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BY COURIER

May 5, 2017

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

Dear Ms. Walli:

EB-2016-0276 – Hydro One Networks Inc. MAAD S86 to Purchase all of the issued and outstanding shares of Orillia Power Distribution Corporation – Final Argument

Please find attached Hydro One Networks Inc.'s Final Argument

An electronic copy of this cover letter and Final Argument has been filed through the Ontario Energy Board's Regulatory Electronic Submission System (RESS).

Sincerely,

ORIGINAL SIGNED BY JOANNE RICHARDSON

Joanne Richardson

REPLY ARGUMENT OF HYDRO ONE INC. AND HYDRO ONE NETWORKS INC.

Hydro One's s. 86(2)(b) Application for Leave to Purchase all the Issued and Outstanding Shares of Orillia Power Distribution Corporation

EB-2016-0276

Hydro One Inc. and Hydro One Networks Inc. (collectively, "Hydro One") submit the following in reply to the submissions provided by Ontario Energy Board Staff ("Staff" or "Board Staff"), Vulnerable Energy Consumers Coalition ("VECC"), School Energy Coalition ("SEC"), and Consumers Council of Canada ("CCC") with respect to Hydro One's request to acquire Orillia Power Distribution Corporation ("OPDC").

EXECUTIVE SUMMARY

In brief, Board Staff supported the Application and submitted that the transaction satisfied the No Harm test. Hydro One submits that VECC, CCC, and SEC have not provided a reasonable basis for the Board to reject the proposed transaction. The transaction is consistent with previous MAAD applications filed by Hydro One involving Norfolk Power Distribution Inc. ("NPDI"), Haldimand County Hydro Inc. ("HCHI") and Woodstock Hydro Services Inc. ("WHSI"), collectively referred to in this Application as the "Acquireds".

Hydro One submits that the transaction that is the subject of this Application adheres to the principles and intent of the *"Report of the Board on Rate-Making Associated with Distributor Consolidation"* issued on March 26, 2015, and the *"Handbook to Distributor and Transmitter Consolidations and Filing Requirements for Consolidation Applications" (*the "MAAD Handbook") issued on January 19, 2016. The Application clearly demonstrates the benefits of consolidation by demonstrating that (i) the entities and their customers will benefit from lower ongoing cost structures; (ii) OPDC ratepayers will have their base distribution delivery rates reduced by 1% and frozen at that level for 5 years; (iii) OPDC ratepayers will receive a guaranteed Earning Sharing Mechanism refund ("ESM") which also protects them from any risk of Hydro One failing to achieve the forecast level of synergy savings; and (iv) Hydro One legacy customers will benefit from the consolidating utility's ability to spread its fixed costs over a larger customer base. As such, the transaction meets the No Harm test and will provide value to both Hydro One legacy and OPDC customers going forward.

NO HARM TEST

Hydro One agrees with Board Staff's findings that this transaction meets the No Harm test. However, SEC, VECC and CCC have questioned whether the transaction passed the No Harm Test. In the following sections, Hydro One will address their concerns.

1.0 PRICE, COST EFFECTIVENESS AND ECONOMIC EFFICIENCY

Hydro One submits that this Application benefits ratepayers by (i) immediately reducing OPDC customers' base distribution rates by 1% and freezing those reduced rates for five years; (ii) guaranteeing a $3.4 million ESM to be refunded to OPDC's ratepayers based on forecast over-earnings in years 6 to 10; and (iii) demonstrating that ongoing cost structures will be lower than they would have been absent the transaction.

1.1 Cost Structures Influencing Future Rates

In assessing the merits of MAAD applications in previous MAAD decisions[1], the Board has determined that it is interested primarily in how the transaction impacts the ongoing cost structures of the entities. Hydro One submits that in accordance with the MAAD Handbook[2] there is a reasonable expectation, based on underlying cost structures, that the costs to serve acquired OPDC customers following this consolidation will be no higher than they otherwise would have been. Hydro One also submits that the evidence is that Hydro One's legacy customers will not be harmed by this transaction.

