UNDERTAKING JT-5.01

Reference:

B1-SEC-54, Attachment 1

Undertaking:

With reference to B1-SEC-54, Attachment 1, to advise of any productivity initiatives not included in the attachment that have been undertaken or new ones after September 2020.

Response:

The table below lists additional initiatives that have as of now been undertaken, with methodologies, in addition to those in Attachment 1 to interrogatory B1-SEC-054. The table below includes the Measurement and Expected Benefit for each of these initiatives.

LoB	Initiative	Measurement and Expected Benefit
Tx and Station Services	Tx Progressive - Commissioning Purchase Services Agreement (PSA)	In order to complete work to meet outage requirements PSAs (Purchase Service Agreements) have been initiated to augment Hydro One's internal Commissioning capacity. While this is driven by resource availability, it will also provide a secondary benefit of delivering the work at a savings due to lower hourly rates of contractor used. This initiative will only come into play, per Collective Agreement, to supplement existing workforce when existing PWU staff are not available to complete the required commissioning work to meet a required in-service date.
Tx and Station Services	Tx Progressive - Pre-Built Racks	Hydro One approached a vendor of protection/control/telecom modules to procure pre-assembled racks, with modules installed and pre-wired. The racks are delivered to site, and Hydro One's internal construction force is only required for installation, as opposed to being required for assembly and installation.
Tx and Station Services	Tx Progressive - Continuous Improvement Model 2.0	The second implementation of the Continuous Improvement Model (CIM 2.0) framework in Transmission and Stations has been focused on the Station Construction and Commissioning to increase productive work execution activities by reducing day-to-day operational variances through implementation of Leadership Operating System, Process Optimization and Behavioural Models. The savings for both Commissioning and Construction will be based on an hours-per-unit calculation, comparing Current Year performance against a historical baseline hours/unit established on a sample of completed work.

LoB	Initiative	Measurement and Expected Benefit
Fleet	Electric Vehicles	Hydro One is proceeding with an electric fleet strategy to help reduce fuel and maintenance costs, as well as its environmental footprint. Moving forward Hydro One will continue replacing current internal combustion engine (ICE) vehicles with electric vehicles (EV) or plug-in hybrid electric vehicles (PHEV) equivalent to electrify its Fleet. As more vehicle categories are made available, investment will be channeled to expand EVs in multiple categories. The methodology is to track productivity saving in Fuel spend for full EV conversion and PHEV conversion.
Facilities and Real Estate	Property Tax	The Real Estate team conducts an ongoing assessment to determine if there are any Hydro One owned properties where municipal governments appear to charge Hydro One incorrect property taxes resulting from either an overvaluation of the property or an incorrect property classification. When a discrepancy and/or an opportunity is found, the Real Estate team prepares a case and brings it forward to the Assessment Review Board for their review and appeals the property taxes being charged to Hydro One. When Hydro One is successful in the appeal, the municipality then provides the organization with a refund for any historical overpaid property taxes, which results in a reduction to OM&A.
Tx and Station Services	Tx Progressive - Engineering Overtime Reductions	Overtime is being prioritized by specific project need, the impact on milestone delivery, and change requirements to the engineering plan during initial project development. This is coordinated and monitored in relation to available staff resources, with the Project Manager to validate the requirement and associated benefit of the additional cost to the project schedule and deliverables. This has resulted in the successful optimization of the requirement for overtime use while maintaining the required execution of work completion to meet project timelines.
Tx and Station Services	Tx Progressive - Midsun Animal Abatement	Animal abatement equipment, also referred to as “cover-up,” has had a number of issues. These include long-lead times from vendors, being difficult to install, and requiring an outage for installation. When an outage cannot be scheduled, in some cases the equipment is left for a future opportunity. The successful alternative is a new product made by Midsun. It has a number of technical installation advantages, and the cost of the product is much lower than the previous material. It is expected to last longer than the equipment previously installed, as well.

LoB	Initiative	Measurement and Expected Benefit
IT	Internal project resources savings from insourcing	In March 2021, ISD renegotiated its ITO contract with Capgemini that resulted in Hydro One in-sourcing all represented Inergi staff. On average, work completed by those resources internally will be at a reduced rate versus the baseline set out in the contract signed in 2016. Those in-sourced staff become part of an existing rate group within ISD (Ie. a number of cost centres that use specific resourcing rates to deliver ISD's work program). These savings apply to the defined cost centres of the rate group, and savings are seen across both Capital and OM&A projects and programs.
IT	SIP Core Voice Telecom Circuits	ISD has converted 106 Hydro One sites from a legacy voice telecommunications system to Session Initiation Protocol (SIP) voice telecom circuits. The savings achieved by a reduction in run costs through the decommissioning of the legacy systems at each site, and standing up of the new system requires less overall circuits to support the same functionality, resulting in reduced monthly costs.
Distribution Lines	Pole Refurbishment	In 2021, Hydro One adopted a new wood pole structural refurbishment program. The primary purpose of the program is to extend the life of specific poles with a steel structural truss (whereas historically, some of these would have been fully replaced). This initiative is to measure the cost savings related to refurbishing a pole (where appropriate) instead of replacing the pole, normalizing for the difference in useful life of each treatment.

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UNDERTAKING JT-5.02

Reference:

I-06-A-CCC-001, Attachment 1, Page 34

Undertaking:

To explain the inputs and the underlying numbers for each of the years in the chart at A-CCC-1, Attachment 1, Page 34, in the top right-hand corner.

Response:

Explanation of the inputs and underlying figures to the waterfall chart in Interrogatory Response A-CCC-001 Attachment 1, page 34, are as follows:

- 2015 OM&A: Hydro One Inc. (HOI) externally reported full year OM&A (actual) of $1,130M

- 2016-2020 OM&A: annual incremental OM&A productivity achievement through 2020, inclusive of considering inflation of ~2% in the historical initiative level baselines, where relevant. The sum of the achievement through 2020 is $132M, which ties to the 2020A OM&A Productivity line item in the table (below the chart) on the same page of the aforementioned reference.

- Other: Reconciles the difference in the chart and is primarily driven by:
    - $50M of one-time costs related to Covid-19 (as externally reported for HOI for the year ended December 31, 2020);
    - Inflationary difference between actual OM&A externally reported (in this instance, between 2015 and 2020) and the inflation considered in Productivity savings;
    - Other outcomes impacting externally reported HOI OM&A outside the scope of Productivity.

