

2015/16 Transmission Rates Application Presentation

Tuesday, December 2, 2014
OEB West Hearing Room

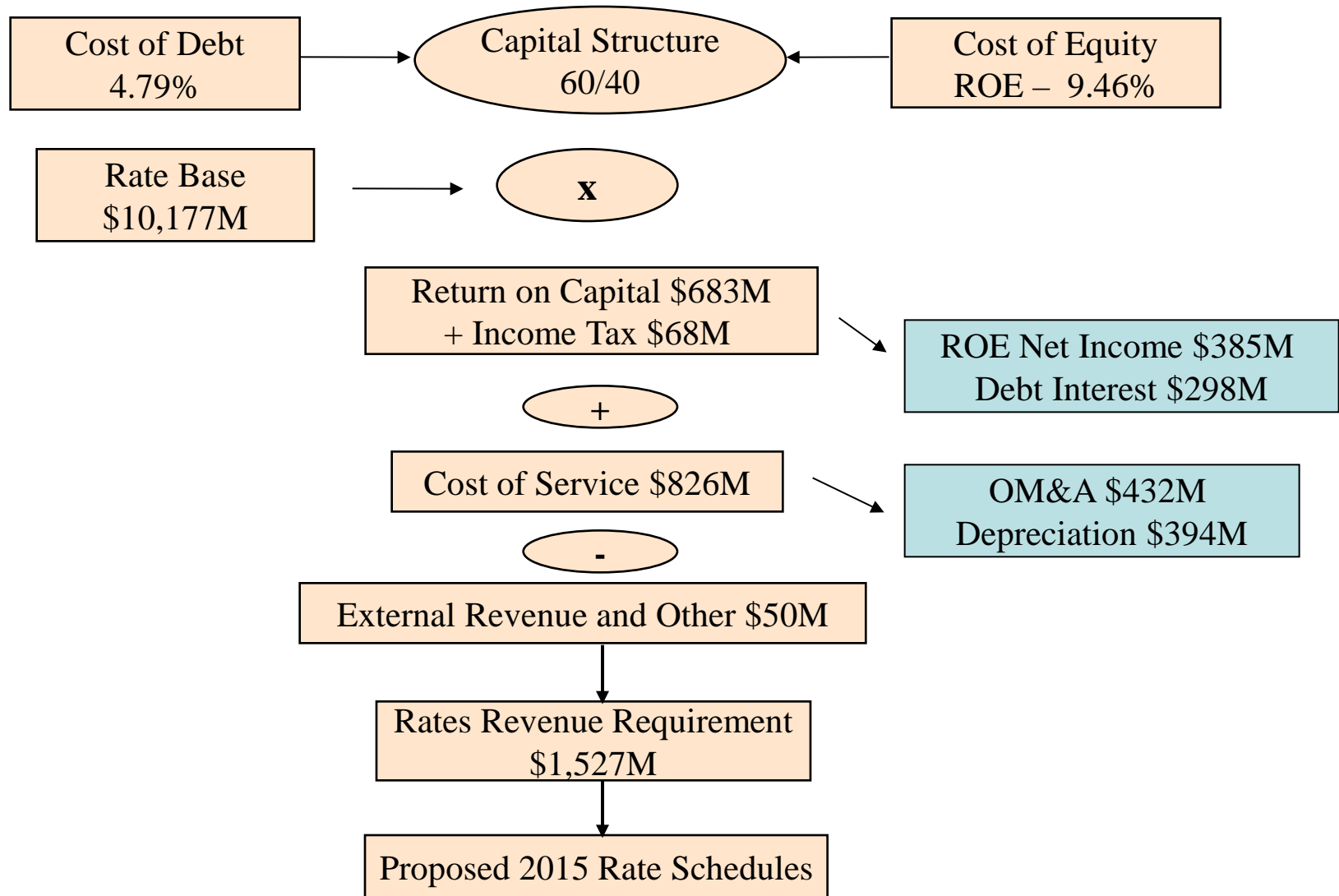
Context

- 2 year cost of service
- Rates primarily driven by increases in rate base for key capital projects/programs
- Focus on sustaining activity in the test years
- Maintaining current reliability levels
- Settlement Process
 - Respectful, cooperative, open and transparent
 - An appropriate balance of rate impacts and the responsible management of assets