Hydro One has provided evidence that this transaction results in the lowering of cost structures to operate the existing OPDC service territory. In Exhibit A, Tab 2, Schedule 1, Hydro One has demonstrated that the transaction is expected to result in ongoing OM&A savings of approximately $3.9 million per year and reductions in capital expenditures of approximately $0.6 million per year.

VECC

Hydro One's evidence illustrates that the cost per customer in Hydro One's urban rate class is $173 per year versus OPDC's cost of $362 per year. VECC has made a number of revisions and observations on Hydro One's cost per customer which Hydro One has not recalculated or verified. This is because ultimately VECC agrees that "provided the rates charged to OPDC's former customers after the 10-year deferral period are reflective of Hydro One's costs to serve the Orillia service territory the Application should not result in any harm (vis-à-vis price) to OPDC customers[3]". Hydro One confirms that it is Hydro One's intention to apply rates to OPDC's customers that reflect the cost of serving those customers at that time.

[1] EB-2013-0187, EB-2014-0213, EB-2014-0244
[2] OEB Handbook, Page 7
[3] VECC Argument, Section 3.1

SEC

SEC has requested that the OEB deny the Application based upon evidence brought forward in Hydro One's 2018-22 Distribution Rate Application (EB-2017-0049) as it relates to the proposed rate classes for the newly-acquired utilities – NPDI, WHSI, and HCHI. SEC has accused Hydro One of providing incorrect cost savings evidence in its prior applications and suggests that,

> *"Bottom line? There were no cost savings. There will be no cost savings for the ratepayers in Orillia, either".*

Hydro One refutes this unfounded accusation.

SEC has not provided sufficient references to the source of the information and basis of their calculations to support its allegations. However, to respond to SEC's assertions, Hydro One provides the following cost structure analysis that clearly illustrates that cost structures have gone down relative to the status quo.

Table 1 below shows that both the OM&A and capital expenditures of the three acquired distributors are substantially lower than they would have been absent the consolidation transactions. Relative to the status quo presented in the individual MAAD applications for NPDI, HCHI and WHSI, cumulatively, as of 2022, there is $9.5 million in expected annual OM&A savings and $4.7 million in expected annual capital savings. These are real, significant, ongoing sustainable savings that are realized only as a result of consolidation. Consequently, SEC is correct in stating that the *"Board no longer has to guess at how much ratepayers will be harmed by this transaction"* **– because the simple fact is that the ratepayers will not be harmed**!

Table 1 - Total Savings From Consolidation ($M)

NPDI

		2015	2016	2017	2018	2019	2020	2021	2022
OMA	Status Quo	5.8	5.9	6.0	6.1	6.2	6.2	6.2	6.2
	Actual + Forecast	5.9	2.8	3.1	3.1	3.1	3.2	3.2	3.3
	$ Savings	(0.1)	3.1	2.9	3.0	3.1	3.0	3.0	2.9
Capital	Status Quo	4.7	4.6	4.4	4.5	4.6	4.6	4.6	4.6
	Actual + Forecast	2.1	2.4	2.6	2.1	2.1	2.1	2.1	2.1
	$ Savings	2.6	2.2	1.8	2.4	2.5	2.5	2.5	2.5

HCHI

		2015	2016	2017	2018	2019	2020	2021	2022
OMA	Status Quo	8.2	8.3	8.5	8.6	8.8	8.9	9.1	9.3
	Actual + Forecast	7.7	6.0	5.0	5.1	5.2	5.2	5.3	5.4
	$ Savings	0.5	2.3	3.5	3.5	3.6	3.7	3.8	3.9
Capital	Status Quo	6.4	6.1	5.4	5.6	5.3	5.4	5.5	5.5
	Actual + Forecast	6.9	3.1	3.4	3.4	3.9	4.0	4.0	4.0
	$ Savings	(0.5)	3.0	2.0	2.2	1.4	1.4	1.5	1.5