- 2020 OM&A: HOI externally reported full year OM&A actual of $1,034M, captures inflationary pressures as compared to any previous point in time, in this case represented against 2015.

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UNDERTAKING JT-5.03

Reference:

CCC 1, Attachment 1, PDF page 1945/6110

Undertaking:

To consider and, if able, provide a response to the request to reconcile and compare the numbers in the chart to those in the similar categories in the two JCS (Appendix 2-JC), and to advise if Hydro One is not able.

Response:

The figures provided in the two slides in the attachment reflect a subset of Hydro One's OM&A expenses, namely those that are referred to as work program costs; the costs presented exclude corporate related costs, as well as the incremental costs associated with the Acquired Utilities (for Distribution).

The two tables below provide a reconciliation of the OM&A shown in the referenced presentation, relative to other cost drivers in the application.

Transmission [2023]

$M	Work Program	Corporate	Application
Sustainment	219.6	-	219.6
Development*	8.6	-	8.6
Operations	24.0	25.0	49.0
Customer	0.3	6.6	6.9
Corporate/Other	79.0	(14.0)	65.0
Property Taxes and Rights Payments	-	71.4	71.4
	331.6	88.9	420.5

**The presentation figures included approximately $1M of additional OM&A that is attributable to Long-Term Future Corridor Development, which is captured in a variance account and excluded from the application.*

Distribution [2023]

$M	Work Program	Corporate	Acquired Utilities	Application
Sustainment	302.7	-	8.6	311.4
Development	11.0	-	-	11.0
Operations	13.7	27.1	-	40.8
Customer	82.3	23.5	3.5	118.3
Corporate/Other	109.8	0.2	-	110.0
Property Taxes and Rights Payments	-	6.0	-	6.0
	519.6	65.7	12.2	597.5

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UNDERTAKING JT-5.04

Reference:

I-22-B1-SEC-54

Undertaking:

To ask concentric to provide the names of the peer companies in the table at pages 17-18 of the concentric report, and to provide that information and advise in the event it needs to be filed confidentially.

Response:

Response from Concentric:

The names of the companies in the table on page 25 of 36 of Concentric's report are Enbridge Gas, Evergy, FortisBC, FortisAlberta, Hydro Quebec, New Brunswick Power, and Ontario Power Generation. As described in Concentric's report, Concentric masked the names of the utilities in their analyses and figures to preserve confidentiality.

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UNDERTAKING JT-5.05

Reference:

I-22-B1-SEC-54, Part a)

Undertaking:

To consider the request that Concentric provide a response to question 8, as narrowed by Mr. Rubenstein, and provide that response or advise if Hydro One continues to object to it.

Response:

For reasons indicated in the response to interrogatory B1-SEC-54, Hydro One continues to object to this request to search for and produce reports prepared by Concentric in other proceedings in other contexts, for purposes unrelated to Hydro One or to this application. Those reports would not be relevant to the Concentric study at issue here, in respect of Hydro One's productivity framework. If intervenors have questions about the experience or expert qualifications of Concentric, they can be asked at the appropriate time when Concentric is tendered to testify. Curriculum vitae information in respect of Concentric and its experience is provided along with its report. Copies of reports in other contexts are not necessary in order to ask questions about the expert's background or level of experience.

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UNDERTAKING JT-5.06

Reference:

E-SEC-199, Part f)

Undertaking:

To consider, based on the clarification provided by SEC, whether UMS or Hydro One is able to respond to E-SEC 199 part (f), and if not able then to advise why a response cannot be provided.

Response:

As stated in response to E-SEC-199, part f) and as further outlined in Exhibits E-04-02 and E-04-02 Attachment 1, the UMS Benchmarking Study was performed based on 2019 Actuals. 2019 costs were used as they were the most recent set of full year actual costs available for all utilities participating in the study (including Hydro One).

The benchmarking study was performed for the purpose of comparing Hydro One's corporate costs that are centralized and shared between its Transmission and Distribution businesses, as well as each of its affiliates (on a total basis), with an appropriate comparator group. Furthermore, the study utilizes normalized costs in order to account for inevitable differences between the utilities in the comparator group (including unique normalization factors for each function or service).

Given that UMS did not collect 2023 forecast information as part of the study, Hydro One does not see the relevance of the request to the issues in this application. Hydro One notes that the 2023 forecasts for the same common corporate functions benchmarked in the UMS study can be found in Exhibits E-04-02, E-04-03 and E-04-05.

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UNDERTAKING JT-5.07

Reference:

I-22-E-SEC-199, Part f)

Undertaking:

With reference to E-SEC 199 part (f), to ask UMS if it can provide and, if so provide the underlying data, masked, they provided and then showing the exchange rate, and normalized and all the calculations.

Response:

Response from UMS:

Please see attachment 1 provided in an Excel format.

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UNDERTAKING JT-5.08

Reference:

I-22-E-SEC 205

Undertaking:

To provide the details of the SUP equity plan, design, et cetera, and highlight the overall program and provide that detail to help to understand the program.

Response:

As part of the most recent round of collective bargaining with the Society of United Professionals (SUP) a new one-time equity grant was negotiated. This equity grant will enhance the ownership culture by further aligning employee interests with Hydro One's overall success. It also aligns with Hydro One's labour relation strategy to manage costs and lower Hydro One's market position by offering forms of compensation distinct from base wage adjustments. Equity compensation, unlike base wage increases, does not impact pension and benefits.

Eligibility: Regular employees of Hydro One represented by SUP as of July 30, 2021 (including those employees who become regular Hydro One employees through the Inergi and Capgemini repatriation) are eligible for the grant.

Award: Eligible employees will receive an equity grant that represents 1.0% of base annual salary as of July 30, 2021 (incoming repatriated employees will receive an equity grant of 0.5% of base annual salary award on March 1, 2022).

Vesting: The grant will vest in equal parts on March 1, 2022 and March 1, 2023 (with the grant for repatriated employees vesting 1 year after the grant on March 1, 2023).

Settlement: The shares will be purchased on the open market and deposited to employee accounts on the vesting date less statutory withholdings.

