2017 and 2018 TRANSMISSION COST OF SERVICE APPLICATION
EB-2016-0160

Hydro One Networks Inc.

Transmission

OEB STAFF SUBMISSION

On Draft 2017 Revenue Requirement and Charge Determinant Order

October 16, 2017

Introduction

On May 31, 2016, Hydro One Networks Inc. (Hydro One) applied for approval of its 2017 and 2018 transmission revenue requirements to be used to determine the 2017 and 2018 Uniform Transmission Rates (UTR) effective January 1 of each year.

In this application, Hydro One's main approval requests were a rates revenue requirement of $1,487.4 million for 2017 and $1,558.4 million for 2018 and charge determinants by rate pool to determine the UTRs effective January 1, 2017.
The proposed revenue requirements reflect a year-over-year increase of 0.5% for 2017 versus 2016 approved levels and 4.8% for 2018 over 2017.[1]

The increase in the total bill for a Hydro One general service energy (2000 kWh/month) customer was estimated to be 0.1% in 2017 and 0.2% in 2018. As for the impact on residential customers, for a Hydro One medium density residential (750 kWh/month) customer, the estimated bill increase was 0.1% in 2017 and 0.2% in 2018. The estimated bill impact for transmission connected-customers was 0.2% in 2017 and 0.4 % in 2018 (assuming that transmission represents 8.3% of the average transmission-connected customer's total bill). [2]

On September 28, 2017 the OEB issued its Decision and Order in this proceeding and outlined the next steps in the process for the implementation of the 2017 Ontario Uniform Transmission Rates, effective January 1, 2017 and implemented October 1, 2017. Hydro One was to submit its draft 2017 revenue requirement and charge determinant order (RR/CD order) (including additional specific tax related information) to the OEB by October 10, 2017. OEB and staff and intervenors were to file their comments on the Hydro One draft RR/CD order by October 14, 2017 and Hydro One was to file its responses to these comments by October 18, 2017.

Hydro One filed its draft RR/CD order under both the EB-2016-0160 file number and the file number established for the issuance of the 2017 Uniform Transmission Rates, EB-2017-0280.

These are OEB staff's submissions on Hydro One's draft RR/CD order. The submission addresses items relevant to the September 28, 2017 Decision and Order and only those aspects of the draft RR/CD order where staff has questions or concerns.

[1] December 2, 2016 Hearing Update
[2] Ibid

In the draft RR/CD order filed by Hydro One on October 10, 2017, Hydro One implemented the decision and order to arrive at a final 2017 revenue requirement and final 2017 charge determinants.

The final 2017 rates revenue requirement was determined to be $1,445.3 million for 2017 and $1,505.1 million for 2018. This represents a 2017 reduction of $42.2 million from the application (as updated) and a 2018 reduction of $53.4 million. (The final 2018 rates revenue requirement will be determined when the OEB's 2018 cost of capital parameters are issued.)

In terms of bill impact, Hydro One estimated that a medium density residential customer consuming 750 kWh per month would see a bill decrease of $0.03 per month in 2017. The 2017 decrease in the total bill for a Hydro One general service energy (2000 kWh/month) customer was estimated to be $0.06 per month.

OEB Staff Comments

Staff has comments on the following matters:

A) Tax Amounts

In the Decision and Order, Hydro One was ordered to "separate the amounts in the "FMV in excess of Tax Basis" shown in Exhibit J11.3 between its "Recapture" and "Gain" components and reconcile the separated "recapture" amount with the deferred tax liability and deferred tax asset amounts recorded in the financial statements for Networks already filed in evidence in this proceeding for the periods immediately before and after completion of the IPO. This must include, in particular, a reconciliation to the deferred tax liability amount of $1,794 million described above….."[3]

Hydro One provided a table that separates "FMV in excess of Tax Basis" shown in Exhibit J11.3 between its "Recapture" and "Gain" components in the draft RR/CD order Exhibit 2.1, Attachment 1, and a reconciliation to the deferred tax liability amount of $1,794 million in draft RR/CD order Exhibit 2.1, Attachment 2.

