# 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.

**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)** |

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

## 2.1 Retail Settlement Variance Accounts ("RSVAs")

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

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

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

Hydro One engaged Navigant Consulting Ltd. ("Navigant") to prepare a line loss study and followed the recommendation of the consultant and used the bill data method to calculate the line loss variance analysis for 2010 through 2013. The balance in Tab 3 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.

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

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

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

The balance in Hydro One Distribution's Fixed Charge for Micro-Generators Account is 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"

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

As part of the EB-2007-0681 Proceeding, the Board reviewed and approved Hydro One Distribution's actual Smart Meter Minimum Functionality spending up to December 31, 2007. The Board directed Hydro One Distribution to track subsequent Smart Meter 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 balances to December 31, 2008. The Board also approved an updated Smart Meter Funding Adder for 2010 of $2.17 and for 2011 of $4.45 per metered customer per month following the Board's G-2008-0002 *Guideline for Smart Meter Funding and Cost Recovery* issued October 22, 2008. This adder has continued through 2013 and will continue until December 31, 2014.

Table 9 details the revenue requirement (net of interim recoveries received) related to smart meter minimum 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 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 prudency 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:

- a reduction to the proposed capital expenditures for leasehold improvements for the new head office on the basis that there will be offsetting payments from the landlord;

- elimination of the proposed three pilots for Hydro One's smart grid project on the basis that this project should be deferred until the Green Energy Act is proclaimed and regulations are made and the Board develops standards and processes for implementation;
- reductions in Hydro One's 2009 capital budget for new connections and upgrades in light of economic conditions in 2009; and

- reductions in the capital budget for the Cornerstone multi-year computer project on the basis that this project is not incremental or, in the alternative, recognition of the project's savings in 2009.

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

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

**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.

# REGULATORY ACCOUNTS RESTATED FOR ANNUAL REPORTING AND RECORD KEEPING REQUIREMENTS (RRR)

## 1.0 INTRODUCTION

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

In a letter[1] 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 letter[2].

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

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[1] Hydro One's letter dated January 15, 2014 has been attached in Appendix A of this exhibit.
[2] The letter from Mr Babeie, 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 identifing the amount for disposition.

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**BY COURIER**

January 15, 2014

Mr. Daria Babaie
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Suite 2700, 2300 Yonge Street
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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,

Allan Cowan

Allan Cowan

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BY EMAIL

February 27, 2014

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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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# 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 Adjustmentto 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.

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

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

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

## 3.0 ACCOUNTING AND CONTROL PROCESS

The accounts requested above will be managed in the same manner as existing Hydro One Distribution variance and deferral accounts. They will be updated monthly and simple interest will be applied consistent with the Board-approved rate. Balances will be reported to the Board as part of the quarterly reporting process. The outstanding balances, whether in a debit or credit position, will be submitted for disposition approval 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 | |
| | | | | | | | | Total |
| 10 | Rates Revenue Requirement | 1,254.0 | 1,371.3 | 1,478.0 | 1,532.4 | 1,570.4 | 1,614.1 | 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%*** | |

# PLANNED DISPOSITION OF REGULATORY ACCOUNTS

## 1.0 INTRODUCTION

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

## 2.0 PLANNED DISPOSITION OF REGULATORY ACCOUNTS

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

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

**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.

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

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

# FINAL DISPOSITION OF THE SMART METER VARIANCE ACCOUNTS

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;

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

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

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

- The smart meter program has resulted in a reduction in the number of manual meter reads for Hydro One Distribution's 1.2 million customers. This has therefore reduced the manual meter program costs including ancillary charges required for support activities, such as reviewing demand charges annually and updating 911 customer addresses.

- Hydro One recognized that implementing smart meters in a primarily rural geography would be challenging due to the then-existing limitations in metering technology and the lack of metering communications options for data transfer. Hydro One undertook to influence the market to develop robust back office metering solutions with standards-based communications to enable the daily aggregation of over a million meters. This culminated in Hydro One leading Canadian utilities in acquiring dedicated spectrum for the use of the electrical sector.

- The deployment of the smart meter solution has facilitated improvement in billing accuracy specifically resulting in a reduction in the number of Customer Information System (CIS) estimated bills being issued to customers.

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

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

# 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, distribtuion 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 & settelments, 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 |
|---|---|---|---|---|---|
| OMA | operations & carrier management, base services, IT contracts & application upgrade, leased telecom costs, network operations | | 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 Fucntionality | **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 Fucntionality | **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 Fucntionality | 11.6 | (6.7) | (17.6) | (21.6) | (17.4) | |
| C/Balance of Smart Meter > Minimum Fucntionality | 4.3 | 6.7 | 10.8 | 15.9 | 21.4 | |

