EB-2017-0049

TECHNICAL CONFERENCE QUESTIONS
BY CANADIAN MANUFACTURERS & EXPORTERS ("CME")
FOR HYDRO ONE NETWORKS INC. ("HYDRO ONE") PANEL 1

Question 1

Reference: Exhibit I, Tab 7, Schedule CME-1, part (b)

a) Is it correct that Hydro One proposed to update the cost of capital for 2021 and 2022 for all of the Hydro One distribution assets and not just the distribution assets of the acquired utilities?

b) If the acquitted utilities had been included in the rate base of Hydro One beginning in 2018, would Hydro One still be seeking an update of the cost of capital parameters for 2021 and 2022?

Question 2

Reference: Exhibit I, Tab 9, Schedule CME-5

Please confirm that based on the response provided, that the capital factor will be set as part of this proceeding for 2019 and 2020 and then for 2021 and 2022, the capital factor will be updated based only on the changes that will be proposed for the short term and long term debt rates and them allowed return on equity, and that there will be change to the rate base or capital additions in 2021 and 2022 from that approved in this proceeding.

Question 3

Reference: Exhibit I, Tab 44, Schedule CME-36

The evidence indicates that there is a $21.9 million difference in the depreciation expense in 2018 between using the existing depreciation rates and changing to the 2016 Foster Associates study. Part (c) of the question asked if this would result in rate base being more than $100 million higher by the end of 2022 under the Hydro One proposal to continue to use the existing rates rather than those recommended in the Foster Associates study. The response indicates that this would not be the case.

a) Is this response based on the $21.9 million figure in the evidence, or was it based on the updated information as provided in the response to part (a) of the response, which is based on the Exhibit Q updates?

b) If the response is based on the original evidence, please explain why rate base would not be more than $100 million higher at the end of 2022, given the lower depreciation of $21.9 million in 2018, and comparable reductions in 2019 through 2022.

c) If the response is based on the Exhibit Q updates, what is the approximate increase in rate base at the end of 2022?

Question 4

Ref: Exhibit I, Tab 44, Schedule CME-38

In Exhibit Q, the depreciation expense for 2018 has increased by $4.5 million. The interrogatory response indicates that the increase is only related to depreciation and there is no impact on the asset removal costs or capitalized depreciation. The response to part (b) indicates that the in-service additions adjustment triggered a changed in fixed assets.

a) Please confirm that the in-service additions in 2018 were decreased in 2018 in Exhibit Q relative to the original forecast and, therefore, would lead to a reduction in 2018 depreciation expense.

b) Were there any changes in the in-service additions for 2017, and if so, what is the impact on the 2018 depreciation expense?

Question 5

Ref: Exhibit I, Tab 55, Schedule CME-38

At page 2 of Exhibit Q, Tab 1, Schedule 1, two drivers of the $4.5 million increase in the 2018 depreciation expense are noted: the reduction in the capital forecast and an update to the rates for general plant t align with the OEB's decision dated September 28, 2017 in the 2017-2018 transmission application (EB-2016-0160).

Please provide the breakdown between these two drivers, including the calculations, that result in the net increase of $4.5 million in the 2018 depreciation expense.

Question 6

Ref: Exhibit I, Tab 45, Schedule CME-67

The interrogatory deals with other revenues and requested that Table 3 in Exhibit E1, Tab 1, Schedule 2, Updated be updated with 2017 actuals. The response indicates that 2017 actual data is not yet available, but will be provided once it is available.

a) In addition to providing the actual 2017 data when it is available for Table 3, please also provide an updated Table 1 from Exhibit E1, Tab 1, Schedule 2.

b) For each line item in Tables 1 and 3, please indicate if there is a deferral or variance account that deals with any difference between the forecast and actuals over the forecast horizon.

Question 7

Ref: Exhibit I, Tab 34, Schedule CME-48

This interrogatory explains the change since the last lead lag study with respect to the "not assigned" category. The Navigant report states that 6.9% of the customers do not have an assigned billing schedule (Exhibit D1-1-3, Attachment 1, page 7). The response to part (c) of the interrogatory refers to the 6.9% as being the percentage of revenues.

a) Is the 6.9% related to revenues or customers?

b) The response to part (b) has a figure of 5.8% for the not assigned category. Is this 5.8% of revenues or customers?

c) What is the difference between the 6.9% and the 5.8%?

