Hydro One Brampton Networks Inc.
175 Sandalwood Pkwy West
Brampton, Ontario L7A 1E8
Tel: 905-840-6300
www.HydroOneBrampton.com

November 10, 2014

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

Dear Ms. Walli,

RE: Hydro One Brampton Networks Inc.'s 2015 Cost of Service Electricity Distribution Rate Application; Final Reply Submission; EB-2014-0083

At the conclusion of the Oral Hearing held on October 24, 2014 the Board issued a directive to Hydro One Brampton to submit its Reply Submission to the Board and all registered Intervenors on or before November 10, 2014. Hydro One Brampton now respectfully submits its Reply Submission.

A copy of this submission has been electronically filed through the Board's RESS system. The original has been couriered to the Board's offices.

Should you require any further information or clarification of any of the above, kindly contact the undersigned.

Sincerely,

Scott Miller
Director of Customer Care
Hydro One Brampton Networks Inc.
(905)-452-5504
smiller@hydroonebrampton.com

Paul Tremblay, President & CEO, Hydro One Brampton Networks Inc.
Marc Villett, Vice-President, Finance, Hydro One Brampton Networks Inc.

EB-2014-0083

ONTARIO ENERGY BOARD

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

AND IN THE MATTER OF an application by Hydro One Brampton Networks Inc. to the Ontario Energy Board for an Order approving just and reasonable rates and other charges, effective January 1, 2015.

Hydro One Brampton Networks Inc.

Final Reply Submission

Filed: November 10, 2014

INTRODUCTION

Hydro One Brampton Networks Inc. ("Hydro One Brampton", "Company", and "HOBNI") now makes its final argument in response to Board Staff and Intervenors submissions with regard to the following matters:

1. The appropriate percentage factor to be used to calculate Hydro One Brampton's 2015 Working Capital Allowance.
2. The forecasted balance of Account 1576 - Accounting Changes under CGAAP Deferral Account, and the proposed disposition period; and
3. The methodology pertaining to weather normalization in the load forecast.

WORKING CAPITAL ALLOWANCE

Hydro One Brampton's evidence in chief[1] and Argument in Chief[2] explain the Company's approach and support for using the 13% working capital allowance. Through this evidence, Hydro One Brampton has:

- indicated how the Company has followed the Board's guidelines,
- identified that the most common practice is for LDCs to use the 13% working capital allowance rate even though each utility has unique operating circumstances,
- explained why it is not appropriate to selectively adjust the 13% rate for a few of the lead-lag parameter results based on studies of other LDC's,
- explained why it is important to consider the unique nature and full scope of an LDC's operating environment in determining a lead-lag based working capital allowance, and
- explained why it more reasonable and consistent to continue to rely on the 13% rate in the absence of better information.

Subsequent to the Argument in Chief, submissions have been made by Intervenors and Board Staff with respect to the working capital allowance. It is not the intent of this reply submission to repeat evidence that is already on the record, however it is important to address certain issues raised in Intervenor and Board Staff submissions. In doing this, references will be made to previous submissions as appropriate. While this reply submission will address the main points

[1] Oral Hearing Transcript, Volume 1, dated October 22, 2014 at 32-38 [*Vol. 1*].
[2] Oral Hearing Transcript, Volume 2, dated October 24, 2014 at 11-22 [*Vol. 2*].

raised in Intervenor and Board Staff submissions, please note that lack of comment on certain points raised does not imply agreement unless specifically stated herein.

The pre-filed evidence[3] documents that, consistent with available options, the Company elected to use the Board approved 13% working capital allowance. The *Filing Requirements*[4] provide options for determining the amount of working capital and do not state that distributors need to provide the rationale for choosing the 13% rate.

Hydro One Brampton concurs with the Board Staff submission, which states:

> *Hydro One Brampton has filed its WCA on the basis of the 13% Allowance Approach. Hydro One Brampton has not completed a lead lag study, nor has it ever been directed to do so by the Board. Hydro One Brampton stated that, although it examines its cash flow needs as part of its budget process, it has not performed a specific analysis of whether its cash flow needs are higher or lower than that which is provided by the 13% Allowance Approach.*
>
> ***
>
> *As stated in the Board's letter, the Board's consideration of an appropriate default value for calculating WCA in the absence of a lead/lag study was based on a review of lead/lag studies filed in cost of service applications in the few years leading up to the issuance of the letter. The derivation of the 13% default value has not been provided, nor have the specific lead/lag studies been identified.*[5]

