Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416-481-1967
Facsimile: 416-440-7656
Toll free: 1-888-632-6273

Commission de l'énergie de l'Ontario
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone: 416-481-1967
Télécopieur: 416-440-7656
Numéro sans frais: 1-888-632-6273

BY E-MAIL

December 15, 2016

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: Hydro One Networks Inc.
2017 Distribution Rate Order Application
OEB Staff Submission on draft Rate Order
OEB File No. EB-2016-0081

In accordance with Procedural Order No.1 issued on December 14, 2016, please find attached the OEB Staff comments on the draft Rate Order filed by Hydro One Networks Inc.

Yours truly,

Original Signed By

Harold Thiessen
OEB Staff
Case Manager – EB-2016-0081

cc, All Parties, EB-2016-0081

Att.

2017 ELECTRICITY DISTRIBUTION RATES
EB-2016-0081

Hydro One Networks Inc.

Distribution

OEB STAFF SUBMISSION

on

Draft Rate Order

December 15, 2016

Introduction

On October 22, 2016, Hydro One Networks Inc. (Hydro One) applied for the approval of its draft rate order (DRO) for 2017 distribution rates. Hydro One updated the DRO for the cost of capital and the new Remote and Rural Rate Protection amount on November 18, 2016.

The specifics of the DRO were primarily driven by the various aspects of the OEB's March 12, 2015 decision (EB-2013-0416), combined with an update to 2017 cost of capital and return on equity and a number of other items as outlined below:

a) Implementation of the final year of the EB-2013-0416 Decision

Specifically, these changes are:

- a reduction in the 2017 Operations, Maintenance and Administration (OM&A) budget of $21.7 million

- an increase in Low Income Energy Assistance Program (LEAP) funding of $0.7 million

- a reduction in the Working Capital Allowance of $1.6 million due to the drop in OM&A

- a reduction in income tax of $11.9 million due to a lower net income forecast for 2017

- an increase in external revenues of $2.8 million to correct for an error in the Miscellaneous Charges revenue forecast and the increase in the new Pole Attachment Charge approved in EB-2015-0141

- a reduction in the 2017 cost of capital of $25.2 million due to the change in short term debt rates and the reduction in Hydro One's long term debt rate (utilizing the most recent issuances of long term debt and the latest Consensus Economics 2017 forecast)

- a reduction in the 2017 return on common equity of $32.9 million due to the reduction to the OEB's mandated 2017 return on equity rate announced on October 27, 2016.

b) Cost Allocation and Revenue-to-Cost Ratio Changes

Hydro One updated its Cost Allocation Model to reflect the 2017 approved load forecast and revenue requirement and also incorporated the street lighting cost allocation methodology approved in the OEB's *New Cost Allocation Policy for Street Lighting Rate Class* (EB-2012-0383).

In addition, Hydro One adjusted its revenue-to-cost (R/C) ratios to fall within the target range of 90-110% in 2017. The three rate classes with a R/C ratio above the OEB's approved range (i.e. UR, R1 and USL) are at the R/C ratio of 110% in 2017. The resulting revenue shortfall is made up via an increase to the R/C ratio of the rate classes with the lowest R/C ratios until the shortfall is fully addressed. This is the same approach proposed in the EB-2013-0416 application and used to set the rates approved in the previous EB-2013-0416 (2015 and 2016) rate orders.

c) Transition to Fully Fixed Rates for the Residential Classes

Hydro One has included the 2nd year of the phase-in to all-fixed rates for all residential classes (R1, R2, UR and Seasonal) in this DRO.

In the Decision on Hydro One's 2016 Draft Rate Order (EB-2013-0416/EB-2015-0079), the OEB approved a phase-in period of 5 years for the UR class and ordered an 8-year phase-in period for the R1, R2 and Seasonal rate classes.

The fixed rates for all non-residential rate classes have been set to maintain the same fixed-to-variable split in revenue approved for 2015 and 2016, as proposed in the Application and approved by the OEB's Decision.

d) Deferral & Variance Account Recovery and Retail Transmission Service Rates

In this DRO, Deferral and Variance account balances are recovered via fixed and volumetric rate riders over a three year period (2015 – 2017) and adjusted by the 2017 approved load forecast by rate class, as directed by the OEB in the EB-2013-0416 decision.

Retail Transmission Service Rates are adjusted to reflect the currently approved Uniform Transmission Rates (January 1, 2016) and the approved 2017 load forecast by rate class.

e) Rural and Remote Rate Protection (RRRP) Credit Increase

The Ontario government has increased the funding for the Rural and Remote Electricity Rate Protection (RRRP) program. Through regulation (O. Reg 442/01), the current funding of $125.4 million for Hydro One's R2 customers will increase by $116.4 million so the RRRP fixed charge credit for R2 customers increases from $31.50 to $60.50 per month.

OEB staff has reviewed the draft Rate Order as submitted by Hydro One, focusing on the specific areas outlined above and finds that Hydro One has appropriately reflected the OEB's findings in the EB-2013-0416 decision, the subsequent EB-2016-0079 decision regarding the move to fully fixed rates, the increase in RRRP funding and the OEB's cost of capital update for 2017. However, staff points out that Note 1 in

Schedule 1.5 of the draft Rate Order explaining the “Timing Differences” in the calculation of Regulatory Income Tax appears to be missing and requests that Hydro One provide this information in their reply comments.

Staff notes that the 2017 rates revenue requirement for Hydro One distribution is $1,414.7 million, a reduction of $113.2 million from the revenue requirement originally requested in the Hydro One application ($1,528.1 million).

OEB staff also notes that the implementation of the items summarized above results in a reduction in the total bill impact for the following residential customer classes (at a consumption level of 750 kWh per month with the Seasonal rate impact calculated at 350 kWh per month) in 2017:

Bill Impact (total) residential classes	**$/month**	**%**
UR	-$ 3.36	- 2.2%
R1	-$ 2.21	- 1.2%
R2	-$29.19	-14.2%
Seasonal (350 kWh)	- $0.42	- 0.3%

-All of which is respectfully submitted-