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UNDERTAKING JT-5.09

Reference:

I-08-E-EP-70

Undertaking:

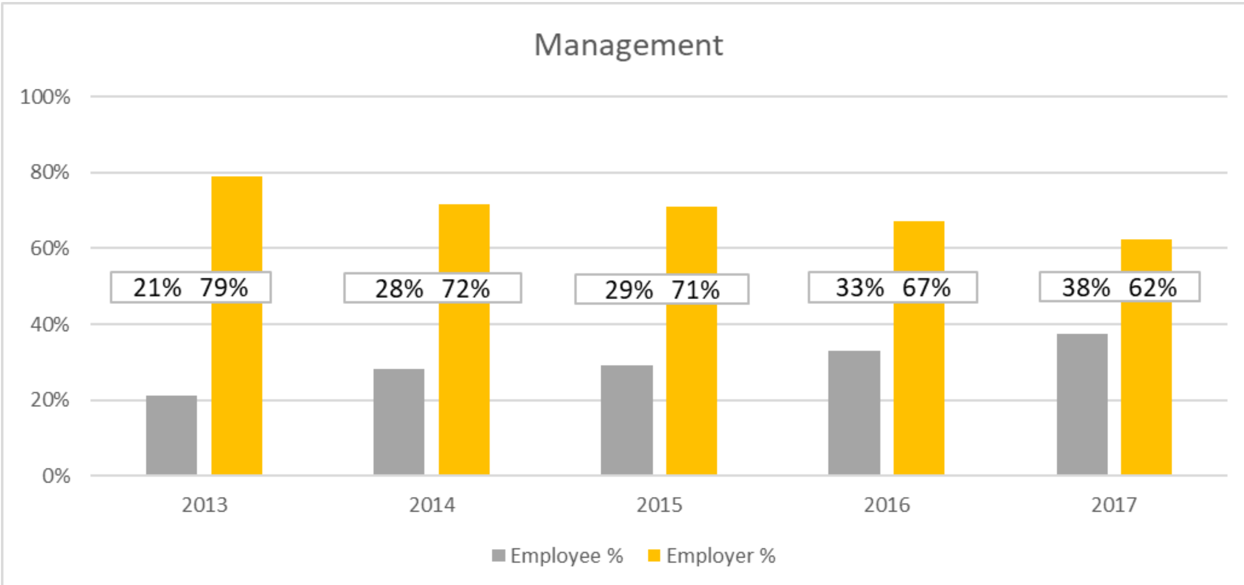
To discuss with the actuaries what can be provided and, depending on what can be provided within the time frame for responding to undertakings, to provide similar charts from 2013 to 2027 as requested.

Response:

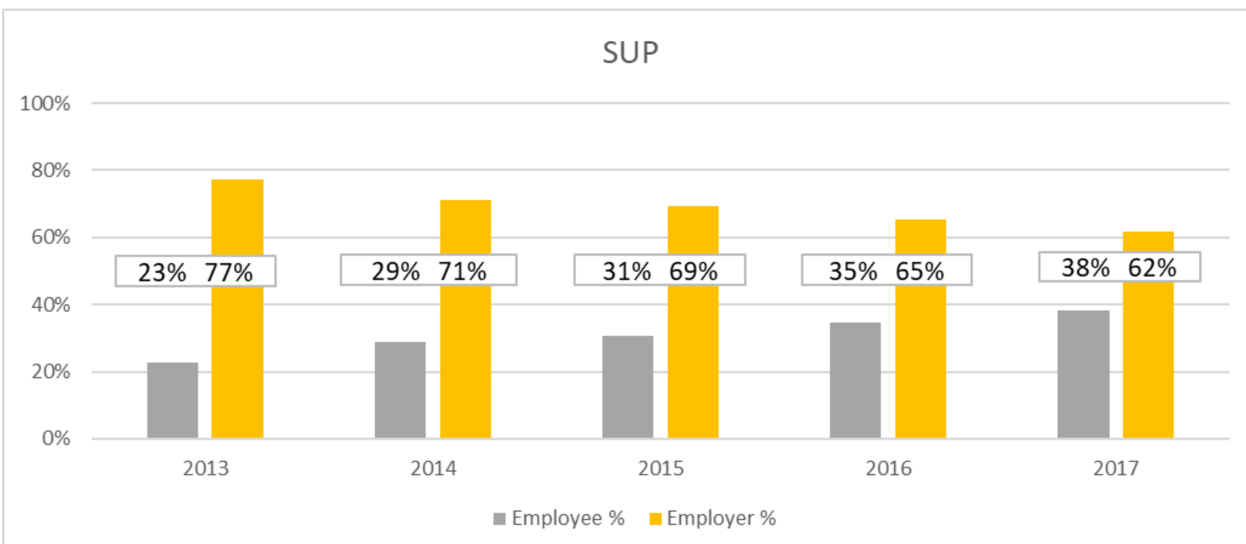
The following charts summarize the Defined Benefit Pension Plan Employer and Employee contributions for Management, Society of United Professionals (SUP) and Power Workers Union (PWU) plans from 2013 – 2017. The charts from 2018 – 2027 have been provided in response to E-Energy Probe-070.

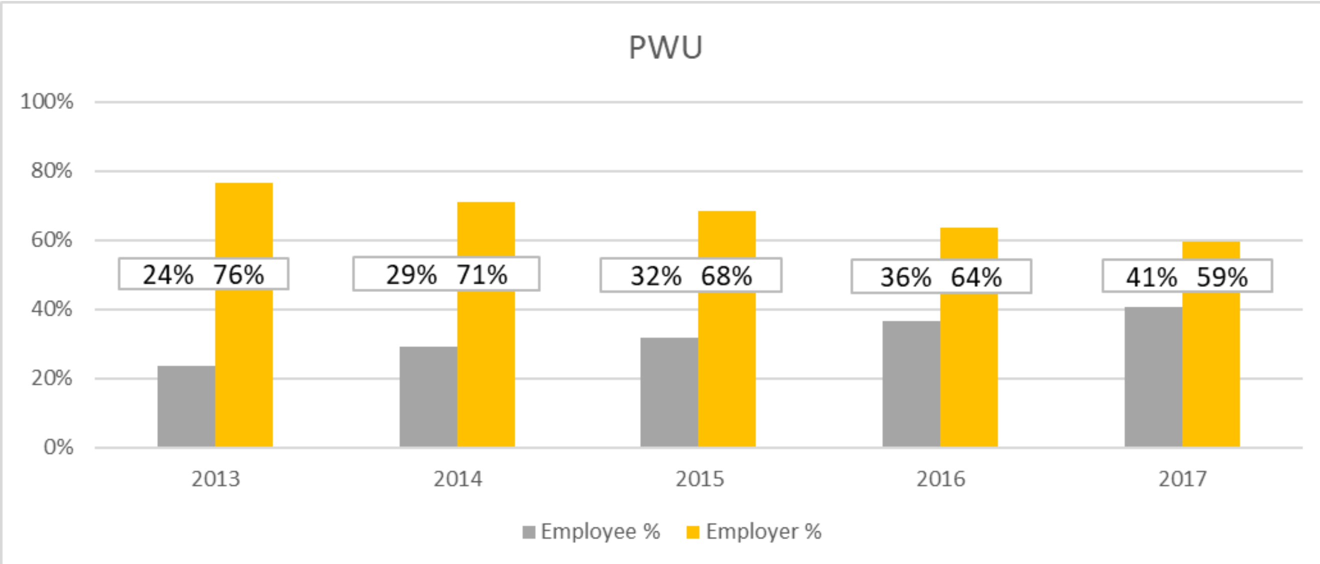
Over the past decade and since 2014, in particular, Hydro One has taken various steps to manage pension costs through the collective bargaining process and by making changes to the Management plan including creating the DC plan for all new employees and closing the DB plan to new entrants. As a result, employer contributions have substantially decreased by approximately 35% overall from 2013 – 2021. Year to date (YTD) Employee contributions in 2021 are at 46% for each employee group in 2021, as summarized below. Overall pension costs are expected to increase beginning in 2022 based on the February 2021 forecast. Hydro One has and will continue to manage pension costs through the collective bargaining process.

