



EB-2017-0049

Hydro One Networks Inc.

**Application for electricity distribution rates beginning
January 1, 2018 until December 31, 2022**

**DECISION ON ISSUES LIST AND INTERIM RATES and PROCEDURAL
ORDER NO. 2
December 1, 2017**

Hydro One Networks Inc. (Hydro One) filed a 5-year Custom Incentive Regulation application with the Ontario Energy Board (OEB) on March 31, 2016 under section 78 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, (Schedule B), seeking approval for changes to its distribution rates, to be effective January 1, 2018 to December 31, 2022 (the Distribution Rates application).

A Notice of Hearing was issued on May 24, 2017. After ten community meetings were concluded over the summer months, Procedural Order No. 1 was issued on August 31, 2017. In Procedural Order No. 1, the OEB ruled on the requests received for intervention and cost award eligibility status, as well as setting out a number of other procedural steps, including a presentation day. The OEB subsequently postponed these procedural steps.

On September 8, 2017, as directed by the OEB, OEB staff issued a draft issues list for this proceeding (see Schedule A). Comments on the draft issues list were filed by the Balsam Lake Coalition (BLC); City of Hamilton; the Vulnerable Energy Consumers Coalition (VECC); Anwaatin Inc. (Anwaatin); Consumers Council of Canada (CCC) and Hydro One. BLC, OEB staff and Hydro One filed responses to these comments.

On October 11, 2017, Hydro One filed additional evidence on compensation in response to the OEB's September 28, 2017 (as revised October 11, 2017) EB-2016-0160 Decision

and Order on Hydro One's application for 2017 and 2018 transmission revenue requirements and charge determinants (the Transmission Decision).

On November 17, 2017, Hydro One filed a letter requesting that the OEB declare its distribution rates interim as of January 1, 2018 based on currently approved rates with an adjustment for the 2018 load forecast. Hydro One also requested that the OEB provide for a settlement conference for certain issues in this proceeding. Hydro One acknowledged that there is some overlap between the recent Transmission Decision and the current distribution proceeding. Hydro One proposed that there be no re-litigation of the matters that are the subject of a motion to review and vary the Transmission Decision and/or an appeal to the Divisional Court in respect of the Transmission Decision.

This Decision and Procedural Order No. 2 includes two sections: a decision on the content and scoping of the Issues List, including the approval of an Issues List on an interim basis; and a decision on the approval of interim rates. It also sets out the dates for a number of procedural matters.

Issues List

The content and scoping of the Issues List is discussed in two sub-sections:

1. Implications of the Transmission Decision on Issues
2. OEB Revisions to the draft Issues List.

The OEB is not including issues on the Issues List related to either the tax provision included in rates or compensation, at this time. The scoping of these issues is discussed further in sub-section 1. The OEB approves the draft Issues List with the exception of issues 39, 40 and 42, and subject to the revisions discussed in sub-section 2. The Issues List is being approved on an interim basis and may be revised following the OEB's consideration of the submissions provided for below in respect of compensation. The approved interim Issues List is attached as Schedule B.

1. Implications of the Transmission Decision on Issues

On October 18, 2017, Hydro One filed a motion requesting that the OEB review and vary the Transmission Decision, in respect of the following determinations:

- a) that a portion of tax savings resulting from the Government of Ontario's decision to sell its ownership interest in Hydro One Limited by way of an Initial Public Offering (IPO) on October 28, 2015 and subsequent sale of shares should be applied to

reduce Hydro One's revenue requirement for 2017 and 2018 (Section 15 of the Transmission Decision; the Tax Savings Determination)

- b) that Allowance for Funds used During Construction (AFUDC) in respect of the Niagara Reinforcement Project (NRP) should not be included in rates for 2018 (Section 13 of the Transmission Decision; the NRP Determination)
- c) that the costs attributable to the Ombudsman Office should not be included in rates (paragraphs 7.2.2 and pp. 47 of the Transmission Decision; the Ombudsman's Office Determination).

