8	34.9	46.2	53.4	57.5
Less: OM&A	(9.0)	(4.9)	(6.6)	(5.5)	(7.7)
Less: Depreciation	(4.8)	(16.7)	(21.2)	(26.3)	(29.3)
Less: Capital tax	(0.2)	(0.1)	0.0	0.0	0.0
Less: Interest	(2.4)	(6.1)	(8.4)	(9.8)	(9.2)
Income for PILs purposes	2.4	7.0	10.1	11.8	11.4
Add depreciation	4.8	16.7	21.2	26.3	29.3
Deduct CCA	(5.7)	(50.7)	(32.0)	(37.2)	(27.5)
Taxable income for PILs purposes	1.5	(27.0)	(0.7)	0.8	13.1
PILs before gross up	0.5	(7.6)	(0.2)	0.2	3.5
Grossed up PILs	0.7	(10.6)	(0.3)	0.3	4.7

Revenue requirement

Revenue requirement before PILs	18.8	34.9	46.2	53.4	57.5
Grossed up PILs	0.7	(10.6)	(0.3)	0.3	4.7
Revenue requirement	19.5	24.3	45.9	53.7	62.2

Under-recovery

Revenue requirement	19.5	24.3	45.9	53.7	62.2
Less: Revenue earned	0.0	(30.4)	(56.8)	(57.3)	(57.7)
	19.5	(6.1)	(10.8)	(3.6)	4.5
Carrying charge	0.1	0.3	0.2	0.0	0.0
Under-recovery	19.6	(5.9)	(10.7)	(3.6)	4.5

Total of Smart Meter Minimum Functionality (\$ millions)	2009	2010	2011	2012	Actual 2013
Inputs					
OM&A	9.0	4.9	6.6	5.5	7.7
Base OM&A	0.0	0.0	0.0	0.0	0.0
I/S additions - meters	143.3	104.4	48.5	53.2	18.0
I/S additions - software	0.0	5.6	23.3	10.7	1.6
I/S additions - hardware	0.0	0.0	0.0	0.0	0.0
Interim revenue	0.0	30.4	56.8	57.3	57.7
Number of months in period	12	12	12	12	12
Working capital (% of OM&A)	12%	12%	12.30%	12.30%	9.20%
Depreciation rate - meters (%)	6.67%	6.67%	6.67%	6.67%	6.67%
Depreciation rate - software (%)	10.12%	10.12%	10.12%	10.12%	10.12%
Depreciation rate - hardware (%)	20.00%	20.00%	20.00%	20.00%	20.00%
CCA rate - meters (%)	8%	8%	8.00%	8.00%	8.00%
CCA rate - software (%)	100%	100%	100.00%	100.00%	100.00%
CCA rate - hardware (%)	55%	55%	55.00%	55.00%	55.00%
Cost of debt (%)	5.64%	5.43%	5.39%	5.39%	4.810%
Cost of equity (%)	8.57%	9.85%	9.66%	9.66%	8.93%
Deemed equity (%)	40%	40%	40.00%	40.00%	40.00%
Income tax rate (%)	33.00%	28.25%	28.25%	26.50%	26.50%
Capital tax rate (%)	0.225%	0.075%	0.00%	0.00%	0.00%
Interest rate on reg assets	0.79%	1.56%	1.96%	1.47%	1.45%

Detailed calculations**Depreciation**Meters

					18.0
Opening gross fixed assets	0.0	106.3	210.7	259.2	312.5
Closing gross fixed assets	143.3	210.7	259.2	312.5	330.5
Average gross fixed assets	71.7	158.5	235.0	285.8	321.5

Depreciation	4.8	10.6	15.7	19.1	21.4
--------------	-----	------	------	------	------

Software

					(1.6)
Opening gross fixed assets	0.0	37.0	42.6	66.0	76.7
Closing gross fixed assets	0.0	42.6	66.0	76.7	78.3
Average gross fixed assets	0.0	39.8	54.3	71.4	77.5

Depreciation	0.0	4.0	5.5	7.2	7.8
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Hardware

Opening gross fixed assets	0.0	0.0	0.0	0.0	0.0
Closing gross fixed assets	0.0	0.0	0.0	0.0	0.0
Average gross fixed assets	0.0	0.0	0.0	0.0	0.0

Depreciation	0.0	0.0	0.0	0.0	0.0
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Total depreciation	4.8	14.6	21.2	26.3	29.3
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Total of Smart Meter Minimum Fuctionality (\$ millions)					
	2009	2010	2011	2012	Actual 2013
CCA					
<u>Meters</u>					
Opening UCC	0.0	102.1	194.1	225.2	258.3
Plus: Additions	143.3	104.4	48.5	53.2	18.0
Less: CCA	(5.7)	(12.3)	(17.5)	(20.1)	(21.4)
Closing UCC	137.6	194.1	225.2	258.3	254.9
UCC for CCA	71.7	154.3	218.4	251.8	267.3
CCA	5.7	12.3	17.5	20.1	21.4
<u>Software</u>					
Opening UCC	0.0	35.5	2.8	11.7	5.4
Plus: Additions	0.0	5.6	23.3	10.7	1.6
Less: CCA	0.0	(38.3)	(14.5)	(17.0)	(6.2)
Closing UCC	0.0	2.8	11.7	5.4	0.8
UCC for CCA	0.0	38.3	14.5	17.0	6.2
CCA	0.0	38.3	14.5	17.0	6.2
<u>Hardware</u>					
Opening UCC	0.0	0.0	0.0	0.0	0.0
Plus: Additions	0.0	0.0	0.0	0.0	0.0
Less: CCA	0.0	0.0	0.0	0.0	0.0
Closing UCC	0.0	0.0	0.0	0.0	0.0
UCC for CCA	0.0	0.0	0.0	0.0	0.0
CCA	0.0	0.0	0.0	0.0	0.0
Total CCA	5.7	50.7	32.0	37.2	27.5

Total of Smart Meter > Minimum Functionality (\$ millions)	2009	2010	2011	2012	Actual 2013
Return on rate base					
Opening fixed assets:					
Gross assets	0.0	17.2	17.2	17.2	17.2
Less: Accumulated depreciation	0.0	(0.6)	(1.7)	(2.9)	(4.0)
Net fixed assets	0.0	16.6	15.5	14.3	13.2
Closing fixed assets:					
Gross assets	17.2	17.2	17.2	17.2	17.2
Less: Accumulated depreciation	(0.6)	(1.7)	(2.9)	(4.0)	(5.2)
Net fixed assets	16.6	15.5	14.3	13.2	12.0
Average fixed assets	8.3	16.0	14.9	13.7	12.6
Working capital	0.1	0.4	0.2	0.3	0.3
Total rate base	8.4	16.4	15.1	14.0	12.9
Cost of debt	0.3	0.5	0.5	0.5	0.4
Return on equity	0.3	0.6	0.6	0.5	0.5
Return on rate base	0.6	1.2	1.1	1.0	0.8
Revenue requirement before PILs					
OM&A	0.6	3.4	1.8	2.4	3.0
Depreciation	0.6	1.1	1.1	1.1	1.1
Capital tax	0.0	0.0	0.0	0.0	0.0
Return on rate base	0.6	1.2	1.1	1.0	0.8
Revenue requirement before PILs	1.7	5.7	4.0	4.5	5.0
PILs					
Revenue requirement before PILs	1.7	5.7	4.0	4.5	5.0
Less: OM&A	(0.6)	(3.4)	(1.8)	(2.4)	(3.0)
Less: Depreciation	(0.6)	(1.1)	(1.1)	(1.1)	(1.1)
Less: Capital tax	(0.0)	(0.0)	0.0	0.0	0.0
Less: Interest	(0.3)	(0.5)	(0.5)	(0.5)	(0.4)
Income for PILs purposes	0.3	0.6	0.6	0.5	0.5
Add depreciation	0.6	1.1	1.1	1.1	1.1
Deduct CCA	(0.7)	(1.3)	(1.2)	(1.1)	(1.0)
Taxable income for PILs purposes	0.2	0.5	0.5	0.6	0.6
PILs before gross up	0.1	0.1	0.1	0.2	0.2
Grossed up PILs	0.1	0.2	0.2	0.2	0.2
Revenue requirement					
Revenue requirement before PILs	1.7	5.7	4.0	4.5	5.0
Grossed up PILs	0.1	0.2	0.2	0.2	0.2
Revenue requirement	1.8	5.9	4.2	4.7340	5.2
Under-recovery					
Revenue requirement	1.8	5.9	4.2	4.7	5.2
Less: Revenue earned	0.0	0.0	0.0	0.0	0.0
	1.8	5.9	4.2	4.7	5.2
Carrying charge	0.0	0.1	0.2	0.2	0.3
Under-recovery	1.8	6.0	4.4	4.9	5.4

