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Vice President, Regulatory Affairs & Chief Risk Officer

BY COURIER

May 9, 2019

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 – Hydro One Networks Inc. 2018-2022 Distribution Rates Application - Draft Rate Order

Pursuant to the Ontario Energy Board's (the "OEB") March 7, 2019 decision on the 2018 to 2022 Distribution Revenue Requirements for Hydro One Networks Inc. ("Hydro One") in the above-noted proceeding, enclosed please find Hydro One's reply to the submissions of OEB Staff and intervenors which were made on April 25, 2019 in response to Hydro One's proposed draft rate order as submitted April 5, 2019.

If you have any questions, please contact me or our Senior Regulatory Affairs Coordinator, Linda Gibbons at regulatory@hydroone.com or 416-345-4373.

Sincerely,

ORIGINAL SIGNED BY FRANK D'ANDREA

Frank D'Andrea

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, (Schedule B);

AND IN THE MATTER OF an application by Hydro One Networks Inc. for an order approving just and reasonable rates and other charges for electricity distribution to be effective January 1, 2018 and for each following year effective January 1 through December 31, 2022.

HYDRO ONE NETWORKS INC.

DRAFT RATE ORDER REPLY SUBMISSION

OEB File No. EB-2017-0049

May 9, 2019

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1 INTRODUCTION

This is Hydro One Networks Inc.'s ("Hydro One") reply submission to those received from OEB Staff and interveners in respect of Hydro One's Draft Rate Order Submission. These submissions are organized to address the following topics raised by OEB Staff and interveners:

i. Capital spending reductions;
ii. Capital pension adjustments;
iii. Implementation of the Tax Decisions;
iv. Specific service charges;
v. Capital factors and working capital calculations;
vi. Load forecast;
vii. Rate design; and
viii. Acquired Utilities.

At the outset, and having the benefit of reviewing the submissions received, Hydro One is in agreement that the following changes should be incorporated into the final rate order:

i. A reduction of external revenue of $0.7 million in each of 2021 and 2022;[1]
ii. A correction to the calculation of the global adjustment rider which will be reflected in the DVA rate riders; [2] and
iii. An additional reduction of $13.5 million to Hydro One's proposed capital plan related to 2018 OPEB costs.[3]

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[1] See section 9.2, External Revenue Related to Acquired Utilities and Update to Hydro One's External Revenue, which responds to SEC DRO Submission p. 2.
[2] See section 8.4, Deferral and Variance Account Rate Riders, addressing an omission identified by Hydro One
[3] See section 2.1, Breakdown of Capital Spending Reductions, in response to inquiries found in: OEB Staff DRO Submission pp.3-4; SEC DRO Submission p.3; and CME DRO Submission pp.1-2.

2 IMPACTS OF CAPITAL SPENDING REDUCTIONS

2.1 Breakdown of Capital Spending Reductions

In Table 3 of its DRO Submission, Hydro One showed how its requested capital spending of $3,571 million was reduced by $490.1 million to $3,081 million to reflect the Decision.

OEB Staff[4] and interveners[5,6] requested a further breakdown of the amounts included in the total reduction of $490.1 million. Additionally, OEB Staff requested clarification on the removal of Other Pension and Employee Benefits ("OPEB") costs for 2018.[7]

For ease of reference, Table 3 from the DRO Submission is reproduced below as Table 1. In Table 3 from the DRO Submission, Hydro One showed its as-filed totals including reductions for the Hydro One Accountability Act ("HOAA") (in the amount of $18.7 million) and the removal of the Acquired Utilities (in the amount of $18.9 million). Table 1 below includes additional reductions to Table 3 from the DRO Submission, including:

i. $300 million for Capital Work Plan;[8]
ii. $91.8 million for pension contributions;[9] and
iii. $60.4 million for OPEB.[10]

[4] OEB Staff DRO Submission, pp. 3-4
[5] SEC DRO Submission, p. 3
[6] CME DRO Submission, pp. 1-2
[7] OEB Staff DRO Submission pp. 8-9
[8] Decision at p. 76
[9] Decision at p. 96 (please refer to section 3 below which explains that the capital pension adjustment reflects actuals instead of the forecasted amounts included in the Application)
[10] Decision at p. 170 (this does not include the $13.5 million in 2018 OPEB cost reductions which will be reflected in the final rate order)

Table 1 – Proposed Capital Spending Summary ($ millions)

	Category	As Filed						Decision						
		2018	2019	2020	2021	2022	Total	2018	2019	2020	2021	2022	Total	Variance
1	**System Access**	154.6	157.6	160.9	165.9	170.0	**809.0**	175.1	147.9	153.4	152.8	144.9	**774.1**	(34.9)
2	**System Renewal**	248.6	318.7	336.7	362.5	451.1	**1,717.6**	219.7	202.3	222.2	240.4	260.2	**1,144.8**	(572.8)
3	**System Service**	81.6	91.6	85.6	78.8	69.5	**407.1**	79.1	124.0	129.4	145.9	104.4	**582.8**	175.7
4	**General Plant**	143.3	168.5	116.2	103.7	105.9	**637.6**	90.7	142.8	150.3	95.3	100.4	**579.5**	(58.1)
5	**Total**	**628.1**	**736.4**	**699.3**	**711.0**	**796.5**	**3,571.3**	**564.5**	**617.1**	**655.3**	**634.4**	**609.9**	**3,081.2**	**(490.1)**
6	*HOAA reductions*	*(3.6)*	*(3.7)*	*(3.7)*	*(3.8)*	*(3.9)*	**(18.7)**							
7	*Acquired Utilities*				*(9.4)*	*(9.5)*	**(18.9)**							
8	**Total**	**624.5**	**732.7**	**695.6**	**697.8**	**783.1**	**3,533.7**							
9	*Additional Adjustments to Table 3 from the DRO Submission*													
10	*Capital Work Plan*	(60.0)	(63.4)	(7.0)	(31.0)	(138.9)	**(300.3)**							
11	*Pension*	-	(37.6)	(18.6)	(17.8)	(17.8)	**(91.8)**							
12	*OPEB*	-	(14.6)	(14.8)	(14.6)	(16.4)	**(60.4)**							
13	**Total**	**564.5**	**617.1**	**655.2**	**634.4**	**610.0**	**3,081.2**	**564.5**	**617.1**	**655.3**	**634.4**	**609.9**	**3,081.2**	**(490.1)**
14	*OPEB Adjustment*	(13.5)	-	-	-	-	**(13.5)**	(13.5)	-	-	-	-	**(13.5)**	(13.5)
15	**Revised Total**	**551.0**	**617.1**	**655.2**	**634.4**	**610.0**	**3,067.7**	**551.0**	**617.1**	**655.3**	**634.4**	**609.9**	**3,067.7**	**(503.6)**

In addition, Table 1 now also incorporates a correction to the DRO Submission to account for the 2018 OPEB cost reduction which had been included in error as part of the 2018 capital work plan adjustment. Reductions for 2018 should have reflected a capital work plan adjustment of $46.5 million (rather than the $60 million value that appeared in Table 3 of the DRO Submission) and an OPEB cost reduction of $13.5 million.[11]

Hydro One proposes to rectify this omission by applying a further reduction of $13.5 million to the capital work plan in future years as part of the final rate order. As a result of the correction to 2018 OPEB, Hydro One's final total capital expenditure has been further reduced from the original total amount of $3,571 million by $503.6 million to $3,067 million. This will be applied to the capital work plan and reflected in the final rate order and will have an immaterial impact on the revenue requirement. Hydro One will provide an updated Table 1, above, and in-service addition Table 5 as an attachment to the final rate order showing how the additional $13.5 million reduction was applied to the capital work plan and the resulting impacts. Table 2 below illustrates at a high-level how capital reductions will be adjusted to rectify the omission of the $13.5 million.

