THE SOCIETY
OF ENERGY PROFESSIONALS
IFPTE LOCAL 160

24th January, 2018

Matthew Kellway
Special Assistant to the President & Manager, Central Functions
The Society of Energy Professionals
2239 Yonge St
Toronto, ON M4S 2B5

VIA Canada Post, email and RSS Filing

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge St.
Toronto, ON
M4P 1E4

Re: : EB-2017-0049 – Hydro One Networks Inc (HONI)
Application for Approval of Distribution Rates 2018-2022
The Society of Energy Professionals ' Interrogatories to HONI

Dear Ms. Walli,

In accordance with Procedural Order No. 2, please find attached the Society of Energy Professionals' interrogatories to Hydro One in the subject application.

Two (2) hard copies of these interrogatories have been sent to your attention.

Also please be informed that I should be added to the list of parties who are to receive all documentation and communication in this proceeding.

Sincerely,

[Original Signed by]

Matthew Kellway
Special Assistant to the President & Manager, Central Functions
The Society of Energy Professionals
kellwaym@thesociety.ca

copy: interested parties

INTERROGATORY QUESTIONS

EB-2017-0049 Hydro One Networks Inc. (Distribution)

2018-2022 Distribution Rates Application

24th January, 2018

EB-2017-0049: The Society of Energy Professionals' Interrogatory Questions

A. GENERAL

A.1 Has Hydro One responded appropriately to all relevant OEB directions from previous proceedings?

Society # 1
Please file Hydro One's relevant updated financial reports as they become publicly available including quarterly and annual MD&A and consolidated financial statements, Networks Distribution annual financial statements, credit rating reports etc.

D. DISTRIBUTION SYSTEM PLAN

D.26 Does the Distribution System Plan address the trade-offs between capital and OM&A spending over the course of the plan period?

Society #2
In the last Hydro One Distribution major application before the OEB, EB-2013-0416, The Society submitted an interrogatory I-3.03-12 SEP 9 requesting that Hydro One identify the annual cost savings from shifting the administration of its employee benefits program from Great West Life to Green Shield Canada (see Attachment 1).

Hydro One responded that it anticipated cost savings from this change however "the savings cannot be quantified at this time since we have not had enough experience with the new provider", and further, no such savings were included.

In this current proceeding, Hydro One has not identified any such productivity savings resulting from this change in service providers of its administration of its employee benefits program. [Ref. B1-1-1, DSP Section 1.5 "Productivity and Continuous Improvement"]

a. Please provide the annual cost savings resulting from this change for 2014 to 2022 for both HONI and HONI Distribution. Also provide the OM&A and capex split of these savings.
b. Where are these cost savings included in the filed evidence?

SEP#2 Attachment 1

Society of Energy Professionals (SEP) INTERROGATORY #9

Issue 3.3 Has Hydro One proposed sufficient, sustainable productivity improvements for the 2015-2019 period, and have those proposals been adequately supported, for example, by benchmarking?

Interrogatory

Reference: Exhibit A/Tab 19/Schedule 1

"Cost Efficiencies/ Productivity". Recently, Hydro One has shifted the administration of its employee benefits program from Great West Life to Green Shield Canada.

a) Are there any cost savings projected from this change?
b) If there are cost savings where are they included in the filed evidence?

Response

a) Hydro One anticipates some projected savings on administrative services to be provided by the new benefits provider. The savings cannot be quantified at this time since we have not had enough experience with the new provider.

b) The potential savings are not included in this plan since the contract with the new service provider was negotiated after the business plan supporting this filing was finalized.

Society #3
With reference to B1-1-1, DSP Section 1.5 "Productivity and Continuous Improvement" pp1-2 Table 17 "Detailed Productivity Savings Forecast"

a. Please update the referenced table 17 to include annual actuals for 2014-2016 and the 2017 forecast.
b. Please update the referenced table 17 updated in part a. above to include the additional capital productivity savings as provided in Exhibit Q1-1-1 pp7 Table 5 "Changes to Capital Forecast".
c. Please update the referenced table 17 as revised in part b. above to provide the OM&A and capex split of the Total Corporate Common productivity savings. If necessary, allocate these productivity savings between OM&A and capex. Also, provide the total OM&A savings and total capex savings for each year.