Intervenors have subsequently speculated without substantiation on the reasons for Hydro One Brampton's decision to use the 13% working capital allowance rate.[6]

The Company submits that this decision was simply a choice available to it. One of hundreds of choices and decisions that were made in the course of preparing this rate application. Given that the use of the 13% is a Board approved option, and given that the 13% had been accepted in many Cost of Service applications, the Company elected to use this rate and did not anticipate that it would become a contentious issue or the source of unfounded negative presumptions. It is

[3] 2015 Hydro One Brampton Cost of Service Application, dated April 23, 2014, Exhibit 2 Tab 3 Schedule 1, (EB-2014-0083) [*COS Application*].
[4] Ontario Energy Board, *Filing Requirements for Electricity Distribution Rate Applications*, as revised on July 17, 2013 and updated on July 18, 2014 [*Filing Requirements*].
[5] Ontario Energy Board's Staff Submission, dated November 3, 2014 at 5 [*OEB Staff Submission*].
[6] See Building Owners and Managers Association Written Submission, dated October 30, 2014 at para 5 [*BOMA Submission*]; Final Submission of Vulnerable Energy Consumers Coalition at para. 2.1 [*VECC Submission*]

further noted that ten out of eleven 2014 Cost of Service filers also selected to use the 13% working capital allowance rate.[7]

The *Filing Requirements* do not provide for the Company to make any unilateral adjustments to this 13% rate, save for completing lead-lag study, and consequently no changes were made. The Company has followed the Board guidance for the calculation of working capital and there has not been any evidence presented to the contrary.

Claims by BOMA and VECC suggesting the Company should have conducted a study and even that it was imprudent[8] not to do so reflects a lack of understanding of the options that LDCs have in submitting pre-file working capital evidence. The *Filing Requirements* state:

> *In a letter dated April 12, 2012, the Board provided an update to electricity distributors and transmitters on the options established in the June 22, 2011 cost of service filing requirements for the calculation of the allowance for working capital for the 2013 rate year. The applicant may take one of two approaches for the calculation of its allowance for working capital: (1) the 13% allowance approach; or (2) the filing of a lead/lag study.*
>
> *The only exception is if the applicant has been previously directed by the Board to undertake a lead/lag study on which its current working capital allowance is based. Under such circumstances, the applicant must either continue to use the results of that study or, in the event it wishes to propose a revision to its allowance, the applicant must file an updated study in support of its proposal*.[9]

Use of the 13% allowance approach, is not mentioned as being "imprudent" in the *Filing Requirements*. In fact, the guidance provides only one rate, the 13%, for use in the absence of a lead-lag study. It is further noted that the vast majority of LDCs have elected to use the 13% working capital allowance versus choosing to do a lead lag study. As cited in Mr. Villett's testimony at the Oral Hearing, the OEB has accepted the 13 % allowance approach in a number of recent 2014 decisions, including Burlington Hydro, Oakville Hydro, Cambridge and North Dumfries Hydro, Kitchener-Wilmot Hydro, Cooperative Hydro Embrun, Fort Frances Power and Hydro Hawkesbury.[10]

---

[7] Additional Information to be Referenced at the Oral Hearing, Exhibit K1.1, Document 5, (EB-2014-0083) [*Exhibit K1.1*].
[8] *VECC Submission*, *supra* note 6 at para 2.1.
[9] *Filing Requirements*, *supra* note 4 at s 2.5.1.3.
[10] *Vol. 1*, *supra* note 1 at 33.

Intervenors have raised the issue of monthly billing and the impact that it potentially has on the working capital allowance rate. At the outset, it should be noted that the working capital *Filing Requirements* do not differentiate for billing frequency on a bi-monthly, monthly or other basis. The Company has testified that "*The survey results show that 53 out of 72 electricity distributors provide monthly billing to their non-seasonal customers."*[11] Approximately 74 percent of utilities are currently billing their customers monthly. Therefore the majority of utilities that would be using the 13 percent allowance approach in the OEB Filing Guidelines are already billing their customers on a monthly basis.[12]

Hydro One Brampton also notes that that the Board recently approved use of the 13% working capital allowance for Cooperative Hydro Embrun, Fort Frances Power and Hydro Hawkesbury utilities all of whom bill their customers on a monthly basis.[13]

Subsequent to the pre-filed evidence there were 3 interrogatories on working capital, and the topic came up briefly at the Technical Conference on September 3, 2014. Subsequent to this, working capital was identified as an unsettled issue and much information has been added to the record in the form of oral evidence,[14] compendiums,[15] and reply submissions. It is Hydro One Brampton's submission that much of the information put on the record with respect to working capital has served to confuse and conflate what should be a straightforward issue.