Question 8

Ref: Exhibit I, Tab 34, Schedule CME-48

Table 3 in the response to part (a) appears to use a simple average of the three categories used to come up with the mid-point for the not-assigned category.

Please explain why a customer or revenue weighting was not used to calculate the mid-point for the not-assigned category.

Question 9

Ref: Exhibit I, Tab 34, Schedule CME-50

The interrogatory deals with Tables 2 and 3 in the Navigant report. In particular, it deals with the impact of the Fair Hydro Act on the retail revenue lag.

The response to part (a) indicates that the retail revenue line would not change and that the only impact is that part of the retail revenue would shifts from the customer to a third party.

a) Who is that third party?

b) While the retail revenue line in Table 2 does not change, why wouldn't there be a different collections lag in Table 3 for the retail revenue that comes from the third party, since payment from the third party will not be identical to that from the distribution customers?

c) In part (b) of the response, it is indicated that based on 2017 data, about 5% of the retail revenues are funded through the IESO for the distribution rate protected residential customers and the delivery credit for on-reserve customers. What is the forecast of retail revenues for 2018?

d) Please confirm that the forecast for the DRP and First Nations credits is $253 million in 2018, which is more than the revenue funded through the RRRP (Exhibit I, Tab 51, Schedule CME-91)

e) Please confirm that based on the response to part (c) of the interrogatory, the DRP and First Nations credit is provided to Hydro One by the IESO through a credit on the cost of power invoice. If this cannot be confirmed, please explain.

f) Part (d) of the response says that the RRRP credit was previously funded by the IESO through its monthly invoice. Please explain the word "previously" and explain how the RRRP credit if funded now.

g) Part (g) of the interrogatory response states that the DRP and FNDC credits will only be reimbursed after they are applied to a customer's invoice which is based on the billing period for each individual customer. If a customer has a billing period that ends on February 15 (meter reading) and there is a 7 or 8 day billing lag, the invoice is created on or about February 22 or 23. That invoice will reflect a credit to the customer of some amount. When does that amount show up as a credit on the IESO invoice to Hydro One?

Question 10

Exhibit I, Tab 33, Schedule Staff-176

In the response to part (b), the estimated reduction in the working capital requirement in 2017 is estimated to be about $24 million, which is related to a reduction in the cost of power, largely a result of a decrease to the global adjustment rate.

a) How is the DRP and FNDC related to the decrease to the global adjustment rate?

b) The response then goes on to say that the Navigant study was utilized to estimate the $24 million reduction, but the response does not explain how the amount was calculated or what information from the Navigant study was utilized. Please show how the $24 million figure was derived.

Question 11

Ref: Exhibit I, Tab 33, Schedule Staff-178

The updated evidence in Exhibit D1, Tab 1, Schedule 1, Table 2 shows the 2018 cash working capital to be $321.2 million along with figure for 2019 through 2022.

Exhibit Q, Tab 1, Schedule 1, Table 7 has the same figure for 2018 and the subsequent years as in the original evidence.

a) Why did the cash working capital not decrease when the OM&A forecast for 2018 decreased by $5.1 million?

b) The response found at Exhibit I, Tab 33, Schedule Staff-178, page 6, there is a new set of numbers for 2018 through 2022 for the cash working capital. In 2018 the figure is $281.0 million, a reduction of $40.2 million. Please confirm that based on the heading in the table this reduction is related solely to the Fair Hydro plan. If this cannot be confirmed, please explain.

c) Please confirm that the impact of the reduction in OM&A on the cash working capital would be in addition to the $40.2 million reduction? If not, please explain fully.

