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BY COURIER

January 5, 2018

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-2017-0050 Hydro One Networks Inc. - Distribution Rate Application – Former Service Areas of Woodstock Hydro Services Inc, Norfolk Power Distribution Inc, Haldimand County Hydro Inc.

Hydro One Networks Inc. ("Hydro One") submitted an application ("the Application") on August 14, 2017 for the implementation of electricity distribution rates to be effective January 1, 2018 for the service areas formerly served by Norfolk Power Distribution Inc. ("Norfolk Power"), Haldimand County Hydro Inc. ("Haldimand County Hydro"), and Woodstock Hydro Services Inc. ("Woodstock Hydro"). On November 28, 2017, OEB Staff contacted Hydro One with further followup questions regarding Hydro One's evidence. With this letter Hydro One is submitting reponses to those questions, along with 9 Excel file attachments.

These attachments consist of:

- Updated Rate Generator models for each of the three acquired utilities reflecting revised continuity schedules. The allocation of balances for disposition for Norfolk Power and Woodstock Hydro have been revised as per the responses to OEB staff's followup questions. The calculation of forecast interest to December 31, 2017, has been revised for all three acquired utilities to reflect the OEB's prescribed interest rate of 1.5% for Q4 2017.
- Two Excel sheets containing proposed derivations of Deferral and Variance Account ("DVA") rate riders for Haldimand County Hydro and Norfolk Power, as per Hydro One's responses to OEB staff's followup questions.
- Due to the proposed changes to the derivation of the DVA rate riders, the OEB's Rate Generator model can no longer correctly determine the bill impacts arising from Hydro

One's application. As such, two Excel files have been provided which contain the revised bill impacts for Haldimand County Hydro and Norfolk Power arising from changes to Hydro One's proposal.

- A revised bill impact for Woodstock Hydro's General Service > 1,000 kW class has also been provided as this amount was not being calculated correctly in the Rate Generator model.
- A completed copy of the OEB's GA Analysis Workform for Hydro One Networks overall. This sheet shows that 2016 balances in Account 1589 – Global Adjustment are reasonable on an overall basis.

In order to test and implement new rates in to its billing system, Hydro One requires a final rate order from the OEB two weeks before the implementation date of the rate order. Given the current timing of the proceeding, it is unlikely that a final rate order would be available by the middle of January in order for rates to be effective in February. Hydro One proposes that rates be made effective March 1, 2018. Hydro One has reduced the disposition period of the proposed DVA rate riders by two months for each of the acquired utilities to reflect this proposal.

Hydro One notes that the OEB's Rate Generator model does not allow for the modification of the disposition period for the CBR Class B rate rider for Woodstock Hydro. Hydro One also notes that the Rate Generator model does not allow for the modification of the 2017 Uniform Transmission Rates ("UTR"). Hydro One respectfully requests that OEB staff modify the Rate Generator models provided to update for the 2017 UTR approved by the OEB in EB-2017-0280 and that OEB staff modify the disposition period of the CBR Class B rate rider for Woodstock Hydro to 10 months, consistent with Hydro One's revised proposal.

If further clarification or additional information is needed please feel free to contact us at Regulatory@HydroOne.com.

Sincerely,

ORIGINAL SIGNED BY FRANK D'ANDREA

Frank D'Andrea

Encls.
cc Georgette Vlahos, OEB - Applications Division

Hydro One Networks Inc. (HONI) EB-2017-0050
Former Service Areas of Norfolk Power Distribution Inc., Haldimand County Hydro Inc., and Woodstock Hydro Services Inc.

Follow-up Questions – November 28, 2017

Staff-1
Ref: Norfolk Power, Rate Generator Model Tab 3 Continuity Schedule

With respect to Account 1588 - Power, the total balance of $6,032,590 alone is 16 times the disposition threshold. While the deferral and variance account balances are audited, balances of this magnitude may put into question whether amounts have been properly allocated between accounts.

Please provide an analysis of the accumulation of the balance in Account 1588.

Response

The total principal balance in Account 1588 as of December 31, 2016 has been revised to about $5 million. Reasons for the revision are provided in response to Staff-2 below.

Hydro One has been tracking Norfolk RSVA balances since its integration with Hydro One's billing system in September 2015. At the time of integration, the principal balance in the account was a debit of about $3.5 million. Hydro One notes that Norfolk Power last disposed of its Group 1 balances as at December 31, 2011 in its 2013 rate application (EB-2012-0151). The $3.5 million pre-integration principal balance in Account 1588 had been accumulating for about 4 years. The disposition threshold was not met in prior years because there were offsetting credit balances of similar magnitude that had accumulated in other RSVA accounts (e.g. 1589 – Global Adjustment and 1580 – Wholesale Market Service Charge). The post-integration balances have been revised to reflect the change in allocation described in the response to Staff-2.