Employee Group	2013		2021 (YTD)	
	Employer	Employee	Employer	Employee
Management	79%	21%	54%	46%
SUP	77%	23%	54%	46%
PWU	76%	24%	54%	46%


Management
100%
80%
60%
40%
20%
0%
21% 79%
28% 72%
29% 71%
33% 67%
38% 62%
2013
2014
2015
2016
2017
Employee %
Employer %

1


SUP
100%
80%
60%
40%
20%
0%
23% 77%
29% 71%
31% 69%
35% 65%
38% 62%
2013
2014
2015
2016
2017
Employee %
Employer %



Note: the charts above are based on Hydro One's normal pension costs and do not take into account any special payments made.

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UNDERTAKING JT-5.10

Reference:

I-22-E-SEC 212

Undertaking:

To further consider and consult with Mercer, and either provide a further full response to E-SEC-212, including all the underlying and supporting calculations, for each year between 2023 and 2027, for each of non-represented, PWU and SUP, or to advise if not able to do so or if Hydro One objects to doing so.

Response:

Response from Mercer:

The methodology for calculating total compensation differentials has been outlined in I-22-E-SEC-212, page 2. In summary, to calculate the total compensation differentials, Mercer has undertaken the following steps:

a) Based on Hydro One's 2020 compensation data, as well as forecast projections as discussed in Exhibit E-06-01, Attachment 1.1 calculate Hydro One's annual total compensation from 2020 to 2027

b) Based on market data collected in the 2020, 2017, 2016, and 2013 compensation studies, calculate compound annual growth rates (CAGRs) for market data by position, and apply the CAGRs to the market data collected in the 2020 study to simulate market movements between 2020 and 2027

c) Based on the results from steps A. and B., calculate the total compensation differentials based on Hydro One's projected headcounts

In respect of the methodology, see also Mercer's response in JT 5.13.

The total compensation differentials for 2024, 2025, 2026 are discussed as follows (note that the results for 2023 and 2027 have been provided in E-SEC-212, along with OM&A calculations).

Table 1 - Weighted Average Total Compensation Differentials for Forecast Years 2024, 2025, 2026 Relative to P50 Market Median

Total Compensation - 2024	Total Compensation - 2025	Total Compensation - 2026
40.0 to 52.0	28.3 to 49.3	17.9 to 48.2

All data presented in CAD ($M)

Table 2 - Weighted Average Total Compensation Differentials for Forecast Years 2024, 2025, 2026, between Hydro One and the market competitive range (i.e., P50 plus/minus 5%)

Total Compensation - 2024	Total Compensation - 2025	Total Compensation - 2026
11.0 to 23.0	Up to 19.5	Up to 17.5

All data presented in CAD ($M)

Response from Hydro One:

Hydro One’s position, in connection with this question, is that further breakdowns by employee group are irrelevant for purposes of this rate application.

UNDERTAKING JT-5.11

Reference:

I-22-E-SEC 212

Undertaking:

With reference to the Mercer study, line 34, to ask Mercer

a) What is meant by peer review; and
b) What is the methodology that has been peer-reviewed; is it the study methodology or is it the calculations, and if it is the latter then to provide information about the peer review methodology referred to in this response.

Response:

Response from Mercer:

Peer review is Mercer's internal practice to ensure that reports and other deliverables are accurate in analysis, and appropriate in addressing the client's request. Mercer requires all deliverables to be peer reviewed prior to sending to the client.

- Mercer's peer review process consists of two parts. The first review is a technical review involving a consultant from outside the project team, to review all deliverables and underlying calculations to ensure the methodology is appropriate, and the results accurate. The second review involves a senior consultant, typically with direct experience in the client's industry or sector, to confirm the appropriateness of the overall project approach, findings, and recommendations.

- The peer review process undertaken for the Hydro One study is consistent with the approach described above.

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UNDERTAKING JT-5.12

Reference:

I-22-E-SEC-212, Page 3

Undertaking:

To consider whether Hydro One is prepared to provide, and if so to provide a breakdown between the amounts for the executive leadership team that have not been included in this application that are because of the statutory restrictions versus the total amount, and if not prepared to provide then to advise of that and the reason.

Response:

As noted by Hydro One in the response to E-SEC-212, the $1M for Transmission OM&A and $2M for Distribution OM&A, account for the removal of Executives from the revenue requirement.

Of these amounts $0.8M for Transmission, and $1.3M for Distribution represent the OM&A portion of executive costs that were voluntarily removed from the revenue requirement.

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UNDERTAKING JT-5.13

Reference:

I-22-E-SEC-213

Undertaking:

With reference to E-SEC-213, to ask Mercer if they are prepared to provide further detail beyond what they have already provided and, if so, to provide their full calculations, on similar basis as requested in JT5.10.

Response:

Response from Mercer:

The Mercer forecast projects both Hydro One and market compensation levels to the year 2027 – all benchmark jobs in the 2020 Study were included in the forecast. The forecasting model was developed to assess how Hydro One's total remuneration (base salary / wage + incentives + benefit value + pension value) market positioning may change, based on specific assumptions, if a similar Mercer Study was conducted in 2027.