On October 27, 2017, Hydro One sent the OEB a copy of its Notice of Appeal to the Divisional Court in respect of the OEB's tax-related findings in the Transmission Decision. According to the Notice of Appeal, Hydro One is asking that the Divisional Court set aside the OEB's findings in Section 15 of the Transmission Decision (Taxes Including the Allocation of Future Tax Savings); and that the Divisional Court direct the OEB that none of the tax savings resulting from the Government of Ontario's decision to sell its ownership interest in Hydro One Limited by way of an IPO and subsequent sale of shares should be applied to reduce Hydro One's revenue requirement for the January 1, 2017 to December 31, 2018 period.

The OEB will address two aspects of the Hydro One Transmission Decision that have implications for this current distribution proceeding: the Tax Savings Determination; and the OEB's findings in the Transmission Decision on Hydro One's proposed increases in corporate management costs. The OEB found that the corporate management cost increases are primarily related to the transformation of Hydro One Limited, the holding company of Hydro One Networks Inc., into a publicly traded company in which the Province of Ontario now has a minority interest.

As noted earlier, Hydro One acknowledged that there is some overlap between the recent Transmission Decision and the current distribution proceeding. Hydro One proposed that there be no re-litigation of the matters that are the subject of the motion to review and vary the Transmission Decision and/or the appeal to the Divisional Court in respect of the Transmission Decision.

Taxes

Hydro One's Motion and Appeal regarding the Tax Savings Determination are directly relevant to the Distribution Rates application. The OEB understands that Hydro One's proposed treatment of tax savings resulting from the Government of Ontario's decision to

sell its ownership interest in Hydro One Limited by way of an IPO and subsequent sale of shares in this Distribution Rates Application is consistent with its proposed approach to those savings in the Transmission application. That is, Hydro One does not intend to apply any tax savings resulting from the IPO to reduce Hydro One's distribution revenue requirement. As Hydro One notes "Neither the departure tax nor the change in tax regime will have any impact on ratepayers. For regulatory purposes, income tax expenses will continue to be calculated according to the method prescribed by the Board's 2006 EDR Tax Model and 2006 EDR Handbook, Section 7.1 "OEB 2006 Regulatory Taxes Expense Methodology"¹.

The OEB does not intend to have that matter re-litigated in the current proceeding while the motion and appeal are pending. Accordingly, the OEB will not permit the Tax Savings Determination issue to be addressed in the distribution case, pending the outcomes of the Hydro One Motion and Appeal.

Compensation

In the transmission proceeding, the OEB did not accept the level of compensation proposed by Hydro One to be included within the Operations, Maintenance and Administration (OM&A) envelope in Hydro One's revenue requirement. The discussion of compensation begins at page 45 of the Transmission Decision.

At page 52 of the Transmission Decision (section 7.2.3 – Total Compensation Costs), the OEB explained that "Networks uses an integrated workforce to operate its transmission and distribution business segments together...".

At page 58 of its Transmission Decision, the OEB stated:

The OEB is concerned that the difference between two amounts of approximately \$10.5 million per year of Corporate Management Costs, incremental to those incurred before the transformation of the parent holding company, are being allocated for recovery from transmission and distribution ratepayers when the delivery of essential delivery services by Networks remains essentially as it was before that transformation.

The OEB finds that the significant increases in compensation levels for senior executives and for members of the Board of Directors that Hydro One Limited has introduced have not been justified for recovery in OEB regulated rates for transmission services.

¹ Exhibit C1, Tab 7, Schedule 1, page 1, line 27 – page 2, line 2.

The OEB determined that it would reduce the OM&A envelope by \$15.0 million in each of 2017 and 2018. The OEB found that the holding company should have greater responsibility for the compensation amounts that relate to its transformation and its commitments to increase shareholder value. The OEB considered these incremental costs to be of little, if any, value to consumers of electricity transmission services. This would also be true for consumers of electricity distribution services.

Compensation is dealt with on a consolidated basis as it relates to Hydro One's transmission and distribution activities, with overall amounts simply being allocated between transmission and distribution functions on a formulaic basis. The OEB does not intend to rehear the same evidence related to compensation in this distribution proceeding that it did in the transmission proceeding.

To determine the extent to which the OEB will consider compensation in this proceeding, the OEB requires Hydro One to explain the differences among what it proposed for compensation in the transmission proceeding; what the OEB decided in the transmission proceeding; and what is in its compensation evidence in this current proceeding.

