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Frank D'Andrea
Vice President, Chief Regulatory Officer,
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BY COURIER

June 13, 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-2017-0049 – Oral Hearing Undertakings for Hydro One Networks Inc.'s 2018-2022 Distribution Custom IR Application (the "Application")

Please find enclosed responses to undertakings from the Oral Hearing held on June 11, 2018 in regards to the above noted proceeding.

We are here filing responses to undertakings J 1.1, J 1.4, J 1.6, J 1.7 and J1.9.

This filing has been submitted electronically using the Board's Regulatory Electronic Submission System and two (2) hard copies will be sent via courier.

Sincerely,

ORIGINAL SIGNED BY FRANK D'ANDREA

Frank D'Andrea

Encls.
cc. EB-2017-0049 parties (electronic)

UNDERTAKING – J 1.1

Reference

N/A

Undertaking

To provide the 2017 stretch factor assignments

Response

The OEB letter, issued on September 14, 2017, which indicates the 2017 stretch factor rankings is provided as Attachment 1 to this undertaking.

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BY WEB POSTING

REVISED
(Original issued August 17, 2017)

September 14, 2017

To: All Licensed Electricity Distributors

Re: Incentive Rate-Setting: 2016 Benchmarking Update for Determination of 2017 Stretch Factor Rankings - Board File No.: EB-2010-0379

Annually, the Ontario Energy Board (OEB) benchmarks the total cost performance of the 68 electricity distributors. The rankings from the benchmarking are used to assign stretch factors that can reduce the rates for those distributors whose rates will be adjusted using the Incentive Rate Mechanism (IRM) (expected to be about 50) in the 2018 rate setting process. The stretch factor assignments are based on the results of a benchmarking study designed to measure individual distributors' cost efficiency.

Each distributor is assigned to one of five groups, or cohorts, with the best cost performers in Cohort I and the poorest cost performers in Cohort V. The distributors in Cohort I get no downward rate adjustment. The distributors in the lower cohorts get a downward rate adjustment ranging from 0.15% in Cohort II to 0.60% in Cohort V. The stretch factors incent distributors, and as such, promote, recognize and reward distributors for cost efficiency improvements, which in turn lead to lower distribution costs and rates.

The OEB commissioned Pacific Economics Group Research (PEG) to perform the benchmarking analysis according to an OEB-approved methodology. The most recent update based on 2016 data has been received and is posted on the OEB website.

The OEB notes the following regarding the overall industry's cost performance:

- The trend of the overall results is encouraging. The average level of cost performance in 2016 (2.82% lower than forecast cost) is the best in the four years that these assessments have been updated. The previous two years have shown similar but slightly lower levels of performance improvements (i.e., lower than forecast cost of 2.57% in 2015 and 2.53% in 2014).

- The resulting changes in rankings are stable. Of the six distributors whose rankings have changed from 2016 to 2017, three have moved to a lower stretch factor ranking based on improved cost performance while the other three have moved to a higher stretch factor ranking.
- The overall trend is indicative of improved cost performance. The average performance level from 2014-2016 is over 100 basis points better than that calculated for the same distributors from 2010-2012. The improvement was achieved despite various amalgamations that involved five distributors with poor performance on average. The OEB will continue to monitor to determine whether these improvements are sustained.

The table below shows the six distributors whose 2017 cohort and stretch factor assignments have changed, and the single distributor being assigned a stretch factor for the first time. The amounts shown in brackets represent the downward percentage adjustment to reduce the rates during the 2018 IRM rate setting process. Four distributors, Brant County, Cambridge and North Dumfries, Haldimand County and Woodstock, have been removed due to amalgamations that occurred in 2016. The stretch factor assignments of all other distributors remain the same.

Company Name	2016 Stretch factor ranking	2017 Stretch factor ranking
Burlington Hydro Inc.	Cohort 3 (0.30)	Cohort 2 (0.15)
Enersource Hydro Mississauga Inc.	Cohort 2 (0.15)	Cohort 3 (0.30)
Greater Sudbury Hydro Inc.	Cohort 3 (0.30)	Cohort 4 (0.45)
Hydro 2000 Inc.	Cohort 3 (0.30)	Cohort 2 (0.15)
Hydro One Networks Inc.	Cohort 5 (0.60)	Cohort 4 (0.45)
Waterloo North Hydro Inc.	Cohort 3 (0.30)	Cohort 4 (0.45)
Energy+ Inc.	Not Applicable	Cohort 3 (0.30)

Any inquiries regarding the above matter should be directed to the OEB's Industry Relations hotline at 416-440-7604 or by e-mail to IndustryRelations@oeb.ca. The OEB's toll free number is 1-888- 632-6273.