WHSI

		2015	2016	2017	2018	2019	2020	2021	2022
OMA	Status Quo	3.9	4.6	4.0	4.1	4.2	4.3	4.4	4.8
	Actual + Forecast	4.2	3.8	2.1	2.1	2.1	2.2	2.2	2.2
	$ Savings	(0.3)	0.8	1.9	2.0	2.1	2.1	2.2	2.6
Capital	Status Quo	2.4	2.5	2.5	2.6	2.6	2.7	2.8	2.8
	Actual + Forecast	2.2	2.5	2.2	2.3	1.8	2.1	2.1	2.1
	$ Savings	0.2	0.0	0.3	0.3	0.8	0.6	0.7	0.7

TOTAL of HCHI + WHSI + NPDI

TOTAL		2015	2016	2017	2018	2019	2020	2021	2022
OMA	Status Quo	17.9	18.8	18.5	18.8	19.2	19.4	19.7	20.3
	Actual + Forecast	17.8	12.6	10.2	10.3	10.4	10.6	10.7	10.8
	$ Savings	0.1	6.2	8.3	8.5	8.8	8.8	9.0	9.5
Capital	Status Quo	13.5	13.2	12.3	12.7	12.5	12.7	12.9	12.9
	Actual + Forecast	11.2	8.0	8.2	7.8	7.8	8.2	8.2	8.2
	$ Savings	2.3	5.2	4.1	4.9	4.7	4.5	4.7	4.7
Total OMA Savings		**0.1**	**6.2**	**8.3**	**8.5**	**8.8**	**8.8**	**9.0**	**9.5**
Total Capital Savings		**2.3**	**5.2**	**4.1**	**4.9**	**4.7**	**4.5**	**4.7**	**4.7**
Total Capital and OM&A Savings		**2.4**	**11.4**	**12.4**	**13.4**	**13.5**	**13.3**	**13.7**	**14.2**

Source of Table Values for:

OMA — 2015 to 2018 values are sourced from Hydro One Distribution 2018-22 Rate File Application EB-2017-0049, Exhibit A, Tab 7, Schedule 1
The 2019 to 2022 values use the 2018 values as the base and inflate by 1.3% annually

Capital — Hydro One Distribution 2018-22 Rate File Application EB-2017-0049, Exhibit B, Tab 1, Schedule 1, Appendix A

Status Quo - Hydro One MAAD Applications for the Following LDC Acquisitions: sourced from,
Norfolk EB-EB-2013-0187/0196/0198 -Exhibit I, Tab 02, Schedule 2 - Filed February 10, 2014
Haldimand EB-2014-0244 - Exhibit A, Tab 2, Schedule 1
Woodstock EB-2014-0213 - Exhibit A, Tab 2, Schedule 1

Hydro One has used the following assumptions to generate Table 1:

- Actual OM&A and capital expenditures for each Acquired utility for the years 2015-2016 used as per EB-2017-0049[4].
- For 2017-2022, the expected incremental spend for both OM&A and capital for each Acquired utility has been revised to align with the Hydro One Distribution Rate Application, EB-2017-0049.
- Capital spending for any years not explicitly indicated in EB-2017-0049, e.g., 2021 and 2022, has been assumed to be the same as 2020.
- As per EB-2017-0049[5], OM&A beyond year 2018 has been inflated by 1.3% annually (inflation less productivity factor).

Contrary to SEC's allegations[6], the OM&A and capital savings projected in the previous MAAD applications are comparable to those forecast in Hydro One's Distribution Rate Application. Furthermore, the proposed level of savings for the OPDC transaction is in a similar range as the other Acquireds; therefore, Hydro One submits that it is reasonable to expect that the savings forecast in this Application at Table 1 of Exhibit A, Tab 2, Schedule 1 are achievable.

SEC suggests that Hydro One has failed to comply with the Board's condition of approval of previous MAADs with respect to reporting on costs associated with each acquired utility. Hydro One has provided evidence in Exhibit A, Tab 7, Schedule 1 of EB-2017-0049, and those reports show that costs have not only declined but have declined consistent with the projections included in those MAAD applications.