In its letter dated October 11, 2017, Hydro One provided updated evidence on compensation, noting that it had changed its methodology for reporting compensation in this proceeding. The new methodology for reporting compensation may result in a more accurate reflection of compensation but means that it is no longer possible to compare the compensation evidence from the transmission proceeding and this proceeding. For this reason, Hydro One is required to file its total compensation, and allocation to distribution and transmission, using the methodology used in the transmission proceeding and shown in Undertaking J10.2 in that proceeding, filed December 20, 2016. The filing should include the years 2013 to 2018 as provided in Undertaking J10.2. This will identify any differences between the compensation in this proceeding and the compensation in the transmission proceeding not caused by the change in methodology; such as the impact of changing the allocation of compensation between transmission and distribution to reflect the business plan underpinning this application. Hydro One is expected to comment on the differences, if any.

Intervenors and OEB staff are being provided with the opportunity to review the evidence submitted by Hydro One and to provide any comments on how the OEB should scope its review of the compensation issue. Hydro One will then have the opportunity to reply to those submissions.

After the OEB has received the submissions of parties on the compensation issue, it will make its determination on how compensation will be reflected in the final Issues List for this proceeding.

2. Revisions to the Draft Issues List

The OEB approves the draft Issues List prepared and filed by OEB staff (Schedule A), subject to the following revisions. As noted previously, issues 39, 40 and 42 (the draft issues directly related to compensation and tax expense) have been excluded from the Issues List at this time. The approved interim Issues List is attached as Schedule B.

General

The OEB has revised draft issue 4 to read, “Are the rate and bill impacts in each customer class in each year in the 2018 to 2022 period reasonable?” This is a minor revision intended to provide more clarity. The revision was proposed by the City of Hamilton and further elaborated on by OEB staff. Hydro One was not opposed to this revision.

The OEB has revised draft issue 5 to read, “Are Hydro One’s proposed rate impact mitigation measures appropriate and do any of the proposed rate increases require rate smoothing or mitigation beyond what Hydro One has proposed?” VECC proposed that the OEB either confirm that Hydro One’s proposed rate mitigation measures are already incorporated into draft issue 5 or to make this a separate issue. OEB staff proposed that draft issue 5 be expanded to include VECC’s proposal. The OEB is adopting OEB staff’s revised draft issue 5 to ensure that the appropriateness of the proposed mitigation measures is examined.

Fair Hydro Plan

BLC and CCC proposed adding new issue(s) related to the impact of the Fair Hydro Plan (FHP) on Hydro One’s application. Hydro One was not opposed to CCC’s proposal but disagreed with BLC’s proposed addition because this current application was filed in advance of the FHP. OEB staff submitted that these impacts are already addressed in other issues on the Issues List.

The OEB finds that there is no need to have an explicit separate issue(s) regarding the impacts/implications of the FHP. The extent to which the FHP affects any relevant element of the current proceeding (e.g. working capital or load forecast) can be

addressed through the existing issues in the draft issues list (e.g. draft issue 33 for working capital and draft issue 46 for load forecasts).

Distribution System Plan

The OEB has revised draft issue 28 (now issue 29) to read, “Are the proposed capital expenditures resulting from the Distribution System Plan appropriate, and have they been adequately planned and paced?” The way the draft issue was worded did not address the quantum of the proposed capital expenditure which needs to be examined. This revision was proposed by CCC and Hydro One was not opposed to it.

First Nations and Métis

The OEB finds that, as determined in the Hydro One transmission case, the general wording in draft issue 22 is sufficiently broad to address concerns raised by Anwaatin. However, the OEB will add a new issue (issue 6) under the General section, reading “Does Hydro One’s First Nation and Métis Strategy sufficiently address the unique rights and concerns of Indigenous customers with respect to Hydro One’s distribution service?”.

Hydro One opposed the inclusion of a new issue related to its First Nation and Métis Strategy on the grounds that it is a corporate-wide strategy whose reach extends beyond matters of rate relief sought in the application. Hydro One argued that the OEB should adopt the same approach used in Hydro One’s transmission proceeding and submitted that while aspects of the strategy may have a bearing on this application (such as customer needs and preferences and the overall cost of the strategy), Hydro One is not seeking approval for specific strategies on First Nations and Métis issues. Hydro One submitted that testing the sufficiency of specific strategies and initiatives is beyond the scope of this proceeding.