Examples of the confusion that has been added to the record and the Company's clarification are as follows. First of all, VECC in its submission states:

> *"When speaking about the disposition of IFRS PP&E adjustment Mr. Gapic made this statement "[F]ive years was selected as in part due to the availability of the working capital -- weighted average cost of capital being returned to the company as well." Again when asked how a lower working capital allowance would impact the Utility, HOBNI replied "And we would have to go back and take a look at how that impacts our overall business plan and budgets. And it could mean scaling back on some of the work or programs that we have to do". These statements demonstrate either a misunderstanding*

[11] As per *Draft Report of the Board on Electricity and Natural Gas Distributors Residential Customer Billing Practices*, dated September 18, 2014 at s 3.1.2 (EB-2014-0198).
[12] *Vol. 1*, *supra* note 1 at 34.
[13] *Vol. 1*, *supra* note 1 at 35.
[14] *Vol. 1*, *supra* note 1; *Vol. 2*, *supra* note 2.
[15] See *Exhibit K1.1*, *supra* note 7; VECC Cross-Examination Compendium, Exhibit K1.3 [*Exhibit K1.3*]; Energy Probe Cross-Examination Compendium, Exhibit K1.4 [*Exhibit K1.4*].

> *of the proper role of the working capital allowance or an obfuscation of the inappropriate role it is playing in HOBNI's budgeting process"* (emphasis added).[16]

In response to this mischaracterization by VECC, the Company would like to make it clear that there is no misunderstanding or obfuscation. The Company was simply stating that if revenue requirement were to decrease as a result of a lower working capital allowance, the Company would need to make financial adjustments in other areas in response to a reduced level of funding and the Company witness provided the area of OM&A as an example. We feel it is important to address this mischaracterization of the Company's evidence, however we do not intend to respond to unfounded speculation and conjecture regarding the Companies motives.

The SEC submission claims that there is a significant (i.e. material) methodological error in the derivation of the 13%, Hydro One Brampton disagrees with this. The SEC states:

> *"The primary problem with the Board's default WCA is that those four studies that are the basis of the 13% value, have a significant methodological error that has now been corrected in subsequent proceedings."*[17]
>
> ***
>
> *"At the very least, it is clear that since the 13% default value is premised on obsolete methodology, the correct amount would be a material amount less".*[18]

SEC's claim is not borne out by the conclusions of both the Hydro One Networks and Toronto Hydro lead-lag studies by Navigant. Navigant is silent on the methodological change as a significant contributing factor and attributes the change in working capital allowance to other factors such as billing frequency and a new CIS.[19]

Another submission comment that does not accurately represent the evidence on the record is the following:

> *At Exhibit 2, Tab 5, Schedule 1, Hydro One Brampton states that it plans to replace its aging system with a new ERP over the five year planning period. The evidence states that Hydro One Brampton has budgeted $10 million for this capital project. Board staff submits that, while Hydro One Brampton does not have the benefit of a new CIS now, it appears that it will have one well before its next cost of service application. Although the impact of a new CIS has not been quantified for either of Toronto Hydro or Hydro One*

---

[16] *VECC Submission*, *supra* note 6 at para 2.9.
[17] School Energy Coalition Final Argument, dated November 3, 2014 at 2 [*SEC Submission*].
[18] *Ibid* at 4.
[19] *Exhibit K1.4*, supra note 15 at 150 & 215.

Networks - Distribution, this factor is considered by Navigant to be a significant driver of the reduction in WCA.[20]

Hydro One Brampton does not currently have the benefit of any new Customer System. In fact, the ERP discussed in the evidence[21] includes all enterprise business applications programs except the Customer Information System. The in-service date of the CIS component of the IT Roadmap[22] is not discussed in the evidence. The CIS component, while part of the overall IT Roadmap, is not contemplated to be in-service until the end of 2019, hence there will be no related benefits to working capital in the 2015-2019 rate period.

