

ECONALYSIS CONSULTING SERVICES

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March 6, 2018

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: Hydro One Networks Inc.
Custom IR Distribution Rate Application 2018-2022
Board File Number EB-2017-0049
VECC's Undertaking Questions for Technical Conference Panel 3**

As noted in the March 5, 2018 Technical Conference Transcript at page 149, Hydro One (Panel 3) undertook to respond to the written questions of VECC by way of Undertaking JT3.18.

VECC's undertaking questions for Panel 3 are attached.

Yours truly,

William Harper

Consultant for VECC

cc: All Parties, EB-2017-0049

**Hydro One Networks Inc. (HONI)
2018-2022 Custom IR Distribution Application
VECC's Panel 3 Technical Conference Questions**

Issue #46 – Is the load forecast methodology including the forecast of CDM savings appropriate?

Topic: Historical CDM Included in Load Forecast Model

TC Question #1

Reference: 43-VECC-75
43-VECC-65
2016 Ontario Planning Outlook (OPO) <http://www.ieso.ca/sector-participants/planning-and-forecasting/ontario-planning-outlook>

Preamble: The load forecast models use actual load data up to and including 2016 (E1/T2/S1, page 7).

VECC 75, Attachment 1 indicates that the historical CDM savings attributable to Hydro One's service area were derived from CDM savings reported in the OPO.

VECC-65 confirms that the CDM savings shown in in Exhibit E1/Tab 2/Schedule 1, page 42 – Table E.9 are end-use values.

- a) VECC 75 indicates that the historical CDM savings were taken from the 2016 Ontario Planning Outlook (OPO). However, the OPO only provides historical CDM savings up to 2015. Please indicate where the 2016 actual savings came from and provide a reference to/copy of the source.
- b) Attachment 1 indicates that 16.56% of historical provincial CDM savings due Codes and Standards (C&S) was assumed to be attributable to Hydro One's service area. It also indicated that the 16.56% represents Hydro's One's share of the targeted CDM savings for 2015-2020. Please explain how the use of this percentage appropriately reflects Hydro One's share of historical C&S savings.
- c) Also, Attachment 1 shows Hydro One total end use CDM savings for 2016 of 1,866.7 GWh whereas Exhibit E1/Tab 2/Schedule 1, page 42 – Table E.2 shows total end use savings for the same year of 2,765 GWh. Similar differences exist for all historical years. Please reconcile the differences and/or correct the data/forecast as required.
- d) Please clarify whether historical savings set out in the OPO are: i) based on the annualized savings from EE programs assuming all savings from a year's programs come into play on January 1st or ii) based on actual savings for the year which would recognize that EE programs are implemented throughout the year?

TC Question #2

Reference: 43-VECC-75
2016 Ontario Planning Outlook (OPO)

Preamble: VECC 75 requested detailed data on historical savings by implementation year which, according to the responses to parts (a) – (c), Hydro One is unable to provide.
VECC 75 requested (parts (g) and (h)) copies of Hydro One's verified CDM results reports

- a) Attachment 2 only provides the impact of 2011-2014 programs for the period 2011-2014. Please provide the IESO report that indicates the persisting impact of these programs though to 2020 as originally requested.
- b) Please complete parts (a) and (b) of VECC 75 based on the verified results for Hydro One's historical EE programs.
- c) With respect to the response to part (g), please explain the "definitional" difference between historic EE program savings as reported by Hydro One and the historic EE savings reported in the OPO (Data Tables, Figure 11) for the period 2006-2020.

Topic – CDM Savings Included in Load Forecast

TC Question #3

Reference: 43-VECC-75, Attachment 5
2016 Ontario Planning Outlook (OPO)
17-OSEA-6

Preamble: VECC 75 Attachment 5 indicates that the source of the forecast provincial CDM savings is the 2016 OPO.
OSEA -6 sets out Hydro One's 2015-2020 CDM Plan

- a) Please clarify whether the forecast savings in the OPO are: i) based on the annualized savings from EE programs assuming all savings from a year's programs come into play on January 1st or ii) based on actual savings for the year which would recognize that EE programs are implemented throughout the year?