The OEB has amended the draft issue proposed by OEB staff to clarify that the OEB will only consider the strategy with respect to Hydro One’s distribution services. The First Nation and Métis strategy is part of the evidence in this proceeding and examining it and its impact on distribution services and rates is within the scope of this proceeding.

Acquired Utilities

In its submission, VECC suggested that the OEB either clarify or add new issues related to the acquired utilities’ costs and cost allocation. Hydro One was not opposed to these suggestions. OEB staff submitted that these topics are already implicitly covered in the draft Issues List.

The OEB finds that there is no need to add a new issue regarding the impact of planned integration of acquired utilities on the revenue requirements. All issues in the approved Issues List are examined and determined with respect to the “distribution business” as defined by Hydro One in each of the test years.

The OEB has added an issue (issue 53) to examine whether costs have been allocated to acquired utilities in accordance with OEB decisions on Hydro One’s acquisition of utilities. The new issue in the Cost Allocation section is as follows, “Do the costs allocated to acquired utilities appropriately reflect the OEB’s decisions in related Hydro One acquisition proceedings?”

Issues and Settlement Conferences

It was suggested by CCC and supported by Hydro One that an “issues conference” be held to reduce the number of issues to be heard orally. Furthermore, Hydro One proposed that a settlement conference be convened for certain issues identified by Hydro One as having been addressed in previous proceedings. Given the complexity of this proceeding and the OEB’s desire to adjudicate all the identified issues, the OEB will not provide for a settlement conference. The suggestion of an issues conference will be addressed when the OEB makes a decision regarding the need for a technical conference, following the interrogatory process.

Interim Rates

The OEB agrees there will not be a decision for the current proceeding in time for Hydro One to implement rates effective January 1, 2018. The OEB finds that Hydro One’s current rates will be made interim effective January 1, 2018. This determination of interim rates is made without prejudice to the OEB’s decision on Hydro One’s application and should not be construed as predictive, in any way, of the OEB’s final determination of the effective date for rates arising from the application. The OEB confirms that any rates with expiry dates on Hydro One’s current tariff shall not be charged to customers beyond the expiry dates.

The OEB will not increase Hydro One’s distribution rates at this time to reflect the updated load forecast as proposed by Hydro One. The OEB’s typical approach is to approve interim rates at the currently approved level. The OEB appreciates Hydro One’s suggestion to smooth rates between 2018 and 2019. However, it is premature to adopt Hydro One’s load forecasting methodology, even on an interim basis, when the appropriateness of the load forecasting methodology is an issue in the proceeding.

Furthermore, the need for smoothing may be impacted by the OEB's decision on the timing and quantum of rates.

Application Presentation

As noted in Procedural Order No. 1, the OEB is making provision for a transcribed presentation of the application to the OEB panel, prior to interrogatories as set out in the order below. In its presentation, Hydro One must include the following: an overview of the key strategic and technical aspects of its application; and a detailed response to the customer issues identified in the OEB staff report on community meetings and in the letters of comment filed on the record of this case. While members of the public, parties to this proceeding and OEB staff may attend the presentation, the purpose of the presentation is not to provide an opportunity for cross-examination, but rather for Hydro One to present an overview of its application to the OEB Panel and to respond to any questions of clarification by the OEB Panel.

The OEB has set out below the next steps for this proceeding.

THE ONTARIO ENERGY BOARD ORDERS THAT:

Compensation Issue

1. Hydro One shall file its explanation for the differences among what it proposed for compensation in the transmission proceeding, what the OEB decided in the transmission proceeding and what is in its compensation evidence in this proceeding, in the manner discussed in the body of this Decision and Procedural Order, no later than **December 12, 2017**.
2. OEB staff and intervenors shall file any submissions in response to the Hydro One submission above, no later than **December 18, 2017**.
3. Hydro One shall file its reply, if any, to the submissions made by OEB staff and intervenors, no later than **December 21, 2017**.

Application Presentation

4. A transcribed presentation of the distribution application, and of Hydro One's response to the OEB staff report on community meetings and to the themes raised in the letters of comment filed with the OEB will be held on **Thursday, December 7, 2017**, in the OEB's North Hearing Room, 2300 Yonge Street, 25th Floor, Toronto, Ontario, beginning at 9:30 a.m.