Total of Smart Meter > Minimum Functionality (\$ millions)	2009	2010	2011	2012	Actual 2013
Inputs					
OM&A	0.6	3.4	1.8	2.4	3.0
Base OM&A	0.0	0.0	0.0	0.0	0.0
I/S additions - meters	17.2	0.0	0.0	0.0	0.0
I/S additions - software	0.0	0.0	0.0	0.0	0.0
I/S additions - hardware	0.0	0.0	0.0	0.0	0.0
Interim revenue	0.0	0.0	0.0	0.0	0.0
Number of months in period	12	12	12	12	12
Working capital (% of OM&A)	12%	12%	12.30%	12.30%	9.20%
Depreciation rate - meters (%)	6.67%	6.67%	6.67%	6.67%	6.67%
Depreciation rate - software (%)	10.12%	10.12%	10.12%	10.12%	10.12%
Depreciation rate - hardware (%)	20.00%	20.00%	20%	20%	20%
CCA rate - meters (%)	8%	8%	8%	8%	8%
CCA rate - software (%)	100%	100%	100%	100%	100%
CCA rate - hardware (%)	55%	55%	55%	55%	55%
Cost of debt (%)	5.64%	5.43%	5.39%	5.39%	4.81%
Cost of equity (%)	8.57%	9.85%	9.66%	9.66%	8.93%
Deemed equity (%)	40%	40%	40.00%	40.00%	40.00%
Income tax rate (%)	33.00%	28.25%	28.25%	26.50%	26.50%
Capital tax rate (%)	0.225%	0.075%	0.00%	0.00%	0.00%
Interest rate on reg assets	0.79%	1.56%	1.96%	1.47%	1.45%

Detailed calculations

Depreciation

Meters

Opening gross fixed assets	0.0	17.2	17.2	17.2	17.2
Closing gross fixed assets	17.2	17.2	17.2	17.2	17.2
Average gross fixed assets	8.6	17.2	17.2	17.2	17.2
Depreciation	0.6	1.1	1.1	1.1	1.1

Software

Opening gross fixed assets	0.0	0.0	0.0	0.0	0.0
Closing gross fixed assets	0.0	0.0	0.0	0.0	0.0
Average gross fixed assets	0.0	0.0	0.0	0.0	0.0
Depreciation	0.0	0.0	0.0	0.0	0.0

Hardware

Opening gross fixed assets	0.0	0.0	0.0	0.0	0.0
Closing gross fixed assets	0.0	0.0	0.0	0.0	0.0
Average gross fixed assets	0.0	0.0	0.0	0.0	0.0
Depreciation	0.0	0.0	0.0	0.0	0.0

Total depreciation	0.6	1.1	1.1	1.1	1.1
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Total of Smart Meter > Minimum Functionality (\$ millions)					
	2009	2010	2011	2012	Actual 2013
CCA					
<u>Meters</u>					
Opening UCC	0.0	16.5	15.2	14.0	12.8
Plus: Additions	17.2	0.0	0.0	0.0	0.0
Less: CCA	(0.7)	(1.3)	(1.2)	(1.1)	(1.0)
Closing UCC	16.5	15.2	14.0	12.8	11.8
UCC for CCA	8.6	16.5	15.2	14.0	12.8
CCA	0.7	1.3	1.2	1.1	1.0
<u>Software</u>					
Opening UCC	0.0	0.0	0.0	0.0	0.0
Plus: Additions	0.0	0.0	0.0	0.0	0.0
Less: CCA	0.0	0.0	0.0	0.0	0.0
Closing UCC	0.0	0.0	0.0	0.0	0.0
UCC for CCA	0.0	0.0	0.0	0.0	0.0
CCA	0.0	0.0	0.0	0.0	0.0
<u>Hardware</u>					
Opening UCC	0.0	0.0	0.0	0.0	0.0
Plus: Additions	0.0	0.0	0.0	0.0	0.0
Less: CCA	0.0	0.0	0.0	0.0	0.0
Closing UCC	0.0	0.0	0.0	0.0	0.0
UCC for CCA	0.0	0.0	0.0	0.0	0.0
CCA	0.0	0.0	0.0	0.0	0.0
Total CCA	0.7	1.3	1.2	1.1	1.0

Hydro One Smart Meter Summary Costs

(\$ millions)	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	Actual <u>2013</u>
Total					
OM&A	9.6	8.3	8.4	7.9	10.6
I/S additions - meters	160.5	104.4	48.5	53.2	18.0
I/S additions - software	-	5.6	23.3	10.7	1.6
I/S additions - hardware	-	-	-	-	-
Interim revenue	19.3	30.4	56.8	57.3	57.7
Minimum Functionality Not Yet Approved					
OM&A	9.0	4.9	6.6	5.5	7.7
I/S additions - meters	143.3	104.4	48.5	53.2	18.0
I/S additions - software	-	5.6	23.3	10.7	1.6
I/S additions - hardware	-	-	-	-	-
Interim revenue	19.3	30.4	56.8	57.3	57.7
Above Minimum Functionality Not Yet Approved					
OM&A	0.6	3.4	1.8	2.4	3.0
I/S additions - meters	17.2	-	-	-	-
I/S additions - software	-	-	-	-	-
I/S additions - hardware	-	-	-	-	-
Interim revenue	-	-	-	-	-
Meter Account	9.6	8.3	8.4	7.9	10.6

DISPOSITION OF THE DISTRIBUTION GENERATION – HONI VARIANCE ACCOUNT

In this application, Hydro One is requesting to clear the balance in the Distribution Generation – HONI variance account 1533 as of December 31, 2013, plus interest improvement on the principal balance to December 31, 2014. As per the Board's direction, Hydro One has captured the revenue requirement (accounting for OM&A, capital in-service additions, etc.) in the variance account. The balance in the variance account for disposition is forecast to be -\$1.5 million. Hydro One expects that the Board's decision on approval of the disposition of this account will be based on the audited 2013 year end balances which are now included in this exhibit.

1.0 INTRODUCTION

Increasing renewable generation was one of the key objectives of the *Green Energy and Green Economy Act, 2009* ("GEGEA"). The Hydro One Distribution Green Energy Plan (the "Plan") in EB-2009-0096 presented the Company's response to the GEGEA in alignment with Hydro One's corporate strategy. The Plan forecast expenditures for the five year period 2010 to 2014 and included Distributed Generation (DG) connection work, development of Hydro One Distribution's smart grid and promotion of energy conservation.

Hydro One filed the Plan in its 2010 and 2011 Distribution Rate Application (EB-2009-0096) on July 13, 2009 and filed an update on September 25, 2009. In the Board's April 9, 2010 Decision it did not approve all of the DG expenditures proposed in the Plan. However, the Board concluded that rate riders and variance accounts should be used to support Hydro One's work while managing the risk to ratepayers and Hydro One.

2.0 DG CONNECTIONS FROM 2010 - 2013:

The Renewable Energy Standard Offer Program (“RESOP”) launched by the Ontario Power Authority (“OPA”) in 2006 demonstrated the tremendous level of interest in connecting renewable energy generation to distribution systems in Ontario. Hydro One Distribution received the majority of the applications under this program in its large and rural service territory. The cost for connecting the RESOP projects to Hydro One’s distribution system was 100% recoverable from the generation customer.

In 2009, the OPA launched the Feed-in Tariff (“FIT”) program and the OEB amended the Distribution System Code (“DSC”) to facilitate the FIT program. The FIT prices paid to developers for the renewable energy produced were higher than RESOP. In addition, there was a change in cost allocation of distribution investment costs to be borne by the generation customers and the distributor. The revised DSC required Hydro One to fund a portion of the Expansion cost (up to \$90,000/MW) and 100% of Renewable Enabling Improvement (“REI”) investments for renewable energy generation projects. The generation customer paid for connection assets, the expansion cost exceeding \$90,000 per MW and upstream station upgrades if required.

Table 1 summarizes the number of projects and the MW connected under RESOP and the number of capacity allocation required (“CAR”) and capacity allocation exempt (“CAE”) projects, as well as MW, connected under the FIT program from 2010 to 2013.

Table 1
RESOP and FIT Programs
2010 to 2013

Year		2010	2011	2012	2013	Total
RESOP	Number of Projects	29	19	9	3	60
	MW	226.1	145.2	86.2	28.5	486.0
FIT CAR	Number of Projects	0	3	13	36	52
	MW	0.0	9.7	107.7	289.5	406.9
FIT CAE	Number of Projects	1	75	137	101	314
	MW	0.5	11.6	22.1	18.8	53.0
Total	Number of Projects	30	97	159	140	426
	MW	226.6	166.5	216.0	336.8	945.9

In 2009, the OPA also launched a micro-FIT Program in order to connect micro-embedded (10 kW or less) generation to the distribution system as part of the Ontario government's efforts to increase renewable energy in the province. Hydro One has connected 11,342 micro embedded projects for a total of 105.3 MW to its distribution system from 2010 to 2013. Table 2 summarizes the number of micro-embedded projects and MW connected from 2010 to 2013.

Table 2
MicroFit Program
2010 to 2013.