Staff-2
Ref: Norfolk Power, Rate Generator Model Tab 3 Continuity Schedule

OEB staff notes that the overall Group 1 balances as at December 31, 2015 was a credit of $13,364. As of December 31, 2016, the balances have increased substantially to a debit of almost

$3.2 million. Please provide a quantitative analysis of the overall Group 1 accounts including why they increased significantly from 2015 to 2016.

Response

Prior to being operationally integrated in to Hydro One Distribution, Norfolk Power was a host distributor to Hydro One Distribution. Hydro One Distribution paid for its share of Group 1 Deferral and Variance account balances through the rates of Norfolk Power's Embedded Distributor class which were then passed on to Hydro One Distribution's customers. Since integration, these companies operate as one entity and the need for this additional transaction no longer exists.

In reviewing the allocation of RSVA costs for the former Norfolk Power service area, Hydro One discovered that it had inadvertently included the historical costs of formerly embedded customers when determining the allocator for Norfolk power. As a result, costs that should have been allocated to Hydro One Distribution were being allocated to the former Norfolk Power. Hydro One has corrected this error and provided a revised continuity schedule which reflects the revised allocation of the balances for Norfolk Power. The overall Group 1 Account balance for disposition has been decreased from a debit of $3.3 million to a credit of $0.5 million.

Hydro One has also provided HONI_RiderCalculations_Norfolk_20180105.xlsx which includes a revised derivation of the rate riders for disposition of Group 1 balances for Norfolk Power. Given that the Embedded Distributor class no longer contributes to Group 1 account balances after operational integration, Hydro One has separated Norfolk Power Group 1 account balances into pre and post integration amounts. Pre-integration balances are allocated to all classes, including the Embedded Distributor class, whereas post-integration balances are allocated to all classes excluding the Embedded Distributor class. This approach will ensure that the principle of cost causality is maintained for the disposition of Group 1 account balances.

Given that the former Haldimand County Hydro also has an Embedded Distributor class, Hydro One has also provided HONI_RiderCalculations_Haldimand_20180105.xlsx which includes a similarly revised derivation of the rate riders for disposition of Group 1 balances for the former Haldimand County Hydro. Hydro One has also reviewed the allocator for Haldimand County Hydro and has confirmed that costs for Embedded Distributor customers have been correctly excluded. No changes are required to the principal Group 1 account balances included in the Application.

Any pre-integration amounts for the Embedded Distributor classes approved by the OEB for disposition in this proceeding will be transferred to Hydro One Distribution for disposition in its current Custom IR rate application (EB-2017-0049).

Staff-3
Ref: Woodstock Hydro, Rate Generator Model Tab 3 Continuity Schedule

With respect to Account 1589 – Global Adjustment, the total balance of a credit of $2,461,878 alone is 6 times the disposition threshold. While the deferral and variance account balances are audited, balances of this magnitude may put into question whether amounts have been properly allocated between accounts.

Please provide an analysis of the accumulation of the balance in Account 1589. Please also provide a quantitative analysis of this account including why the account balance increased significantly from 2015 to 2016.

Response

As noted in the Application, Hydro One settles Global Adjustment costs on an overall basis. Costs are allocated to each of the acquired utilities based on the methodology described on pages 16 and 17 of the Application using the best data available.

Hydro One has completed the OEB's GA Analysis Workform for Hydro One Networks, as a whole. This analysis reflects the settlement of GA costs for Hydro One Distribution and post-integration amounts for all three acquired utilities, as applicable in 2016. The results of this analysis show that the overall Global Adjustment balance for Hydro One Networks is reasonable.

Woodstock Hydro was integrated to Hydro One's billing system in September 2016. At the time of integration the integrated balances from Woodstock Hydro were a credit of about $62k. The credit balance accumulated in Q4 2016 arose from the allocation methodology described in the Application.

Hydro One reviewed the allocation of GA balances for the former Woodstock Hydro and discovered a transposition error in the purchased volume data used to allocate costs to the former Woodstock Hydro. Hydro One has revised the allocated Group 1 balances to correct for this error. The balance for disposition in Account 1589 arising from the allocation methodology described in the Application is now a credit of about $2.1M.