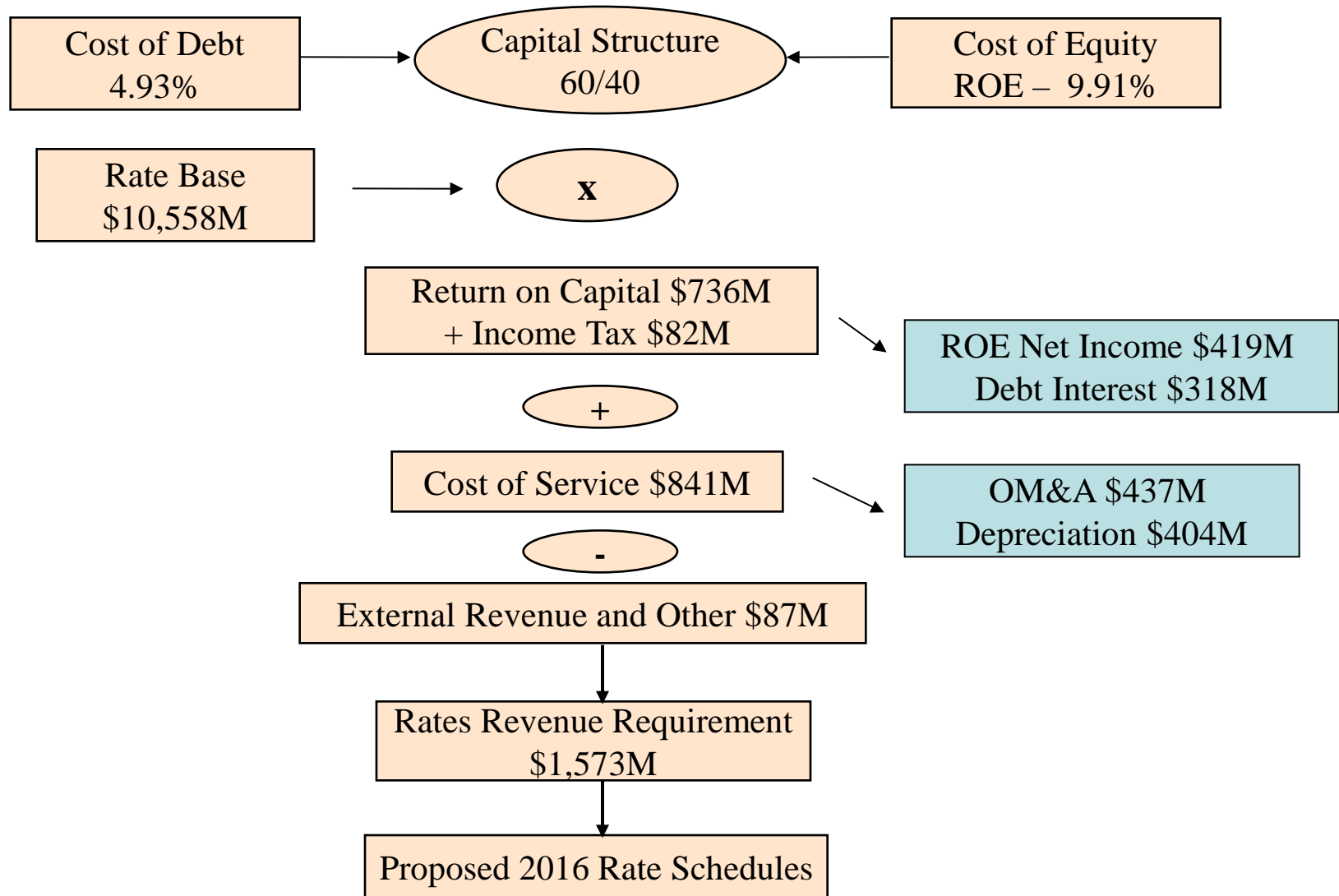
Summary of Process

- June 25 2014 – Hydro One initiated an open and transparent settlement process with stakeholders
- June 27 2014 – Hydro One provided information package
- July 11 2014 – Stakeholders provided interrogatories
- July 17 2014 – Hydro One responded to interrogatories
- July 23, 29, 30 2014 – Non-transcribed technical conferences (with undertakings)
- August 12, 13 2014 – Settlement negotiation (followed OEB Rules)
- September 16 2014 – Hydro One filed Application and Settlement Agreement with the OEB