**Total of 1) Smart Meter Minimum Fucntionality 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: | - | - | - | - | 19.6 |
| 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 Fucntionality 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 | - | - | - | - | - |
| | - | - | - | - | (1.6) |
| 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 Fucntionality and 2) Smart Meter > Minimum Functionality**

| *($ millions)* | 2009 | 2010 | 2011 | 2012 | Fcst 2013 |
|---|---|---|---|---|---|
| Hardware | - | - | - | - | - |
| | - | - | - | - | - |
| 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** | - | - | - | - | - |
| | - | - | - | - | - |
| Meters | - | - | - | - | - |
| | - | - | - | - | - |
| 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 |
| | - | - | - | - | - |
| Software | - | - | - | - | - |
| | - | - | - | - | - |
| 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 |
| | - | - | - | - | - |
| Hardware | - | - | - | - | - |
| | - | - | - | - | - |
| 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<br>*($ millions)* | 2009 | 2010 | 2011 | 2012 | Actual 2013 |
|---|---|---|---|---|---|
| **Return on rate base** | | | | | |
| 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 Fucntionality<br>*($ 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 |
| 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 | 4.8 | 14.6 | 21.2 | 26.3 | 29.3 |

| Total of Smart Meter Minimum Fucntionality<br>*($ millions)*<br>**CCA** | 2009 | 2010 | 2011 | 2012 | Actual 2013 |
|---|---|---|---|---|---|
| Meters | | | | | |
| 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 |
| Software | | | | | |
| 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 |
| Hardware | | | | | |
| 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<br>*($ 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<br>*($ 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 |

| Total of Smart Meter > Minimum Functionality<br>*($ millions)* | 2009 | 2010 | 2011 | 2012 | Actual 2013 |
|---|---|---|---|---|---|
| **CCA** | | | | | |
| Meters | | | | | |
| 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 |
| Software | | | | | |
| 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 |
| Hardware | | | | | |
| 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)* | 2009 | 2010 | 2011 | 2012 | Actual 2013 |
|---|---|---|---|---|---|
| **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.

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

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

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

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

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

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.

Renewable Enabling Improvement Assets

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

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

## 3.1 Direct Benefits

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

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

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

4. Asset Condition

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

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

5. Service Quality Improvements

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

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

6. Avoided Asset Upgrades

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

Conclusion

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

## 3.2 Actual Expenditures by Cost Category

Capital Expenditures

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

| | **2010 Actuals ($M)** | **2011 Actuals ($M)** | **2012 Actuals ($M)** | **2013 Actuals* ($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

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

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

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

**Table 1**

**2010 to 2014 Regulatory Approvals**

| | 2010 ($M) | 2011 ($M) | 2012 ($M) | 2013 ($M) | 2014 ($M) | Total ($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;

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

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

- conducting research into customer preferences and creating a mobile electricity discovery centre to engage and educate consumers;
- piloting various demand response programs, including new home energy management systems offerings;
- 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 being 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**

| | **2010 Actuals ($M)** | **2011 Actuals ($M)** | **2012 Actuals ($M)** | **2013 Actuals ($M)** | **Total Actuals ($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.

**Table 3**

**Smart Grid Variance Account – Final Balances**

**(amounts include interest)**

| | **2010 Actuals ($M)** | **2011 Actuals ($M)** | **2012 Actuals ($M)** | **2013 Actuals ($M)** |
|---|---|---|---|---|
| Opening | 0.0 | (5.2) | (20.5) | (9.1) |
| In-year Adjustments | (5.2) | (15.4) | 11.4 | 8.1 |
| Closing | (5.2) | (20.5) | (9.1) | (1.0) |

**HYDRO ONE NETWORKS INC.**
**DISTRIBUTION**
**Regulatory Accounts for Approval**
As at December 31, 2014
($ Millions)

| Line No. | Particulars | Balance as at Dec 31, 2012 | Balance as at Dec 31, 2013 | Forecast Balance as at Dec 31, 2014 |
|---|---|---|---|---|
| | | (a) | (b) | (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 Mimimum 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** |

(a) 2012 audited balanaces
(b) 2013 includes forecast balance movements and interest improvement
(c) 2014 includes forecast interest improvement

| | | | | |
|---|---|---|---|---|
| 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 balanaces
(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 | 2016 | 2017 | 2018 | 2019 | Total |
|---|---|---|---|---|---|---|---|
| | | (a) | (b) | (c) | (d) | (e) | (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 | For Disposition | 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 |
|---|---|---|---|---|---|---|---|---|---|
| **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)** |
| | | | | | | | | | 0 |
| **Type 2 Regulatory Accounts Requesting Disposition** | | | | | | | | | 0 |
| 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 | For Disposition | 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 |
|---|---|---|---|---|---|---|---|---|---|
| **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 | For Disposition | 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 |
|---|---|---|---|---|---|---|---|---|---|
| **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**

| Account Descriptions | For Disposition | Account Number | 2013 Principal Disposition of 2011 Bal's (on Jan 1 2013) - instructed by Board | 2013 Interest Disposition of 2011 Bal's (on Jan 1 2013) - instructed by Board | 2013 Opening Principal Balances after transfers of 2011 approved balances (2013) opening bal's | 2013 Transactions Debit / (Credit) during 2013 excluding interest and adjustments [6] | 2013 Closing Principal Balance as of Dec-31-13 | 2013 Opening 2013 Interest Principal Balances after transfers of 2011 approved balances | 2013 Interest Jan-1 to Dec-31-13 | 2013 Closing Interest Amounts as of Dec-31-13 | 2013 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 | For Disposition | 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 |
|---|---|---|---|---|---|---|---|---|---|---|
| **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)** |