The Company would now like to address the main arguments raised by Intervenors and provide a response as to why they cannot be relied upon to derive Hydro One Brampton's working capital allowance. It should be clearly stated at the outset as it was in the oral hearing[23] that Hydro One Brampton does not know what the results of a lead-lag study would be, nor was it required to conduct a lead-lag study. The actual rate could be higher than 13% or it could be lower.[24] We submit that it is inappropriate to extrapolate Hydro One Brampton's working capital requirements from available recent studies, as these studies do not necessarily reflect Hydro One Brampton's business circumstances. The inappropriateness of doing this is further supported by the fact that these studies have a range of results for similar leads and lags amongst the studies. To state that Hydro One Brampton's working capital allowance should be an average of an assortment of results[25] without due consideration for local practices and the business environment in Brampton is not appropriate.

Hydro One Brampton respects the right of parties to present evidence and understands that the Board will give due consideration to all the evidence of the parties in coming to its decision. However, it is our submission that Intervenor evidence with respect to re-calculating the working capital allowance percentages of other LDC's and inferring that the derived rate should be Hydro One Brampton's working capital requirement is simply not appropriate or reasonable. Intervenors have derived results through unsubstantiated mathematical inference that is incomplete and does not reflect the full set of specific business conditions of Hydro One Brampton. The results of these "mathematical derivations"[26] cannot be relied upon and simply

[20] *OEB Staff Submission, supra* note 5 at 9.
[21] *COS Application, supra* note 3 at Exhibit 2 Tab 5 Appendix B, ERP Business Case.
[22] *COS Application, supra* note 3 at Exhibit 2 Tab 5 Appendix B, IT Roadmap.
[23] *Vol. 1, supra* note 1 at 33.
[24] *Vol. 1, supra* note 1 at 44.
[25] Argument of Energy Probe Research Foundation, dated November 3, 2014 at 13-16 [*EP Submission*]; *SEC Submission, supra* note 17 at 2-4.
[26] *Ibid.*

extrapolated to be representative of Hydro One Brampton's situation. There is no evidence in these calculations that they are reflective of Hydro One Brampton's specific and complete lead-lag characteristics.

Even Energy Probe in their reply submission agrees that it is inappropriate to simply average a number of results from assorted lead-lag studies:

> *"Energy Probe submits it is equally inappropriate to adopt the results from the average of a number of lead-lag studies where the utilities included in the average are demonstrably different to HOBNI. A utility that bills all customers monthly is not comparable to utilities that bill customers on both a monthly and bi-monthly basis."*[27]

Hydro One Brampton does not dispute that there have been changes in industry circumstances since the issuance of the 13% working capital allowance rate in 2012. What Hydro One Brampton does dispute is being assigned a working capital allowance derived from LDC specific studies, making some adjustments based on assumptions that may or may not be relevant to Hydro One Brampton, and not making other adjustments that may be appropriate because there is insufficient evidence on the record.

This concern was identified by Mr. Villett at the Oral Hearing:

> *MR. VILLETT: Yes. There are a number of concerns with making such an adjustment.*
>
> *The operations of each utility are different, and therefore the leads and lags of each utility are unique. And we don't believe it is appropriate to adjust one element of a utility's expense and revenue pattern without looking at the entire picture.*
>
> *And the OEB has expressed a similar view in recent cases for Fort Frances and Hydro Hawkesbury. In those decisions, the OEB stated:*
>
> > *"The Board does not consider it appropriate to adopt the results of a lead/lag study from another utility without a thorough analysis concluding the two utilities are comparable."*
>
> *And I would once again like to refer to Exhibit 4-1.1. And this time I am going to refer to Document 2, which is "Lead/lag comparison amongst LDCs."*
>
> *Now, what this table shows is the results of various lead/lag studies that have been filed with the Board for other utilities.*

[27] *EP Submission, supra* note 24 at 12.

> *And as you can see here, if we look at the "OM&A" column, for example, there are significant variances in the leads for the same type of expense that are coming out of these various lead/lag studies.*
>
> *In the case of OM&A expenses, there's a difference of 26.56 days between these various studies. You've got Horizon at 7.3 days, Toronto Hydro at 33.86.*
>
> *If you look at the "PILs" column, the variation between these -- between the results of these studies is even greater. It is 177.32 days.*
>
> *And in interest expense, the variation between utilities is 190 days.*
>
> *If I can refer to Document 3, this is a similar table but it looks at the retail revenue lag comparison, again from the various lead/lag studies that have been filed. And you will see there's significant variances again in items such as the billing and collection lag.*
>
> *So because these studies are generating significantly different results, depending on the utility, we do not feel that it is appropriate for the Board to apply the results of another utility's lead/lag study to Hydro One Brampton.*[28]