Year		2010	2011	2012	2013	Total
Micro-FIT	Number of Projects	2,189	5,331	2,375	1,447	11,342
	MW	19.2	50.2	22.6	13.3	105.3

The forecast number of renewable energy generation projects and the MW capacity connecting to Hydro One's distribution system in 2014 and from 2015 to 2019 is provided in the Development Capital exhibit, Exhibit D1, Tab 3, Schedule 3.

3.0 CAPITAL AND OM&A EXPENDITURES

Hydro One proposed to connect 3,500 MW of renewable generation to its distribution system by the end of 2011 in its EB-2009-0096 Plan. The capital required to connect this level of generation was projected to be \$464M over two years for connection assets, expansions and REI. The OM&A cost associated with connecting the same amount of renewable generation was projected to be \$6M over the two year period 2010 and 2011. The Board approved the OM&A funding and all the funding for express feeders but only 67% of the remaining capital amount and directed that the costs be recorded in variance accounts and the revenue recovered through rate riders.

The connection of renewable energy projects to Hydro One's distribution system was not achieved as forecast in the plan for 2010 and 2011 due to the following reasons:

- 1) The FIT program differed from the RESOP program in that all generation project proponents were required to fulfill the project basic eligibility requirements prescribed under the OPA FIT rules. A large number of project applications were either rejected or withdrawn as they did not fulfill the basic eligibility requirements.

1 For example, solar (PV) projects that are not rooftop facilities can only be located on
2 lands designated by the OPA as Class 3 Available Lands.

3
4 2) All connection applications were required to meet up-front financial obligations
5 following the launch of the FIT program and these obligations became constraints and
6 made the projects prohibitive for many of the proponents who were interested in
7 participating in the FIT program initially.

8
9 3) All connection applications require Renewable Environmental Approvals (“REA”)
10 for the projects after getting a contract from the OPA and the time taken to obtain
11 REA approvals was much longer than expected.

12
13 4) All connection applications following the launch of the FIT program were required to
14 pass a transmission availability test (“TAT”) and a distribution availability test
15 (“DAT”), prior to advancing to the Hydro One connection impact assessment (“CIA”)
16 stage. Due to the technical constraints existing on parts of the transmission system
17 and distribution system, a large number of connection applications did not pass TAT
18 and DAT. These so called failing projects were placed on a reserve list that was
19 intended to be used for economic connection tests (“ECT”) by the OPA. Due to the
20 OPA not proceeding with ECT, any of the enhancement work for generation
21 connections forecast in the Plan was not required to be performed by Hydro One.

22
23 5) In 2011, the OPA began a two year review to evaluate the FIT program and a new
24 FIT program was launched in 2012 based on the results of the FIT 2-year review. The
25 new FIT program eliminated the FIT reserve and ECT from the previous FIT
26 program. Furthermore, ECT is not included in the new FIT program announcement in
27 May 2013.

28

Hydro One Distribution has connected 104 mid-size (i.e. between 500 kW and 10 MW) and large size (i.e. greater than 10 MW) generation connections for a capacity of 801 MW at the end of 2013. Work for another 72 connections with an additional 673 MW is in progress and will be connecting in 2014 and 2015. Therefore, some of the costs spent to date are attributable to these ongoing projects connecting during 2014 and 2015.

Expansion Assets

A significant number of the mid-size and large projects required a new line expansion from one of Hydro One's distribution feeders. A new line expansion is required to be built from the Point of Connection to the Point of Common Coupling in order to accommodate the new generation connection. The lengths of the line expansions vary substantially from a few hundred meters to over 10 km. The required line expansions have been constructed in one of two ways:

- A new line (i.e. green-field construction) built on a new route
- A new line constructed by overbuilding new conductors on an existing utility pole line.

Some of the renewable energy generation projects also incurred expansion expenditures for the following line upgrade works:

- Conversion of existing single phase circuits to three phases.
- Upgrade of existing lower size conductor to a higher size.

The costs of this system Expansion work is the responsibility of Hydro One up to an amount of \$90,000/MW of connected generation capacity, or 100% of the cost if the investment is included in a Board approved plan as per the amendments to the DSC.

1 Renewable Enabling Improvement Assets

2 The second Distributor funded upgrades to the distribution system are called REI and are
3 100% distributor paid. The REI costs include the upgrades to the feeder protections and
4 line voltage regulator controls in order to make them compatible with reverse power
5 flow. These upgrades under REI are required to ensure that the DG connections do not
6 impact Hydro One's load customers' reliability and power quality. The details of these
7 upgrades under REI are:

- 8 • Addition of new line reclosers and upgrade / replacement of existing line or
9 distribution station (DS) reclosers to make them compatible for sending transfer trip
10 (TT) signals and receiving Distributed Generation End Open signals;
- 11 • Installation of TT from DS reclosers and the in line reclosers to the DG facilities;
- 12 • Review of feeder protection settings; and
- 13 • The upgrades to the controls of DS transformers, Regulating Stations and line voltage
14 regulators to make them compatible with reverse power flow.

15
16 **3.1 Direct Benefits**

17
18 Consistent with the requirements of Regulation 330/09, a portion of the Expansion and
19 REI work related to the connection of renewable generation in EB-2009-0096 was
20 identified for recovery through Hydro One's distribution rates and another portion was
21 recovered from all electricity consumers in the Province.

22
23 Hydro One's assessment of the portions to be allocated to each ratepayer group in EB-
24 2009-0096 pre-dated the June 10, 2010 Report of the Board '*Framework for Determining*
25 *the Direct Benefits Accruing to Customers of a Distributor under Ontario Regulation*
26 *330/09*' (EB-2009-0349). Hydro One's assessment resulted in an estimated benefit of
27 18% to Hydro One Distribution ratepayers for Expansion work and between 5% and 9%
28 for REI work.

Hydro One has now electrically connected a number of renewable generation projects that have also been financially completed, ie with complete actual costs trued-up. To conduct a review of Hydro One's assessment in EB-2009-0096, ten projects were randomly selected to complete the analysis. The ten projects are further broken down as:

- 3 small projects (below 500kW);
- 6 medium projects (500kW-10MW); and
- 1 large project (above 10MW).

Hydro One applied the actual experience gained through the connection of these ten projects to the six criteria listed in the Board's Report in EB-2009-0349.

1. Reduced Network Transmission and Wholesale Market Service Charges

At the November, 2013 meeting of the IESO's Stakeholder Advisory Committee, the IESO presented a proposal to charge Network Transmission rates and the Wholesale Market Service Charge based on a gross (including embedded generation) rather than net basis. The IESO filed its proposal with the OEB on November 4, 2013 with case number EB-2013-0381. Until the Board issues its decision in this case, an assessment of this criterion cannot be made.

2. Portion of Eligible Investments not Used by Qualifying Generators

Hydro One did not find any eligible investments being used by non-qualifying generators. Therefore, there is no apparent benefit to Hydro One Distribution customers at this time. In the future that may change and would require evaluation when the benefit is actually realized by a non-qualifying generator.

3. Load Growth

The majority of connected projects have been to distribution stations and feeders with enough available capacity. Thus, no investments were made that would have otherwise been required to accommodate load growth. Of the ten projects selected

1 for this analysis, one project connected to a heavily loaded station. However, the size
2 of the project, 175 kW, has no significant impact on reducing the station loading.
3 Another project, a 498kW facility, was connected to an F-class feeder that is heavily
4 loaded. The project can potentially reduce the feeder loading since it is a bio-mass
5 project (can potentially generate maximum power during peak hours), however,
6 analysis on multi-year feeder loading would be required to verify any benefits and to
7 assess if there are any negative issues on power quality or reliability. As a result,
8 there is no evidence of benefit to Hydro One customers. Similar to the portion of
9 eligible investments not used by qualifying generators, in the future this may change
10 and would require evaluation when the benefit of avoided investments for load
11 growth is actually realized.

12 13 4. Asset Condition

14 The sample set has shown that small projects generally have little or no pole
15 replacement work and that medium and large projects at times involve pole
16 replacement. In our sample, three out of six medium projects involved pole
17 replacement however only two projects were replacing Hydro One poles (the last one
18 replaced Bell Canada poles).

19
20 The Hydro One Distribution customer benefit from these pole replacements was 24%
21 and 11% for the two projects evaluated. Therefore, of 6 medium sized projects on
22 average the benefit would be 5.8%. This is lower than the estimated amount of 18%
23 but Hydro One submits there is not sufficient evidence yet to reset the amount.

24 25 5. Service Quality Improvements

26 All FIT projects constitute new connections to the system and therefore the reliability
27 data for impact analysis is unavailable. Hydro One's experience to date suggests that
28 there are service quality degradations in some areas due to the impacts of renewable
29 generation on the system. However, Hydro One does not have sufficient evidence at

1 this time to amend the original estimates for REI of 9% benefit for SCADA for
2 distribution station automation and 5% benefit for automated feeder reclosers.

3
4 6. Avoided Asset Upgrades

5 Similar to sections 1 and 3 on Portion of Eligible Investments Not Used by
6 Qualifying Generators and Load Growth, no asset upgrades have been avoided due to
7 the connection of qualified generators. Again, in the future this may change and
8 would require evaluation when the benefit of avoided investments for load growth is
9 actually realized.