The approach to forecasting the market and Hydro One's future total remuneration is briefly described below:

Market Total Compensation Levels

1. Calculate the 2008 - 2020 compound annual growth rate ("CAGR") for each market benchmark job. The lower and upper boundaries of the rates were established at 1.5% to 3.0% annually for the Energy Professional and Trades & Technical categories with a lower boundary of 2.0% for the non-represented group.

2. The calculated rates were applied to market the total compensation determined in the 2020 Mercer study, for each job, on an annual compound basis, through 2027.

Hydro One Total Compensation Levels

1. Establish and apply a range of potential bargaining outcomes following the end of the current collective agreements for the union groups (SUP and PWU) at Hydro One during the rate period. Make similar assumptions for future salary increases relating to the Non-Represented group over the forecast period (i.e. 2021 – 2027).

2. Make and apply specific assumptions about non-salary elements of total rewards.

3. Make (at a job category level) and apply (at a job incumbent level) turn-over and retirement rate and replacement cost assumptions.

4. Calculate Hydro One's total compensation, each year through 2027.

Please note that item 1. above, has the most significant impact on the forecast results and yields a range of total compensation outcomes each year for the Energy Professional and Trades & Technical categories.

Hydro One Relative to the Market Median

Similar to the methodology used in the Mercer Study, the forecast model leverages a weighted average approach to determine the overall market positioning. Specifically, the market positioning of each benchmark job is weighted relative to the number of employees in that job in order to determine the overall market positioning for Hydro One. Hydro One's position, relative to the market 50th percentile and the market competitive range, were calculated in percentage terms, each forecast year.

UNDERTAKING JT-5.14

Reference:

G-Staff 304, Part a)

Undertaking:

With reference to G-STAFF-304(a), to advise whether Hydro One is aware of externally driven transmission projects at some level of development or consideration that are not included in the application that would be eligible for this account.

Response:

Hydro One is working with various parties, consistent with the description provided in Interrogatory G-Staff-304 part d) iv), to study potential solutions to meet their transmission supply needs. This work is preliminary in nature and has not matured to a point where Hydro One has received an order, direction, letter or other communication (or is otherwise required as described in G-Staff-304 part d) v)) to proceed with planning an investment.

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UNDERTAKING JT-5.15

Reference:

I-22-G-SEC-228

Undertaking:

With reference to the response to G-SEC-228, part a, to provide the two underlying excel spread sheets for the two evidence references.

Response:

The two underlying spreadsheets, filed as part of Exhibit G-01-02 Attachment 10, are provided in excel format as Attachment 1 to this undertaking.

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UNDERTAKING JT-5.16

Reference:

I-01-A-Staff-13

Undertaking:

Subject to being able to obtain releases from Hydro One's external auditors (KPMG), as well from the Auditor General and/or the Province, to provide if possible the special-purposes financial information and U.S. GAAP to IFRS reconciliation.

Response:

Hydro One has requested releases from KPMG, the Auditor General of Ontario and the Ministry of Energy, Northern Development and Mines. Hydro One has not received the required releases, and as a result is unable to provide the special purpose financial information and U.S. GAAP to IFRS reconciliation at this point. In the event that such releases are obtained from the identified parties prior to the close of the record in this proceeding, Hydro One will provide the requested information subject to any confidentiality requirements that may apply.

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UNDERTAKING JT-5.17

Reference:

I-22-A-SEC-45

Undertaking:

To consider and advise, if reasonably possible within the timeframe for responding to undertakings, re: the new accounting standard that has been applied, if the OEB did not allow capitalization, if they ask to deviate from a U.S. GAAP standard, what would be the revenue-requirement impact.

Response:

If Hydro One is not permitted to capitalize its cloud computing costs, revenue requirement in 2023 will increase by approximately $47M between Transmission and Distribution, with approximately $20M in Transmission and $27M in Distribution. This impact is mainly attributable to the increase in OM&A as capitalized cloud computing costs would have to be recovered as OM&A. The annual revenue requirement impact would decline over the application period as rate base would be reduced as a result of no longer capitalizing assets and placing them in-service.

A correction is required to A-Staff-018 for parts a) and c), shown below, as the analysis performed to quantify impacts from cloud implementation was inadvertently completed against an outdated 2023-2027 investment plan.

Correction to A-Staff-018 part a):

The total amount of capitalized implementation costs in the 2023 test year (total capital in-serviced in 2023) as a result of the adoption of ASU 2018-15 is anticipated to be approximately $27.6M. Prior response indicated that $11.8M of capitalized implementation costs has been included.

Correction to A-Staff-018 part c):

The revised forecasted amounts that have been capitalized each year from 2023 to 2027 are shown below. Note that for clarity, both the capital annual spend as well as annual in-service additions are listed separately in Table 1 and Table 2.

Table 1 - Annual Capital Forecasted for Cloud Implementation

$M	2023	2024	2025	2026	2027
Tx Capital	19.9	18.4	17.5	12.8	8.9
Dx Capital	27.2	35.8	38.0	36.4	31.8
Total	**47.1**	**54.2**	**55.5**	**49.2**	**40.7**

Table 2 - Annual In Service Additions Forecasted for Cloud Implementation

$M	2023	2024	2025	2026	2027
Tx ISA	11.7	9.9	36.2	16.4	11.0
Dx ISA	15.9	14.1	70.6	42.8	36.2
Total	**27.6**	**24.0**	**106.9**	**59.2**	**47.1**

Table 3 - Annual In Service Additions Forecasted for Cloud Implementation (previously presented in A-Staff-018)

$M	2023	2024	2025	2026	2027
Tx ISA	5.9	9.4	17.8	15.3	32.9
Dx ISA	5.9	16.8	20.8	31.5	62.5
Total	**11.8**	**26.2**	**38.6**	**46.8**	**95.4**

UNDERTAKING JT-5.18

Reference:

A-OEB Staff-07

Undertaking:

To consider and, if reasonably possible within the timeframe for responding to undertaking, to update the tables in the attachments to A-STAFF-7 for most recent OEB cost of capital and inflation updates, and also provide them in excel format.

Response:

Please see Attachment 1 for the Tx and Dx tables updated for the following:[1,2]

- ROE updated to 8.66% from 8.34%
- Short-term debt rate updated to 1.17% from 1.56%
- Inflation rate for Tx updated to reflect 2.5% and Dx updated to reflect 3.3%

Hydro One intends to update these parameters for the latest OEB approved figures during the DRO process.