Topic: LRAMVA Threshold

TC Question #4

Reference: 55-CCC-75
46-Staff-233

Preamble: In response to 55-CCC-75 HON confirmed it was establishing an LRAM Variance Account.

Staff-233, Table 3 sets out Hydro One's proposed LRAMVA thresholds (i.e., CDM amounts assumed in the load forecast)

- a) Please confirm that Hydro One will be seeking recovery of:
 - i. Lost revenues in 2018 from programs implemented in 2015-2018.
 - ii. Lost revenue in 2019 from programs implemented in 2015-2019, and

- iii. Lost revenues in 2020 from programs implemented in 2015-2020?
If not, please clarify Hydro One's proposals for lost revenue recovery.
- b) Are the CDM savings values set out in CCC-75, Table 3 annualized values (i.e., assuming all CDM programs are implemented January 1st) or do the values represent the expected forecast savings in each year?
- c) Are the values set out in CCC-75, Table 3 the base CDM savings against which Hydro One plans to calculate the LRAMVA amounts?
- i. If yes and the values are not "annualized" please provide the annualized equivalents.
- ii. If no, please provide Hydro One's proposed "annualized" LRAMVA thresholds for each year for which it will be seeking a lost revenue recovery.
- d) Since the load forecast model is based on actual data up to 2016 and actual CDM savings are reported by the IESO up to 2016, why aren't the 2015 and 2016 implementation year values in Table 3 based on the actual verified Hydro One savings for 2015 and 2016?
- e) Since the load forecast model is based on actual data up to 2016 and actual CDM savings are reported by the IESO up to 2016, why is it necessary to seek recovery for lost revenue from programs implemented in 2015 and 2016?
- f) For the program years 2017-2020, why use the values in CCC-75 as opposed to those set out in HON's approved CDM plan – provided in response to OSEA #6?
- g) Since the LRAM calculations are class specific – please provide a breakdown of the proposed LRAMVA kWh threshold for each year (2018-2020) by customer class and indicate how the values were derived.
- h) Staff-233 makes reference (page 2, line 14) to an attached MS Excel file. However, there does not appear to be a corresponding attachment on the OEB web-site. Please provide.

Topic: Forecast Customer Counts

TC Question #5

Reference: 43-VECC-70
46-Staff-219

- a) VECC-70 b) requested the actual customer count values by class for 2017. The response referred to Staff-219, Table 4. Please confirm that the correct reference is Table E.4 of the Staff-219. If not, what is the correct reference?
- b) For which months in Staff-219, Table E.4 are the customer counts based on actual (as opposed to forecast) values?
- c) The response to Staff-219 includes a revised forecast for both customer count and load by class. Is Hydro One proposing to adopt these new forecasts and update its Application to reflect the revised values?

TC Question #6

Reference: 43-VECC-71, Attachment 1

Preamble: The attachment to VECC 71 sets out the impact of reclassification on the customer counts for the various GS classes and there are two tables (starting at Rows 64 and 82 respectively) – one purportedly before reclassification and one after. However, they are both labelled “Before Reclassification”.

- a) Please indicate whether it is the table at Row 64 or 82 that is the After Reclassification counts?
- b) The customer counts set out in the Application appear to use the Row 64 values. Please confirm whether these are the correct values.

Topic: Use of Multiple Models

TC Question #7

Reference: 43-VECC-76
46-CME-70

Preamble: VECC 76 c) provides the load forecasts from the different models and resulting preliminary forecast. It notes in part c) that this forecast was adjusted upwards to arrive at the forecast used in the application.

CME-70 also describes how the results from the three models were used to establish the load forecast.

- a) How was the upward adjustment referred to in VECC 76 c) determined?
- b) Table 2 of VECC-75 indicates that the results of the models were averaged and adjusted before adjusting the forecast for CDM? (Note the value for 2016 actual is equivalent to E1, Tab 2, Schedule 1, Table 7 – for the Retail Class before deducting CDM). However, CME 70 c) states the forecast was based on an average of the forecasts after adjusting for CDM. Please clarify whether the averaging was done before or after adjusting for CDM?
- c) The response to VECC-75 indicates that it was the growth rates (over 2016 actuals) that were “averaged”. However, CME-70 c) suggests it was the average of the forecast values that was averaged. Please clarify the approach used.