[11] The $13.5 million value aligns with Table 8 of the DRO Submission ('Capital-OPEB Deferral Account-non-service Cost')

Table 2 – Adjustments to Capital Work Plan and OPEB Reductions ($ millions)

Capital Reductions	2018	2019	2020	2021	2022	Capital Work Plan Adjustment	Total
Capital Work Plan	(46.5)[12]	(63.4)	(7.0)	(31.0)	(138.9)	(13.5)[13]	**(300.3)**
Pension[14]	-	(37.6)	(18.6)	(17.8)	(17.8)		**(91.8)**
OPEB*	(13.5)[15]	(14.6)	(14.8)	(14.6)	(16.4)		**(73.9)[16]**
Acquired Utilities	-	-	-	(9.4)	(9.5)		**(18.9)**
HOAA	(3.6)	(3.7)	(3.7)	(3.8)	(3.9)		**(18.7)**
Total	**(63.6)**	**(119.3)**	**(44.1)**	**(76.6)**	**(186.5)**		**(503.6)**

**The OPEB values align with the values from Table 8 in the DRO Submission ('Capital-OPEB Deferral Account-non-service Cost')*

2.2 Updated Capital Spending Forecast

OEB Staff and interveners requested additional information on the capital spending reductions related to the System Renewal and System Service capital spending forecast. Concerns by interveners were not raised in the others categories, namely System Access and General Plant.

Following its review of the Decision, Hydro One addressed overall capital spending reductions by using its risk-based investment prioritization and optimization process to

[12] The $60 million reduction to the capital work plan in 2018 as shown in the DRO Submission has been reduced by $13.5 million
[13] The $13.5 million will be applied to the capital work plan to reflect the reduction of $300 million to the capital work plan as required Decision. This adjustment will be made as part of the final rate order.
[14] Note, cuts were applied differently for the purposes of calculating revenue requirement. Specifically, for the purpose of calculating revenue requirement pension capital cuts were applied in-year. For the purposes of the capital work plan, pension capital cuts for 2018 in the amount of $17.9 million were added to the pension capital cuts for 2019 in the amount of $19.7 million for a total cut of $37.6 million. For a further explanation please see section 3 below.
[15] The $13.5 million in OPEB cost reductions which were previously allocated to the capital work plan in the DRO Submission has been removed and correctly allocated to OPEB cost reductions for 2018
[16] Total OPEB cost reductions of $60.4 million as reflected in Table 1 were increased by the 2018 OPEB cost reduction of $13.5 million for a total of $73.9 million

identify work to be deferred within the test period. Hydro One applied this process to the most up-to-date information available, including developments identified in and related to the broader system planning processes. Such development projects, as discussed below, arose in the two years since Hydro One filed its Application.

The increase in System Service investments reflected in the DRO Submission include a number of largely non-discretionary projects that Hydro One must accommodate under the DSC, including development projects in the Chatham-Kent, Leamington and Kingsville Areas . The customer applications that necessitated these investments were not received until well after the original rate filing submission. These investments are necessary to serve unanticipated load growth driven by significant and unprecedented new agricultural businesses in some of these areas.[17] The remainder of the increase in non-discretionary projects was needed to address local area load growth needs not yet identified at the time of filing.

Hydro One reduced the System Renewal category in a manner consistent with areas highlighted the Decision and focused on: wood pole replacements, distribution station refurbishments, distribution lines sustainment initiatives and smart meter replacements. Since these reductions were made using Hydro One's prioritization and optimization methodology, investments in the areas that most efficiently mitigate risk have not been impacted. Hydro One will provide a further breakdown as part of the revised capital plan to be submitted with Hydro One's next annual update, in accordance with the Decision.

Hydro One's investment planning process is an ongoing cyclical process and is subject to changes due to new information affecting reprioritization and optimization of investments. Historically the OEB has recognized the importance of allowing utilities to manage their business and has provided flexibility to manage within the OEB-approved

[17] The nature of the growth in the Leamington area is a matter of public record and is illustrated by way of example in the January 31, 2019 hand-off letter from the IESO to Hydro One which may be reviewed here.

capital envelopes. In the Decision, the OEB gave Hydro One the discretion to determine where cuts should be made, indicating that:

> Hydro One is in the best position to utilize its prioritization and optimization tools to accommodate this reduction.[18]

OEB Staff and interveners have requested a further breakdown of the categories listed in Table 1 provided on a program and project level basis. The Decision directs Hydro One to provide a preliminary annual distribution of the capital reduction in this DRO process, and to then provide a revised capital program as part of Hydro One's first annual update.

> The OEB will not break down this [capital] reduction by the areas identified under Issue 30, nor will the OEB dictate how this reduction is applied at the program and project level… Hydro One is to report to the OEB the revised capital program as part of its first annual update rate application, and to provide a detailed status report as part of the next rebasing rate application [emphasis added]… As an interim step, Hydro One is directed to propose a preliminary annual distribution of the capital reduction over the term of the Custom IR plan as part of the draft rate order process of this proceeding.[19]

In light of these findings, Hydro One intends to provide detail about its revised capital program as part of its next annual update. This information is intended to provide an annual baseline by which comparisons may be made to subsequent annual updates and Hydro One's next rebasing application.

[18] OEB Decision, pp. 72, 76
[19] Decision at pp. 76-77

2.3 Impact of Capital Reductions on Rate Base

CCC requested detail to support the rate base adjustments flowing from the OEB's capital expenditure reductions.[20] Table 3 below provides a summary of the changes in rate base during the test period as a result of the OEB Decision and provides additional detail in respect of how rate base was calculated. The change in Mid-Year Gross Plant is solely attributable to the impact of capital expenditure reductions on in-service additions. The change in Mid-Year Accumulated Depreciation is also attributable to the updated capital plan.[21] The Distribution Rate Base in the last Table 3 aligns with row 11 of Exhibit 1.2 in Hydro One's DRO Submission.

Table 3 – Distribution Rate Base Summary ($ millions)

Description	Hydro One Proposed					OEB Decision Impact					OEB Approved				
	2018	2019	2020	2021	2022	2018	2019	2020	2021	2022	2018	2019	2020	2021	2022
Mid-Year Gross Plant	11,929	12,504	13,159	13,820	14,486	(9)	(110)	(235)	(257)	(324)	11,920	12,394	12,924	13,563	14,162
Mid-Year Accumulated Depreciation	(4,566)	(4,801)	(5,071)	(5,389)	(5,714)	-	2	8	16	22	(4,565)	(4,799)	(5,062)	(5,374)	(5,693)
Mid-Year Net Plant	**7,363**	**7,703**	**8,088**	**8,431**	**8,771**	**(9)**	**(108)**	**(226)**	**(241)**	**(302)**	**7,354**	**7,595**	**7,862**	**8,190**	**8,469**
Total Working Capital	285	301	315	330	346	(3)	(2)	(2)	(2)	(2)	283	299	313	328	343
Acquired Utilities	-	-	-	168	174	-	-	-	(168)	(174)	-	-	-	-	-
Distribution Rate Base	**7,648**	**8,004**	**8,403**	**8,929**	**9,291**	**(11)**	**(110)**	**(228)**	**(412)**	**(478)**	**7,637**	**7,894**	**8,175**	**8,517**	**8,813**

2.4 Impact of Capital Reductions on Depreciation

OEB Staff requested an explanation as to how reductions in capital spending impacted depreciation.[22] The impact of the Decision on depreciation is set out in Exhibit 1.2, row 13, submitted as part of Hydro One's DRO Submission. For ease of reference, the table from the DRO Submission is reproduced below as Table 4.