[1] As described in Exhibit F-01-01 and F-01-02, the long-term debt rate is calculated as the weighted average rate on embedded debt, new debt, and forecast debt planned to be issued in 2023. As such, long-term debt rate has not been updated as part of this analysis.

[2] The updated figures are based on as-filed information and do not reflect the correction outlined in Interrogatory Response E-Staff-295 with respect to the tax calculation.

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UNDERTAKING JT-5.19

Reference:

I-08-D-Energy Probe-55

Undertaking:

On a best efforts basis to consider what is available and if available to file as possible the most recent version of the self-certification agreement for service-level providers.

Response:

The self-certification agreement for Transmission and Distribution are provided as Attachment 1 and Attachment 2 to this response.

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Transmitter 3.2.1

3.2.1 Self-certification statement

Hydro One Networks Inc.
ET-2003-0035

I, Mark Poweska, President and Chief Executive Officer, certify that Hydro One Networks Inc. has complied in full with the Ontario Energy Board's Affiliate Relationships Code for Electricity Distributors and Transmitters during the Calendar Year (2020).

Mark Poweska

Date: April 09, 2021

Distributor 2.2.1

2.2.1 Self-certification statement

Hydro One Networks Inc.
ED-2003-0043
ED-2006-0181 (Cat Lake Communities)

I, Mark Poweska, President and Chief Executive Officer, certify that Hydro One Networks Inc. has complied in full with the Ontario Energy Board's Affiliate Relationships Code for Electricity Distributors and Transmitters during the Calendar Year (2020).

Mark Poweska

Date: April 09, 2021

UNDERTAKING JT-5.20

Reference:

I-08-E-Energy Probe-70

Undertaking:

To provide a calculation showing the employer pension contributions for, as a base year, 2021, and for test year, 2023.

Response:

The 2021 Employer Contributions (Calculation: Base Pensionable Earnings of employees in the pension plan multiplied by the pension contribution rate) is $72M for Transmission and Distribution. The 2023 Employer Contributions are forecasted to be $104M.

It should be noted that the 2023 forecasted amount is subject to change pending the outcome of the December 31, 2021 pension valuation.

As stated in E-Energy Probe-070, Pension costs are determined based on the results of funding valuations performed periodically on the Plan in accordance with the PBA. The employer is responsible for paying the pension costs defined in the valuation results, net of any employee contributions.

The total cost contributions are determined each time an actuarial valuation is filed. The total cost contribution requirement is dependent on many assumptions, most notably the discount rate used in the valuation. The discount rate assumption is set based on the actuary’s expectations of future returns, which can fluctuate. The employee’s portion of the total cost contributions is fixed as a percentage of their earnings and is not impacted by the valuation or any of the assumptions. Therefore, the employer required contribution amount reflects the full impact of any change to the valuation assumptions, notably the discount rate.

Any variances in the OM&A portion of pension costs – OEB approved vs actual will be captured in the pension cost differential variance account.

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UNDERTAKING JT-5.21

Reference:

No Reference Provided

Undertaking:

To ask Mercer to confirm the use of 2020 data in its benchmarking; that they hadn't taken into account the future change to employer contributions.

Response:

Response from Mercer:

The Mercer methodology takes into account the Hydro One agreed upon employee retirement plan contribution rates. These amounts are deducted from the total retirement plan value to determine the employer provided value. This figure is independent of the Hydro One pension plan contribution rates as determined through the plans' actuarial valuations.

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UNDERTAKING JT-5.22

Reference:

I-08-F-Energy Probe-072

Undertaking:

To consider and, if Hydro One is prepared to provide, then to confirm how much of the $15 million has been spent, of the $15 million shown in table EP72, and if not prepared to provide then to advise.

Response:

The estimated expenditures as of the end of 2021 are approximately $10.5 million.

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UNDERTAKING JT-5.23

Reference:

VECC 81

Undertaking:

To provide a response to the question: Does Hydro One think the Z factors allows for them to adjust their cost of capital parameters?

Response:

Hydro One's application does not include a Z-Factor claim and Hydro One's witnesses at the Technical Conference did not allude to the possibility of bringing a Z-Factor claim in relation to the cost of capital parameters (or any other matter). As such, the question of whether a Z-Factor claim could be used to adjust cost of capital parameters is purely hypothetical. Moreover, it is a question that would require significant legal and regulatory analysis. Hydro One has not performed such analysis to date and it would not be appropriate for Hydro One to perform such analysis for purposes of responding to this undertaking.

Hydro One nevertheless notes as follows:

- Hydro One is not aware of specific guidance from the OEB on whether or not an adjustment of cost of capital parameters or the recovery of costs associated with the application of cost of capital parameters is within scope for a Z-factor claim. Hydro One notes that the majority of Z-factor claims approved by the OEB to date have been related to storm-related events.

- Hydro One understands that the OEB's policy for Z-factor claims is to allow utilities to request recovery of costs associated with unforeseen events that are outside of the utility's control, subject to the application of certain eligibility criteria. While possible, it appears unlikely that material changes to cost of capital parameters would meet the eligibility criteria for a Z-factor.

As a result, at this time Hydro One does not believe the Z-factor is an appropriate mechanism to address changes in cost of capital parameters.

The above being said, eligibility and approval for a Z-factor claim are ultimately subject to review and determination by an OEB Panel based on the specific facts and circumstances in evidence at the time the Z-factor claim is filed.

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UNDERTAKING JT-5.24

Reference:

I-01-C-Staff-182

Undertaking:

To ask PWC to clarify what they rely on in making the statement in C-STAFF-182 about capitalization rates.

Response:

The following response was provided to Hydro One by PWC in response to the question raised in Undertaking JT-5.24:

As noted in our response to C - OEB Staff Interrogatory - 182, "PwC made this comment on the basis of its experience working with other regulated utilities in Canada and the United States who engage third parties to perform more construction work than Hydro One." We acknowledge our duty as Experts to provide opinion evidence that is fair, objective and non-partisan. We have looked for publicly available information to quantify our observation and have not identified any such source as this metric is not required to be reported by any accounting or regulatory guidance of which we are aware.