10
11 Conclusion

12 This review does not provide evidence that would substantiate a change in Hydro One's
13 estimated values for the allocation of Expansion and REI work to the different rate payer
14 groups. Hydro One submits that the Direct Benefit ratios of 18% for Expansion work and
15 9% for SCADA for distribution station automation and 5% for automated feeder reclosers
16 for REI work continue to be allocated to Hydro One ratepayers and the balance of the
17 costs continue to be allocated to all Provincial ratepayers.

18
19 **3.2 Actual Expenditures by Cost Category**

20
21 Capital Expenditures

22 The actual capital expenditures from 2010 to 2013 by cost responsibility category are
23 summarized in Table 3. The costs are listed under Connection, Expansion and REI assets.
24 Generator customers pay for Connection assets. The allocation of costs for Expansion
25 assets between Hydro One ratepayers and all Provincial ratepayers in Ontario is different
26 than the allocation for REI assets.

Table 3:
Capital Expenditures for Connection, Expansion and REI Assets
2010 to 2013 (\$M)

Funded by	Connection Assets				Expansion Assets				REI Assets			
	2010	2011	2012	2013	2010	2011	2012	2013	2010	2011	2012	2013
Generation Customer	0.2	2.5	3.5	4.5	0.5	5.9	7.4	10.7	0.0	0.0	0.0	0.0
Hydro One Ratepayer	0.0	0.0	0.0	0.0	0.7	1.2	2.5	3.1	0.1	0.2	0.2	0.3
Provincial Ratepayer	0.0	0.0	0.0	0.0	1.6	4.7	11.1	13.5	2.0	3.1	3.6	5.2
Gross Total	0.2	2.5	3.5	4.5	2.8	11.8	21.0	27.4	2.1	3.3	3.8	5.5
Net Total	0.0	0.0	0.0	0.0	2.3	5.9	13.6	16.7	2.1	3.3	3.8	5.5

OM&A Expenditures

The OM&A expenditures include investments to provide preliminary connection cost estimates to customers, to update power system models, to request system impact assessments (SIA) from the IESO, to conduct pre-connection assessments and to complete the connection work related to CAE projects. The OM&A expenditures also include investments on power quality (PQ) monitoring. To ensure that power quality issues are appropriately understood and managed, Hydro One maintains a PQ monitoring system and performs additional PQ investigations on a case by case basis.

The actual OM&A expenditures from 2010 to 2013 by cost responsibility category are summarized in Table 4. There is no allocation of OM&A to generator customers.

Table 4:
OM&A Expenditures
2010 to 2013 (\$M)

Year	2010	2011	2012	2013	Total
Hydro One Ratepayer	0.05	0.31	0.31	0.28	0.95
Provincial Ratepayer	0.38	2.52	2.55	2.27	7.72
Total	0.43	2.83	2.86	2.55	8.67

4.0 VARIANCE ACCOUNT STATUS

As described in Exhibit F1, Tab 1, Schedule 3, Hydro One Distribution is seeking Board approval to clear the balance of its Distribution Generation – HONI variance account as of December 31, 2013. The balance in the account is based on the reconciliation between (a) the revenue collected through the Distribution Generation - HONI rate rider and (b) the actual revenue requirement, which includes OM&A costs, taxes, depreciation and the costs of capital assets placed in service from January 1, 2010 to December 31, 2013. Table 5 shows the variance account balances at the end of each year. A negative balance indicates that revenues were recovered in excess of the costs at the end of that year.

Table 5
Distribution Generation - HONI Variance Account (1533) – Final Balances
(amounts include interest)

	<u>2010</u> <u>Actuals</u> (\$M)	<u>2011</u> <u>Actuals</u> (\$M)	<u>2012</u> <u>Actuals</u> (\$M)	<u>2013</u> <u>Actuals*</u> (\$M)
Opening	0.0	(0.4)	(2.0)	(1.8)
In-year Adjustments	(0.4)	(1.6)	0.2	0.3
Closing	(0.4)	(2.0)	(1.8)	(1.5)

*Preliminary unaudited figures.

DISPOSITION OF SMART GRID VARIANCE ACCOUNT

In this application, Hydro One is requesting to clear the balance in the smart grid variance account 1536 as of December 31, 2013, plus interest improvement on the principal balance to December 31, 2014. As per the Board's direction, Hydro One has captured the revenue requirement (accounting for OM&A, capital in-service additions, etc.) in the variance account. As of December 31, 2013, the balance in the account for disposition was -\$1.0 million.

1.0 BACKGROUND

Hydro One described its smart grid plan as part of its Green Energy Plan in its 2010/2011 distribution rate application (EB-2009-0096). On page 41 of its Decision, the Board approved Hydro One's smart grid capital and OM&A budgeted expenditures for 2010 and 2011 as prudent and approved a rate rider to recover the costs. Given the uncertainty regarding the timing of the investment, the Board directed Hydro One to track the smart grid costs in a variance account which would be subject to further review at its next rate application, not for prudence, but to determine if the amounts were actually spent in the period.

In its 2013 distribution rate application (EB-2012-0136), Hydro One requested approval for a Smart Grid OM&A rate rider to allow the company to continue deploying smart grid. In the Settlement Agreement approved by the Board, the parties agreed that \$15.6M of the 2013 OM&A expenditures was appropriate for sustaining smart grid assets and further smart grid project work. Although Hydro One did not specifically request that the Board approve 2013 smart grid capital expenditures, Hydro One did note that it would make capital expenditures in 2013 as planned. It was agreed in the Settlement Agreement that it was appropriate to continue to record Hydro One's smart grid capital

1 costs in the smart grid deferral account as long as the costs were consistent with the
2 Supplemental Report on Smart Grid (issued on February 11, 2013).

3
4 In the 2014 Distribution IRM filing (EB-2013-0141), Hydro One sought Board approval
5 of a Smart Grid OM&A and Capital Rate Rider to recover its 2014 revenue requirement
6 for the OM&A and in-service capital costs of its smart grid program. The Board found
7 the expenditures to be in the public interest and, as requested, granted its approval for a
8 rate rider to recover \$29.3 million of OM&A and in-service capital costs in 2014. In the
9 related Settlement Agreement approved by the Board, the parties agreed that Hydro
10 One's forecast expenditures for smart grid OM&A and capital in 2014 are reasonable.
11 While Hydro One will continue to track OM&A and capital smart grid expenditures in
12 variance accounts, the parties agreed that the 2014 smart grid expenditures will not be
13 subject to a prudence review.

14
15 Table 1 sets out the specific amounts approved by the Board through the various rate
16 filings related to smart grid. Hydro One is requesting to clear the smart grid variance
17 account and place into rate base amounts captured by the account between January 1,
18 2010 and December 31, 2013.

Table 1
2010 to 2014 Regulatory Approvals

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Total</u>
	(\$M)	(\$M)	(\$M)	(\$M)	(\$M)	(\$M)
Regulatory Filing		EB-2009-0096		EB-2012-0136	EB-2013-0141	
Capital	30.0	62.0	0.0	23.9	29.0	144.9
OM&A	10.0	10.0	0.0	15.6	15.8	51.4

2.0 SMART GRID PROGRAM ACCOMPLISHMENTS (2010-2013)

Hydro One has ensured that the work completed as part of its smart grid program meets the objectives of both the Supplemental Report on Smart Grid and the Minister's Directive (issued on November 23, 2010). The projects directly promote and enable (i) Customer Control, (ii) Power System Flexibility and (iii) Adaptive Infrastructure; as described in the Supplemental Report on Smart Grid.

In Phase 1, Release 1 of its Smart Grid program, Hydro One established a core set of systems infrastructure capable of scaling to meet the needs of smart grid deployments provincially. Its accomplishments include:

- installation of various field devices (e.g. smart reclosers, switches, capacitor banks) at points along feeders emanating from stations to improve distribution system reliability and provide fault locating capability;

- 1 • installation of intelligent station devices at the Owen Sound transformer station and
2 two distribution stations (Chatsworth and Berkeley) to integrate protections between
3 the stations and the feeders;
- 4 • enablement of Supervisory Control and Data Acquisitions (SCADA) capability at two
5 distribution stations (Owen Sound 2nd Avenue and Owen Sound 6th Street) to provide
6 remote operability and visibility to the control centre;
- 7 • implementation of a distribution management system (DMS) at the Ontario Grid
8 Control Centre to provide real-time feeder analysis and remote switching capability
9 for operators;
- 10 • integration of Hydro One's various data systems (e.g. enterprise geospatial
11 information system, protection & control databases, power system asset databases,
12 customer information systems, etc.) to provide an automated integration of the
13 distribution network model;
- 14 • the upgrade and commissioning of a wide-area WiMAX communication network in
15 the Owen Sound area to enable wireless communication; and
- 16 • participation in various smart grid studies related to home energy management
17 technologies, distributed generation integration, and energy storage technologies
18 required to address solar and wind generation voltage fluctuation issues.