Hydro One Brampton concurs with the Board Staff submission which states:

> *The Board has in the past found it to be inappropriate to adopt the results of a lead/lag study from one utility to apply to another utility without a thorough analysis concluding that the utilities are comparable. Most recently, in a Motion to Review and Vary by the School Energy Coalition for a review of the Board's Decision and Order in proceeding EB-2013-0147, the Board stated:*
>
> > *"The Board finds that using a consistent WCA default value in cases where lead/lag studies have not been conducted to be a better approach than attempting to use simplified methods to derive a utility-specific WCA value for each case from other lead/lag studies which may not reflect the unique circumstances of such utility".*
>
> *Board staff submits that Hydro One Brampton has calculated its WCA in accordance with the Board's policies, and that there is no evidence in this proceeding that would allow for specific reductions in the WCA factor to be directly applied to Hydro One Brampton.*[29]

---

[28] *Vol. 1*, *supra* note 1 at 35-36.
[29] *OEB Staff Submission, supra* note 5 at 7.

Hydro One Brampton agrees that "*there is no evidence in this proceeding that would allow for specific reductions in the WCA factor to be directly applied to Hydro One Brampton*." However, Hydro One Brampton disagrees with the subsequent statement:

> *"However, Board staff notes that there are certain operating characteristics for Hydro One Brampton which would logically suggest that some reduction to its WCA factor may be appropriate".*[30]

This statement by Board Staff suggests that it would be appropriate to make adjustments on a selective basis. This is inconsistent with the prior paragraph in the Board Staff submission which states that there is no evidence in this proceeding that would allow for specific reductions in the WCA factor to be directly applied to Hydro One Brampton.

Hydro One Brampton notes the Board statement in the recent Kitchener-Wilmot Hydro decision:

> *By way of an example, two of the utilities referenced by the intervenors in this case which completed lead/lag studies were Hydro One Distribution and London Hydro. The studies determined WCA values of 11.50% and 11.42% for Hydro One Distribution and London Hydro, respectively. These were almost identical WCA values even though Hydro One Distribution's customers were mostly on bi-monthly billing while all of London Hydro's customers were on monthly billing. There could be a number of reasons behind this which would only become apparent through a detailed examination of the lead/lag studies.*
>
> *The Board finds that there was no compelling evidence in this case to suggest that a WCA value other than the default 13% was more appropriate and, therefore, confirms its earlier finding that KWHI's proposed WCA of 13% is acceptable.*[31]

Hydro One Brampton submits that the selective mathematical adjustment evidence put forward by Intervenors in the Hydro One Brampton proceeding is similar in nature as that advanced in the Kitchener-Wilmot proceeding. The reasoning of the Board in Kitchener-Wilmot is equally applicable here that there is no compelling evidence to suggest that a *WCA* value other than the default 13% is more appropriate in this proceeding.

---

[30] *Ibid.*
[31] 2014 Kitchener-Wilmot Hydro Cost of Service Application, Decision and Order, dated October 23, 2014 (EB-2014-0155).

With respect to VECC's submission, it has implied[32] that a proxy for Hydro One Brampton's working capital requirements would be that of our sister company. This is not a relevant comparison. Hydro One Networks Inc. is a totally separate company with a different set of operating characteristics such as rural customers, seasonal customers, procurement practices and contracts, labour agreements, payroll practices and outsourcing of services such as customer service, accounts payable, finance and supply management to name a few. All of these differences and others would contribute to deriving a lead-lag result different from Hydro One Brampton or any other LDC for that matter. Hydro One Brampton submits that it is not appropriate and reasonable to compare Hydro One Brampton to Hydro One Networks Inc. or any other LDC without proper evidentiary foundation.

In summary, Hydro One Brampton:

- seeks to recover appropriate allowable costs of running the business
- has followed all Board guidance throughout this proceeding and aims to be fully compliant with Board requirements
- is specifically compliant with the *Filing Requirements* with respect to working capital and acted reasonably in choosing the working capital default rate available to all LDC's
- does not know what working capital allowance percentage would result from a lead-lag study as it did not conduct a lead-lag study, nor was it required to do so
- believes that negative and value judgement statements made by certain Intervenors are inaccurate, unfair and unsubstantiated and should be dismissed
- submits that there is no evidentiary foundation that directly relates to an appropriate lead-lag based working capital allowance rate for Brampton – there is merely conjecture and mathematical inference based on results that may or may not be comparable.