Interrogatories

5. OEB staff shall request any relevant information and documentation from Hydro One that is in addition to the evidence already filed, by written interrogatories filed with the OEB and served on all parties by **January 19, 2018**.
6. Intervenors shall request any relevant information and documentation from Hydro One that is in addition to the evidence already filed, by written interrogatories filed with the OEB and served on all parties by **January 24, 2018**.
7. Hydro One shall file with the OEB complete written responses to all interrogatories and serve them on all intervenors and OEB staff by **February 12, 2018**.

All filings to the OEB must quote the file number, **EB-2017-0049**, be made in searchable /unrestricted PDF format electronically through the OEB's web portal at <https://www.pes.ontarioenergyboard.ca/eservice/>. Two paper copies must also be filed at the OEB's address provided below. Filings must clearly state the sender's name, postal address and telephone number, fax number and e-mail address. Parties must use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at <http://www.oeb.ca/OEB/Industry>. If the web portal is not available parties may email their documents to the address below. Those who do not have internet access are required to submit all filings on a CD in PDF format, along with two paper copies. Those who do not have computer access are required to file 7 paper copies.

All communications should be directed to the attention of the Board Secretary at the address below, and be received no later than 4:45 p.m. on the required date.

With respect to distribution lists for all electronic correspondence and materials related to this proceeding, parties must include the Case Manager, Harold Thiessen at harold.thiessen@oeb.ca and OEB Counsel, James Sidlofsky at james.sidlofsky@oeb.ca.

ADDRESS

Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4
Attention: Registrar

E-mail: boardsec@oeb.ca
Tel: 1-888-632-6273 (Toll free)

Fax: 416-440-7656

DATED at Toronto, December 1, 2017

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary

Hydro One Networks Inc.

Distribution Rates Application, 2018 – 2022

EB-2017-0049

Schedule A

**OEB STAFF DRAFT ISSUES LIST
As issued on September 8, 2017**

**Hydro One Networks Inc.
Distribution Rates Application, 2018 - 2022
OEB File Number EB-2017-0049
OEB STAFF DRAFT ISSUES LIST
September 8, 2017**

A. GENERAL

1. Has Hydro One responded appropriately to all relevant OEB directions from previous proceedings?
2. Has Hydro One adequately responded to the customer concerns expressed in the Community Meetings held for this application?
3. Is the overall increase in the distribution revenue requirement from 2018 to 2022 reasonable?
4. Are the overall rate and bill impacts in each customer class over the 2018 to 2022 period reasonable?
5. Do any of the proposed rate increases require rate smoothing or mitigation?

B. CUSTOM APPLICATION

6. Is Hydro One's proposed Custom Incentive Rate Methodology, using a Revenue Cap Index, consistent with the OEB's *Rate Handbook*?
7. Is the proposed industry-specific inflation factor, and the proposed custom productivity factor, appropriate?
8. Are the values for the proposed custom capital factor appropriate?
9. Are the program-based cost, productivity and benchmarking studies filed by Hydro One appropriate?
10. Are the results of the studies sufficient to guide Hydro One's plans to achieve the desired outcomes to the benefit of ratepayers?
11. Do these studies align with each other and with Hydro One's overall custom IR Plan?
12. Are the annual updates proposed by Hydro One appropriate?
13. Is Hydro One's proposed integration of the Acquired Utilities in 2021 appropriate?
14. Is the proposed Earnings/Sharing mechanism appropriate?
15. Are the proposed Z-factors and Off-Ramps appropriate?

C. OUTCOMES, SCORECARD AND INCENTIVES

16. Does the application adequately incorporate and reflect the four outcomes identified in the Rate Handbook: customer focus, operational effectiveness, public policy responsiveness, and financial performance?
17. Are the metrics in the proposed additional scorecard measures appropriate and do they adequately reflect appropriate outcomes?
18. Are the proposals for performance monitoring and reporting adequate and do the outcomes adequately reflect customer expectations?
19. Does the application promote and incent appropriate outcomes for existing and future customers including factors such as cost control, system reliability, service quality, and bill impacts?
20. Does the application adequately account for productivity gains in its forecasts and adequately include expectations for gains relative to external benchmarks?
21. Has the applicant adequately demonstrated its ability and commitment to manage within the revenue requirement proposed over the course of the custom incentive rate plan term?