- The Decision used a breakout of the "Recapture" and "Gain" components of the FMV in excess of Tax Basis as the basis for the recapture ratio calculation, see Table 15.1 and 15.2.

[3] Decision and Order, p. 91

- The allocation between “Recapture” and “Gain” in the Decision was derived from information provided in other undertakings, mainly J11.3 and J11.13.

OEB staff requests that Hydro One provide the following additional information:

1) From the updated information provided in the draft RR/CD order Exhibit 2.1, Attachment 1, an explanation as to why the “Capital Gains” component of the table differs from the balances used in Tables 15.1 and 15.2 of the Decision.

2) The impact that the updated information provided in the draft RR/CD order at Exhibit 2.1, Attachment 1 will have on the Recapture Ratios calculated in Table 15.2 of the Decision.

B) Reduction in Capital Spending and In-Service Additions

In response to the OEB’s direction to cut the 2017 and 2018 capital envelopes by $126.1 million and $122.2 million, respectively, Hydro One is deferring several capital investments.

In making these cuts, Hydro One indicated that it focused on deferring capital expenditures without causing significant impact to projects in a mature state of execution. For 2017, Hydro One focused on execution risk considerations and material and contract timing as well as budgeted contingency funding. To reduce the 2018 capital envelope, Hydro One is modifying investments, including core power systems investments, reducing tower coating and deferring investments in lines and stations projects.

The significant capital spending reductions are found in Development (-40% in 2017 and -35% in 2018) as shown in the table below. In-Service additions fall by $63.7 million in the 2017 year and $31.3 million in 2018.

However, OEB staff notes that there is a lack of detail provided on the capital projects that were reduced or cancelled for 2017 and 2018, and the implications for Rate Base and Depreciation expense. Staff notes that the OEB indicated in its Decision that it expects Hydro One to report in its next application on the status of each project and report on variances in scope, cost or schedule.[4]

While OEB staff do not expect Hydro One to make those decisions at this time, for purposes of calculating the final approved revenue requirement, OEB staff requests that

[4] Decision and Order, p. 30

Hydro One provide a more detailed listing of projects and programs that total to the Capital Expenditures, In-Service Additions, Rate Base and Depreciation amounts in the draft RR/CD order.

C) Foregone Transmission Revenue Deferral

In the Decision, the OEB declared Hydro One's existing rates interim until the implementation of new rates on October 1, 2017, but effective as of January 1, 2017. The OEB's Decision and Order results in a negative forgone revenue amount (i.e. a forgone credit amount on behalf of ratepayers). The Decision and Order approved the disposition of any true up in revenue resulting from the 9 month period (January to September 2017).

The foregone credit amount is $2.4 million and Hydro One calculated this on a monthly basis using the monthly charge determinants for each UTR rate pool consistent with the annual charge determinants approved by the OEB in the Decision.

The monthly foregone credit amount is the difference between the revenue collected under the approved 2016 UTR multiplied by the approved 2017 charge determinants and the revenue collected under the proposed 2017 UTR multiplied by the approved 2017 charge determinants. OEB staff notes that ideally, forgone revenue (or credits) should be calculated based on actuals. Hydro One may wish to confirm in its reply whether a calculation based on actual charge determinants will have a significant impact on the amount to be credited to ratepayers.

The foregone credit amount will be included in the Foregone Transmission Revenue Deferral Account. Hydro One proposes that the foregone credit amount be included as part of Hydro One's 2018 rates revenue requirement in the determination of 2018 UTRs. OEB staff does not oppose this implementation proposal and notes that if Hydro One's 2019 revenue requirement is not approved in time to implement new UTRs by January 1, 2019, it expects the OEB to do what it did in this current proceeding by declaring rates interim as of January 1, 2019 and establishing a similar Foregone Transmission Revenue Deferral Account in which any true up could take place at a later date should the current forgone credit continue into the 2019 rate period.

-All of which is respectfully submitted-