[20] CCC DRO Submission, p.1
[21] For further information on how depreciation is calculated, please see Exhibit C1, Tab 6, Schedule 2 and the associated Attachment 1.
[22] OEB Staff DRO Submission, p.5

Table 4 – Excerpt from Exhibit 1.2 of Hydro One's DRO Submission ($ millions)

	Hydro One Proposed					OEB Decision Impact					OEB Approved				
	2018	**2019**	**2020**	**2021**	**2022**	**2018**	**2019**	**2020**	**2021**	**2022**	**2018**	**2019**	**2020**	**2021**	**2022**
Depreciation	398.1	419	433.7	452.6	466.2	-0.4	-4	-8.2	-10.2	-10.6	397.8	415	425.5	442.4	455.6

The total depreciation in the Application was $2,169.6 million and the total depreciation resulting from the Decision was $2,136.3 million. The implementation of the Decision reduces depreciation expense by $33.4 million, of which $24.6 million is attributable to the updated capital plan and the remaining $8.8 million is attributable to the removal of the Acquired Utilities in 2021 and 2022.[23] Full detail on the impact of the removal of Acquired Utilities from the revenue requirement for 2021 and 2022 is provided in section 9.

2.5 Impact of Capital Reductions on In-Service Additions Forecast

SEC[24], CME[25] and CCC[26] requested that in-service additions be re-mapped to the same categories as capital expenditures of System Access, System Renewal, System Service and General Plant. Hydro One has recast the in-service additions forecast on the same basis as capital spending in Table 5 below.

[23] The $8.8 million is broken down as follows: $4.3 million in 2021 and $4.5 million in 2022
[24] SEC DRO Submission, p. 6
[25] CME DRO Submission, p. 4
[26] CCC DRO Submission, p.1

Table 5 – Proposed In-Service Capital Additions Summary ($ millions)

Category	**Test Years (As Filed)**							**Test Years (Decision)**				
	2018	**2019**	**2020**	**2021**	**2021 w/out LDCs[1]**	**2022**	**2022 w/out LDCs[1]**	**2018**	**2019**	**2020**	**2021**	**2022**
System Access	156.5	154.7	158.8	164.7	162.5	168.8	166.5	196.9	147.7	144.7	162.4	144.9
System Renewal	254.5	327.1	332.9	358.7	352.7	408.2	402.2	229.6	223.3	225.3	244.7	254.6
System Service	97.6	110.5	88.9	81.0	79.7	71.6	70.3	113.9	81.6	170.9	140.4	113.8
General Plant	126.5	162.8	167.9	100.2	100.2	135.9	135.9	87.4	103.9	135.9	164.1	103.4
Total	**635.1**	**755.2**	**748.5**	704.6	**695.3**	**784.4**	**774.9**	**627.8**	**556.5**	**676.8**	**711.7**	**616.8**
HOAA reductions	*(3.6)*	*(3.7)*	*(3.7)*	(3.8)	*(3.8)*	*(3.9)*	*(3.9)*	-	-	-	-	-
Total	**631.5**	**751.5**	**744.8**	700.8	**691.5**	**780.5**	**771.0**	**627.8**	**556.5**	**676.8**	**711.7**	**616.8**

[1]LDCs refers to the Acquired Utilities

In-service additions are forecast based on when Hydro One expects the capital investments to be placed in service.[27] For program-based investments, the forecast in-service addition assumption is calculated on a percentage basis as set out in the DRO Submission.[28] Figure 1 below illustrates how the capital spending forecast in the DRO Submission, Table 3, relates to the in-service addition forecast in the DRO Submission, Table 4. By way of example, the sum of the orange columns from 2019 to 2022 represents how the total 2019 capital expenditures of $617 million are in-serviced. Most of the capital expenditure is in-serviced in 2019, but $131 million is in-serviced in 2020, $30 million is in-serviced in 2021 and so on. This aligns with the capital spending for 2019 identified in DRO Submission, Table 3.

[27] Hydro One Draft Rate Order, dated April 5, 2019, p.14, lines 3-4
[28] DRO Submission at p. 14, which refers to Exhibit JT 3.4

Total In-Service Additions ($ millions)	$628	$557	$677	$712	$617

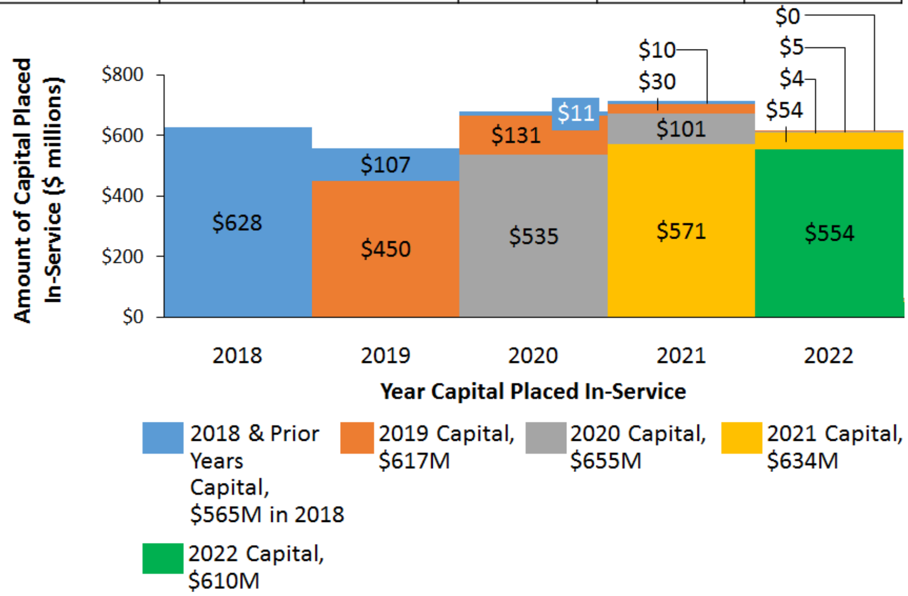

Figure 1 – Capital Spending to In-Service Additions ($ millions)

In-year differences between in-service additions and capital expenditure reductions are due to the timing and staging of investments. For example, a 12-month project may be initiated in April and conclude in March of the following year. As such, capital investments incurred prior to the test period are reflected in the 2018 to 2022 in-service additions; as well as some capital investment incurred during the 2018 to 2022 test period will be in-serviced beyond 2022. This is the reason why, as OEB Staff observed, there is a difference between the total capital reduction and the total in-service additions reduction.[29]

[29] OEB Staff Submission, p. 3

3 CAPITAL PENSION ADJUSTMENT

OEB Staff[30], SEC[31] and CME[32] each made submissions relating to the capital pension adjustment. Two main points were raised. First, parties requested clarification in respect of whether the capital portion of the pension reduction had been applied to 2018 only or to all five years of the test period. Second, OEB Staff requested an explanation of why Hydro One reduced the capital component by $17.9 million rather than the $20 million set out in the Decision. [33]

In respect of the first point, Hydro One confirms that it applied the capital pension adjustment to each year of the test period, from 2018 to 2022, as set out in Table 2 above.