From our discussions with Hydro One management, we understand that the vast majority of capital work at Hydro One has been self-constructed, and not contracted to third parties. Our team has cumulative knowledge and experience in both Canada and the United States, through performing financial statement audits and other advisory and expert services we provide to utility companies. As a result of those engagements, we are privy to information on construction and capital strategy, internal labour spend and third party contractor spend. From the information that we are provided on such engagements, we generally observe a significant amount of third party contractor spend on capital projects when compared to internal labour capitalized. It is this type of data and observations that provide us with the context for the observation made in our report. Our comment is not a result of a specific study or specific analysis of operations of a selection of utilities.

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UNDERTAKING JT-5.25

Reference:

I-24-G-VECC 88

Undertaking:

Referring to G-VECC-88, to clarify the meaning of negative numbers as debits or credits.

Response:

The negative numbers represent credits/amounts owed to customers, if the Distribution Depreciation Expense (Asset Removal Costs) variance account was established in the last Distribution rebasing application.

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UNDERTAKING JT-5.27

Reference:

I-01-G-Staff-317

Undertaking:

To clarify how the new account for distribution connection cost agreement will be tax neutral.

Response:

We note the undertaking is in respect of the new variance account for Distribution Connection Cost Agreement (CCA), where in G-Staff-317 page 3 (line 26), it states that "...the new account for Distribution CCA variance account would also exclude the impact of IEE based on actual costs as these will be tax neutral."

Forecasts of IEE capital contributions have been embedded in this rebasing application and are treated the same for tax and accounting purposes, whereby accounting and tax basis is reduced respectively. As the accounting additions and tax additions are being reduced by the same amount, there would be no timing difference on the initial set up and would be tax neutral. Furthermore, the tax treatment of IEE capital contributions is the same in the calculation of regulatory tax in this application and for actual tax filings. Consequently, there is no variance arising from the differences in tax treatment.

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UNDERTAKING JT-5.29

Reference:

I-01-E-Staff-277

Undertaking:

To consider the relevance of the request and whether the request can reasonably be addressed within the timeframe for responding to undertakings and, if so, to break down the pre-2018 period number into individual years, or to otherwise advise.

Response:

Please see the updated tables:

Transmission: DB Pension Cash vs Accrual historical years ($M)								
	Pre 2015	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**Total**
Cash Basis Amounts included in Tx Rates	**529**	**71**	**69**	**49**	**75**	**34**	**32**	**859**
Accrual Basis	622	73	51	43	35	18	13	855
Recovery of Regulatory Asset								714
Total Accrual Method	**622**	**73**	**51**	**43**	**35**	**18**	**13**	**1,569**
Difference	**(93)**	**(2)**	**18**	**6**	**40**	**16**	**19**	**(710)**

Note 1*: Pre 2015 is historical years 1999 to 2014.*
Note 2*: Historical Accrual basis excludes the Regulatory asset that would need to be recovered if converting to Accrual Basis. $48M for 15 years refer Table 1a in E-07-01.*

Distribution: DB Pension Cash vs Accrual historical years ($M)								
	Pre 2015	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**Total**
Cash Basis Amounts included in Dx Rates	**803**	**97**	**61**	**49**	**37**	**36**	**34**	**1,117**
Accrual Basis	794	89	65	49	40	22	75	1,135
Recovery of Regulatory Asset								947
Total Accrual Method	**794**	**89**	**65**	**49**	**40**	**22**	**75**	**2,082**
Difference	**9**	**8**	**(5)**	**(0)**	**(3)**	**14**	**(41)**	**(965)**

Note 1*: Pre 2015 is historical years 1999 to 2014.*
Note 2*: Historical Accrual basis excludes the Regulatory asset that would need to be recovered if converting to Accrual Basis. $63M for 15 years refer Table 1b in E-07-01.*

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UNDERTAKING JT-5.30

Reference:

I-01-E-Staff-277

Undertaking:

To inquire with the actuaries whether the requested information can be provided with reasonable effort within the period for responding to undertakings, and if so, then to update the table compiled by staff as part of interrogatory Staff-277 showing pension cost comparison between cash and accrue basis, to include the unrealized portion actual gain and loss that included in the pension cost under accrued basis; to provide a sense of the quantum, to understand the impact between U.S. GAAP and IFRS.

Response:

Please see the updated tables:

Hydro One Transmission DB Pension Cost - Cash vs. Accrual adjusted for gains/losses					
Year	**2023**	**2024**	**2025**	**2026**	**2027**
in $M					
Cash Basis	**45**	**46**	**46**	**47**	**49**
Accrual Basis	75	72	66	61	60
Less: Gain/Loss on Amortization	(42)	(40)	(37)	(35)	(33)
Modified Accrual Basis	**32**	**32**	**29**	**27**	**27**
Cash vs Modified Accrual - Note 1	**12**	**14**	**17**	**20**	**23**

Note 1 *- Excludes the Regulatory asset that would need to be recovered if converting to Accrual Basis. $48M for 15 years refer Table 1a in E-07-01.*

Hydro One Distribution DB Pension Cost - Cash vs. Accrual adjusted for gains/losses					
Year	**2023**	**2024**	**2025**	**2026**	**2027**
in $M					
Cash Basis	**59**	**60**	**61**	**62**	**64**
Accrual Basis	99	94	87	82	77
Less: Gain/Loss on Amortization	(56)	(52)	(49)	(46)	(76)
Modified Accrual Basis	**43**	**42**	**38**	**36**	**2**
Cash vs Modified Accrual - Note 2	**16**	**19**	**23**	**27**	**62**

***Note 2** – Excludes the Regulatory asset that would need to be recovered if converting to Accrual Basis. $63M for 15 years refer Table 1b in E-07-01.*

To arrive at the IFRS accrual amount, the losses still need to be recovered. Under IFRS, actuarial gains/losses are recorded in the statement of other comprehensive income and do not enter rates, and thus Hydro One notes that other utilities have requested, and were approved by the OEB, to use a deferral account to capture these actuarial gains/losses.[1] As such, there is no difference in the amounts to be recovered under either US GAAP or IFRS, with exception to the proposed mechanism in which the amounts can be recovered depending on the accounting standard applied.

[1] See EB-2018-0165, Decision and Order, December 19, 2019, p. 179, for a description of the proposed account for Toronto Hydro

UNDERTAKING JT-5.31

Reference:

I-01-G-Staff-315
I-01-G-Staff-306

Undertaking:

To confirm that the ongoing expenditures that are proposed to be recorded are going to be recorded in the other feeders account and not the express feeders or other cost account, and that's why the other feeders account is proposed to be continued.

