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VIA RESS AND COURIER

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

Dear Ms. Walli:

RE: EB-2016-0160 Hydro One Networks Inc. ("Hydro One") Transmission Rates Application – Responses to Undertakings J11.9, J11.21, J12.1 and J12.4

Hydro One's responses to Undertakings J11.9, J11.21, J12.1 and J12.4 are enclosed.

Yours truly,

McCarthy Tétrault LLP
Per:

For: Gordon M. Nettleton

GMN

UNDERTAKING – J11.9

Undertaking

To provide the variance for 2017 to 2021.

Response

Reference is made to Exhibit J9.2 which provides a variance explanation of the differences between the November 2015 draft business plan and the current application, as filed in May 2016, for the forecast period 2017-2020.

As indicated in that Exhibit, the November 2015 draft investment plan covered the period 2016 to 2020; 2021 was outside of the original planning horizon. After a careful review of the new filing requirements in February 2016, Hydro One extended its planning horizon to 2021.

UNDERTAKING – J11.21

Undertaking

To run the numbers to show the impact on revenue requirement if the amount could not be capitalized, but had to be expensed through OM&A

Response

The total capitalized overhead amounts of $133 million and $135 million for 2017 and 2018, respectively, are set out in Table 12 of Exhibit C, Tab 1, Schedule 3 (page 24).

There are additional costs associated to field (variable) staff that cannot be capitalized when moving from US GAAP to IFRS. As described in Exhibit C1, Tab 5, Schedule 1, these costs are $47 million for each test year for:

- portions of pension, OPEB and training for variable staff;
- administrative expenses included in labour rates that are not directly attributable to work; and
- overheads relating to clerical support costs and portions of pension and OPEB for health, safety and environment.

Affected Costs $ millions	**2017**	**2018**
Total Overheads (C1-3-3 Table 12)	$133	$135
Other	$47	$47

The incremental impact to 2017 and 2018 revenue requirement of not being able to capitalize these costs is reflected in the table below.

Revenue Requirement Impact ($ millions)	**2017**	**2018**
OM&A[1]	$180	$182
Cost of capital[2]	($7)	($19)
Depreciation[3]	($4)	($10)
Income taxes[4]	$14	$15
Total	**$183**	**$168**

Notes/Assumptions:

1. If overheads are not capitalized, costs will be treated as OM&A expenses. The result is an increase in the OM&A component of revenue requirement.
2. For simplicity, capital reductions are assumed to flow directly to in-service additions in the same year. Also, 2018 rate base impacts are cumulative in that they include the 2017 capital reductions. The smaller value of in-service additions will result in a lower cost of capital for both debt and equity.

3. The reduction in depreciation expense reflects the smaller in-service addition value (due to reduced capital).
4. For tax purposes, a portion of capitalized overheads are deductible, as outlined Exhibit C1, Tab 4, Schedules 1, Attachment 1. As a result of not capitalizing overheads, this deduction will no longer be available, thus resulting in an increase to income tax expense. This increase is partially offset by lower taxes associated with a reduced rate base.

UNDERTAKING – J12.1

Undertaking

To provide the figure of projected OM&A as of this date.

Response

The bridge year forecast for OM&A is approximately $420.7 million, which reflects the following adjustments to the original forecast of $432.1 million detailed in Exhibit C1, Tab 2, Schedule 1:

- adjustments to pension and B2M costs described in Exhibit I, Tab 1, Schedule 109, which reduces the bridge year forecast to $420.9 million;
- the elimination of double-counting of long-term incentive costs for the CEO and CFO, as described by Oded Hubert on September 22, 2016 at the technical conference in this proceeding, which results in a further reduction of approximately $0.4 million; and
- the inclusion of transmission-allocated costs for Hydro One's Chief Legal Officer, Chief Operating Officer and Executive Vice President of Customer and Corporate Affairs, who were hired towards the end of the third quarter, resulting in an increase of approximately $0.2 million.

Witness: Joel Jodoin

UNDERTAKING – J12.4

Undertaking

To provide the revenue requirement amount that equates to 100 basis points of ROE on the rate base of 10.5 billion.

Response

A 100 basis point change in the return on common equity alters revenue requirement by approximately $57.4 million in 2017. This is comprised of a $42.2 million change in return on equity and $15.2 million of associated income taxes.

Witness: Joel Jodoin