F. OPERATIONS MAINTENANCE & ADMINISTRATION COSTS

F.38 Are the proposed OM&A spending levels for Sustainment, Development, Operations, Customer Care, Common Corporate and Property Taxes and Rights Payments, appropriate, including consideration of factors considered in the Distribution System Plan?

Society #4
With respect to its Internal Audit function, Networks has asserted that "the increase in the bridge and test year costs is the result of an increased need for improved Internal Audit capability and capacity due to more stringent governance needs. This has led to the Internal Audit group recruiting additional staff to help manage the increased workload." (Ref. C1 Tab 1 Schedule 7 p. 25).

a. Please explain in more detail the nature of or drivers for the increased stringency in governance needs with a focus on how the increased internal audit activities benefit Distribution customers.
b. Please identify any portion of these requirements that are being driven by minority interest government policy specific to Networks as opposed to other and all Ontario utilities, if any.
c. Please comment on whether this increased cost level for internal audit services is expected to be sustained over the long term or is it of limited duration? If the latter, what duration is expected?
d. Please provide annual external consulting costs for Internal Audit through the rate period.

F.40 Are the proposed 2018 human resources related costs (wages, salaries, benefits, incentive payments, labour productivity and pension costs)

including employee levels, appropriate (excluding executive compensation)?

Society # 5

With reference Exhibit F1 Tab 3 Schedule 1 Page 6:

a. Please provide Networks' rationale for concluding that the portion of its annual cash pension contributions that is attributable to past service should not be barred from capitalization under the substance of the guidance found in Financial Accounting Standards Board's (FASB's) new accounting interpretation ASU-2017-07.
b. Has Networks' conclusion that the new accounting interpretation is not applicable to its cash pension costs been tested with the company's external auditor and have they concurred with Networks' view that ASU-2017-07 is not applicable in substance as well as in form?

Society #6

In its EB-2016-0160 Transmission decision, the OEB determined that Networks' Transmission business should continue to have its pension costs regulated on a cash basis for 2017 and 2018 but also ordered that, if Transmission "proposes to continue using the cash method as the basis for recovering its pension costs beyond December 31, 2018, then, in its next transmission revenue requirement proceeding, Hydro One will provide evidence that addresses the principles, practices, and policy determinations in accordance with the provisions of the Pension and OPEBs Report."

a. Does Networks intend to update its application to reflect its plans to implement the policy recommendations found in the OEB's EB-2015-0040 Report on the "Regulatory Treatment of Pension and Other Post-employment Benefits (OPEBs) Costs?"
b. Specifically, please state whether Distribution will seek to record pension costs on a cash or accrual basis during the rate years.
c. If Distribution intends to provide evidence at some future date arguing in favour of a permanent retention of the cash method for regulating its pension costs, please provide an overview of such justification.

Society # 7

In its pension evidence, Networks notes the following: "The (pension) Plan covers Hydro One and its subsidiaries, except Hydro One Sault St. Marie Transmission. The Plan does not segregate assets in a separate account for individual subsidiaries, nor is the accrual cost of the benefit plans allocated to, or funded separately by, entities within the consolidated group. Accordingly, for Hydro One Networks, the Plan is accounted for as a defined contribution plan and no deferred pension asset or liability is recorded on Hydro One Network's financial statements." (Reference C1-2-2 page 1)

From the notes to its Hydro One's consolidated and Networks own Distribution financial statements, it appears that Hydro One's funded corporate pension plan is held at the holding company level, as are its assets and liabilities (e.g. see "Defined Benefit Pension" in Exhibit A-6-2 Attachment 3 Page 10). Assets and liabilities are not assigned to the subsidiaries or regulated businesses. Pension contributions (but not assets and liabilities) appear to be subject to various allocations and carveouts, firstly to Hydro One's subsidiaries and secondly to its regulated businesses. In addition, it is clear that a certain proportion of pension contribution costs are included within CCFS costs allocated to subsidiaries and regulated businesses.

a. Given these allocations and carve-outs, is Networks actually able to implement accrual accounting for pension costs at an auditable level of precision within its Distribution Business? Or would it face the significant challenges in accessing the business-specific information necessary for carrying out auditable accrual accounting for pension costs at the Distribution business level?
b. Please comment on the proposition that Networks faces a similar issue in carrying out accrual accounting for pensions at the Distribution level that other local distribution companies that are members of OMERS also face?