In respect of the second point, the $17.9 million reflects Hydro One's actual pension contribution in 2018 whereas the $20 million represents a forecast amount included in the evidence.[34] Ratepayers are held whole as any differences are captured in Hydro One's Pension Cost Differential Account.

Hydro One's DRO Submission reflected the capital pension adjustment in two different ways.[35] First, given the timing of the Decision, Hydro One was not able to reflect the 2018 pension capital adjustment in its 2018 capital plan. Instead, the 2018 pension capital reduction was applied to the 2019 capital plan. In addition, the 2019 capital pension reduction is also included in the 2019 capital plan, the effect of which is that the 2019 capital plan includes capital pension adjustments for both 2018 and 2019 (as reflected in Table 2, 2019 pension-related capital reduction is $37.6 million based on 2018 capital

[30] OEB Staff DRO Submission, p. 5
[31] SEC DRO Submission, p. 5
[32] CME DRO Submission, pp. 2-3
[33] OEB Staff DRO Submission, p. 5
[34] Exhibit C1, Tab 2, Schedule 2
[35] DRO Submission, p. 14

reduction of $17.9 million and 2019 capital reduction of $19.7 million). In each of the subsequent years, the capital pension adjustment is reflected in year.

Second, for the purposes of calculating revenue requirement, Hydro One made a retrospective adjustment so that the capital pension adjustment was reflected in-year, including in 2018 even though the year had passed. Thus, the capital pension adjustment is included in each of 2018 through to 2022 on an in-year basis for the purposes of calculating revenue requirement. Reflecting the pension-related capital cut in 2018 results in a lower revenue requirement for 2018 to the benefit of the ratepayers.

4 IMPLEMENTATION OF THE TAX DECISIONS

OEB Staff observed Hydro One had changed the implementation method for the sharing of the future tax savings and invited Hydro One to provide justification for the change.[36] SEC agreed with OEB Staff's position. Furthermore, SEC requested additional information from Hydro One to support the increase in revenue requirement resulting from other timing differences and information on the tax amounts excluded from Hydro One's revenue requirement related to the Acquired Utilities.[37]

4.1 Justification for the change

On March 7, 2019, the OEB issued the EB-2018-0269 Decision upholding the EB-2016-0160 Decision and Order, dated September 28, 2017, related to the Future Tax Savings Determination.

[36] OEB Staff DRO Submission, p.11/12
[37] SEC DRO Submission, (page 13)

Hydro One followed the Decision to return a portion of the tax benefit arising from the FMV Bump based on the OEB prescribed allocation factor.[38] In determining the amount of tax benefit allocable to ratepayers annually, Hydro One implemented the Decision by applying the prescribed allocation factor to the capital cost allowance (CCA) deduction related to the FMV Bump as opposed to grossed-up regulatory taxes.

In the Original Decision[39], the OEB stated that "the difference in value between the sale price and the tax cost (FMV Bump) is available to the asset owner to provide CCA related tax savings in the future[40]", confirming that the tax savings from the FMV Bump is realized through CCA deductions in future years as provided under the *Income Tax Act* (Canada) and the *Taxation Act, 2007* (Ontario) (collectively the "Income Tax Act").

As such, the tax savings derived from the maximum annual CCA deductions from the FMV Bump should be the basis upon which Hydro One applies the OEB prescribed allocation.[41]

The Original Decision allocated the benefit by applying an allocation factor to the grossed-up regulatory income tax; however, this approach implicitly assumes that the annual taxable income (which is the basis from which Hydro One derived regulatory taxes) is the same as the CCA deductions relating to the FMV Bump. This is not the case as taxable income also includes other timing differences. With Hydro One's approach, the benefit from the tax sharing more closely aligns to the tax attribute that gave rise to the tax savings.

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[38] Table 15-3 "Actual FMV Sales and Payment Ratios" in the decision and order (EB-2016-0160) dated September 28, 2017, (page 102)
[39] EB-2016-0160 Decision and Order dated September 28,2017
[40] Ibid, page 83
[41] Ibid. Hydro One notes that the correctness of the tax savings allocation is a matter subject to appeal to the Ontario Divisional Court.

Using the 2018 regulatory income tax calculation as an example, Table 6below illustrates that the OEB's approach applied the allocation factor to taxable income whereas Hydro One's approach applied the allocation factor to the CCA only. Hydro One's method better matches the way in which the tax benefits from the FMV Bump are realized.

Table 6 – EB-2016-0160 Methodology Comparison to DRO Methodology

($ millions)

	Methodolody from EB 2016-0160		**Hydro One Proposed in DRO**	
Regulatory Income Tax	72.0		72.0	
Amount allocated to rate payer	(26.1)	(i)	(28.9)	(ii)
Regulatory Income Tax	45.9		43.1	

Note (i) - Amount allocated to rate payers based upon EB 2016-0160 Methodology

	Regulatory income Taxes	Allocation	Amount of Taxes allocated
Regulatory Net Income (before tax)	346.9	36.2%	125.6
Depreciation	397.8	36.2%	144.0
CCA	(435.5)	36.2%	(157.6)
Other Timing Differences	(32.8)	36.2%	(11.9)
Taxable Income After DTA Sharing	276.4	36.2%	100.1
Tax Rate	26.5%		0.3
Income Tax	73.3	36.2%	26.5
less: Income Tax Credits	(1.2)	36.2%	(0.5)
	72.01		26.1

Note (ii) - Amount allocated to ratepayers as proposed by Hydro One in DRO

Maximum CCA permitted by ITA from FMV bump	221.4	36.2%	80.16
Tax Rate			26.5%
Tax Benefit returned to rate payers			21.2
Grossed up Amount			7.7
Total tax benefit returned to tax payers using CCA			28.9

This implementation basis provides for a better matching between the tax attributes that gave rise to the future tax savings and the manner in which the future tax savings will be realized.

4.2 Other timing differences

Pension contributions are deductible under the Income Tax Act. In the calculation of utility income taxes, capitalized pension that was deducted for tax was estimated to be approximately $20 million in 2018 (Line No. 16 of EB-2017-0049, Exhibit C1-7-2, and Attachment 1[42]). The OEB denied the recovery of pension contributions in its Decision. Consequently, in the DRO Submission, pension costs were removed as ordered by the OEB and the tax deduction associated with the capitalized pension costs was removed, resulting in a cumulative increase to taxable income for 2018 to 2022.

SEC requested further information on the amount and calculation of tax excluded from revenue requirement as a result of the OEB's Decision not to allow the integration of the Acquired Utilities.[43]

Hydro One's approach to calculating the tax amounts for 2021 and 2022 is based on determining the rate base for Hydro One, excluding the capital spending and associated in-service additions for the Acquired Utilities. Taxes are then calculated on the net income associated with Hydro One's rate base excluding the Acquired Utilities. It is not a case of "excluding" a specific tax amount for the Acquired Utilities, as suggested by SEC.

Hydro One has provided a revenue requirement impact by component for 2021 and 2022 as a result of excluding Acquired Utilities Rate Base, incremental OM&A and Incremental Capital as well as incremental working capital in rate base in Table 9 under section 9.