Question 12

Ref: Exhibit I, Tab 3, Schedule CME-65

In the revenue requirement workform provided in the response to Exhibit 1, Tab 3, Schedule CME-65 in the rate base and working capital sheet, the reduction in the allowance for working capital of about $40 million is the result of a reduction in $8 million in controllable expenses and a reduction of $584 million in the cost of power.

a) How does the $577 million in updated controllable expenses in the spreadsheet relate to the $579.6 million in OM&A costs shown in Table 1 in Exhibit Q, Tab 1, Schedule 1? (original figures were $585 in spreadsheet and $584.8 in Table 1, which match)

b) Is the reduction in the cost of power of $584 million shown in the spreadsheet related solely to the Fair Hydro plan? How does it relate to the $253 million provided in Exhibit I, Tab 51, Schedule CME-91?

Question 13

Ref: Exhibit I, Tab 34, Schedule CME-61

In the response to part (b) in Exhibit I, Tab 34, Schedule CME-61, the cost of power flow through is shown for 2018 through 2022.

Please update these tables to reflect the impact of the Fair Hydro plan and provide an explanation for any differences from that filed in the interrogatory response.

Question 14

Ref: Exhibit I, Tab 34, Schedule CME-51

The response indicates that the Navigant report was incorrect in saying that the Inergi payments occur at the end of the month when it now takes place in the middle of the month.

a) Please confirm that this is correct and that the Inergi payments are made in the middle of the month.

b) Why was there a change in the timing of the Inergi payment, accelerating the payment from the end of the month to the middle of the month?

Question 15

Ref: Exhibit I, Tab 34, Schedule CME-55

a) Does Hydro One pay interest on its long term debt instruments semi-annually?

b) Based on the interest table shown in the response to part (a), is it correct that interest is paid in advance of the end of the period? For example, on the first line, Hydro One paid $4.176 million on January 9 and another $4.176 million on July 10. Were both of these payments related to the amount outstanding on the loan for 2014 only? What is the issue date of this particular long debt instrument?

c) The PILS table in part (b) shows equal monthly payments. Why is there no true-up to reflect the actual PILS paid for 2014?

d) Is there any change in moving from the PILS regime to the standard corporate income tax on the timing or amounts of payments made? If yes, please explain fully.

Question 16

Ref: Exhibit I, Tab 34, Schedule CME-58

This interrogatory dealt with the HST calculations shown in Table 8 in the Navigant study and the response indicates that there would be too much time and effort required within the time allowed and on the immateriality of the impact on the revenue requirement to provide the requested information.

The cost of power component of the HST shown in Table 8 represents rate base amounts ranging from $59 million to $71 million, and is larger than the total net HST included in the working capital amounts.

a) Please provide the data, assumptions and calculations used to determine the HST lead time for the cost of power only of 46.42 days.

b) Is there any impact on the HST calculations of the fair hydro plan? For example, is there a reduction in the HST due to the reduction in cost of power? Please explain fully.

Question 17

Ref: Exhibit I, Tab 34, Schedule CME-59

The response appears to indicate that the working capital percentage calculated in Tables 9 through 13 of the Navigant report are outputs and are not used as inputs into the calculation of the cash working capital amounts included in rate base.

a) Please confirm that the cash working capital figures used by Hydro One in the calculation of rate base are the dollar figures taken from each of the five tables (9 through 13) in the Navigant study and the total cash working capital percentages are not used in the calculations. If this is not correct, please explain fully.

Question 18

Ref: Exhibit I, Tab 3, Schedule CME-65

The rate base and working capital sheet in the revenue requirement workform provided in the response to the above noted interrogatory shows an increase in the working capital rate from 7.81% to 7.99%.

a) Please explain the increase in the working capital rate.

b) Please explain why these figures are different from the 7.70% that was derived for 2018 in Table 9 of the Navigant study?

Question 19

Ref: Exhibit I, Tab 33, Schedule Staff-178

It does not appear that there is any information on the record to support the updated cash working capital figures that take into account the Fair Hydro plan as shown in the response to Exhibit I, Tab 33, Schedule Staff-178.

a) Please confirm that the figures shown in the interrogatory response come from an updated calculation based on the Navigant study. If this cannot be confirmed, please explain fully how the numbers have been derived.

b) Please update Tables 9 through 13 in the Navigant study that result in the figures shown in the staff interrogatory, as well as Table 8 (summary of HST) if there are changes in the HST amounts resulting from the Fair Hydro plan.

c) For each of the tables, please explain any changes in the lead or lag days or in the level of the expense to which the working capital factor is applied.