SEC continues to confuse lower actual cost structures, which are used to test the validity of a MAAD application, with allocated costs used for rate-setting purposes that are reviewed in a rates application. It is clear and obvious, based on the evidence provided in the previous MAADs and confirmed in Hydro One's Distribution Rate Application and reiterated in Table 1 of this Reply Argument, that the incremental cost to serve NPDI, HCHI, and WHSI, has decreased relative to the status quo. The matter of how those costs are then allocated to rate classes is outside the scope of a MAAD proceeding and is not subject to approval in this Application. This has been reiterated by the Board in MAAD decisions, the OEB Handbook, and overarching MAAD policies and is documented in both VECC's and Staff's submissions in this proceeding[7]. Hydro One Distribution, in its filed rate application, has used a cost allocation model consistent with the Board's principles to determine the future rates of the Acquireds and will defend that allocation in that hearing.

1.2 Future Rates

As previously mentioned, assessing the impact of future rates has consistently been regarded as being outside the purview of the Board's MAAD approval. This is documented in the OEB Handbook on Page 11:

[4] Exhibit A, Tab 7, Schedule 1 and Exhibit B1-1-1, Appendix A
[5] Exhibit A-7-1
[6] SEC Argument, Page 4
[7] Page 7 of OEB Staff Submission

> *"Rate-setting following a consolidation will not be addressed in an application for approval of a consolidation transaction unless there is a rate proposal that is an integral aspect of the consolidation e.g. a temporary rate reduction. Rate-setting for the consolidated entity will be addressed in a separate rate application, in accordance with the rate setting policies established by the OEB. The OEB's review of a utility's revenue requirement, and the establishment of distribution rates paid by customers, occurs through an open, fair, transparent and robust process ensuring the protection of customers".*

However, Hydro One recognizes that some parties have expressed concerns regarding Hydro One's recently filed Distribution Rate Application, EB-2017-0049, specifically, the impact on acquired LDC customers' rates. Some parties have suggested that these acquired customers will experience "large" rate increases in 2022. The facts are otherwise.

First, Hydro One draws the Board's attention to the fact that the Acquireds, by 2022, would not have had their rates rebased rates for a period of 8 to 10 years[8].

Second, on a total bill basis, Hydro One's Distribution Rate Application evidence is that the typical residential, small commercial and large commercial customers of the three acquired utilities will experience modest year-over-year (i.e., annualized) increases by 2022. A breakdown of the range for the three utilities' total bill increases in 2022 relative to 2015 is provided below (see Attachment 1 for further details).

- Residential: 2.7 to 4.9% - this is equivalent to 0.4 to 0.7% increase on a per annum basis
- Small Commercial: 0.9 to 6.8% - this is equivalent to 0.1 to 0.9% increase on a per annum basis
- Large Commercial: 3.1 to 3.7% - this is equivalent to 0.4 to 0.5% increase on a per annum basis

The result is that the average annual per annum total bill increase is less than 1%[9] for Acquired commercial and residential customers.

SEC

SEC brings up a number of alleged rate increases without references. The alleged, unfounded rate increases cannot be substantiated by Hydro One, and in fact are inconsistent with the proposed customer rate increases quoted in Hydro One's Distribution Rate Application (EB-2017-0049). SEC also comments on the revenue-to-cost ratios for the Acquired rate classes, alleging that the ratio for these classes is low. What SEC fails to state is the fact that these are within the OEB's prescribed ranges. These ratios are not subject to a MAAD approval: they are appropriately reviewed by the Board in a s.78 application. Furthermore, the allocation of costs and setting of rates for acquired rate classes, too, are determined through a separate rate application, not in a MAAD proceeding.

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[8] The acquired LDCs last rebased in 2011 (WHSI), 2012(NPDI) and 2014 (HCHI).
[9] This is for the typical user within each of the three Acquired rate classes.

Other

Hydro One agrees with Staff that the recovery of costs associated with the construction of the new operating centre in Orillia will be subject to review at a future rate application.

2.0 SERVICE QUALITY AND RELIABILITY

Board Staff submitted that Hydro One can reasonably be expected to maintain the service quality and reliability standards currently provided by OPDC.

VECC and CCC expressed concerns regarding service quality and reliability. SEC did not comment.