Hydro One Brampton submits that relevant evidence should be considered by the Board and due weight afforded to submission based on their evidentiary foundation. It is Hydro One Brampton's position that the full scope of lead and lag evidence relevant for Hydro One Brampton has not been presented in this case and therefore it is not appropriate to impute on the Company a working capital allowance value by selectively using lead lag results from other utilities. There is no evidence to support that a value other than 13% is any more appropriate.

[32] *VECC Submission, supra* note 6 at paras 2.5 & 2.6.

ACCOUNT 1576

Appropriate Balance for Disposition

On July 17, 2012 the Board provided regulatory accounting policy direction to electricity distributors on matters arising from the one-year deferral option for the IFRS changeover in 2012 and the Board permitted electricity distributors electing to remain on Canadian GAAP ("CGAAP") in 2012 to implement regulatory accounting changes for depreciation expense and capitalization policies effective on January 1, 2012. The Board made it mandatory that these changes be made in 2013 for all distributors even if there is a further option to defer IFRS changeover in 2013. The Board advised of the new variance account that was created and it authorized distributors to use the new variance account.[33]

Hydro One Brampton made the required changes to its accounting policies for depreciation and overhead capitalization effective January 1, 2013.

Hydro One Brampton determined the balance of Account 1576 in compliance with the OEB's direction from the Accounting Procedures Handbook Frequently Asked Questions, dated July 2012. The impacts of the OEB's policy changes were recorded in Account 1576, consistent with the Board's guidance regarding the required accounting procedures found in FAQ #2 and Appendices A and B attached to the July 2012 APH FAQ.

Hydro One Brampton calculated the cumulative balance of $4,835,562 for this account in relation to the additions for the 2013 historical and 2014 bridge years. As shown in Table 1 of *Exhibit 9, Tab 4 Schedule 1* of the Application, reproduced below, and further explained by Ms. Dinis during the examination-in-chief at the oral hearing,[34] the balance in Account 1576 is made up of the following differences:

[33] Letter from Ontario Energy Board to Licenced Electricity Distributors re "Regulatory Accounting Policy Direction Regarding Changes to Depreciation Expense and Capitalization Policies in 2012 and 2013", dated July 17, 2012.
[34] *Vol. 1*, s*upra* note 1 at 7-9.

Table 1: 1576 - Accounting Changes under CGAAP

Components:	2013 (Actual)	Forecast 2014 (Bridge)	Cumulative 2014
Depreciation Expense variance	(173,658)	(173,658)	(347,316)
Disallowable capital variance	1,789,454	1,585,573	3,375,027
Loss on early retirement	1,143,080	739,671	1,882,751
Inventory loss recoveries	(74,899)		(74,899)
TOTAL	2,683,976	2,151,586	4,835,562

In addition, the depreciation expense variance of ($173,658) used for both 2013 & 2014 was further broken down in the examination-in-chief at the oral hearing[35] into three separate component differences, summarized in Table A below:

Table A: Components of Depreciation Expense Variance

Description of Difference	**Depreciation Expense Variance[36]**
Change for component versus group depreciation	($117,785)
Change from half-year to in-service depreciation	(29,617)
Reduced capitalization base	(26,256)
TOTAL	**($173,658)**

Hydro One Brampton disagrees with Energy Probe's argument, that a change to the difference in the closing net PP&E of ($4,835,562) relating to the use of the half-year rule for either the 2013 historical year or the 2014 bridge year depreciation is required. [37] Hydro One Brampton recorded the Depreciation Expense Variances to Account 1576 correctly and included all depreciation expense related changes to Account 1576 as required in the Accounting Procedures Handbook Frequently Asked Questions, dated July 2012. The change from half-year to in-service

[35] *Vol. 1*, *supra* note 1 at 7&8.
[36] Was used as the Depreciation Expense Variance for the 2013 Historical and 2014 Forecast Bridge Years.
[37] *EP Submission*, *supra* note 24 at 4.

depreciation in 2013 was not $140,779 as indicated by Energy Probe.[38] In response to a question by Ms. Caceres in the examination-in-chief,[39] Ms. Dinis responded:

> *"At the time we received the IR we had not performed a study that broke down the difference in depreciation."*, and *"We then had more time to prepare for today, and we realized that $140,000 is actually made up of two components. It is actually made up of the half-year rule, and it is also based on the fact that we had componentization versus group accounting.*"[40]

Ms. Dinis goes on to explain that the $140,779 is made up of $117,785 for component versus group depreciation and $29,617 for half-year rule vs. in-service depreciation[41], per Table B above. The third component of the difference of $26,256 relates to the reduced capitalization base.

