

Hydro One Networks Inc.

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Vice President
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BY COURIER

December 16, 2016

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON
M4P 1E4

Dear Ms. Walli,

EB-2016-0081 – Hydro One Networks Distribution 2015-2017 Rates Application – Draft Rate Order 2017 – Reply Submission

In accordance to Procedural Order No. 1 issued on December 14, 2016, please find attached the reply submission of Hydro One Networks Inc. (Hydro One).

An electronic, text-searchable document of the 2017 Draft Rate Order Reply Submission has been filed, using the Board's Regulatory Electronic Submission System (RESS).

Sincerely,

ORIGINAL SIGNED BY ODED HUBERT

Oded Hubert

Encls.

cc. EB-2016-0081 Interveners

Hydro One Networks Inc.

**Application for approval of an electricity distribution rate order, effective
January 1, 2017**

Reply Submission

Introduction

On October 7, 2016, Hydro One Network Inc. (Hydro One) applied for the approval of its draft rate order (DRO) for 2017 distribution rates. Hydro One updated the DRO for cost of capital and the new Remote and Rural Rate Protection (RRRP) amount on November 18, 2016. The Notice of Hearing was issued on November 25, 2016

On December 14, 2016 the Ontario Energy Board (OEB or Board) issued Procedural Order No 1 approving intervenor status of The Society of Energy Professionals (Society) and Energy Probe Research Foundation (Energy Probe) and ordering comments from OEB Staff and Intervenor on the draft rate order application to be submitted no later than Thursday, December 15, 2016.

The Procedural Order further ordered that Hydro One shall file its reply submissions to the comments of the parties no later than Friday, December 16, 2016.

Hydro One has received comments from OEB Staff and Energy Probe and submits the following reply submission.

Board Staff

Board Staff submitted comments on several aspects of the application, including implementation of the final year of the EB-2013-0416 decision, cost allocation and revenue-to-cost ratio changes, transition to fully fixed rates for residential classes, deferral and variance account recovery and RRRP. Hydro One is in agreement with the comments provided by Board Staff.

Also in the comments provided, Board Staff have correctly indicated that Note 1 of Schedule 1.5 is missing. Hydro One has reproduced Schedule 1.5 with Note 1 visible, which is Attachment 1 to this submission.

Energy Probe

In its submission Energy Probe provided comments on several aspects of the application. Hydro One's reply submission responds to those sections where specific comments were requested or warranted.

Update to Cost of Capital

Hydro One has provided Exhibit 1.4 – ‘Capital Structure and Return on Capital’ and Exhibit 1.4.1 – ‘Cost of Long-Term Debt Capital’ that provide the information used to support the return on debt in the distribution revenue requirement and rates requested in this application.

The schedule of long-term debt provided in Exhibit 1.4.1 indicates the offering date of each debt issue (embedded, new and forecast) and identifies the amount attributable to Hydro One’s Distribution business. Hydro One has also reproduced a schedule of Cost of Long-Term Debt Capital from its Transmission application (EB-2016-0160), currently before the Board, and included it with this response as Attachment 2. This schedule was updated and provided to the Board on December 2, 2016 and provides the offering date of each debt issue (embedded, new and forecast) and identifies the amount attributable to Hydro One’s Transmission business.

The amount of each Hydro One Networks Inc. debt issue that is mapped to the Distribution business and the Transmission business is determined by the most recent, respective forecast of each business’s borrowing requirements. The borrowing requirements for each business are driven mainly by their respective debt retirements, capital expenditures net of internally generated funds and the maintenance of their capital structure.

Determination of 2016 Revenue Requirement

Energy Probe, too, has correctly identified that Note 1 is missing from Schedule 1.5. As indicated in the Board Staff response, Hydro One has reproduced Schedule 1.5 with Note 1 visible, with this submission.

Determination of Rate Riders

Hydro One confirms that the deferral and variance account amount to be cleared in 2017 is based on the total amount of \$33.3M approved by the Board for disposition over a 3 year-period as per its March 12, 2015 Decision in EB -2013-0416. The proposed 2017 rate riders that collect the \$11.1M being disposed of in 2017 have been calculated based on the 2017 load forecast approved by the Board. As required by the Board, any differences between the actual and approved disposition amounts will be tracked in a variance account for disposition at a future proceeding.

RRRP Credit

Per the requirements of Ontario Regulation 442/01, the RRRP charge amounts for 2017 will be specified by the Board and applicable to all electricity consumers in Ontario, and as such Hydro

One does not estimate this amount. In any case, consistent with section 2.8.12 of Chapter 2 of the Board's Filing Requirements, Hydro One is required to calculate the total bill impacts based on holding all regulatory charges constant and therefore an update to the RRRP charge amount would not impact the total bill impacts provided with the Draft Rate Order.