19
20 In Phase 1, Release 2, Hydro One is building upon the core infrastructures established in
21 Release 1 to deliver new business capabilities that will provide multiple benefits. As part
22 of Release 2, Hydro One is:

- 23 • conducting research into customer preferences and creating a mobile electricity
24 discovery centre to engage and educate consumers;
- 25 • piloting various demand response programs, including new home energy management
26 systems offerings;
- 27 • piloting the integration of battery and flywheel energy storage systems;

- enhancing the outage management system to utilize the real time power outage notifications from customer smart meters and provide the ability to confirm outages to the control centre; and
- building an analytical system that examines meter and operational data to identify energy theft.

Hydro One's smart grid program advances all of the outcomes promoted by the Board's Renewed Regulatory Framework for Electricity Distributors, namely:

- *Customer Focus* by identifying customer preference and piloting new in-home technologies that will aid customers in managing their electricity use;
- *Operational Effectiveness* by utilizing the new capabilities to improve reliability and situational awareness;
- *Public Policy Responsiveness* by delivering on our obligations to connect renewable generation on the distribution system overall and enabling new conservation and demand management programs; and
- *Financial Performance* through improvements in the efficiency of the control room and field forces as well as lowering line losses through optimizing voltage on distribution feeders.

Hydro One has been making these smart grid investments prudently and sharing the information with other local distribution companies in Ontario through a variety of forums, including the Independent Electricity System Operator-organized Smart Grid Forum and the OEB Smart Grid Advisory Committee.

3.0 VARIANCE ACCOUNT STATUS

In Table 2, the capital and OM&A expenditures for the 2010 to 2013 time period are stated. While the timing of the expenditures are different than originally anticipated in

the various rate filings highlighted in Table 1, both the capital and OM&A expenditures are within the total spending envelopes anticipated for the 2010 to 2013 time period.

Table 2
2010 to 2013 Capital Expenditures

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Total</u>
	<u>Actuals</u>	<u>Actuals</u>	<u>Actuals</u>	<u>Actuals</u>	<u>Actuals</u>
	(\$M)	(\$M)	(\$M)	(\$M)	(\$M)
Capital	18.4	30.1	43.0*	6.4**	97.9
OM&A	2.8	3.1	4.5	9.2	19.6
In-Service Capital	0.0	0.0	72.6	21.6	94.2

* \$1.4 million allocated to Hydro One Transmission.

** \$2.1 million allocated to Hydro One Transmission.

As described in Exhibit F1, Tab 1, Schedule 3, Hydro One Distribution is seeking Board approval to clear the balance of its Smart Grid variance account as of December 31, 2013. The balance in the account is based on the reconciliation between (a) the revenue collected through the smart grid rate rider and (b) the actual revenue requirement, which includes OM&A costs, taxes, depreciation and the costs of capital assets placed in service from January 1, 2010 to December 31, 2013. Table 3 shows the variance account balances at the end of each year. A negative balance indicates that revenues were recovered in excess of the costs at the end of that year.

HYDRO ONE NETWORKS INC.**DISTRIBUTION****Regulatory Accounts for Approval**

As at December 31, 2014

(\$ Millions)

Line No.	Particulars	Balance as at Dec 31, 2012 (a)	Balance as at Dec 31, 2013 (b)	Forecast Balance as at Dec 31, 2014 (c)
Total Regulatory Accounts seeking Disposition				
1	RSVA	(45.8)	(35.6)	(36.1)
2	Rider 9 – Disposition and Recovery of Regulatory Balances (OEB Approved)	0.0	(19.1)	(0.7)
3	Special Purpose Charge Variance Account (SPC)	0.2	0.2	0.2
4	RCVA	0.2	1.0	1.1
5	Dx Deferred Pension	45.7	59.3	60.1
6	Microfit Connection Charge Variance Account	(0.9)	(1.6)	(1.6)
7	Tax Changes Deferral Account	(13.1)	(17.5)	(17.8)
8	Smart Meters Minimum Functionality	(21.6)	(17.4)	(17.6)
9	Smart Meters Exceeding Minimum Functionality	15.9	21.4	21.7
10	DG - Other - Hydro One	(1.6)	(1.2)	(1.2)
11	DG - Express Feeders - Hydro One	(0.3)	(0.3)	(0.3)
12	Smart Grid	(9.1)	(1.1)	(1.1)
13	OEB Assessment Costs Variance Account	6.3	9.2	9.3
14	DSC Exemption Deferral Account	2.3	6.6	6.7
15	Deferred Revenue Project Costs Account	(1.7)	(1.7)	(1.8)
16	Generator Joint Use Revenue Deferral Account	(0.2)	(0.3)	(0.3)
17	Smart Meter Entity Charge Variance Account	0.0	0.7	0.7
18	Total Regulatory Accounts seeking Disposition	(23.5)	2.6	21.3
19	RRRP	(6.2)	2.3	2.4
20	Cat Lake Deferral Account	1.6	2.8	2.9
21	DG - Other - Provincial Pool	(31.8)	(48.1)	(48.8)
22	Express Feeders - Provincial Pool	(2.4)	(3.6)	(3.7)
23	Other	1.5	0.0	0.0
24	Total Regulatory Accounts not Seeking Disposition	(37.2)	(46.6)	(47.2)
25	Total Regulatory Accounts	(60.7)	(44.0)	(25.9)

(a) 2012 audited balances

(b) 2013 includes forecast balance movements and interest improvement

(c) 2014 includes forecast interest improvement

(a) 2012 audited balances

(b) 2013 includes forecast balance movements and interest improvement

(c) 2014 includes forecast interest improvement

HYDRO ONE NETWORKS INC.
DISTRIBUTION
Planned Disposition of Regulatory Accounts
Schedule of Annual Recoveries*
Year Ending December 31
(\$ Millions)

Line No.	Particulars	2015 (a)	2016 (b)	2017 (c)	2018 (d)	2019 (e)	Total (f)
1	Adjustment to Revenue Requirement	4.3	4.3	4.3	4.3	4.3	21.3

* Note: Above figures do not include interest improvement during the recovery period

HYDRO ONE NETWORKS INC.
DISTRIBUTION
Continuity Schedule Regulatory Accounts F2-1-3

2010

Account Descriptions			Account Number	Opening Principal Amounts as of Jan-1- 2010	Transactions/ Adjustments During Year	Closing Principal Balance as of Dec-31- 2010	Opening Interest Amounts as of Jan-1- 2010	Transactions/ Adjustments During Year	Closing Interest Amounts as of Dec-31- 2010	Total Audited Balances as at Dec 31 2010
			For Disposition							
Type 1 Accounts Requesting Disposition										
LV Variance Account	Yes	1550		6,928,672	(3,265,860)	3,662,812	57,739	(23,974)	33,765	3,696,577
RSVA - Wholesale Market Service Charge	Yes	1580		(26,508,006)	(5,212,237)	(31,720,243)	(256,312)	56,659	(199,653)	(31,919,896)
RSVA - Retail Transmission Network Charge	Yes	1584		(9,172,728)	17,556,492	8,383,765	(250,414)	284,502	34,088	8,417,853
RSVA - Retail Transmission Connection Charge	Yes	1586		(5,875,061)	8,272,844	2,397,784	(32,682)	39,452	6,770	2,404,554
RSVA - Power - Sub-Account - Power	Yes	1588								
RSVA - Power - Sub-Account - Global Adjustment	Yes	1589		13,176,663	(17,246,778)	(4,070,115)	81,322	(102,863)	(21,541)	(4,091,656)
Special Purpose Charge Variance Account (SPC)	Yes	1595		0	0	0	0	0	0	0
Rider 9 - Disposition and Recovery of Regulatory Balances	Yes	1595		0		0	0		0	0
Group 1 Sub-Total (including Account 1589- Global Adjustment)				(21,450,460)	104,462	(21,345,998)	(400,347)	253,778	(146,570)	(21,492,567)
Type 2 Regulatory Accounts Requesting Disposition										
RCVA	Yes	1518/1548		(2,329,300)	2,318,705	(10,594)	(89,689)	82,402	(7,287)	(17,881)
Dx Deferred Pension	Yes	1508		3,851,206	11,570,402	15,421,608	3,486	78,902	82,388	15,503,996
Microfit Connection Charge Variance Account	Yes	1508		0	(28,752)	(28,752)	0	(46)	(46)	(28,797)
Tax Changes Deferral Account (inc HST)	Yes	1592		0	(1,400,000)	(1,400,000)	0	(2,117)	(2,117)	(1,402,117)
Smart Meters Mimimum Functionality	Yes	1555/1556		10,469,005	(19,145,049)	(6,660,517)	100,928	(100,928)	0	(6,660,517)
Smart Meters Exceeding Minimum Functionality	Yes	1555/1556		4,382,909	2,274,750	6,657,659	44,274	(44,274)	0	6,657,659
DG Other - Hydro One	Yes	1533		0	(421,045)	(421,045)	0	(1,308)	(1,308)	(422,352)
Express Feeders - Hydro One	Yes	1533		0	0	0		0	0	0
Smart Grid	Yes	1536		0	(5,162,496)	(5,162,496)	0	(13,715)	(13,715)	(5,176,211)
OEB Costs	Yes	1508		0	1,071,905	1,071,905	(0)	4,177	4,177	1,076,083
DSC Exemption Deferral Account	Yes	1508		0	776,589	776,589	0	0	0	776,589
Deferred Revenue Project Costs Account	Yes	2405		(1,092,584)	(549,758)	(1,642,342)	(1,750)	(12,510)	(14,260)	(1,656,602)
Generator Joint Use Revenue Deferral Account	Yes	2405		0	0	0	0	0	0	0
Smart Meter Entity Charge										
Sub-total Type 2 Accounts Requesting Disposition				15,281,236	(8,694,749)	8,602,016	57,249	(9,416)	47,833	8,649,849
Total Regulatory Accounts Requesting Disposition				15,281,236		8,573,264	57,249		47,788	(12,842,718)
Type 2 Accounts Not Requesting Disposition										
IFRS Transition Costs Variance Account	No	1508		0		441,551	0		2,512	444,063
Recovery of Regulatory Asset Balances	No	1590		(53,648,611)		(10,828,884)	19,659,616		7,789,273	(3,039,611)
Rider 6 - Disposition and Recovery of Regulatory Balances	No	1595		0		(18,734,999)	0		(140,857)	(18,875,856)
Acq MEU Rate Mitigation	No	1508		87,692		101,949	244		1,028	102,977
Special Purpose Charge Variance Account	No	1521		0		3,994,723	0		27,647	4,022,370
Total others (sum of the accounts above)										(17,346,057)
RRRP DX	No	1508		23,634,067		6,446,166	457,205		561,209	7,007,375
Cat Lake (Rev,Cap,OM&A & COP + interest)	No	1508		188,045		553,499	24,823		27,084	580,583
DG Other - Provincial Pool	No	1533		0		(3,636,669)	0		(11,599)	(3,648,268)
Express Feeders - Provincial Pool	No	1533							0	0
Sub-total Type 2 Accounts Not Requesting Disposition				(29,738,808)		(21,662,663)	20,141,888		8,256,297	(13,406,366)
Total Regulatory Accounts Not Requesting Disposition				(29,738,808)		(21,662,663)	20,141,888		8,256,297	(13,406,366)
Grand Total				(35,908,031)	(8,590,287)	(34,406,645)	19,798,790	244,362	8,157,561	(26,249,084)