Society #8
References:
Exhibit Q1-1-1
At assorted points in the exhibit, it is stated that Hydro One has received an updated valuation for its other post-employment benefits ("OPEB") plan which has resulted in lower OM&A and capital expenditures.

a. Please file the updated OPEB valuation.
b. Please update the filed OPEB evidence found in Exhibit C1-2-2 pp4-5 section 5.1, including Table 2 "OPEB Costs Included in Rates ($ Millions)", to reflect this updated OPEB valuation.
c. Please update Exhibit C1-2-1, Appendix B "Hydro One Distribution-Allocated Compensation Costs (2014-2022)" to reflect the impact of the updated OPEB valuation.

Society #9
References:
Exhibit C1-2-1 Attachment 5 "Mercer 2016 Compensation Cost Benchmarking Study" pp8
"*the 2016 Compensation Cost Benchmarking Study directly reflected exactly 2,991 Hydro One employees in 31 benchmark positions representing 57% of Hydro One's employee population (excluding non-full time employees).* "

a. (i) Please provide Hydro One's definition of "non-full time employees".
(ii) How does this definition vary from Hydro One's definition of "non-regular" staff?

b. (i) Did Mercer apply Hydro One's definition of "non-full time employees" in its preparation of the benchmarking study?
(ii) If Mercer did not use Hydro One's definition of "non-full time employees" in its preparation of the benchmarking study, please provide the definition which Mercer did apply for "non-full time employees".
c. Please confirm that none of the 2,991 Hydro One employees included in the sample are non-full time employees.
d. (i) If some of the 2,991 Hydro One employees included in the sample are non-full time employees please provide their number and the percentage they represent of Hydro One's employee population (excluding non-full time employees). Also provide these figures by Hydro One "group" (ie Non-represented, Professionals, Power Workers).
(ii) What impact would excluding these employees have on the confidence level of the results of the study?
e. (i) If some of the 2,991 Hydro One employees included in the sample are non-full time employees please provide their number and the percentage they represent of Hydro One's employee population (**in**cluding non-full time employees). Also provide these figures by Hydro One "group" (ie Non-represented, Professionals, Power Workers).
(ii) Using the employee sample percentages calculated in (i), what impact do these smaller sample percentages have on the confidence level of the results of the study?

Society #10
References:
Exhibit C1-2-1 Attachment 5 "Mercer 2016 Compensation Cost Benchmarking Study"
Exhibit C1-2-2 "Pension Costs" pp2,3
"The most recent actuarial valuation for the Plan was as at December 31, 2016. In May 2017, Hydro One filed this actuarial valuation with the Financial Services Commission of Ontario ("FSCO"). The valuation showed that the Plan had a surplus of $434 million, on a going-concern basis. Starting in 2017, the required contribution for the Hydro One companies was set at $73 million, variable based on the level of base pensionable earnings.
[...]
During 2014, 2015 and 2016, actual contributions were $174 million, $177 million, and $110 million, respectively. Actual contribution requirements in 2018 may differ depending on the level of base pension earnings used to compute the monthly contribution. The difference between the forecast and actual pension costs will be tracked in a variance account (see Exhibit F1, Tab 1, Schedule 1)."

a. For the Hydro One incumbents in the 2016 Mercer Study, what were the assumed Hydro One annual pension contributions, $110M or $177M per year?
b. Further to the above reference from Exhibit C1-2-2, recalculate where Hydro One compensation would be versus market median (as provided for 2016 in Exhibit

C1-2-1, Table 9 pp37) if the annual pension contribution were about $73M per year as it is starting in 2017.

c. In Exhibit C1-2-1 pp42, Hydro One states that it has been "increasing employee pension plan contributions annually since 2013 for all employee groups (see Figure 5 for PWU represented employee pension contributions and Appendix A for employee contributions for other employee groups)". In Exhibit C1-2-1 Table 13 pp43, the 2018 annual savings as a result of the increased employee contributions for Distribution are stated to be $10.9M (for Hydro One total it would presumably be about double that figure).