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[42] EB-2017-0049, Exhibit C1-7-2, Attachment 1, Updated June 7, 2017 (p. 537 of Exhibit C1)
[43] SEC submissions, p. 13

5 SPECIFIC SERVICE CHARGES

Hydro One provided the 2019 Tariff Schedules in the DRO Submission at Exhibit 9.0 which included the Specific Service Charges.

OEB Staff noted that the standard name for rate code 24 in the Tariff should be clarified as it was described differently from the name in the 2017 Tariff.[44]

Hydro One will update the Tariff to reflect the correct standard name for rate code 24: "Meter dispute charge plus Measurement Canada fees (if meter found correct)" in the final rate order.

6 CAPITAL FACTORS AND WORKING CAPITAL CALCULATIONS

In the DRO Submission, Hydro One explained that it adjusted its cash working capital to reflect the Fair Hydro Plan, as required by the OEB:

> The OEB finds that Hydro One's approach to calculating the working capital allowance is reasonable and has been accepted by the OEB in previous proceedings. Hydro One is directed to update the calculation to reflect the Fair Hydro Plan, Hydro One's updated load forecast and the OEB's findings throughout this Decision and Order.[45]

OEB Staff requested clarification of Hydro One's working capital allowance[46] and specifically why Hydro One used 7.9 percent rather than the 7.7 percent referenced in the Decision.[47]

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[44] OEB Staff DRO Submission pp. 14-15
[45] Decision, p. 85
[46] OEB Staff DRO Submission, p. 6
[47] Decision, p. 84

As outlined in Exhibit D1, Tab 1, Schedule 3, page 1, of Hydro One's evidence, the determination of working capital relies on a lead lag study that builds the working capital as a dollar amount from the bottom up, rather than as a percentage. The percentage of working capital to OM&A and cost of power is then backed out and is strictly an output for illustrative purposes as indicated in Undertaking – JT1.17-17. The working capital allowance percentage was adjusted to 7.9% to reflect the OEB's direction to update the calculation to reflect the Fair Hydro Plan. Note however, that the working capital allowance dollars included in Exhibit 1.2 of Hydro One's DRO Submission align precisely with the cash working capital amounts included in Undertaking JT1.17-19, in which Hydro One provided a precise dollar breakdown of the impact of the Fair Hydro Plan on the working capital allowance.

7 LOAD FORECAST

In the DRO Submission, Hydro One filed Exhibit 2.0 "2018-2022 Load Forecast, excluding the Acquired Utilities" to be used for cost allocation and rate design purposes for all five years of the plan term.

CME noted[48] that there is no detail provided in the DRO Submission that verifies that the calculation of customer additions aligns with the 15.4 percent customer growth forecast ordered by the OEB.[49]

The calculation of the number of customers for the Residential, Street Light and Sentinel Light rate classes provided in the DRO Submission, Exhibit 2.0 is based on using a value of 15.4 percent instead of 13.6 percent of Ontario household as directed by the OEB. The

[48] CME DRO Submission, p. 4
[49] Decision and Order, EB-2017-0049, Hydro One Networks Inc., Application for electricity distribution rates beginning January 1, 2018 until December 31, 2022, pp. 129-130.

spreadsheet provided as Appendix A shows the use of the 15.4 percent value in determining the number of customers for the impacted rate classes.

8 RATE DESIGN

8.1 Transition to All-Fixed Residential Distribution Rates

In the DRO Submission, Hydro One provided the calculation of the fixed rates in Exhibit 4.2 “2019 and 2020 RRWF for Move to All-Fixed Residential Distribution Rates”.

Balsam Lake Coalition indicated that it was unable to create a connection between the 2019 Seasonal rates proposed by Hydro One in Exhibit 4.0 “2018, 2019 and 2020 Rate Design” and the rates included in the tariff for 2019 Seasonal customers from Exhibit 4.2.[50]

As shown in Exhibit 4.2 of the DRO Submission, the OEB’s RRWF increases the proposed 2018 fixed charge for Seasonal class customers by $5.09, from $36.75 to $41.84. As described on page 25 of the DRO Submission, lines 25-28, and shown in Exhibit 4.0 of the DRO Submission, Hydro One’s proposed mitigation plan sets the Seasonal class 2019 fixed rate to $39.04, which reduces the increase to the proposed 2018 fixed rate from $5.09 (calculated by the RRWF) to $2.29. This mitigated 2019 fixed rate results in 2019 total bill impacts for low volume Seasonal class customers that are within the Board’s 10 percent limit.

As described in Section 10.4 of the DRO Submission, the OEB instructed Hydro One to include foregone base rate revenue amounts as part of the proposed base rates that will be approved on Hydro One’s tariff. Accordingly, the rates shown in the Tariff combine the

[50] BLC DRO Submission, p. 1

base rates calculated in Exhibit 4.0 and 4.1 with the foregone revenue base rates shown in Exhibit 5.0. Table 7 is provided below to show the derivation of the 2019 tariff rates.

Table 7 – 2019 Rates Shown on Tariff Schedule

	2019 Proposed Distribution Charges (per DRO Exhibit 4.0 and Exhibit 4.1) Columns A			2019 Proposed Foregone Revenue Charges (per DRO Exhibit 5.0) Columns B			2019 Proposed Rates Shown on Tariff Schedule (per DRO Exhibit 9.0) Columns A + B		
	Base Fixed Charge ($/month)	Base Volumetric Charge ($/kWh)	Base Volumetric Charge ($/kW)	Foregone Fixed Charge ($/month)	Foregone Volumetric Charge ($/kWh)	Foregone Volumetric Charge ($/kW)	Total Fixed Charge ($/month)	Total Volumetric Charge ($/kWh)	Total Volumetri c Charge ($/kW)
UR	$ 28.63	$ 0.0075		$ 1.46	$ (0.0000)		$ 30.09	$ 0.0075	
R1	$ 38.74	$ 0.0222		$ 1.71	$ 0.0009		$ 40.45	$ 0.0231	
R2	$ 91.85	$ 0.0356		$ 4.37	$ 0.0011		$ 96.22	$ 0.0367	
Seasonal	$ 39.04	$ 0.0690		$ 1.13	$ 0.0050		$ 40.17	$ 0.0740	
GSe	$ 31.14	$ 0.0600		$ 2.34	$ 0.0022		$ 33.48	$ 0.0622	
GSd	$ 104.18		$ 17.2259	$ 10.78		$ 0.7293	$ 114.96		$ 17.9552
UGe	$ 24.40	$ 0.0286		$ 0.65	$ 0.0015		$ 25.05	$ 0.0301	
UGd	$ 96.99		$ 9.9137	$ 1.95		$ 0.4817	$ 98.94		$ 10.3954
St Lgt	$ 3.32	$ 0.1007		$ (0.76)	$ 0.0053		$ 2.56	$ 0.1060	
Sen Lgt	$ 2.52	$ 0.1366		$ (0.19)	$ 0.0123		$ 2.33	$ 0.1489	
USL	$ 37.99	$ 0.0254		$ 1.66	$ (0.0028)		$ 39.65	$ 0.0226	
DGen	$ 165.97		$ 7.5625	$ 13.93		$ 0.2453	$ 179.90		$ 7.8078
ST									
Service Charge	$ 525.54			$ 20.93			$ 546.47		
Meter Charge	$ 657.94			$ (86.82)			$ 571.12		
Common ST Line Charge			$ 1.3521	$ -		$ 0.0913			$ 1.4434
Specific ST lines ($/km)			$626.0882	$ -		$(145.2960)			$480.7922
HVDS-high			$ 2.0427	$ -		$ 0.1842			$ 2.2269
HVDS-low			$ 3.5888	$ -		$ 0.1787			$ 3.7675
LVDS-low			$ 1.5461	$ -		$ (0.0075)			$ 1.5386