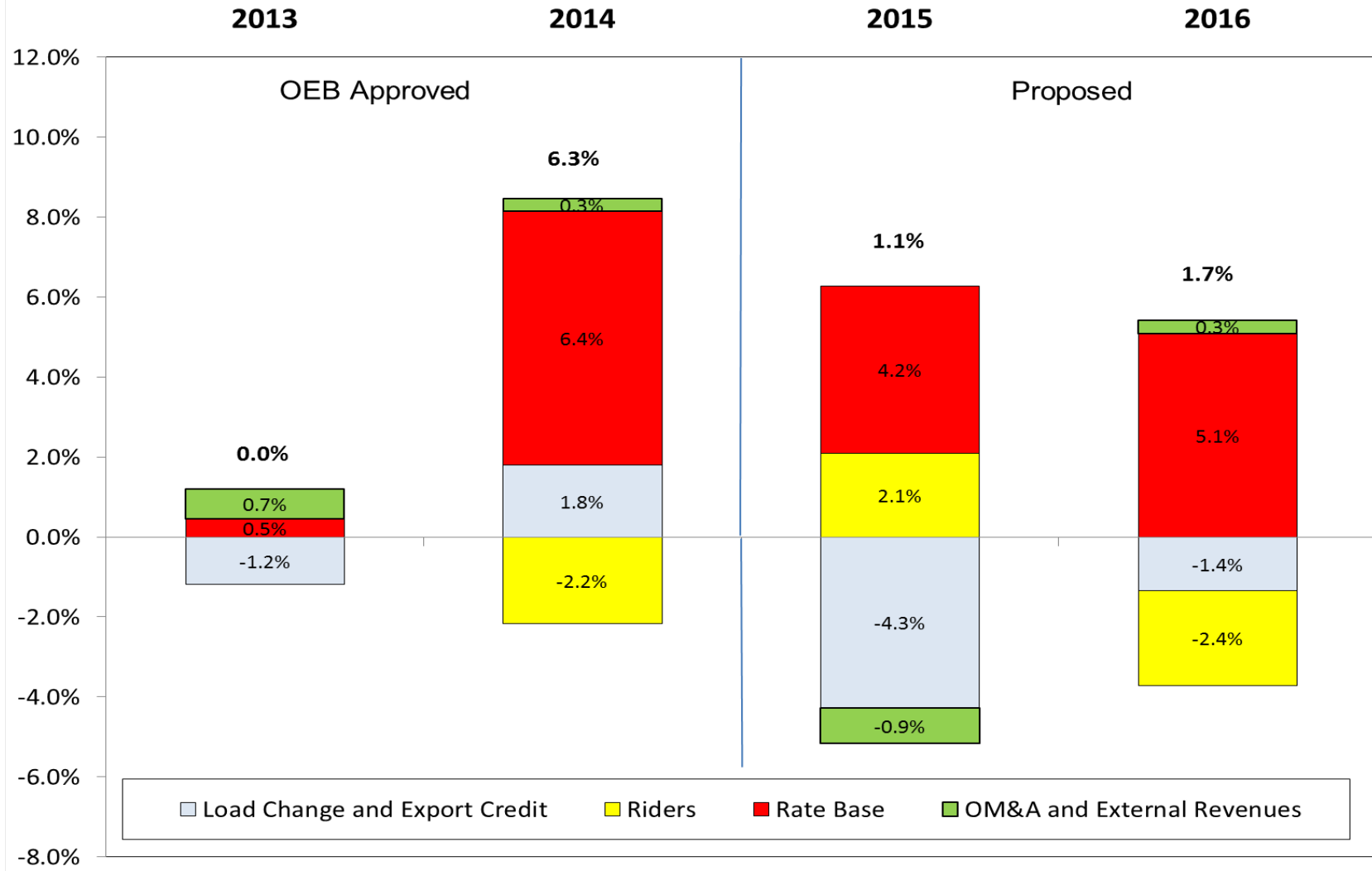
Proposed 2015 Transmission Revenue hydroOne Cost of Service Requirement



Proposed 2016 Transmission Revenue hydroOne Cost of Service Requirement



Transmission Rate Increase



Total Bill Impact:

0.0%

0.5%

0.1%

0.1%

OM&A Expenditures 2013 to 2016 (\$ millions)