   Please recalculate where Hydro One compensation would be versus market median (as provided for 2016 in Exhibit C1-2-1, Table 9 pp37) if the annual pension contribution reflected the increased employee pension contributions in 2018.

d. As per Exhibit C1-2-1, Table 5 "Negotiated PWU and Society Base Rate and Lump Sum Increases", pp29, Society base rate increases were 0.5% in each of 2016, 2017 and 2018.

   Assume inflation in Canada was and will be about 2% per year for 2017 and 2018, and general wage increases were and will be also in that range. Recalculate where Society and Hydro One compensation would be versus market median (as provided for 2016 in Exhibit C1-2-1, Table 9 pp37) in 2018 with Society base wage increases of only 0.5% in each of 2017 and 2018 as compared to annual wage increases of about 2% for the market median.

e. As per Exhibit Q-1-1, due to an updated OPEB valuation, 2018 Distribution compensation costs are about $3.7M lower ($1.9M in OM&A and $1.8M in capex).

   Please recalculate where Hydro One compensation would be versus market median (as provided for 2016 in Exhibit C1-2-1, Table 9 pp37) if the annual OPEB costs reflected this new OPEB valuation.

f. Please recalculate where Hydro One compensation would be versus market median (as provided for 2016 in Exhibit C1-2-1, Table 9 pp37) if the annual pension contribution were about $73M per year as it is starting in 2017 [as calculated in part b) above], if the annual pension contribution reflected the increased employee pension contributions in 2018 [as calculated in part c) above], market median wages increased by 2% per year for two years whereas Society base wages only increase by 0.5% per year [as calculated in part d) above], and OPEB costs were about $3.7M lower [as calculated in part e) above].

Society #11
Reference:
Exhibit C1-2-1 Attachment 5 "Mercer 2016 Compensation Cost Benchmarking Study"

In its referenced study, Mercer calculates point estimates of the market median compensation for each position, for each employee grouping (non-represented, Society represented, PWU represented) and overall.

a. Does Mercer consider the market median to be a hard point estimate or a range e.g. $\pm$ 2%. If it is a range please provide the range.
b. Please provide a brief explanation with references of the theoretical basis of the answer provided in a).

Society #12
Reference:
Exhibit C1-2-1 Attachment 5 “Mercer 2016 Compensation Cost Benchmarking Study”, Table 6 pp14.

a. The referenced table compares to market median the compensation of seven sampled Society represented positions: Engineers A to E as well as Business Analyst A and B.
   i) Please provide the MP classification for each of these positions ie MP2, MP3, MP4, MP5, MP6.
   ii) Do any of the Mercer classifications (eg Engineer A, Business Analyst B etc) contain more than one MP classification eg Business Analyst B contains both MP4 and MP5 Society staff.
b. In which Mercer position category do engineers in training fall?
c. Please provide the number of engineers in training for each of 2014 to 2022 year end for each of Transmission, Distribution and total Hydro One.

Society #13
Reference:
Exhibit C1-02-01 Attachment 6

a. Please update the referenced table to reflect the impact of the updated OPEB valuation as per Exhibit Q-1-1.
b For each of Transmission, Distribution and Hydro One Total, please update the referenced table as revised in part a. above to include average annual compensation per FTE as well as the % change in such for each of 2014 to 2022 for Non-represented, Society, PWU, Temporary and Hydro One Total.
c. Please also complete the following table based on the data provided in part b) for each of Transmission, Distribution and Hydro One total:

Distribution Program Compensation Changes per FTE	2014-2022	2017-2022
	DELTA %	DELTA %
Unrepresented Avg Compensation/FTE Total Increase	0.00%	0.00%
Unrepresented Avg Annual Compensation/FTE Increase	0.00%	0.00%
Society Avg Compensation/FTE Total Increase	0.00%	0.00%
Society Avg Annual Compensation/FTE Increase	0.00%	0.00%
PWU Avg Compensation/FTE Total Increase	0.00%	0.00%
PWU Avg Annual Compensation/FTE Increase	0.00%	0.00%
Temp Avg Compensation/FTE Total Increase	0.00%	0.00%
Temp Avg Annual Compensation/FTE Increase	0.00%	0.00%
Hydro One Avg Compensation/FTE Total Increase	0.00%	0.00%
Hydro One Annual Compensation/FTE Increase	0.00%	0.00%

d. Please also provide these tables calculated in parts b) and c) above in Excel format.