Yours truly,

Kirsten Walli,
Board Secretary

UNDERTAKING – J 1.4

Reference

I-03-SEC-004-02

Undertaking

To provide what makes up the 0.7 percent of other revenue impacts.

Response

Other revenue impacts for both Plan A and Plan B-Modified, refer to external revenue.

UNDERTAKING – J 1.6

Reference

I-24-SEC-046-01

Undertaking

To explain 24.sec.46, attachment 1, section 3, "scope of work", part b, terms of reference for AESI

Response

As indicated in Part B of Section 3 of the Terms of Reference, part of the AESI engagement was to support Hydro One in the production, submission and OEB review of the DSP evidence including the unit cost benchmarking studies that were submitted as Attachments to Section 1.6 of the DSP.

AESI reviewed and provided assistance in the production of the DSP. In the course of that review, AESI examined the Unit Cost Benchmarking studies. The purpose was to ensure that the findings laid out in the studies were acknowledged and addressed as part of the DSP. Hydro One's response to the studies is contained in Section 1.6.

For clarity, AESI did not undertake any independent research to validate the correctness of the findings or recommendations.

UNDERTAKING – J 1.7

Reference

I-40-AMPCO-050

Undertaking

To reconcile the internal audit plan and advise which apply to recommendations 5 and 11

Response

The current internal audit plan contains no planned audits applicable to these recommendations.

Hydro One's internal audit team focuses on areas of high risk with input from management and the Board of Directors. The internal audit plan does not include follow-up on these data issues because they were not determined to be of high residual risk, given the action plans devised by management and the status of data quality controls employed by management.

Witness: JESUS Bruno

UNDERTAKING – J 1.9

Reference
A-07-01

Undertaking
To clarify how the low-income energy assistance program is being accounted for in table 1 of tab 7 of the VECC compendium.

Response
The table referenced in the VECC compendium is from interrogatory response I-38-VECC-51, labeled 'Acquired LDC Forecast OM&A Costs'. These costs are incremental costs which are not included as part of the proposed distribution revenue requirement until 2021. In reviewing the table Hydro One notes the expenses were not mapped consistently. The table below represents the updated mapping of OM&A dollars between the categories to align with Exhibit C1-1-1 Table 1. Details of the customer care expenses including LEAP funding are provided below.

Acquired LDC Forecast OM&A Costs (updated)

	Norfolk		Haldimand		Woodstock	
	2017 ($M's)	**2018** ($M's)	**2017** ($M's)	**2018** ($M's)	**2017** ($M's)	**2018** ($M's)
Sustainment	2.0	2.0	3.6	3.6	1.1	1.1
Development	0.0	0.0	0.0	0.0	0.0	0.0
Operations	0.0	0.0	0.0	0.0	0.0	0.0
Customer Care	1.1	1.1	1.5	1.5	1.0	1.0
Common Corporate Costs & Other	0.0	0.0	0.0	0.0	0.0	0.0
Total	3.1	3.1	5.0	5.1	2.1	2.1

The Customer Care OM&A line in the updated table above, includes the variable components which would increase as a result of the acquisition of the acquired utilities, including:

- Contact Centre Operations – customers from Norfolk, Haldimand, and Woodstock now contact Hydro One’s contact centre with questions about their bill, service requests, etc.;
- Meter Reading – customers from these acquired utilities also need their meter read (either manually or via the smart meter network) to ensure Billing Accuracy targets are met;
- Postage – incremental cost to mail / deliver bills to newly acquired customers;
- LEAP – Hydro One is mandated to provide LEAP funding of 0.12% of its distribution revenue requirement. Since revenue increases with acquired utilities, LEAP funding also increases; and
- Net Bad Debt – since Net Bad Debt increases proportionally with revenue, additional revenue from these acquired customers also results in increased Bad Debt expenditure.