HYDRO ONE NETWORKS INC.
DISTRIBUTION
Continuity Schedule Regulatory Accounts F2-1-3

2011

Account Descriptions			Account Number	Opening Principal Amounts as of Jan-1- 2011	Transactions/ Adjustments During Year	Closing Principal Balance as of Dec-31- 2011	Opening Interest Amounts as of Jan-1- 2011	Transactions/ Adjustments During Year	Closing Interest Amounts as of Dec-31- 11	Total Audited Balances as at Dec 31 2011
			For Disposition							
Type 1 Accounts Requesting Disposition										
LV Variance Account	Yes	1550		3,662,812	3,014,020	6,676,832	33,765	76,851	110,616	6,787,448
RSVA - Wholesale Market Service Charge	Yes	1580		(31,720,243)	(35,443,413)	(67,163,657)	(199,653)	(724,535)	(924,188)	(68,087,844)
RSVA - Retail Transmission Network Charge	Yes	1584		8,383,765	12,314,151	20,697,915	34,088	206,236	240,324	20,938,239
RSVA - Retail Transmission Connection Charge	Yes	1586		2,397,784	7,056,564	9,454,348	6,770	74,289	81,060	9,535,408
RSVA - Power - Sub-Account - Power	Yes	1588								
RSVA - Power - Sub-Account - Global Adjustment	Yes	1589		(4,070,115)	(4,669,747)	(8,739,863)	(21,541)	(134,564)	(156,105)	(8,895,967)
Special Purpose Charge Variance Account (SPC)	Yes	1595		0	0	0	0	0	0	0
Rider 9 - Disposition and Recovery of Regulatory Balances	Yes	1595		0		0	0		0	0
Group 1 Sub-Total (including Account 1589- Global Adjustment)				(21,345,998)	(17,728,426)	(39,074,424)	(146,570)	(501,723)	(648,292)	(39,722,717)
Type 2 Regulatory Accounts Requesting Disposition										
RCVA	Yes	1518/1548		(10,594)	111,508	100,914	(7,287)	(238)	(7,524)	93,390
Dx Deferred Pension	Yes	1508		15,421,608	13,127,609	28,549,217	82,388	302,424	384,812	28,934,029
Microfit Connection Charge Variance Account	Yes	1508		(28,752)	(278,982)	(307,734)	(46)	(1,867)	(1,913)	(309,647)
Tax Changes Deferral Account (inc HST)	Yes	1592		(1,400,000)	(4,428,000)	(5,828,000)	(2,117)	(46,406)	(48,523)	(5,876,523)
Smart Meters Mimimum Functionality	Yes	1555/1556		(6,660,517)	(10,705,082)	(17,365,598)	0	(175,917)	(175,917)	(17,541,515)
Smart Meters Exceeding Minimum Functionality	Yes	1555/1556		6,657,659	3,989,729	10,647,388	0	124,728	124,728	10,772,116
DG Other - Hydro One	Yes	1533		(421,045)	2,729,444	2,308,399	(1,308)	(16,160)	(17,468)	2,290,931
Express Feeders - Hydro One	Yes	1533		0	(265,363)	(265,363)	0	(1,837)	(1,837)	(267,200)
Smart Grid	Yes	1536		(5,162,496)	(15,170,924)	(20,333,420)	(13,715)	(192,497)	(206,212)	(20,539,633)
OEB Costs	Yes	1508		1,071,905	2,494,269	3,566,174	4,177	35,153	39,331	3,605,505
DSC Exemption Deferral Account	Yes	1508		776,589	172,125	948,714	0	11,376	11,376	960,090
Deferred Revenue Project Costs Account	Yes	2405		(1,642,342)	0	(1,642,342)	(14,260)	(24,142)	(38,402)	(1,680,744)
Generator Joint Use Revenue Deferral Account	Yes	2405		0	(97,174)	(97,174)	0	(287)	(287)	(97,462)
Smart Meter Entity Charge										
Sub-total Type 2 Accounts Requesting Disposition				8,602,016	(8,320,842)	281,174	47,833	14,331	62,164	343,338
Total Regulatory Accounts Requesting Disposition				8,573,264		(26,560)	47,788		60,252	(39,379,378)
Type 2 Accounts Not Requesting Disposition										
IFRS Transition Costs Variance Account	No	1508		441,551		309,361	2,512		8,745	318,106
Recovery of Regulatory Asset Balances	No	1590		(10,828,884)		(5,234,904)	7,789,273		7,696,367	2,461,463
Rider 6 - Disposition and Recovery of Regulatory Balances	No	1595		(18,734,999)		69,385	(140,857)		(277,348)	(207,963)
Acq MEU Rate Mitigation	No	1508		101,949		149,364	1,028		2,866	152,230
Special Purpose Charge Variance Account	No	1521		3,994,723		124,858	27,647		43,526	168,384
Total others (sum of the accounts above)										2,892,220
RRRP DX	No	1508		6,446,166		(8,626,095)	561,209		526,550	(8,099,545)
Cat Lake (Rev,Cap,OM&A & COP + interest)	No	1508		553,499		755,035	27,084		36,604	791,639
DG Other - Provincial Pool	No	1533		(3,636,669)		(21,846,080)	(11,599)		(188,395)	(22,034,475)
Express Feeders - Provincial Pool	No	1533		0		(1,177,280)	0		(7,859)	(1,185,139)
Sub-total Type 2 Accounts Not Requesting Disposition				(21,662,663)		(35,476,356)	8,256,297		7,841,055	(27,635,301)
Total Regulatory Accounts Not Requesting Disposition				(21,662,663)		(35,476,356)	8,256,297		7,841,055	(27,635,301)
Grand Total				(34,406,645)	(26,049,268)	(74,269,606)	8,157,561	(487,392)	7,254,927	(67,014,679)

HYDRO ONE NETWORKS INC.
DISTRIBUTION
Continuity Schedule Regulatory Accounts F2-1-3