8.2 Revenue-to-Cost Ratios

In the DRO Submission, Hydro One outlined its proposals for the 2018 to 2020 revenue-to-cost ("R/C") ratio adjustments used in the rate design tables in Exhibit 4.0 "2018, 2019 and 2020 Rate Design".[51]

OEB Staff raised concerns regarding the derivation of 2019 and 2020 DGen rate class R/C ratios and that it has not reached the 80 percent bottom of the OEB's acceptable range by the end of the three-year period.[52]

Hydro One submits that the methodology used to derive the 2019 and 2020 R/C ratios in the DRO Submission is the same methodology used in its application and approved by the OEB in its Decision.[53] The DGen R/C ratio has not reached 80 percent in 2020 because the collection of foregone revenue in 2019 and 2020 has left very little room to increase the R/C ratios over that period while keeping the total bill impact within 10 percent. As stated in the DRO Submission, Hydro One expects that it will be able to bring the DGen R/C ratio to within the OEB's approved range in 2021.

8.3 Foregone Distribution Revenue

In the DRO Submission, Hydro One proposed two scenarios for the collection of foregone base rate revenue, and provided bill impacts only for the proposed 18-month scenario. Furthermore, Hydro One indicated in the DRO Submission that the proposed 2020 foregone revenue base rates to be approved as part of the DRO Submission would

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[51] DRO Submission, p. 26
[52] OEB Staff DRO Submission, p. 13
[53] Decision, pp. 137-138

be applied to the final 2020 base rates which would be calculated in the 2020 annual update application.[54]

OEB Staff indicated that Hydro One did not provide rate impacts for a six-month recovery period or a discussion as to why the 18-month recovery period was proposed as an optimal timeframe. Furthermore, OEB Staff raised concerns that the information provided by Hydro One with respect to base distribution rates for all years does not meet the requirements of the Decision.[55]

As stated in Section 10 of the DRO Submission, Hydro One proposed the 18-month foregone revenue recovery period, and three other mitigation measures, to mitigate bill impacts and ensure that customers' total bill impacts in 2019 are within the 10 percent value established by the OEB.[56] As shown in Table 8, a 6-month foregone revenue recovery period would result in higher bill impacts for all customers and total bill impacts in excess of 10 percent in 2019 for low volume UR and Seasonal residential customers, as well as the average volume Sentinel Lights and DGen customers.[57] As such, Hydro One submits that the proposed 18-month recovery period is preferred over a 6-month recovery period as it reduces bill impacts for all customers and avoids the need for additional undesirable mitigation measures beyond what is already proposed in the DRO Submission, such as further delaying the transition to all-fixed residential distribution rates and further shifting costs between rate classes.

[54] DRO Submission, pp. 28-29
[55] OEB Staff DRO Submission, pp. 7-8
[56] DRO Submission, p.24 and p. 28
[57] The OEB requirements limit total impacts to 10% for the 10th percentile low volume residential customers and the average customers in all other rate classes.

Table 8 – Current (2017) to 2019 Total Bill Impacts with 6-month Foregone Revenue Recovery

Rate Class	Consumption Level	Monthly Consumption (kWh)	Monthly Peak (kW)	Current Total Bill	Change in Total Bill	Change in Total Bill
UR	**Low**	**350**		$68.13	$9.38	13.78%
	Typical	**750**		$115.27	$10.16	8.82%
	Average	**755**		$115.85	$10.17	8.78%
	High	**1,400**		$191.87	$11.43	5.95%
R1*	**Low**	**400**		$83.40	$1.38	1.65%
	Typical	**750**		$121.75	$2.55	2.09%
	Average	**920**		$140.38	$3.12	2.22%
	High	**1,800**		$236.81	$6.05	2.56%
R2*	**Low**	**450**		$89.73	$1.52	1.70%
	Typical	**750**		$123.53	$2.21	1.79%
	Average	**1,152**		$168.53	$3.41	2.02%
	High	**2,300**		$297.05	$6.84	2.30%
Seasonal	**Low**	**50**		$47.81	$7.67	16.04%
	Average	**352**		$101.27	$14.80	14.61%
	High	**1,000**		$215.97	$30.09	13.93%
GSe	**Low**	**1,000**		$198.93	$23.29	11.71%
	Typical	**2,000**		$367.73	$35.76	9.72%
	Average	**1,982**		$364.70	$35.53	9.74%
	High	**15,000**		$2,562.20	$197.82	7.72%
UGe	**Low**	**1,000**		$160.71	$11.47	7.14%
	Typical	**2,000**		$296.10	$19.67	6.64%
	Average	**2,759**		$398.86	$25.90	6.49%
	High	**15,000**		$2,056.15	$126.33	6.14%
GSd	**Low**	**15,000**	**60**	$3,527.80	$216.41	6.13%
	Average	**36,104**	**124**	$7,913.28	$357.15	4.51%
	High	**175,000**	**500**	$35,812.38	$1,086.31	3.03%
UGd	**Low**	**15,000**	**60**	$3,091.65	$110.48	3.57%
	Average	**50,525**	**135**	$9,199.61	$126.03	1.37%
	High	**175,000**	**500**	$32,066.37	$519.03	1.62%
St Lgt	**Low**	**100**		$25.13	($0.73)	-2.91%
	Average	**517**		$107.71	$10.10	9.37%
	High	**2,000**		$419.46	$48.60	11.59%
Sen Lgt	**Low**	**20**		$8.20	$0.41	5.03%
	Average	**71**		$19.66	$3.42	17.39%
	High	**200**		$48.65	$11.02	22.66%
USL	**Low**	**100**		$50.96	$7.08	13.90%
	Average	**364**		$85.71	$4.16	4.85%
	High	**1,000**		$173.74	($2.88)	-1.66%
DGen	**Low**	**300**	**10**	$301.94	$86.35	28.60%
	Average	**1,328**	**13**	$476.08	$86.28	18.12%
	High	**5,000**	**100**	$1,784.35	$255.72	14.33%
ST	**Low**	**200,000**	**500**	$33,341.47	$651.41	1.95%
	Average	**1,601,036**	**3,091**	$249,627.68	$5,535.99	2.22%
	High	**4,000,000**	**10,000**	$639,845.79	$18,560.90	2.90%

**R1 and R2 total bill impacts include DRP.*

Hydro One believes the information provided in the DRO Submission with respect to base distribution rates for 2018, 2019 and 2020 meets the requirements of the Decision. While the DRO Submission includes only a 2019 Tariff schedule, the proposed 2018, 2019 and 2020 base distribution rates are shown in Exhibits 4.0 and 4.1 as required by the Decision. Hydro One provided only the proposed 2019 Tariff schedule to be implemented July 1, 2019 because i) 2018 has already passed and therefore a 2018 Tariff schedule will not be used or implemented, and ii) the 2020 base rates shown in the DRO Submission are for illustrative purpose only as they will be examined and revised as part of Hydro One's 2020 annual update application.