Topic: Load Forecast Update

TC Question #8

Reference: 46-City of Hamilton-6

Preamble: In City of Hamilton-6, HON indicates that it plans on updating the load forecast for 2021 and 2022.

- a) Please indicate exactly what will the update entail. For example will Hydro One just be updating the inputs used in the various models, will the CDM values for the period 2017-2022 be updated, and will the models themselves also be updated?

Issue #49 – Are the inputs to the cost allocation model appropriate and are costs appropriately allocated?

Topic: Cost Allocation Inputs

TC Question #9

Reference: 46-VECC-87 a)
49-Staff-241

Preamble: VECC-87 a) asked about the weighting factors for Billing & Collecting and Services and the response referenced Staff-241.

- a) Staff-241 only discusses the basis for Billing & Collecting weighing factors. How were the Services weighting factors used in the Cost Allocation Model determined?
- b) When was the last time the weights for Billing and Collecting were formally reviewed (i.e., a formal study was undertaken as opposed to being confirmed based on discussions with customer service staff)?
- c) When was the last time the weights for Services were formally reviewed?

TC Question #10

Reference: 46-VECC-87 b)
49-Staff-241

Preamble: VECC-87 b) asked about the allocation of Services costs to the acquired rate classes.

- a) The response to VECC 87 b) confirms that the Services cost for the acquired utilities were included in the GFA adjustment factor and therefore these assets are included in the costs allocated to the acquired rate classes. However, as no Service costs are allocate to the acquired GS rate classes – where are the Services costs that the acquired utilities previously allocated to their GS rate classes now allocated in Hydro One's 2021 Cost Allocation Model? Are they all allocated to the acquired Residential rates classes?

TC Question #11

Reference: 46-VECC-88 a) & b)

Preamble: The response to VECC 88 a) & b) provides the average meter costs by customer class as used in the current 2018 & 2021 Cost Allocation models and also in the previous 2015 Cost Allocation Model (CAM).

- a) Please explain why for the 2015 CAM – the UR and R1 classes had lower meter costs per customer than the R2 and Seasonal classes whereas in the current CAMs the average cost is the same for all four classes.
- b) It is noted that for the Acquired Customer classes in the 2021 CAM the cost of a residential meter is less than that for Hydro One's existing R1 and R2 classes but the cost of an AcUGe and an AcGSe meter is substantially more for the Acquired classes than for Hydro One existing GS classes. Please explain why.

- c) In contrast for the demand billed GS classes – the cost of the meter for the Acquired Utility classes is less than for Hydro One’s existing GS classes. Please explain why.

TC Question #12

Reference: 46-VECC-89 b)

Preamble: The response to VECC 89 b) indicates that Hydro One has no information that would indicate the relative cost of serving the different density areas has changed.

- a) In Hydro One’s view what type of information should be looked at to make such a determination?
- b) Has Hydro One made any such investigations? If not, why not?

TC Question #13

Reference: 46-VECC-90 g)

Preamble: In VECC 90 f) (g in the response) Hydro One was asked to calculate the GFA adjustment factors for specific USOA accounts and values were provided for accounts 1830 (Poles, Towers and Fixtures) and 1860 (Meters).

- a) Please confirm that the costs for these two accounts are allocated to customers using two totally different allocation factors?
- b) For certain acquired rate classes there is a significant difference between the GFA adjustment factors for these two accounts suggesting a more account specific determination of the adjustment factors would produce different cost allocation results and revenue to cost ratios. Is Hydro One willing to adopt “account-specific” GFA (and NFA) adjustment factors for purposes of its 2021 CAM? If not, why not?
- c) Absent moving to the more detailed method – would Hydro One agree that the use of the simpler approach would suggest the application of a wide range for what would be considered an “acceptable” R/C ratio?