VECC has pointed out that the SAIDI and SAIFI information is inconclusive as to whether Hydro One's reliability performance is better or worse than OPDC's. Hydro One disagrees.

In Exhibit I, Tab 3, Schedule 17, Hydro One provided additional information regarding the SAIDI and SAIFI reliability results of both entities. As can be readily identified, factors that are within the control of the distributor, for each of the three years provided, were significantly lower than OPDC's.

Differences in the SAIDI and SAIFI results that currently exist between the local Hydro One service territory results and OPDC's results can likely be attributed to differences in geography and asset characteristics. For instance, Hydro One's local service territory is still more rural relative to the OPDC service territory, and approximately 30% of OPDC's service territory is served by an underground distribution system[10].

Notwithstanding these differences, Hydro One's reliability results were relatively similar to OPDC for both SAIDI and SAIFI. Additionally, it is important to note that the same facilities that currently serve OPDC will continue to serve post-acquisition. Current OPDC direct staff will continue to operate and maintain the OPDC distribution system post-acquisition, as they do today.

VECC has also expressed concerns with the cost savings in both OM&A and capital in the Orillia service territory and how that will impact system reliability. Hydro One has, and will continue to have, regional operations in the Orillia area. Post-acquisition, these staff will consist of both existing OPDC staff and Hydro One legacy staff. With the acquisition of OPDC, Hydro One will control all of the electricity distribution assets across the Orillia regional area and will eliminate the artificial electrical border between the two LDCs. Hydro One's larger staff complement will allow Hydro One to deploy staff from other areas to Orillia for any outage restoration. More efficient operations, such as those realized through staffing consolidation, will optimize the use of existing facilities and equipment, which, Hydro One submits, will ultimately result in the provision of equal and/or better service.

Hydro One maintains that OPDC customers' reliability levels are protected through the OEB's codes and licence requirements. In response to VECC's concerns to continue to report reliability data regarding the current OPDC service territory, Hydro One submits that it will not be reporting this data separately to the OEB. However, should the need arise performance data related to the Orillia area will be available.

[10] OEB 2015 Yearbook

Hydro One always strives to maintain a high level of reliability for all of its customers and will do so of course, for customers in the OPDC service territory.

With respect to the service quality metrics comparison, Hydro One submits that Hydro One's results are relatively similar to those of OPDC for the majority of the measures. For the two measures for which Hydro One's results are below OPDC's (telephone accessibility and telephone call abandon rates), Hydro One's results are still compliant with the OEB-prescribed standards. Over the three years compared in Exhibit I, Tab 3, Schedule 17, Hydro One has made considerable gains for each of these two measures. Hydro One continues to focus on improving its relationship with its customers. Hydro One recently made significant announcements regarding changes to its customer service policies, including eliminating security deposits for residential customers and significantly reducing security deposits for business customers. Additionally, as part of Hydro One's ongoing commitment to customers, Hydro One has announced the opening of its Customer Contact Centre on Saturdays during the busiest season – May to August. Hydro One is the first electricity service provider in Ontario to do so. The centre, which will open on Saturdays starting May 6, 2017, receives 40 per cent of yearly call volume between May and August. Hydro One receives approximately 50,000 calls per week, the busiest times being from 10 a.m. to noon and between 3 and 5 p.m. Hydro One believes that these types of improvements, which will ultimately drive better results in these specific matrices, illustrate the commitment to quality service that OPDC customers can expect.

For all these reasons, Hydro One agrees with Staff's submission and reaffirms its position that Hydro One will maintain OPDC's existing reliability and quality of service levels.

3.0 EARNING SHARING MECHANISM

Hydro One proposed an ESM that guarantees a refund of $3.4 million to the ratepayers of OPDC. The ESM is consistent with Board principles that excess earnings 300 basis points over the approved ROE during the extended deferred rebasing period are shared 50/50 with ratepayers. As Hydro One does not intend to keep separate financial records for the OPDC business segment, consistent with other recent MAAD approvals[11], Hydro One has proposed a guaranteed ESM based on forecast OM&A and capital expenditures[12].