Rate Schedules and Bill Impacts

Hydro One recognizes the comments raised by Energy Probe and acknowledges that Table 2 provided in the Draft Rate Order clearly shows the total bill impacts on all customer classes and for a range of consumption levels. The contents of the Notice were determined by the Board and are consistent with past practice that focuses on the total bill impacts for a typical residential customer, while also pointing interested parties to where additional details on the application can be found.

Hydro One Networks Inc.
 Implementation of Decision with Reasons on EB-2013-0416

Income Tax

(\$ millions)	Supporting Reference	Hydro One Proposed	OEB Decision Impact	OEB Approved	Cost of Capital Update	Revised
		2017	2017	2017	2017	2017
Income Taxes	<i>See supporting details below</i>	63.0	(2.5)	60.6	(11.9)	48.7

Income Tax Supporting Details

Rate Base	Exhibit 1.2	(a) \$	7,191.5	\$	(1.6)	\$	7,189.9	\$	-	\$	7,189.9
Common Equity Capital Structure		(b)	40.0%				40.0%		0.0%		40.0%
Return on Equity	Exhibit 1.4	(c)	10.16%				9.93%		-1.15%		8.78%
Return on Equity		(d) = a x b x c	292.3		(6.8)		285.4		(32.9)		252.5
Regulatory Income Tax		(e) = l	63.0		(2.5)		60.6		(11.9)		48.7
Regulatory Net Income (before tax)		(f) = d + e	355.3		(9.3)		346.0		(44.8)		301.2
Timing Differences (Note 1)		(g)	(111.8)		-		(111.8)		-		(111.8)
Taxable Income		(h) = f + g	243.5		(9.3)		234.2		(44.8)		189.4
Tax Rate		(i)	26.5%				26.5%		0.0%		26.5%
Income Tax		(j) = h x i	64.5		(2.5)		62.1		(11.9)		50.2
less: Income Tax Credits		(k)	(1.5)		-		(1.5)		-		(1.5)
Regulatory Income Tax		(l) = j + k	63.0		(2.5)		60.6		(11.9)		48.7

	Hydro One Proposed 2017	OEB Decision Impact 2017	OEB Approved 2017	Cost of Capital Update 2017	Revised OEB Approved 2017
Note 1. Book to Tax Timing Differences					
Depreciation	390.2	-	390.2	-	390.2
CCA	(407.2)	-	(407.2)	-	(407.2)
Other Timing Differences	(94.7)	-	(94.7)	-	(94.7)
Total Timing Differences	(111.8)	-	(111.8)	-	(111.8)

HYDRO ONE NETWORKS INC.
TRANSMISSION
Cost of Long-Term Debt Capital
Test Year (2017)
Year ending December 31

Updated: 2016-12-02 Hydro One Networks Inc.
EB-2016-0160 Filed: 2016-12-16
Exhibit D2 EB-2016-0081
Tab 4 Reply Submission
Schedule 2 Attachment 2
Page 5 of 6 Page 1 of 1