The change in half-year rule vs. in-service depreciation in 2013 was only $29,617. The $144,000 reduction in depreciation expense for the half-year rule[42] in the 2015 test year was overstated. To be clear, we are not seeking an adjustment to the Settlement Agreement arising from the overstatement.

In addition, the $173,658 that was used in the 2014 forecast was based on the actual difference experienced for 2013. At the time that Hydro One Brampton prepared its 2014 business plan the Company did not have sufficient history to calculate the difference of the half-year rule depreciation versus in-service depreciation for 2014. For the Company's fixed asset continuity schedule for 2014, the same adjustment was made to 2014 that was made for 2013 depreciation expense.

Hydro One Brampton's use of $173,658 for 2014 was reasonable for the following reasons:

- The depreciation expense variance determined for 2013 was based on actual depreciation data based on IFRS depreciation policy including the in-service approach to depreciation. The amount determined was reliable and was audited as part of the Hydro One Brampton's 2013 Financial Statement audit,
- The fixed asset additions put into service for 2014 were similar to those put into service for 2013, $31.7 million and $31.5 million respectively,

---

[38] *Ibid*.
[39] *Vol. 1*, *supra* note 1 at 9.
[40] *Ibid*.
[41] Note the $6,623 difference ($117,785 plus $ 29,617 = $147,402) is due to a higher degree of precision in the current review and recalculation of the elements of the change in depreciation. The original values were updated.
[42] HOBNI Settlement Proposal, dated October 9, 2014, (EB-2014-0083) at 21.

- The capital variance due to IFRS was less in 2014 versus 2013, $1,585,573 and $1,789,454 respectively, and
- The amount is less than the Hydro One Brampton materiality threshold of $368,000[43], and was therefore reasonable to be used for the 2014 forecast amount.

Hydro One Brampton concludes the principal balance it seeks for disposition is reasonable and it fairly reflects the use of all changes to depreciation expense as the result of the change of capitalization policies it implemented on January 1, 2013. The Company requests that the Board approve its determination of the balance of Account 1576 of $4,835,562 as filed.

Appropriate Disposition Period

In its application, Hydro One Brampton requested that the debit balance in Account 1576 be disposed of over a five year period through a volumetric rate rider. The Board has previously approved five year disposition periods for 2014 Cost of Service rate filers.[44] Hydro One Brampton is one of the few LDCs that is requesting recovery of a debit balance in Account 1576. The reason for this is because the Company changed its fixed asset service lives in its 2011 Cost of Service rate application. This resulted in rate reductions for rate payers of approximately $10 million in 2011 and 2012 (approximately $5 Million per year) [45] before the Board directed distributors to make changes to their capitalization policies (including fixed asset service lives) in its Letter to distributors dated July 17, 2012[46]. Had the Company not changed its fixed asset service lives in 2011 the Company would have accumulated a balance payable to rate payers in Account 1576 of approximately ($5.2) Million[47].

Hydro One Brampton rate payers have been impacted very favorably by the Company's approach to its change in capitalization policies. The Company reduced rates by approximately $10 million in advance of the Board's requirement[48] to adopt IFRS depreciation and capitalization policies (in HOBNI's case for 2011 and 2012) and the customers benefited through lower rates in 2013 & 2014 by receiving approximately $10 million dollars sooner through lower rates than through this rate rider.

---

[43] *COS Application*, *supra* note 3 at Exhibit 1, Tab 8, Schedule 1.
[44] See 2014 Fort Francis Power Corporation COS, Decision and Order, dated August 14, 2014, [EB-2013-0130]; 2014 Haldimand County Hydro Inc. COS, Decision and Order, dated April 16, 2014, [EB-2013-0134]; 2014 Niagara-on-the-Lake Hydro Inc. COS, Decision and Order, dated April 3, 2014, [EB-2013-0155]; 2014 Orangeville Hydro COS, Decision and Order, dated April 3, 2014, [EB-2013-0160].
[45] *Vol. 1*, *supra* note 1 at 10.
[46] *Supra* note 32.
[47] Approximately $5 Million Depreciation per year (in each of 2013 and 2014) minus $4.8 Million (i.e. principal balance of Account 1576 filed).
[48] Per the Board's Letter of July 17, 2012, see *supra* note 32.