Society #14
Reference:
Exhibit C1-02-01 Appendix A,
Figure 1: Society Pension Changes - Legacy Pension Plan
Figure 2: Society Pension Changes - Post November 2005 Members
Figure 3: MCP Pension Changes
The above referenced figures provide annual Society pension changes for each of pre-2013 to 2018 whereas MCP pension changes are provided until only 2016.

a. i) Please update Figure 3 to provide MCP pension changes for 2017 and 2018.
 ii) Please explain the rationale and methodology to derive these figures for 2017 and 2018.
b. Does the data provided in a. above change Hydro One's pension contribution costs in 2017 and 2018? If it does, please revise these Hydro One pension contribution cost figures in evidence.
c. If the 2018 MCP contribution figures provided in a. above vary from the 2018 Society Tier 2 pension contribution levels as provided in the referenced Figure 2, please explain why. In particular, if the MCP pension contribution levels are lower than Society Tier 2 please justify this discrepancy.
d. Please provide in one table all the data found in Exhibit C1 Tab 2 Schedule 1, Figure 5 "PWU employee pension contribution increases 2013-2018" and Appendix A Figures 1, 2, 3. In this table please use the updated figures asked for

in a. above [the MCP pension plan contributions for pre-2013 to 2018]. Please also provide this table in excel format.

e. Also provide in the table produced in d. above the employee pension contributions for second tier MCP staff (i.e. those hired post-2004).

Society #15
Reference:
EB-2016-0160, Exhibit I-08-19 parts a. and b.

a. i) Please update the table provided in response to part a. of the referenced exhibit with year end actuals for 2016 and 2017 and projected 2018 year end.
ii)Please confirm or update as required the actuals previously provided for 2013 to 2015.

b. Please provide in excel format the table put forward in part a. above.

c. Please update as necessary the response provided to part b. of the referenced exhibit.

Society #16
Reference:
EB-2016-0160 Exhibit I-08-18 part c.

a. i) Please update the table provided in the referenced exhibit to include 2016 and 2017 year end actuals.
ii) If 2017 year end actuals are not yet available please provide preliminary 2017 year end actuals or actuals from the latest month in 2017 for which data is available eg November 2017.
iii) Please confirm or correct or update the values provided for 2010, 2015 and 2018 in the referenced exhibit.
iv) Please provide the updated table in excel format.

b. Please explain the changes between the Hydro One staff diversity profile in 2010, in 2015, in 2016, in 2017 and its target levels in 2018.

c. i) Please confirm that Canada census data of sufficient detail for staff diversity profile comparison purposes is available to Hydro One for 2006 and 2016. However 2010 data is not available due to since rescinded government mandated changes in the Canada census.
ii) How do the Hydro One 2016 staff diversity profile actual levels compare to the comparable 2016 Canada census data?
iii) Please explain any gaps between Hydro One's 2016 staff diversity profile actual levels and the comparable 2016 Canada census data.
iv) How do the Hydro One 2018 staff diversity profile target levels compare to the comparable 2016 Canada census data?
v) Please explain any gaps between Hydro One's 2018 staff diversity profile target levels and the comparable 2016 Canada census data.
vi) What steps is Hydro One taking to close any gaps?

d. i) How does the Hydro One shift in its staff diversity profile levels from 2010 actuals to its 2018 target levels compare to such between the comparable 2006 to 2016 Canada census data?
   ii) Please explain any gaps between the Hydro One staff diversity profile progression from 2010 actuals to 2018 target levels as compared to that between the 2006 to 2016 Canada census data.
   iii) What steps is Hydro One taking to close any such gaps?

Society #17
Reference:
EB-2016-0160 Exhibit TCJ1.26

a. Please update the referenced exhibit to include 2018 budget levels in addition to the previously provided budget figures.
b. Please explain the differences between the 2018 budget levels and the previously provided budget levels.

F.43 Are the methodologies used to allocate Common Corporate Costs and Other OM&A costs to the distribution business for 2018 and further years appropriate?