Board Staff

Hydro One agrees with Staff's submission that the "proposed ESM aligns with the expectations of the OEB as set out in the Handbook insofar as Applicants can propose an ESM that better achieves the objective of protecting customer interests". Staff recognizes that "Hydro One's commitment to share projected over-earnings, regardless of whether such savings materialize, means that Hydro One will assume certain risks which might otherwise be borne by customers"[13].

[11] EB-2016-0025 Decision
[12] As per expenditures documented in Exhibit A, Tab 2, Schedule 1
[13] Board Staff Submission – Page 12

VECC

VECC also agrees that "Hydro One's proposed ESM aligns with the expectations of the Board's Handbook"[14].

VECC noted that the proposed ESM is not consistent with the OEB policy in one aspect, namely, that the ESM calculation is not based on actual results and does not reflect the actual savings achieved. As Hydro One has said, Hydro One will not be providing separate financial statements. Hydro One's evidence is that OPDC will be fully integrated both operationally and financially into Hydro One's business, and separate financial statements will cease to exist. Keeping separate financial statements would increase ongoing annual costs by $500,000, thereby reducing ratepayer benefits. Staff acknowledged that avoiding this recurring cost is in the best interest of ratepayers[15]. To address VECC's concerns, Hydro One submits that though there will not be separate financial statements for the OPDC business segment, Hydro One will track the costs to serve the OPDC business segment consistent with previous conditions of approval. Therefore, Hydro One is confident that the provision of an ESM based on forecast costs protects customers by ensuring that they share in increased benefits from consolidation during the deferred rebasing period, encourages ongoing cost savings and does not result in excess costs that provide no ratepayer benefits.

VECC also raised concerns with respect to the return on equity ("ROE") and cost of debt utilized in computing the guaranteed refund to ratepayers through the ESM. The OPDC approved revenue requirement acquired by Hydro One through this transaction is a function of the ROE at that time. As submitted in Exhibit I, Tab 5, Schedule 12, the Consolidation Handbook indicates that rate resetting during the deferred rebasing period is based upon the principles under the OEB's RRFE. Each of the rate-setting mechanisms available provides that an annual adjustment mechanism be applied to current approved rates. Under normal circumstances, the annual adjustment factor is limited to inflation and productivity only, and changes for debt or ROE are not contemplated. Therefore, for the purposes of calculating the ESM, the existing OPDC ROE is appropriate.

With respect to the cost of debt, as explained in Exhibit I, Tab 1, Schedule 21, the OPDC debt rate used to calculate the ESM was the rate approved in the last cost of service application. Hydro One has assumed the risk of any change in debt rates over 10 years by guaranteeing the $3.4 million return. If the current historically low debt rates were to rise over the next 10 years, Hydro One's earnings would diminish, yet OPDC ratepayers would still receive the same $3.4 million refund. That interrogatory response also mentions that if the Board does not accept the Hydro One ESM as filed, the ESM will be subject to annual true-up for both ROE and debt rates. The calculation would be based upon the same rate base, OM&A and depreciation as outlined in Table 6 of Exhibit A, Tab 3, Schedule 1; but the calculation of interest expense, net profit and over-earnings would be adjusted to take into account the change in both debt and equity rates. Hydro One maintains that this would be a much riskier alternative for ratepayers, whereas the Hydro One proposed ESM is a more reasonable approach to protect the interests of ratepayers.

[14] VECC Submission – Section 4.3
[15] Staff Submissions Page 11

SEC and CCC provided no objections related to Hydro One's proposed ESM.

Given the benefits outlined in Exhibit A, Tab 3, Schedule 1, Hydro One's responses to interrogatories pertaining to the ESM, and Hydro One's further comments above, Hydro One submits that the Board should approve Hydro One's ESM proposal as filed. Hydro One emphasizes that this return is guaranteed to OPDC ratepayers and will be at the risk of Hydro One's shareholders.

4.0 INCREMENTAL CAPITAL MODULE

Hydro One would like to clarify that the intent of the ICM request at this time is solely to have the ICM available to Hydro One for investments in the existing OPDC service territory. Hydro One is not seeking approval for an ICM at this time and will make a separate application if the need arises at a future date, in line with the Board's ICM requirements.