8.4 Deferral and Variance Account Rate Riders

OEB Staff raised concerns that Hydro One's proposal to return the IESO credit over an 18-month period is not in compliance with the finding in the Decision that customers should benefit from a portion of this adjustment as soon as possible, and that it is not consistent with the proposal in Hydro One's evidence to dispose of deferral and variance account ("DVA") balances over a one-year period.[58]

Hydro One proposes to recover the DVA balances over an 18-month period for two reasons. First, aligning the disposition of the $54.5 million IESO credit component of the DVA balance with the same period for recovery of foregone revenue helps to offset the negative bill impacts for some customers resulting from recovery of the foregone revenue. Second, given the Board's Decision that rates will be implemented July 1, 2019, setting a one-year disposition period (as originally proposed in Hydro One's pre-filed evidence) would result in an unnecessary, and noticeable, increase to some customers' bills in July 2020 when the disposition of the DVA credit expires. Hydro One believes that an 18-month disposition period that aligns the end of the DVA disposition

[58] OEB Staff DRO Submission, p. 10

period with the time when distribution rates are reset results in more stable bills for its customers.

Hydro One has also made a correction to the calculation of the Global Adjustment ("GA") account balance to be allocated to customers who transitioned between Class A and Class B. Since submitting the DRO Submission, Hydro One has identified a correction to the data queries used to extract the historical customer consumption data used for the purpose of allocating the GA balance to customers who transitioned between Class A and Class B. The corrected GA balance allocation is provided in Appendix B, which shows that $10 million of the GA variance account balance will be allocated to transition customers (previously $16 million per the DRO Exhibit 7.1) and the remaining $43 million GA variance account balance will be allocated to non-transition customers (previously $37 million per the DRO Exhibit 7.1). Hydro One will reflect this correction in the calculation of the DVA rate riders, and all other affected exhibits, as a part of the final rate order.

9 ACQUIRED UTILITIES

SEC's DRO Submission has raised six issues in relation to the treatment of Acquired Utilities in Hydro One's DRO Submission:

i. need for additional revenue requirement information in order to test the impact of removing Acquired Utilities from rate base;
ii. need for additional information on reductions to external revenue arising from the removal of the Acquired Utilities;
iii. impacts to Hydro One shareholders as a result of the Decision to extend the rebasing period for all Acquired Utilities such that it matches the rebasing period for the next rate application;
iv. assertions that the Decision creates an intra-customer subsidy;
v. impacts of loss factors for Acquired Utilities customers; and

vi. need for additional information on reductions to the load forecast arising from the removal of the Acquired Utilities.

CCC agreed with SEC's point in respect of the intra-customer subsidy. OEB Staff considered the Board's response to SEC's original letter as conclusive on the matter and noted it had sufficient material to establish a rate order. CME did not raise any issues in respect of the Acquired Utilities.

Earlier in this proceeding, in letters dated March 12, 2019 and April 8, 2019 SEC requested further information and documentation with respect to costs borne by legacy customers arising from the OEB's findings related to the Acquired Utilities. Hydro One took the position that SEC's request was inconsistent with the OEB's findings and amounted to a request for new evidence that would require another hearing. In its response dated April 23, 2019, the OEB determined that it would not require Hydro One to provide the material requested by SEC. In light of these determinations, the issues raised by SEC have been addressed. Notwithstanding this, Hydro One provides further submissions regarding each of the six matters.

9.1 Impact of Removing the Acquired Utilities: Revenue Requirement & Rate Base

This section describes the impact on Hydro One's revenue requirement and rate base as a result of the OEB's direction to exclude the Acquired Utilities.

In the DRO Submission, Hydro One explained that the revenue requirement associated with rate base, incremental OM&A, incremental capital, and working capital components for the Acquired Utilities were removed in 2021 and 2022.[59] SEC requested a further

[59] DRO Submission, p. 7

breakdown of the revenue requirement impact of the removal of the Acquired Utilities from rate base.[60]

Consistent with Hydro One's response to Undertaking J2.2, which outlined the impact of the three Acquired Utilities on revenue requirement for 2021, Table 9 below shows the impact on Hydro One's 2021 and 2022 revenue requirement as a result of excluding the Acquired Utilities' rate base, incremental OM&A expenditures, incremental capital expenditures and the incremental working capital component in rate base:

Table 9 – Acquired Utilities' Contribution to Hydro One's Revenue Requirement ($ millions)

	2021 Revenue Requirement	**2022 Revenue Requirement**
OM&A	10.7	10.8
Depreciation	4.3	4.5
Return on Debt	4.3	4.4
Return on Equity	5.9	6.1
Income Tax	0.5	0.6
Total Revenue Requirement	**25.6**	**26.3**

As summarized in the DRO Submission, Hydro One removed $168.3 million and $174.1 million in rate base for 2021 and 2022 respectively to implement the OEB's Decision to exclude Acquired Utilities from its revenue requirement. Table 10 below provides the breakdown of rate base by individual component, including the amount of working capital associated with the Acquired Utilities that has been excluded:

[60] SEC DRO Submissions, p. 7

Table 10 – Acquired Utilities' Rate Base Excluded as a Result of the Decision

($ millions)

Description	2021	2022
Mid-Year Gross Plant	181.2	190.6
Mid-Year Accumulated Depreciation	(27.7)	(32.2)
Mid-Year Net Plant	**153.5**	**158.4**
Cash Working Capital	14.9	15.6
Rate Base	**168.3**	**174.1**

The amounts shown in Table 10 reconcile[61] with Hydro One's DRO Submission at Exhibit 1.2 'Rate Base and Depreciation' and with the OEB's Decision in respect of the Acquired Utilities.

9.2 External Revenue Related to Acquired Utilities and Update to Hydro One's External Revenue

In the DRO Submission, Hydro One reflected the OEB Decision related to external revenue, including the removal of Acquired Utilities.[62] SEC requested a further breakdown of the reductions related to Acquired Utilities.[63]

Hydro One did not reflect $0.7 million in each of 2021 and 2022 for Retail Service Revenues reductions related to Acquired Utilities and has updated the External Revenue values below in Table 11 and presented a breakdown of reductions related to Acquired Utilities in Table 12.

[61] DRO Submission, Exhibit 1.2 Rate Base and Depreciation
[62] DRO Submission, p. 8 and Exhibit 1.6.
[63] SEC DRO Submission, p. 2.

Table 11 - External Revenue Update ($ millions)

	OEB Decision Impact to External Revenue		OEB Approved External Revenue	
	2021	**2022**	**2021**	**2022**
External Revenue	(2.9)	(3.0)	44.8	44.9

Table 12 - Reduction to External Revenue Related to Acquired Utilities ($ millions)

	2021	2022
Retail Service Revenues	(0.7)	(0.7)
Joint Use	(0.5)	(0.6)
Sentinel Lights	(0.2)	(0.2)
Studies	-	-
Total	**(1.5)**	**(1.5)**

9.3 Shareholder Benefit

In each of EB-2013-0187/0196/0198 (Norfolk), EB-2014-0244 (Haldimand), EB-2014-0213 (Woodstock) (collectively the "MAADs Decisions"), the OEB ordered a five-year deferred rebasing period and approved a rate freeze for the period leading up to rebasing, and prior to integration into Hydro One's revenue requirement.