Society # 18
On page 20 of Hydro One's publicly available Q2 2017 consolidated MD&A [https://www.hydroone.com/investorrelations/Reports/Hydro%20One%20Limited%202Q17%20Results.pdf], the Company notes "as the result of the pursuit and completion of the (Avista) Merger, additional demands will be placed on the Company's managerial, operational and financial personnel and systems."

a. What duration does Networks foresee that these personnel and systems will be drawn on by the needs of the merger?
b. Within the five-year custom IR rate setting period, does Distribution foresee the need for any revisions to the Black and Veatch shared cost allocation model to reflect potential senior management, finance, operational or other support of, or resource sharing with the Merger or with Avista Inc.? If not, why not?

c. On page 2 of Hydro One Limited's publicly available 2017 Q3 MD&A (https://www.hydroone.com/investorrelations/Reports/Hydro%20One%203Q17%20Results.pdf), the Company reports "costs related to acquisition of Avista Corporation" of $18 million in the quarter and $21 million fiscal year to date as of September 30, 2017. Please confirm that none of these costs have been directly, or indirectly, charged to Hydro One Networks' Distribution Business.

Society #19
The OEB's September 14, 2017 Decision and Order on Network's Transmission application (EB-2016-0160) noted that "Hydro One's use of USGAAP for regulatory

purposes…, including the capitalization of overheads, will not be varied at this time. Separate and apart from this proceeding, the OEB will consider whether it should initiate a policy review of the appropriateness of the continued use by the utilities it regulates of USGAAP for the purpose of determining the capitalization of overhead amounts."

As Transmission and Distribution are the two regulated arms of Networks and, given that they are effectively forced by practicality and circumstance to use consistent regulatory and financial accounting policies, any potential change in regulatory accounting policy for the classification of overheads as capital or OM&A in the Transmission Business would appear to have significant relevance to Networks' Distribution business as well.

a. Has Networks carried out any good-quality estimates of the dollar amount and related Distribution rate impact of moving to an MIFRS-based overhead capitalization policy for the Distribution business?
b. If so, please provide the estimate with appropriate assumptions and caveats regarding precision for each year in the rate setting period.
c. Has Networks carried out any work in estimating other incremental capital or OM&A costs that would be incurred if the Networks regulated Distribution businesses were mandated by the OEB to move to an IFRS-based overhead and indirect cost capitalization policy? For example: can Networks estimate the Distribution portion of any related IT system change costs; incremental finance staff; incremental IFRS consulting, additional audit fees; other costs etc.
d. Has Networks detected any material changes to the regulatory, accounting or economic facts and arguments provided to the OEB in Networks' study "Distribution Business – Review of Overhead Capitalization Policy," filed in EB-2013-0416 as Exhibit C1-5-2 Attachment 2? Has Networks considered updating this study in response to the OEB's EB-2016-0160 Transmission decision?
e. Would Networks agree that an OEB-mandated change in overhead capitalization policy from its current US GAAP compliant approach to an IFRS-complaint approach likely trigger a "Z factor" event if it occurred within the Distribution five-year custom IR period?
f. Please comment on Networks' ability to provide the OEB with adjusted financial information, normalizing its accounting for overheads and other indirect costs, in sufficient detail to allow for the OEB to carry out reasonably accurate total cost or total OM&A benchmarking with utilities using MIFRS as opposed to US GAAP.

G. REVENUE REQUIREMENT

G.44 Is Hydro One's proposed depreciation expense for 2018 and further years appropriate?

Society # 20

Networks states in its depreciation evidence (reference Exhibit C1 Tab 6 Schedule 1 page 2) that "the 2016 Foster Associates study would create, if implemented, increased depreciation rates and expense over the 2018 to 2022 rate setting period. Planned capital expenditures over the five-year term of the Application however may result in an increase in the average remaining life of these asset pools, requiring a future decrease in depreciation rates and expense."
Networks appears to base its proposal not to adopt the 2016 depreciation recommendation of its independent external consultant on adverse rate impact and on a hope that future capital expenditures might offset the impact of deprecation rate changes recommended by Foster and Associates based on its observations.