5.0 SPECIFIC SERVICE CHARGES

Hydro One understands Board Staff's concerns regarding Hydro One's request to charge Hydro One's Specific Service Charges ("SSCs") to OPDC customers and acknowledges that the proposed SSC rate changes were not explicitly referenced in the Notice of Application. However the request to transition OPDC customers to Hydro One's SSC rates has been consistent throughout this Application. Both sets of rate are premised on either a Board-established fixed rate, or a Board-approved methodology of charging for time and materials associated with completing a specific service. Hydro One notes, that for the majority of the SSCs, the rates are the same. In other instances, OPDC charges for time and material, whereas Hydro One has an approved cost-based fixed rate that provides cost certainty to the OPDC customer requesting the service.

However, if Hydro One is required to implement OPDC's SSCs, Hydro One would incur substantial one-time system modification and ongoing costs to establish and maintain OPDC's existing SSC rates upon integration[16]. As previously mentioned, Hydro One ultimately plans to transition OPDC's customers to Hydro One's SSCs. Hydro One will at the appropriate time, file a separate s.78 application to request this change. Hydro One submits that incurring costs today to implement OPDC's SSCs, for a short period of time, would be imprudent. This, in concert with the fact that the OEB has initiated a comprehensive policy review of miscellaneous rates and charges[17] to review whether they are reflective of the actual costs, provides sufficient reason to approve this request.

For these reasons, Hydro One submits that the Board should approve Hydro One's request to charge OPDC customers Hydro One's approved SSC rate.

[16] Exhibit I, Tab 1, Schedule 4
[17] EB-2015-0304

6.0 RATE RIDERS & DEFERRAL ACCOUNTS

Rate Rider for Tax Changes

OEB Staff commented on the rate rider for application of 2016 tax changes. Hydro One will ensure that the rate rider in the Hydro One Orillia rate schedules aligns with that approved in EB-2016-0321.

Disposition of Group 2 Accounts

Staff also submitted that Group 2 accounts should be cleared every five years. Hydro One has no objection to this approach but would like to highlight that the disposition of these accounts would be done in concert with the disposition of Group 2 accounts for Hydro One Distribution. Consequently, due to current scheduling differences between the two entities, the first disposition of Group 2 accounts for the OPDC business segment may not be in the five-year cycle.

New ESM Regulatory Account

If approval for Hydro One's ESM is granted in this Application, Hydro One will submit a separate request to establish a deferral account to track costs associated with the ESM.

Accounting Standard

OEB Staff submitted that Hydro One's request to use US GAAP should be granted similar to Hydro One's request in recent MAAD approvals but, if the transition to US GAAP results in a material revenue requirement impact that could potentially be refunded to ratepayers, a deferral account should be required to capture the potential refund.

In making this argument, OEB Staff referenced Exhibit I, Tab 5, Schedule 8. This response was specifically addressing anticipated financial reporting changes that may result when transitioning from IFRS to US GAAP: it was not referring to impacts on revenue requirement.

Entities that transition from CGAAP to US GAAP generally do not experience a significant impact to their accounting policies. This will be the case for OPDC, as OPDC's existing revenue requirement was approved under CGAAP. As a result, Hydro One maintains there will be no material variances to OPDC's existing revenue requirement, and therefore no deferral account entries will be required.

The existing balances recorded by OPDC in Account 1576, prior to the closing date of this transaction, will be subject to a future rate hearing for disposition.

7.0 OTHER

For clarification purposes, Hydro One notes that the incremental transaction costs associated with this transaction are estimated to be between $5 and $6 million[18], rather than the $56 million stated on page 9 of Staff's submission.

CONCLUSION

Hydro One therefore submits that the evidentiary record continues to demonstrate clearly that the No Harm test is satisfied and that the submissions of the intervenors in this proceeding have not provided any reasonable basis to suggest otherwise. Hydro One respectfully submits that the relief it has requested should therefore be granted.

All of which is respectfully submitted this 5th day of May, 2017.