	2013		2014		Test Years	
	Actual	OEB Approved	Bridge	OEB Approved	2015	2016
Sustaining	221	236	236	247	239	241
Development	9	14	13	15	13	13
Operations	57	58	57	58	59	59
Customer Care	5	5	6	5	6	6
Common Corporate and Other OM&A	76	62	71	59	70	71
Property Taxes & Rights Payments	64 [21*]	66	66	67	66	67
Adjustment as per Settlement Agreement					(20)	(20)
Total	431 [388*]	440	449	450	432	437

* The actual OM&A was reduced by \$43 million, a one-time Property Tax Credit

- Efficiency and productivity savings – mitigate the increase

In-Service Capital Additions 2013 to 2016 (\$ millions)

	2013		2014		Test Years	
	ISA Actuals	OEB Approved	Bridge	OEB Approved	2015	2016
Sustaining	404	443	588	701	572	481
Development	232	262	177	206	135	119
Operations	6	15	19	48	50	10
Common & Other	62	64	79	68	64	63
Total	704	784	863	1,023	821	673
Rate Base	9,209	9,353	9,671	9,934	10,177	10,558

Parties agreed to a Net Cumulative Asymmetrical Variance Account for 2014, 2015, and 2016 to track the impact on revenue requirement of any ISA shortfall compared to OEB approved amounts, for disposition in a future rates application.

Disposition of Regulatory Account Balances (\$ millions)

Particulars	Balance as at Dec 31, 2013	Forecast Balance as at Dec 31, 2014
	(a)	(b)
Excess Export Service Deferred Revenue	(41.9)	(23.5)
External Secondary Land Use Revenue	(32.8)	(18.5)
External Stations, EC&S Revenue and Other Revenue	(6.4)	(1.3)
Tax Rate Changes Account	(3.6)	0.8
Rights Payments	(3.6)	(1.9)
Pension Cost Differential	20.8	8.2
Long-Term Transmission Future Corridor Acquisition and Development	0.1	0.1
Total Regulatory Accounts	(67.4)	(36.1)

(a) 2013 interest is based on the OEB prescribed rates.

(b) 2014 includes disposition amounts (\$30.3 M) as approved by the Board in EB 2012-0031 and forecast interest improvement for 2014.

Balance of \$36.1 M disposed in 2016

ETS Rate

- Current ETS Rate = \$2/MWh
- Final report completed by Elenchus
- Elenchus recommended an ETS rate of \$1.70/MWh be implemented for 2015/16
- All parties agreed to an ETS Rate of \$1.85 per MWh for 2015 and 2016
- Impact on revenue requirement:
 - + \$2.5 million in 2015
 - + \$2.6 million in 2016

Settlement Outcome

- Reduced OM&A by \$20 M in each of the test years
- A Net Cumulative Symmetrical Variance Account for 2014, 2015, and 2016 to track the impact on revenue requirement of any ISA shortfall
- Applied a mid-point between the 20-year trending and the 31-year average weather normalization for load forecasting, resulting in a -0.5% rate impact
- Complete an independent Transmission Cost Benchmarking Study that will be filed with the next Transmission rates application
- An ETS Rate of \$1.85 per MWh for 2015 and 2016
- Increased External Revenue forecast by \$3.4M in each of the test years
- Bottom line:
 - Reduced the revenue requirement from \$1,617 M to \$1,577 M in 2015 and from \$1,689 M to \$1,660 M in 2016, or by \$40 M and \$30 M respectively
 - Transmission rate impact +1.1% in 2015 and +1.7% in 2016 (from +3.2% and +3.3%)

November 20 2014 OEB Cost of Capital Parameter Updates

Effective January 1, 2015

Return on Equity: 9.30% (9.46% in Settlement)

Deemed Short-Term Debt Rate: 2.16% (2.27% in Settlement)

Long-Term Debt Rate: 4.98% (4.97% in Settlement)

IMPACT

Rates Revenue Requirement: -\$10 M (from \$1,527 M to \$1,518 M)

2015 Transmission Rate Increase: +0.4% (from +1.1%)

2015 Total Bill Impact: +0.03% (from +0.08%)

Bruce to Milton Partnership

- The Saugeen Ojibway Nation (SON) agreed to purchase from Hydro One an approximately 34% equity interest in the assets of Bruce to Milton Project.
- The net book value of the assets is approximately \$525 million.
- Hydro One Networks' revenue requirement will be reduced by approximately \$42 million (-3%).
- On October 24, 2014, an Interim Rate Request (rates effective Jan 1 2015) was filed, with no change in overall transmission rates.