Hydro One Brampton submits the longer disposition period of five years is more appropriate as this period better reflects the long useful service lives of the capital assets to which this account relates. The average useful lives of HOBNI's capital assets is approximately 35 years[49] and the Company would have earned a return on these assets during the life of those assets had the accounting changes not been made. In addition, the Company considered that although the service lives of the related assets were longer than the rate setting cycle, since the Board had not approved longer disposition periods in other cases, HOBNI requested the 5 year period as well.

The bill impact is somewhat lower in 2015 if a five year disposition period is used as compared to a three year disposition period, and the use of the five year period allows for rate smoothing during the full rate setting cycle which is consistent with the RRFE.

In conclusion, Hydro One Brampton requests that the Board approve the 5 year recovery period requested in relation to the disposition of deferral Account 1576 as it is reasonable and the Company has substantiated why this disposition period is appropriate in Hydro One Brampton's specific case.

[49] Technical Conference Transcript, dated September 3, 2014 at 50 [*TC Transcript*].

WEATHER NORMALIZATION METHODOLOGY

Hydro One Brampton has provided detailed load forecast documentation in its application. Hydro One Brampton disagrees with the argument raised by Energy Probe that the Company failed to provide sufficient rationale for the use of a 10-year average for weather normalization[50]. Further, Energy Probe highlighted that HOBNI did not comply with the Board's Filing Requirement in that the Company did not submit the 20-year trend weather normalized forecast in its initial evidence. Hydro One Brampton submitted this evidence[51] as part of the Technical Conference process and thus forms part of the evidence that is currently before the Board.

Moreover, Hydro One Brampton disagrees with VECC's submission that there is no justification for Hydro One Brampton's decision to change from the use of a 30-year average to a 10-year average for the purpose of weather normalization. Hydro One Brampton's use of the 10-year average weather normalization methodology is consistent the *Filing Requirements*.[52] Since a 10-year average is one of two weather normalization methodologies referenced by the Board in the filing requirements, and is the most commonly used method by LDCs in Ontario and been approved by the Board in many instances in the last 2 years,[53] Hydro One Brampton submits that the decision to use a 10-year average method in its rate application is sufficiently substantiated and well founded. It should be noted that the Intervenors did not raise this issue through interrogatory questions, at the technical conference, nor at the oral hearing, and therefore, Hydro One Brampton further submits it is inappropriate for VECC to raise this point in their final argument.

With respect to Energy Probe's submission that a 50:50 weighting of a 10-year moving average and a 20-year trend should be used for weather normalization, Hydro One Brampton states that while the suggested method may be appropriate for a natural gas company such as Enbridge, it is definitely inappropriate for Hydro One Brampton as an electricity distribution company. The proposed methodology made by Energy Probe has never been used by any LDC in Ontario. As indicated by Mr. Gapic at the Oral Hearing, LDCs in Ontario and other parts of North America use average instead of trend in weather normalization.[54] Weather normalization methodology

---

[50] *COS Application*, *supra* note 3 at Exhibit 3 Tab 1 Schedule 1 Pages 7 and 8. See also Responses to TC Questions, 3-Energy Probe -56TC (a) to (d); *Vol. 1*, *supra* note 1 at 27-32; *Exhibit K1.1*, *supra* note 7 at 6-11.
[51] Responses to TC Questions, 3-Energy Probe -56TC (a) to (d).
[52] *Filing Requirements*, *supra* note 4 at s 2.6.1.1.
[53] *Exhibit K1.1*, *supra* note 7 at 6.
[54] *Vol. 1*, *supra* note 1 at 29-30.

suitable for Enbridge is inappropriate for Hydro One Brampton because they are two very different businesses serving different customers and load profiles.

In addition, When Hydro One Brampton compared the impact of using a 10-year average versus a 20-year trend for weather normalization on revenue requirement, the Company found the difference to be below the Company's materiality threshold of $368,000[55], i.e. revenue requirement increased by approximately $166,000.

Given the arguments presented above, Hydro One Brampton reiterates that the use of the 10-year average for weather normalization is appropriate and also concurs with the Board Staff's submission in support of this approach. The Company respectfully requests that the Board approve the 10-year average approach to weather normalization and the load forecast as submitted by the Company.

All of which is respectfully submitted, this 10th day of November 2014.

Scott Miller

Hydro One Brampton Networks Inc.

[55] *COS Application*, *supra* note 3 at Exhibit 1 Tab 8 Schedule 1.