2012

Account Descriptions			Account Number	Opening Principal Amounts as of Jan-1- 2012	Transactions/ Adjustments During Year	Closing Principal Balance as of Dec-31- 2012	Opening Interest Amounts as of Jan-1- 2012	Transactions/ Adjustments During Year	Closing Interest Amounts as of Dec-31- 2012	Total Audited Balances as at Dec 31 2012
			For Disposition							
Type 1 Accounts Requesting Disposition										
LV Variance Account	Yes	1550		6,676,832	2,065,656	8,742,488	110,616	114,780	225,396	8,967,884
RSVA - Wholesale Market Service Charge	Yes	1580		(67,163,657)	(41,215,764)	(108,379,421)	(924,188)	(1,272,931)	(2,197,119)	(110,576,539)
RSVA - Retail Transmission Network Charge	Yes	1584		20,697,915	37,199,843	57,897,758	240,324	556,956	797,280	58,695,038
RSVA - Retail Transmission Connection Charge	Yes	1586		9,454,348	16,551,532	26,005,880	81,060	247,711	328,771	26,334,650
RSVA - Power - Sub-Account - Power	Yes	1588								0
RSVA - Power - Sub-Account - Global Adjustment	Yes	1589		(8,739,863)	(20,044,576)	(28,784,439)	(156,105)	(270,291)	(426,396)	(29,210,835)
Special Purpose Charge Variance Account (SPC)	Yes	1595		0	124,858	124,858	0	45,361	45,361	170,219
Rider 9 - Disposition and Recovery of Regulatory Balances	Yes	1595		0	0	0	0		0	0
Group 1 Sub-Total (including Account 1589- Global Adjustment)				(39,074,424)	(5,318,453)	(44,392,877)	(648,292)	(578,414)	(1,226,707)	(45,619,584)
Type 2 Regulatory Accounts Requesting Disposition										
RCVA	Yes	1518/1548		100,914	143,411	244,325	(7,524)	2,561	(4,963)	239,362
Dx Deferred Pension	Yes	1508		28,549,217	16,313,125	44,862,342	384,812	500,421	885,233	45,747,575
Microfit Connection Charge Variance Account	Yes	1508		(307,734)	(545,314)	(853,047)	(1,913)	(8,084)	(9,997)	(863,044)
Tax Changes Deferral Account (inc HST)	Yes	1592		(5,828,000)	(7,084,850)	(12,912,850)	(48,523)	(125,235)	(173,758)	(13,086,609)
Smart Meters Mimimum Functionality	Yes	1555/1556		(17,365,598)	(3,786,278)	(21,151,876)	(175,917)	(292,397)	(468,314)	(21,620,190)
Smart Meters Exceeding Minimum Functionality	Yes	1555/1556		10,647,388	4,962,371	15,609,759	124,728	193,043	317,771	15,927,530
DG Other - Hydro One	Yes	1533		2,308,399	(3,831,625)	(1,523,227)	(17,468)	(18,541)	(36,009)	(1,559,236)
Express Feeders - Hydro One	Yes	1533		(265,363)	(56)	(265,420)	(1,837)	(3,902)	(5,738)	(271,158)
Smart Grid	Yes	1536		(20,333,420)	11,664,874	(8,668,547)	(206,212)	(228,541)	(434,753)	(9,103,300)
OEB Costs	Yes	1508		3,566,174	2,640,289	6,206,462	39,331	72,030	111,361	6,317,824
DSC Exemption Deferral Account	Yes	1508		948,714	1,301,666	2,250,380	11,376	18,199	29,575	2,279,954
Deferred Revenue Project Costs Account	Yes	2405		(1,642,342)	0	(1,642,342)	(38,402)	(24,142)	(62,545)	(1,704,887)
Generator Joint Use Revenue Deferral Account	Yes	2405		(97,174)	(96,739)	(193,913)	(287)	(2,094)	(2,381)	(196,295)
Smart Meter Entity Charge										
Sub-total Type 2 Accounts Requesting Disposition				281,174	21,680,871	21,962,045	62,164	83,317	145,482	22,107,527
Total Regulatory Accounts Requesting Disposition				(26,560)		21,108,998	60,252		135,485	(23,512,057)
Type 2 Accounts Not Requesting Disposition										
IFRS Transition Costs Variance Account	No	1508		309,361		0	8,745		0	0
Recovery of Regulatory Asset Balances	No	1590		(5,234,904)		(5,234,904)	7,696,367		6,974,765	1,739,861
Rider 6 - Disposition and Recovery of Regulatory Balances	No	1595		69,385		84,059	(277,348)		(277,348)	(193,289)
Acq MEU Rate Mitigation	No	1508		149,364		0	2,866		0	0
Special Purpose Charge Variance Account	No	1521		124,858		0	43,526		0	0
Total others (sum of the accounts above)										1,546,571
RRRP DX	No	1508		(8,626,095)		(6,560,513)	526,550		356,774	(6,203,739)
Cat Lake (Rev,Cap,OM&A & COP + interest)	No	1508		755,035		1,588,312	36,604		52,800	1,641,112
DG Other - Provincial Pool	No	1533		(21,846,080)		(31,272,830)	(188,395)		(556,798)	(31,829,628)
Express Feeders - Provincial Pool	No	1533		(1,177,280)		(2,354,561)	(7,859)		(33,116)	(2,387,677)
Sub-total Type 2 Accounts Not Requesting Disposition				(35,476,356)		(43,750,437)	7,841,055		6,517,076	(37,233,361)
Total Regulatory Accounts Not Requesting Disposition				(35,476,356)		(43,750,437)	7,841,055		6,517,076	(37,233,361)
Grand Total				(74,269,606)	16,362,419	(66,181,268)	7,254,927	(495,097)	5,435,851	(60,745,417)

HYDRO ONE NETWORKS INC.
DISTRIBUTION
Continuity Schedule Regulatory Accounts F2-1-3

Continuity Schedule Regulatory Accounts F2-1-3			2013								
Account Descriptions	For Disposition	Account Number	Principal Disposition of 2011 Bal's (on Jan 1 2013) - instructed by Board	Interest Disposition of 2011 Bal's (on Jan 1 2013) - instructed by Board	Opening Principal Balances after transfers of 2011 approved balances (2013) opening bal's	Transactions Debit / (Credit) during 2013 excluding interest and adjustments ⁶	Closing Principal Balance as of Dec-31-13	Opening 2013 Interest Principal Balances after transfers of 2011 approved balances	Interest Jan-1 to Dec-31-13	Closing Interest Amounts as of Dec-31-13	Total Balances as at Dec 31 2013
Type 1 Accounts Requesting Disposition											
LV Variance Account	Yes	1550	6,676,832	110,616	2,065,656	1,694,122	3,759,778	114,780	41,793	156,573	3,916,351
RSVA - Wholesale Market Service Charge	Yes	1580	(67,163,657)	(924,188)	(41,215,764)	(28,728,366)	(69,944,130)	(1,272,931)	(847,552)	(2,120,482)	(72,064,612)
RSVA - Retail Transmission Network Charge	Yes	1584	20,697,915	240,324	37,199,843	859,628	38,059,471	556,956	552,248	1,109,204	39,168,675
RSVA - Retail Transmission Connection Charge	Yes	1586	9,454,348	81,060	16,551,532	(634,728)	15,916,804	247,711	231,519	479,230	16,396,034
RSVA - Power - Sub-Account - Power	Yes	1588	0	0	0	(547,551)	(547,551)	0	0	0	(547,551)
RSVA - Power - Sub-Account - Global Adjustment	Yes	1589	(8,739,863)	(156,105)	(20,044,576)	(1,630,682)	(21,675,258)	(270,291)	(490,288)	(760,580)	(22,435,838)
Special Purpose Charge Variance Account (SPC)	Yes	1595			124,858		124,858	45,361	1,830	47,191	172,049
Rider 9 - Disposition and Recovery of Regulatory Balances	Yes	1595	44,239,943	(6,770,727)	(44,239,943)	18,874,044	(25,365,899)	6,770,727	(521,759)	6,248,968	(19,116,931)
Group 1 Sub-Total (including Account 1589- Global Adjustment)			5,165,519	(7,419,019)	(49,558,396)	(10,113,533)	(59,671,927)	6,192,312	(1,032,209)	5,160,104	(54,511,823)
Type 2 Regulatory Accounts Requesting Disposition											
RCVA	Yes	1518/1548			244,325	804,594	1,048,919	(4,963)	4,952	(11)	1,048,909
Dx Deferred Pension	Yes	1508			44,862,342	12,824,078	57,686,419	885,233	720,926	1,606,159	59,292,578
Microfit Connection Charge Variance Account	Yes	1508			(853,047)	(679,339)	(1,532,386)	(9,997)	(17,052)	(27,049)	(1,559,435)
Tax Changes Deferral Account (inc HST)	Yes	1592			(12,912,850)	(4,200,000)	(17,112,850)	(173,758)	(228,461)	(402,220)	(17,515,070)
Smart Meters Mimimum Functionality	Yes	1555/1556			(21,151,876)	4,497,037	(16,654,839)	(468,314)	(283,289)	(751,603)	(17,406,443)
Smart Meters Exceeding Minimum Functionality	Yes	1555/1556			15,609,759	5,182,351	20,792,110	317,771	260,203	577,974	21,370,084
DG Other - Hydro One	Yes	1533			(1,523,227)	387,111	(1,136,116)	(36,009)	(19,817)	(55,826)	(1,191,942)
Express Feeders - Hydro One	Yes	1533			(265,420)	0	(265,420)	(5,738)	(3,891)	(9,629)	(275,049)
Smart Grid	Yes	1536			(8,668,547)	8,148,092	(520,455)	(434,753)	(97,478)	(532,231)	(1,052,686)
OEB Costs	Yes	1508			6,206,462	2,758,387	8,964,849	111,361	110,836	222,197	9,187,046
DSC Exemption Deferral Account	Yes	1508			2,250,380	4,239,705	6,490,085	29,575	61,221	90,796	6,580,881
Deferred Revenue Project Costs Account	Yes	2405			(1,642,342)	0	(1,642,342)	(62,545)	(24,076)	(86,621)	(1,728,963)
Generator Joint Use Revenue Deferral Account	Yes	2405			(193,913)	(117,910)	(311,823)	(2,381)	(3,484)	(5,866)	(317,689)
Smart Meter Entity Charge						644,180	644,180	-	9,640	9,640	653,820
Sub-total Type 2 Accounts Requesting Disposition			-	-	21,962,045	33,844,105	56,450,329	145,482	490,230	635,712	57,086,041
Total Regulatory Accounts Requesting Disposition			-	-	21,108,998	33,164,766	54,917,943	135,485	473,178	608,663	2,574,218
Type 2 Accounts Not Requesting Disposition											
IFRS Transition Costs Variance Account	No	1508			0	0	0	0	0	0	0
Recovery of Regulatory Asset Balances	No	1590	(5,234,904)	7,696,367	0	0	0	0	0	0	0
Rider 6 - Disposition and Recovery of Regulatory Balances	No	1595	69,385	(277,348)	14,674	0	0	(721,602)	721,602	0	0
Acq MEU Rate Mitigation	No	1508			0	(14,674)	0	0	(0)	0	0
Special Purpose Charge Variance Account	No	1521			0		0	0		0	0
Total others (sum of the accounts above)						0	0	0	0	0	0
RRRP DX	No	1508			(6,560,513)	8,610,576	2,050,063	356,774	(66,844)	289,930	2,339,993
Cat Lake (Rev,Cap,OM&A & COP + interest)	No	1508			1,588,312	1,154,166	2,742,479	52,800	35,704	88,504	2,830,983
DG Other - Provincial Pool	No	1533			(31,272,830)	(15,709,965)	(46,982,794)	(556,798)	(569,806)	(1,126,604)	(48,109,399)
Express Feeders - Provincial Pool	No	1533			(2,354,561)	(1,177,274)	(3,531,834)	(33,116)	(42,463)	(75,579)	(3,607,414)
Sub-total Type 2 Accounts Not Requesting Disposition			(5,165,519)	7,419,019	(38,584,917)	(7,137,170)	(45,722,087)	(901,943)	78,193	(823,750)	(46,545,837)
Total Regulatory Accounts Not Requesting Disposition			(5,165,519)	7,419,019	(38,584,917)	(7,137,170)	(45,722,087)	(901,943)	78,193	(823,750)	(46,545,837)
Grand Total			-	-	(66,181,268)	16,593,402	(48,943,685)	5,435,851	(463,786)	4,972,065	(43,971,619)

