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Frank D'Andrea
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BY COURIER

February 6, 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 January 23, 2018, OEB Staff contacted Hydro One with further followup questions regarding Hydro One's evidence. Hydro One has attached its reponses to OEB staff's questions.

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

OEB Staff Questions on January 5 Update
January 23, 2018

OEB Staff – 1
Ref: Norfolk Power Distribution Ltd. ("Norfolk Power")
Ref: Exhibit 1 – OEB Staff Analysis - Transaction Activity in Year of Integration

With respect to Norfolk Power, OEB staff had noted that the absolute dollar value of principal transaction amounts in the year of integration (2015) for RSVA – Power (1588) and RSVA – Global Adjustment (1589) were substantially higher, when compared to transaction totals for these accounts reported in prior years.

OEB staff has calculated the principal balance transactions for these Group 1 Accounts in the year of integration using the IRM continuity schedule and the principle balance totals provided by HONI (please see Exhibit 1). As seen in Exhibit 1, the period from January to August 2015 shows principal transaction totals of $1,169,040 and ($1,052,499) for Accounts 1588 and 1589, respectively. Similarly, the amounts for the period of September to December 2015 shows principal transaction totals of $1,867,847 and ($1,743,491) for Accounts 1588 and 1589, respectively. Please explain why the total principal transactions in these periods for Accounts 1588 and 1589 are substantially greater, in absolute terms, than in prior years? Are there potential misallocations of debits or credits charged to these accounts following the period of integration?

Response

Hydro One does not have detailed principal transaction data readily available for the pre-integration periods referenced by OEB staff. Hydro One has conducted a rigorous review and found no misallocation of debits or credits charged to any RSVA Commodity 1588 or RSVA GA 1589 account following the period of integration. The allocation method is based on the best available information that Hydro One has to determine each Acquired LDC's variance balances. Hydro One does not foresee any changes to its allocation methodology, at this time.

OEB Staff – 2
Ref: Woodstock Hydro Services Inc. ("Woodstock Hydro")

Similar to OEB staff's findings for Norfolk Power, with respect to Woodstock Hydro, OEB staff has noted that the absolute dollar value of amounts of principal transactions in the year of integration (2016) with respect to RSVA –Global Adjustment (1589) were substantially higher, when compared to transaction totals for these accounts reported in prior years (please see Exhibit 2). Please explain why the total principle transactions in 2016 for RSVA – Global Adjustment 1589 are substantially greater, in absolute terms, than in prior years? Are there potential misallocations of debits or credits charged to these accounts following the period of integration?

Response

See response to OEB Staff – 1.

OEB Staff – 3
Ref: Haldimand County Hydro Inc. ("Haldimand County Hydro")

OEB staff has reviewed the transaction totals in 2016 for distributors of similar size to Haldimand County Hydro. Staff notes that the total principle transactions in 2016 for RSVA – Global Adjustment 1589 are greater, in absolute terms, when compared to industry peers. Are there potential misallocations of debits or credits charged to these accounts following the period of integration?

Response

See response to OEB Staff – 1.

OEB Staff – 4

Given the large balances in the Group 1 DVA accounts, specifically RSVA – Power (1588) and RSVA –Global Adjustment (1589), has Hydro One Networks considered deferring its request for disposition of the DVA accounts for each respective acquired utility, to a later date, in order to utilize the necessary time and resources to better assess the reasonability of the account balances?

Response

Given the amount of time that has elapsed since each of the acquired utilities last disposed of their Group 1 DVA balances, Hydro One does not see the benefit to rate payers of accruing additional interest charges as a result of delaying the disposition of DVA balances further.

As noted in the responses to questions 1 through 3 above, Hydro One has conducted a rigorous review of its allocation which has resulted in some changes to the balances sought for disposition. Hydro One believes that the proposed methodology for allocating balances to the acquired utilities is reasonable and that the allocated balances reflect the best information available. Hydro One does not foresee any changes to its allocation methodology, at this time, therefore Hydro One sees no need to defer disposition to a future proceeding.

Over the course of this proceeding, Hydro One has provided evidence in the form of:

- the GA Analysis Workform; which has reconciled the overall GA balances for Hydro One;
- a detailed description of its settlement process; and
- a detailed description of its proposed allocation methodology.

Hydro One notes that OEB staff has not posed any questions regarding this evidence. The concerns raised by OEB staff have been solely related to the size of the balances "in absolute terms." In other words, OEB staff's has taken no issue with the approach, only the result. Given that the post-integration balances are the result of an allocation, the issue in this proceeding is whether or not Hydro One Networks Inc. customers are subsidizing those of the acquired utilities, or vice versa.

As noted in response to an earlier question from OEB staff, Hydro One would take no issue with disposing of Group 1 balances on a consolidated basis, going forward. Doing so would simplify the disposition of Group 1 balances in the future and eliminate the current concerns as an allocation would no longer be required. Hydro One notes that it will continue to track Group 2 accounts for the acquired utilities, separately.

Should the OEB share the concerns of OEB staff regarding the proposed allocation methodology, it could consider:

1. Approving the disposition of balances as proposed in this application and ordering the disposition of balances on a consolidated basis, going forward; or
2. Approving only the disposition of balances that are directly attributable to each acquired utility in this proceeding and ordering the disposition on a consolidated basis, going forward.