Response:

Hydro One would like to clarify that there is no “Distribution Generation – Provincial - Other Feeders – Deferral Account”. This is a typo in the DVA continuity schedule and should have been labelled as “Distribution Generation – Provincial - Other Costs – Deferral Account”, consistent with the description of Account 1533 detailed in section 6.12 in Exhibit G-01-01 of the evidence.

As at the end of December 31, 2020, Hydro One has $5.3M worth of funding in the “Distribution Generation – Provincial - Express Feeders – Deferral Account”, which was received from January 2011 to December 2014. Hydro One requests that the OEB allow Hydro One to apply these funds towards the ongoing expenditures made for Distributed Generation program (provincially funded portion) as there are potential regulatory efficiencies to be gained by applying an existing credit balance within a sub-account of Account 1533 to fund the costs within the same account for provincially funded DG program, rather than to provide a refund and then resume the collection of RGCRP amounts. The revenue requirement impacts related to these expenditures are currently captured in Account 1533 – Distribution Generation – Provincial – Other Costs – Deferral Account.

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UNDERTAKING JT-5.32

Reference:

Table 3 and 5 of PWC Capitalization Review Report

Undertaking:

With reference to Exhibit KT5.2, to ask PWC if they can clarify, and if so to provide clarifications as to:

a) Why Hydro One's percentage remains constant and why PWC believes it is comparable to these two metrics;
b) To clarify the calculation for table 5, the percentage of total A&G capitalized;
c) To confirm how PWC ensures that a balance is closed in this account for FERC form 1 is not the amount transferred out to the other utility business, but rather only represent the capitalized amount.

Response:

The following responses were provided to Hydro One by PWC in response to the question raised in Undertaking JT-5.32:

a) Table 3 in our report reflects data obtained from rate case filings made by the referenced utilities. Table 5 in our report is based on the data reported by the referenced companies in their annual FERC Form 1.

   There are various reasons why the data in Table 3 and Table 5 differs. One such difference is timing. For Table 3, we utilized rate case data from the most recent filing for each company, as applicable. The rate case data used in Table 3 related to various prior periods or, in some cases, estimates. In contrast, for Table 5 we utilized the 2019 FERC Form 1 filing which was the most recent data available at the time of the preparation of our report. Variances in company procedures and spend year to year could cause the percentage reported to vary year to year.

   The term “common corporate costs” is not defined by IFRS, US GAAP, FERC or the OEB. When performing our research, we found that no other utility used the term “common corporate costs”. To perform the comparison to other utilities, we had to analyze the data and compile costs that, in our judgment, based on publicly available information, appeared to be most comparable to “common corporate costs” as defined by Hydro One. As a result, the amount reported in Table 3 may or may not share significantly similar inputs as the amounts reported in Table 5.

These two tables were provided to indicate two different metrics that may be comparable to Hydro One's definition of "common corporate costs". Because Hydro One has a consistent definition of "common corporate costs", this number was held constant between the two tables. In addition, Hydro One does not report to FERC and we were informed that Hydro One does not have a calculation readily available of what they would record to FERC account 920, 921, or 922.

Based on our understanding of the FERC USoA, the data reviewed in rate cases as part of our benchmarking procedures, and Hydro One's definition of "common corporate costs", we believe these metrics all relate to similar costs and measures. As stated in our report, "There is no way in which to be certain that our compilations and assessments of the most comparable cost measures are accurate. As a result, in this report, when we refer to common corporate costs of utilities other than Hydro One, we are referring to the pool of costs that may approximate Hydro One's definition of these costs.

Although FERC, the OEB and other regulators require disclosure of components of administrative and general costs or operating maintenance and administrative costs that are capitalized, the presentation, groupings and functions presented are not consistent and lack sufficient detail to draw a direct comparison to Hydro One's categorization."

As outlined in our Executive Summary, we reiterate the challenges in making direct comparisons to peers, and for this reason, we performed additional analysis to understand Hydro One's process to capitalize common corporate costs and compared its process with the relevant guidance issued by the OEB and FERC, as described in the section titled: Overview of process and methodology for capitalizing common corporate costs.

b) Table 2 in our report contains the peer utilities that we deemed most comparable to Hydro One based on the criteria we enumerate in our report. Evergy is one of those peers. As noted in our report, there are 198 US utility companies that filed a FERC Form 1 in 2019. 93 of these companies had what we considered to be "account 922 outliers" (for example companies where the 922 account was negative or higher than the sum of accounts 920 and 921 in their FERC Form 1). When analyzing the data for the 193 FERC Form 1 filers, we removed the outliers.

The remaining 105 companies had a range of A&G capitalized from 1% to 83%. Within this population there were 6 regulated electric utilities, not included in Table 5 of our report, that had a percentage of A&G capitalized between Hydro One's 48% and Evergy's 72%. There are an additional 10 regulated electric utilities, also not included in Table 5 of our report, that had a percentage of A&G capitalized between Consumers Energy's 35% and Hydro One's 48%. As a result, while Evergy's percentage may appear to be an outlier in the context of Table 5 presented in our report, the population for Table 5 was limited to the companies identified in Table 2. When looking at the remainder of the population of FERC Form 1 filers, we do not believe that Evergy is an outlier.

c) FERC account 922 is defined as, "This account shall be credited with administrative expenses recorded in accounts 920 and 921 which are transferred to construction costs or to nonutility accounts. (See electric plant instruction 4.)" Therefore, we agree that FERC account 922 could contain amounts not relating to construction, but rather amounts which should be charged to non-utility accounts. However, based on our experience, we observe that generally US utility companies have a shared service center company such that the underlying utility does not provide significant services to non-utility operations. Further, most US utilities keep their utility and non-utility businesses in separate entities. As a result, we believe it is unlikely for these utility entities to have significant non-utility operations which to allocate G&A costs. As a result, we believe the 922 account provides a reasonable basis for assessing the amount of G&A costs capitalized and that there is not an additional FERC account available that would provide more relevant information.

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UNDERTAKING JT-5.33

Reference:

I-01-D-Staff-183

Undertaking:

To consider and, if able to do so, to file information about revenues for secondary land use, to September 30th, 2021, with a forecast to end of 2021, if possible; and if not, to advise why not.

Response:

The forecast provided as part of the application remains appropriate. In any event, Hydro One has been advised that the disclosure of this information to intervenors prior to February 25, 2022 would be considered selective disclosure, which is prohibited by securities regulations.

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