HYDRO ONE NETWORKS INC.
DISTRIBUTION
Continuity Schedule Regulatory Accounts F2-1-3

2014

Account Descriptions			Account Number	Opening Principal Balances 2014	Opening Interest Balances 2014	Forecast Principal Drawdown During 2014 - Drawdown	Forecast Interest Drawdown During 2014	Closing Principal Balances after Approved OEB Drawdown 2014	Closing Interest Balances after Approved OEB Drawdown 2014	Projected Interest from Jan 1, 2014 to December 31, 2014 on Dec 31 -12 balance adjusted for disposition during 2013	Total Projected Balances as at Dec 31 2014
			For Disposition								
Type 1 Accounts Requesting Disposition											
LV Variance Account	Yes	1550		3,759,778	156,573			3,759,778	156,573	54,517	3,970,868
RSVA - Wholesale Market Service Charge	Yes	1580		(69,944,130)	(2,120,482)			(69,944,130)	(2,120,482)	(1,014,190)	(73,078,802)
RSVA - Retail Transmission Network Charge	Yes	1584		38,059,471	1,109,204			38,059,471	1,109,204	551,862	39,720,537
RSVA - Retail Transmission Connection Charge	Yes	1586		15,916,804	479,230			15,916,804	479,230	230,794	16,626,828
RSVA - Power - Sub-Account - Power	Yes	1588		(547,551)	0			(547,551)	0	(7,939)	(555,490)
RSVA - Power - Sub-Account - Global Adjustment	Yes	1589		(21,675,258)	(760,580)			(21,675,258)	(760,580)	(314,291)	(22,750,129)
Special Purpose Charge Variance Account (SPC)	Yes	1595		124,858	47,191			124,858	47,191	1,810	173,860
Rider 9 - Disposition and Recovery of Regulatory Balances	Yes	1595		(25,365,899)	6,248,968	25,365,899	(6,770,727)	0	(521,759)	(183,903)	(705,661)
Group 1 Sub-Total (including Account 1589- Global Adjustment)				(59,671,927)	5,160,104			(34,306,028)	(1,610,623)	(681,340)	(36,597,991)
Type 2 Regulatory Accounts Requesting Disposition											
RCVA	Yes	1518/1548		1,048,919	(11)			1,048,919	(11)	15,209	1,064,118
Dx Deferred Pension	Yes	1508		57,686,419	1,606,159			57,686,419	1,606,159	836,453	60,129,031
Microfit Connection Charge Variance Account	Yes	1508		(1,532,386)	(27,049)			(1,532,386)	(27,049)	(22,220)	(1,581,655)
Tax Changes Deferral Account (inc HST)	Yes	1592		(17,112,850)	(402,220)			(17,112,850)	(402,220)	(248,136)	(17,763,206)
Smart Meters Mimimum Functionality	Yes	1555/1556		(16,654,839)	(751,603)			(16,654,839)	(751,603)	(241,495)	(17,647,938)
Smart Meters Exceeding Minimum Functionality	Yes	1555/1556		20,792,110	577,974			20,792,110	577,974	301,486	21,671,569
DG Other - Hydro One	Yes	1533		(1,136,116)	(55,826)			(1,136,116)	(55,826)	(16,474)	(1,208,416)
Express Feeders - Hydro One	Yes	1533		(265,420)	(9,629)			(265,420)	(9,629)	(3,849)	(278,897)
Smart Grid	Yes	1536		(520,455)	(532,231)			(520,455)	(532,231)	(7,547)	(1,060,232)
OEB Costs	Yes	1508		8,964,849	222,197			8,964,849	222,197	129,990	9,317,037
DSC Exemption Deferral Account	Yes	1508		6,490,085	90,796			6,490,085	90,796	94,106	6,674,988
Deferred Revenue Project Costs Account	Yes	2405		(1,642,342)	(86,621)			(1,642,342)	(86,621)	(23,814)	(1,752,777)
Generator Joint Use Revenue Deferral Account	Yes	2405		(311,823)	(5,866)			(311,823)	(5,866)	(4,521)	(322,211)
Smart Meter Entity Charge				644,180	9,640			644,180	9,640	9,341	663,161
Sub-total Type 2 Accounts Requesting Disposition				56,450,329	635,712	-	-	56,450,329	635,712	818,530	57,904,571
Total Regulatory Accounts Requesting Disposition				54,917,943				54,917,943	608,663	796,310	21,306,580
Type 2 Accounts Not Requesting Disposition											
IFRS Transition Costs Variance Account	No	1508		0	0			0	0	0	0
Recovery of Regulatory Asset Balances	No	1590		0	0			0	0	0	0
Rider 6 - Disposition and Recovery of Regulatory Balances	No	1595		0	0			0	0	0	0
Acq MEU Rate Mitigation	No	1508		0	0			0	0	0	0
Special Purpose Charge Variance Account	No	1521		0	0			0	0	0	0
Total others (sum of the accounts above)				0	0			0	0	0	0
RRRP DX	No	1508		2,050,063	289,930			2,050,063	289,930	29,726	2,369,719
Cat Lake (Rev,Cap,OM&A & COP + interest)	No	1508		2,742,479	88,504			2,742,479	88,504	39,766	2,870,749
DG Other - Provincial Pool	No	1533		(46,982,794)	(1,126,604)			(46,982,794)	(1,126,604)	(681,251)	(48,790,649)
Express Feeders - Provincial Pool	No	1533		(3,531,834)	(75,579)			(3,531,834)	(75,579)	(51,212)	(3,658,625)
Sub-total Type 2 Accounts Not Requesting Disposition				(45,722,087)	(823,750)			(45,722,087)	(823,750)	(662,970)	(47,208,807)
Total Regulatory Accounts Not Requesting Disposition				(45,722,087)				(45,722,087)	(823,750)	(662,970)	(47,208,807)
Grand Total				(48,943,685)				(23,577,785)	(1,798,661)	(525,781)	(25,902,227)