[18] Exhibit A, Tab 2, Schedule 1 Page 15

ATTACHMENT 1

BILL IMPACT
Woodstock, Norfolk and Haldimand

Woodstock (go to "AU" classes in 2021)	Woodstock Rates in 2020 (same as the 2015 rates)		Hydro One Rates in 2022		Variance Increase (%) 2015 to 2022 Rates		Average Annual Increases (2015 to 2022, over 7 yrs)	
	DX Charge[6]	Total Bill	DX Charge[7]	Total Bill	DX Charge	Total Bill	DX Charge	Total Bill
Residential (AUR) typical [1]	$ 29.98	$140.15	$ 31.60	$143.89	5.4%	2.7%	0.8%	0.4%
Small Commercial (AUGe) typical [2]	$ 54.19	$357.35	$ 76.88	$381.50	41.9%	6.8%	5.1%	0.9%
Larger Commercial (AUGd) average [3]	$ 596.21	$10,092.03	$ 1,202.89	$10,468.94	101.8%	3.7%	10.5%	0.5%

Norfolk (go to "A" classes in 2021)	Norfolk Rates in 2020 (same as the 2015 rates)		Hydro One Rates in 2022		Variance Increase (%) 2015 to 2022 Rates		Average Annual Increases (2015 to 2022, over 7 yrs)	
	DX Charge[6]	Total Bill	DX Charge[7]	Total Bill	DX Charge	Total Bill	DX Charge	Total Bill
Residential (AR) typical [1]	$ 37.46	$147.40	$ 41.17	$154.61	9.9%	4.9%	1.4%	0.7%
Small Commercial (AGSe) typical [2]	$ 82.78	$385.76	$ 82.72	$389.13	-0.1%	0.9%	0.0%	0.1%
Larger Commercial (AGSd) average [4]	$ 932.05	$9,694.62	$ 1,270.45	$9,999.13	36.3%	3.1%	4.5%	0.4%

Haldimand (go to "A" classes in 2021)	Haldimand Rates in 2020 (same as the 2015 rates)		Hydro One Rates in 2022		Variance Increase (%) 2015 to 2022 Rates		Average Annual Increases (2015 to 2022, over 7 yrs)	
	DX Charge[6]	Total Bill	DX Charge[7]	Total Bill	DX Charge	Total Bill	DX Charge	Total Bill
Residential (AR) typical [1]	$ 35.92	$148.01	$ 41.17	$154.61	14.6%	4.5%	2.0%	0.6%
Small Commercial (AGSe) typical [2]	$ 65.74	$373.60	$ 82.72	$389.13	25.8%	4.2%	3.3%	0.6%
Larger Commercial (AGSd) average [5]	$ 669.20	$8,638.29	$ 1,156.62	$8,925.85	72.8%	3.3%	8.1%	0.5%

Please note that the impact of the Fair Hydro Plan is not included in this table (which is consistent with the material filed with EB-2017-0049)

1 - Typical Residential: consumes 750kWh per month
2 - Typical GS<50kW: consumes 2,000kWh per month
3 - Average Woodstock GS>50kW: consumes 61,239kWh/177kW per month
4 - Average Norfolk GS>50kW: consumes 57,223kWh/161kW per month
5 - Average Haldimand GS>50kW: consumes 50,917kWh/143kW per month
6 - 2020 or 2015 DX Charge: Base Distribution Rate Charge; LV charge included, excluding the 1% Acquisition reduction
7 - 2022 DX Charge: Base Distribution Rate Charge; LV charge included as part of the base distribution rates, all revenue-to-cost ratios within the OEB approved range
Total bill: includes DX charge, RTSR, electricity (commodity), regulatory charges, taxes and other credits
The 2022 RTSR for acquired and urban acquired commercial classes are lower than the 2020 RTSR. As such, the distribution rate increases in 2022 are offset by the lower 2022 RTSR, resulting in a lower total bill impact.
Source of Hydro One Distribution 2020 Rates: Exhibit H1, Tab 4, Schedule 1, Attachment 4
Source of Hydro One Distribution 2022 Rates: Exhibit H1, Tab 4, Schedule 1, Attachment 5