In its Application and consistent with the MAAD Decisions, Hydro One proposed an approach for integrating the Acquired Utilities at the end of the deferred rebasing period. The OEB's Decision, however, did not approve the proposed integration. Instead, decisions relating to the Acquired Utilities' integration were deferred until the next rate application. In so doing, Hydro One was directed to keep the revenue requirement for the Acquired Utilities separate and to set rates for these customers based on the Price Cap IR approach at the end of the deferred rebasing period.[64]

[64] Decision pg. 38

SEC now argues that despite these clear and express directions, this DRO process should be used as a forum to debate whether the Decision should be revised so that the changes to the Acquired Utilities' revenue requirements and rate-setting methodologies are varied. Respectfully, Hydro One submits that such an approach is inconsistent with the purposes of this DRO Process to implement that which the OEB has decided.

9.4 Allocation of Costs between Hydro One and Acquired Utilities (Intra-Customer Subsidy)

In determining the rates to be set for both Hydro One and Acquired Utility customer classes, SEC proposes an entirely new and untested basis for allocating costs between Hydro One legacy customers and the Acquired Utilities[65] that Hydro One fundamentally disagrees with. Such suggestions are, again, inconsistent with the clear direction from the OEB on how rates are to be set (i.e. using a Custom IR approach over the plan term for Hydro One customers, and using a Price Cap approach at the end of rebasing period for the Acquired Utilities). Further, SEC has not explained how the need for cost allocation is consistent with the OEB's express findings that the revenue requirement for the Acquired Utilities and Hydro One are to be kept separate over the Custom IR plan term.[66]

The need for a cost allocation methodology between Hydro One and the Acquired Utilities is not relevant as confirmed by the OEB in its Decision that there is no need to update the cost allocation model during the plan term[67]. Furthermore, and as stated in the OEB's letter dated April 23, 2019 "questions of cost allocation for the Acquired Utilities will be examined in detail as part of Hydro One's next rebasing application, expected for 2023 rates." The DRO Submission is not the appropriate forum to bring these types of argument and SEC's submissions on this point should be rejected. The OEB's direction is

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[65] SEC DRO Submission, p. 11 ("it is possible to estimate the likely costs to be allocated to the Acquired customers", "it is likely that their costs… will be roughly the same percentages…")
[66] Decision, p. 24.
[67] Decision, p. 38.

clearly articulated within the four corners of its Decision: Hydro One has been ordered to maintain the Acquired Utilities' revenue separately and establish a Price Cap IR model for setting their rates. As a result, there is no cost allocation issue for determination.

9.5 Loss Factors

Hydro One's DRO Submission does not provide information on the loss factors proposed for customers on the Acquired Utilities since the Tariffs for those utilities will continue to be maintained separately until such time as they are harmonized into Hydro One's rate structure. As confirmed in the 2019 Acquired Utility Tariffs recently approved by the Board in proceeding EB-2018-0042, Hydro One is maintaining the loss factors for Norfolk, Haldimand and Woodstock at the same values that were approved for those utilities prior to their acquisition by Hydro One.

9.6 Insufficient Information

The Hydro One load forecast provided in DRO Submission Exhibit 2.0 excludes the Acquired Utilities consistent with what was submitted in interrogatory response Exhibit I, Tab 46, Schedule Staff 219[68], which was approved by the Board.[69] The load forecast amounts associated with the Acquired Utilities is already shown separately from Hydro One's load forecast amounts in Staff 219 for all years and classes, except for the ST, USL, Sentinel Light and Street Light classes in 2021 and 2022.

The reduction to the number of customers, kWh and kW in the ST, USL, Sentinel Light and Street Light classes as a result of excluding the Acquired Utilities can be determined by comparing the information provided in DRO Submission Exhibit 2.0 and the

[68] In reference to Exhibit E1, Tab 2, Schedule 1
[69] Subject to an adjustment for the number of customers in the residential, Streetlight and Sentinel Light classes as per the Board Decision.

information in Table E.4 Exhibit I, Tab 46, Schedule Staff 219. For convenience, the comparison is provided below in Table 13 and Table 14.

Table 13 – Reduction to the Number of Customers Resulting from the Exclusion of the Acquired Utilities ($ millions)

Class	2021			2022		
	Per Staff 219 (HONI + Acq LDCs)	Per DRO (HONI Only)	Change	Per Staff 219 (HONI + Acq LDCs)	Per DRO (HONI Only)	Change
ST	824	816	-8	827	818	-9
USL	5,799	5,589	-210	5,830	5,623	-207
Sentinel Lt.*	22,270	22,139	-131	22,150	22,037	-113
Street Lt.*	5,568	5,579	+11	5,602	5,617	+15

**These classes are also impacted by the OEB's Decision that the number of Hydro One customers in these classes should be increased to reflect a ratio of 15.4% instead of 13.6% of Ontario household additions.*

Table 14 - Reduction to GWh or GW Resulting from the Exclusion of the Acquired Utilities ($ millions)

Class	2021			2022		
	Per Staff 219 (HONI + Acq LDCs)	Per DRO (HONI Only)	Change	Per Staff 219 (HONI + Acq LDCs)	Per DRO (HONI Only)	Change
ST (GW)	30.540	30.486	-0.054	30.461	30.396	-0.065
USL (GWh)	31	30	-1	31	30	-1
Sentinel Lt. (GWh)	14	13	-1	14	13	-1
Street Lt. (GWh)	109	100	-9	109	100	-9

10 APPENDIX A

Filed as Excel

11 APPENDIX B

RSVA Global Adjustment Allocation for Transition Customers (Class A/B)					
RSVA Global Adjustment Disposition Balance Account 1589)	($53,167,002)				
% Total kWh Allocated to Class B	80.5%				
Total GA $ allocated to Current Class B Customers	($42,793,333)				
Total GA $ allocated to Customers that Transitioned Between Class A and B during the period GA balance accumulated	($10,373,669)				
Rate Class		**Total Uplifted Non-RPP 2013-2016 Consumption excluding WMP**	**Total Uplifted 2013-2016 Consumption for Customers that Transitioned Between Class A and B during the period GA balance accumulated**	**Non-RPP Metered Consumption for Current Class B Customers (Non-RPP Consumption excluding WMP, Class A and Transition Customers' Consumption)**	**% of total kWh**
		kWh	**kWh**	**kWh**	
Residential - Urban Density	kWh	562,254,977		562,254,977	100.0%
Residential - Medium Density	kWh	1,209,471,121		1,209,471,121	100.0%
Residential - Low Density	kWh	1,712,253,277		1,712,253,277	100.0%
Seasonal Residential	kWh	49,341,764		49,341,764	100.0%
General Service Energy Billed (Less than 50kW)	kWh	1,771,392,849		1,771,392,849	100.0%
Urban General Service Energy Billed (Less than 50kW)	kWh	387,053,158		387,053,158	100.0%
General Service Demand Billed (50 kW or more)	kWh	8,742,598,431	378,000,944	8,364,597,486	95.7%
Urban General Service Demand Billed (50 kW or more)	kWh	2,907,792,391	46,815,779	2,860,976,612	98.4%
Unmetered Scattered Load	kWh	6,788,929		6,788,929	100.0%
Distributed Generation	kWh	102,664,892		102,664,892	100.0%
Street Lights	kWh	228,104,620		228,104,620	100.0%
Sentinel Lights	kWh	7,053,396		7,053,396	100.0%
Sub-Transmission	kWh	10,149,318,639	5,006,415,942	5,142,902,697	50.7%
Total		27,836,088,442	5,431,232,665	22,404,855,777	80.5%