a. Please explain in more detail why the Board should not require Networks to adopt Foster and Associates' recommended depreciation rates when Foster Associates is an independent technical expert and ratepayers effectively fund the cost of their work.
b. Foster and Associates' states its theoretical basis for Networks' having a choice on whether to propose adoption of any or all its recommendations (in its transmittal memo found at C1-6-1 Attachment 1). Foster and Associates seems to make a case that depreciation expense is based on the consumption of asset service potential and that consumption rate is measured by changes in the net present value of future net revenues (cash flows). Has Networks previously applied this conceptual approach to measuring the consumption of service potential of its assets? Please provide any available documentary evidence or precedents.
c. Please explain the specific technical, asset service life experience or accounting factors driving the material differences between Networks' current depreciation parameters and those initially recommended by Foster and Associates with particular attention to the significant impacts that appear to result from the changes attributable to BU 300.
d. Networks uses the term "may" when discussing the potentially offsetting impact of its future capital investments on deprecation rates. Please describe the assurance that Networks has that Foster and Associates' currently observed depreciation rate adjustments will be exactly offset by new capital investments in specific asset pools in the rate period?
e. Is this potential future offset expected to impact each year of the rate setting period exactly equally?
f. Has Networks produced any financial models illustrating this potential future offset? If so, please provide them and attach any relevant assumptions or caveats.
g. Is Networks aware of any regulatory precedents where an independent depreciation study recommending a material adjustment to depreciation expense has not been implemented based on an expectation of possible future reversals or offsets within the rate setting period? If so, please provide any such precedents.
h. Is the acceptance of this position by Networks' independent external auditor based on an expectation that the existing rates will be approved by the OEB? More specifically, is the auditor's concurrence predicated on an expectation of

OEB approval giving rise to a regulatory accounting exception to US GAAP requirements as they would apply to an unregulated entity?

Society #21
In its December 21, 2017 evidence update, Networks notes that it has adjusted its requested depreciation expense to reflect the impact of the Board's EB-2016-0160 Transmission decision on Networks' Corporate Common Assets shared by Transmission and Distribution businesses. The Transmission decision reflects the results of a 2015 Transmission Depreciation Study carried out by Foster Associates.

a. Please confirm that the depreciation parameters approved by the OEB in EB-2016-0160 for these common assets differ from those recommended for the same assets by Foster Associates in its more recent 2016 Distribution Depreciation Study.
b. Please provide the comparative depreciation expense for the test years for BU 300 assets using (1) the proposed the Transmission depreciation parameters for common assets and (2) the depreciation parameters recommended by Foster Associates in its 2016 Distribution Depreciation study.
c. Why should the OEB depart from past practice and not approve the most recent study to both Transmission and Distribution?

J. DEFERRAL/VARIANCE ACCOUNTS

J.57 Are the proposed new deferral and variance accounts appropriate?

Society #22
"Hydro One Distribution proposes to record the net periodic post-retirement benefit cost other than service cost that would have been classified as capital prior to the issuance of ASU 2017-07 in a deferral account effective January 1, 2018. Alternatively, if the Board determines it is more appropriate to recover these costs in 2018, Hydro One requests to revise the OM&A forecast in this application." (Reference - Exhibit F1 Tab 3 Schedule 1 pp. 6 and 7).

a. What future disposition pattern does expect to Networks suggest for these deferred OPEB costs should the OEB approve this account?
b. Please provide a link to the .pdf of the FASB document ASU-2017-07 or alternately file the document.
c. Dissenting members of the FASB concluded that precluded costs will continue to be capitalized by rate regulated entities as they are allowable costs (see p. 41 of ASU-2017-07). Given this expectation of continued capitalization by members of the accounting standard setter, has Networks considered asking the OEB for a regulatory accounting policy decision to allow it to continue to capitalize these otherwise ineligible OPEB costs? Would this not be a reasonable alternative to a deferral account?

d. If such a regulatory accounting option was adopted in place of a standard deferral account, would Networks consider that the deferred costs should be treated as a component of rate base for regulatory purposes?
e. Has Networks held any discussions with other US or Canadian utilities, regulators or industry associations on the specific regulatory approach to be used in other jurisdictions for employee benefits costs made ineligible for capitalization by the new accounting interpretation from FASB? Please comment on or summarize findings if such a discussion has occurred.
f. Please identify, describe and update for any changes to the proposed parameters and accounting for the OPEB variance account requested by Networks in this application given the new generic variance account for forecast-to-actual differences required by the OEB's EB-2016-0160 report on the regulation of pension and OPEB costs.