Line No.	Offering Date (a)	Coupon Rate (b)	Maturity Date (c)	Principal Amount Offered (\$Millions) (d)	Premium Discount and Expenses (\$Millions) (e)	Net Capital Employed		Effective Cost Rate (h)	Total Amount Outstanding		Avg. Monthly Averages (\$Millions) (k)	Carrying Cost (\$Millions) (l)	Projected Average Embedded Cost Rates (m)
						Total Amount (\$Millions) (f)	Per \$100 Principal (Dollars) (g)		at 12/31/16 (\$Millions) (i)	at 12/31/17 (\$Millions) (j)			
1	3-Jun-00	7.350%	3-Jun-30	278.4	4.5	273.9	98.4	7.49%	278.4	278.4	278.4	20.8	
2	22-Jun-01	6.930%	1-Jun-32	109.3	1.3	107.9	98.8	7.03%	109.3	109.3	109.3	7.7	
3	17-Sep-02	6.930%	1-Jun-32	58.0	(2.1)	60.1	103.6	6.65%	58.0	58.0	58.0	3.9	
4	31-Jan-03	6.350%	31-Jan-34	126.0	1.0	125.0	99.2	6.41%	126.0	126.0	126.0	8.1	
5	22-Apr-03	6.590%	22-Apr-43	145.0	1.1	143.9	99.3	6.64%	145.0	145.0	145.0	9.6	
6	25-Jun-04	6.350%	31-Jan-34	72.0	(0.2)	72.2	100.2	6.33%	72.0	72.0	72.0	4.6	
7	20-Aug-04	6.590%	22-Apr-43	39.0	(3.1)	42.1	107.9	6.06%	39.0	39.0	39.0	2.4	
8	24-Aug-04	6.350%	31-Jan-34	39.0	(1.4)	40.4	103.5	6.09%	39.0	39.0	39.0	2.4	
9	19-May-05	5.360%	20-May-36	228.9	8.7	220.2	96.2	5.62%	228.9	228.9	228.9	12.9	
10	24-Apr-06	5.360%	20-May-36	187.5	2.5	185.0	98.7	5.45%	187.5	187.5	187.5	10.2	
11	19-Oct-06	5.000%	19-Oct-46	30.0	0.2	29.8	99.3	5.04%	30.0	30.0	30.0	1.5	
12	13-Mar-07	4.890%	13-Mar-37	240.0	1.3	238.7	99.4	4.93%	240.0	240.0	240.0	11.8	
13	18-Oct-07	5.180%	18-Oct-17	225.0	0.8	224.2	99.6	5.23%	225.0	0.0	173.1	9.0	
14	3-Mar-08	5.180%	18-Oct-17	180.0	(3.1)	183.1	101.7	4.95%	180.0	0.0	138.5	6.9	
15	3-Mar-09	6.030%	3-Mar-39	195.0	1.2	193.8	99.4	6.07%	195.0	195.0	195.0	11.8	
16	16-Jul-09	5.490%	16-Jul-40	210.0	1.4	208.6	99.4	5.53%	210.0	210.0	210.0	11.6	
17	15-Mar-10	5.490%	24-Jul-40	120.0	(0.7)	120.7	100.6	5.45%	120.0	120.0	120.0	6.5	
18	15-Mar-10	4.400%	4-Jun-20	180.0	0.8	179.2	99.5	4.46%	180.0	180.0	180.0	8.0	
19	13-Sep-10	5.000%	19-Oct-46	150.0	(0.4)	150.4	100.2	4.98%	150.0	150.0	150.0	7.5	
20	26-Sep-11	4.390%	26-Sep-41	205.0	1.3	203.7	99.3	4.43%	205.0	205.0	205.0	9.1	
21	22-Dec-11	4.000%	22-Dec-51	70.0	0.4	69.6	99.5	4.03%	70.0	70.0	70.0	2.8	
22	13-Jan-12	3.200%	13-Jan-22	154.0	0.8	153.2	99.5	3.26%	154.0	154.0	154.0	5.0	
23	22-May-12	3.200%	13-Jan-22	165.0	(1.6)	166.6	101.0	3.08%	165.0	165.0	165.0	5.1	
24	22-May-12	4.000%	22-Dec-51	68.8	0.3	68.4	99.5	4.02%	68.8	68.8	68.8	2.8	
25	31-Jul-12	3.790%	31-Jul-62	52.5	0.3	52.2	99.5	3.81%	52.5	52.5	52.5	2.0	
26	16-Aug-12	3.790%	31-Jul-62	141.0	1.1	139.9	99.2	3.83%	141.0	141.0	141.0	5.4	
27	9-Oct-13	4.590%	9-Oct-43	239.3	1.4	237.9	99.4	4.63%	239.3	239.3	239.3	11.1	
28	9-Oct-13	2.780%	9-Oct-18	412.5	1.7	410.8	99.6	2.87%	412.5	412.5	412.5	11.8	
29	29-Jan-14	4.290%	29-Jan-64	30.0	0.2	29.8	99.4	4.32%	30.0	30.0	30.0	1.3	
30	3-Jun-14	4.170%	3-Jun-44	198.0	1.2	196.8	99.4	4.21%	198.0	198.0	198.0	8.3	
31	24-Feb-16	3.910%	23-Feb-46	175.0	1.1	173.9	99.4	3.95%	175.0	175.0	175.0	6.9	
32	24-Feb-16	2.770%	24-Feb-26	245.0	1.1	243.9	99.6	2.82%	245.0	245.0	245.0	6.9	
33	24-Feb-16	1.840%	24-Feb-21	250.0	0.9	249.1	99.6	1.92%	250.0	250.0	250.0	4.8	
34	18-Nov-16	3.720%	18-Nov-47	270.0	1.4	268.7	99.5	3.75%	270.0	270.0	270.0	10.1	
35	15-Mar-17	3.670%	15-Mar-47	219.1	1.1	218.0	99.5	3.70%	0.0	219.1	168.5	6.2	
36	15-Jun-17	2.606%	15-Jun-27	109.6	0.5	109.0	99.5	2.66%	0.0	109.6	59.0	1.6	
37	15-Jun-17	3.670%	15-Jun-47	109.6	0.5	109.0	99.5	3.70%	0.0	109.6	59.0	2.2	
38	15-Sep-17	2.606%	15-Sep-27	219.1	1.1	218.0	99.5	2.66%	0.0	219.1	67.4	1.8	
39		Subtotal							5489.1	5741.4	5749.5	262.4	
40		Treasury OM&A costs										1.8	
41		Other financing-related fees										4.1	
42		Total							5489.1	5741.4	5749.5	268.3	4.67%