Topic: Future Cost Allocation

TC Question #14

Reference: 49-Staff 242 d)
49-Staff-243 d)

Preamble: The responses to Staff 242 d) and Staff 243 d) indicate that Hydro One does not plan on updating the GFA and NFA adjustment factors in future CAMs.

- a) If one assumes that the CAM appropriately allocates any investments after 2021 to the acquired rate classes why wouldn’t the adjustment factors change over time as the pre-2021 investments that drove the need for the adjustment become a smaller and smaller proportion of the total costs to allocated?

TC Question #15

Reference: 48-VECC-96
13-CCC-15

Preamble: VECC 96 asked about HON's plans to update its 2021 CAM and the response spoke to the CAM update arising from the December 2017 update. However, what the original question was referring to was Hydro Ones plans (if any) to update the 2021 CAM with the 2021 cost of capital parameters and the updated 2021 and 2022 load forecast as discussed in CCC-15

- a) Please indicate what other aspects of the current 2021 CAM (apart from the cost of capital parameters and load forecast) will be updated (e.g., Other Aspects of the Revenue Requirement, Asset Values, Weighting Factors, Average Meter Costs, Meter Reading Weights, etc.)?

Issue #52 – Are the proposed fixed and variable charges for all rate classes over the 2018-2022 period appropriate, including implementation of the OEB's residential rate design?

Topic: Transition to 100% Residential Fixed Rate

TC Question #16

Reference: 49-VECC-98

Preamble: VECC 98 requested that Hydro One provide a table demonstrating whether its proposed transition to a fully fixed charge for its Residential and Seasonal classes met the Board's \$4 impact criterion.

- a) Please confirm that the table provided shows the total change in the monthly fixed charge for each affected class over the CIR period (i.e., the change shown is the result of both the move to a fully fixed charge plus the annual increase in rates for each class).
- b) Please confirm that Appendix 12 of the Board's Revenue Requirement Work Form calculates the change in monthly fixed charge – excluding the impact of the overall rate increase.
- c) Please re-do the response to VECC 98 using the same approach as the RRWF.

TC Question #17

Reference: 49-VECC-98

Preamble: In the response Hydro One acknowledges that the annual changes are greater than \$4 – but notes that the transition periods are in accordance with the Board's EB-2015-0079 Decision.

In that Decision (page 7) the Board also emphasized that the total annual bill impacts would be less than 10% for low volume customers.

- a) Please indicate whether, in the current Application, this is still the case for each of the affected rate classes, over the entire transition period (excluding the impacts of Distribution Rate Protection)?

Issue #54 – Are the proposed specific service charges for miscellaneous services over the 2018-2022 period reasonable?

Topic: Reduction in vegetation management costs

TC Question #18

Reference: 42-VECC-64

Preamble: During the third day of the Technical Conference (Transcript page 69, line 24 to page 70, line 7) the following question was deferred to Panel 3.

- a) What costs did Hydro One incur in 2016 and were forecast for 2017 to provide vegetation management services to telecom companies?

Issue #56 – Do the costs allocated to the acquired utilities appropriately reflect the OEB's decisions in related Hydro One acquisition proceedings?

TC Question #19

Reference: 56-SEC-96

Preamble: Part (c) iii) of the response states: "The combined Hydro One and Acquired Utilities' revenue requirement is \$9 M less than would have been in the absence of the transaction".

- a) Please clarify whether the referenced quote was referring to the difference in revenue requirement, as stated in the response, or to the difference in OM&A costs.
- b) If the reference was to the overall revenue requirement, please provide the 2021 forecast values for: i) Hydro One's distribution revenue requirement and ii) the Acquired Utilities' revenue requirement, in the absence of the transaction underpinning the response.
- c) If the reference was actually to the difference in 2021 OM&A costs then, based on the forecasts of status quo OM&A and capital expenditures provided in the relevant acquisition proceedings, please provide a forecast of the 2021 revenue requirement for the Acquired Utilities, in the absence of the transaction.

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