D. DISTRIBUTION SYSTEM PLAN

22. Was the customer consultation adequate and does the Distribution System Plan adequately address customer needs and preferences?
23. Does Hydro One's investment planning process consider appropriate planning criteria? Does it adequately address the condition of distribution assets, service quality and system reliability?
24. Does the Distribution System Plan adequately reflect productivity gains, benefit sharing and benchmarking?
25. Does the Distribution System Plan address the trade-offs between capital and OM&A spending over the course of the plan period?
26. Has the distribution System Plan adequately addressed government mandated obligations over the planning period?
27. Has Hydro One appropriately incorporated Regional Planning in its Distribution System Plan?
28. Are the proposed capital expenditures resulting from the Distribution System Plan, adequately planned and paced?
29. Are the proposed capital expenditures for System Renewal, System Service, System Access and General Plant appropriately based on the Distribution System Plan?

30. Are the methodologies used to allocate Common Corporate capital expenditures to the distribution business appropriate?
31. Are the methodologies used to determine the distribution Overhead Capitalization Rate for 2018 and onward appropriate?

E. RATE BASE & COST OF CAPITAL

32. Are the amounts proposed for the rate base from 2018 to 2022 appropriate?
33. Are the inputs used to determine the working capital component of the rate base and the methodology used appropriate?
34. Is the proposed capital structure appropriate?
35. Are the proposed timing and methodology for determining the return on equity and short-term debt prior to the effective date of rate implementation appropriate?
36. Is the forecast of long term debt for 2018 and further years appropriate?

F. OPERATIONS MAINTENANCE & ADMINISTRATION COSTS

37. Are the proposed OM&A spending levels for Sustainment, Development, Operations, Customer Care, Common Corporate and Property Taxes and Rights Payments, appropriate, including consideration of factors considered in the Distribution System Plan?
38. Do the proposed OM&A expenditures include the consideration of factors such as system reliability, service quality, asset condition, cost benchmarking, bill impact and customer preferences?
39. Are the proposed 2018 human resources related costs (wages, salaries, benefits, incentive payments, labour productivity and pension costs) including employee levels, appropriate?
40. Has Hydro One demonstrated improvements in presenting its compensation costs and showing efficiency and value for dollar associated with its compensation costs?
41. Are the methodologies used to allocate Common Corporate Costs and Other OM&A costs to the distribution business for 2018 and further years appropriate?

G. REVENUE REQUIREMENT

42. Are the amounts proposed to be included in the 2018 and further years revenue requirement for income taxes appropriate?
43. Is Hydro One's proposed depreciation expense for 2018 and further years appropriate?

44. Are the proposed other revenues for 2018 – 2022 appropriate?

H. LOAD AND REVENUE FORECAST

45. Is the load forecast methodology including the forecast of CDM savings appropriate?
46. Are the customer and load forecasts a reasonable reflection of the energy and demand requirements for 2018 – 2022?
47. Has the load forecast appropriately accounted for the addition of the Acquired Utilities' customers in 2021?

I. COST ALLOCATION AND RATE DESIGN

48. Are the inputs to the cost allocation model appropriate and are costs appropriately allocated?
49. Are the proposed billing determinants appropriate?
50. Are the revenue-to-cost ratios for all rate classes over the 2018 – 2022 period appropriate?
51. Are the proposed fixed and variable charges for all rate classes over the 2018 – 2022 period, appropriate, including implementation of the OEB's residential rate design?
52. Are the proposed Retail Transmission Service Rates appropriate?
53. Are the proposed specific service charges for miscellaneous services over the 2018 – 2022 period reasonable?
54. Are the proposed line losses over the 2018 – 2022 period appropriate?

J. DEFERRAL/VARIANCE ACCOUNTS

55. Are the proposed amounts, disposition and continuance of Hydro One's existing deferral and variance accounts appropriate?
56. Are the proposed new deferral and variance accounts appropriate?
57. Is the proposal to discontinue several deferral and variance accounts appropriate?

-end-

Hydro One Networks Inc.

Distribution Rates Application, 2018 – 2022

EB-2017-0049

Schedule B

Interim Approved Issues List

December 1, 2017

**Hydro One Networks Inc.
Distribution Rates Application, 2018 - 2022
EB-2017-0049
Interim Approved Issues List
December 1, 2017**

A. GENERAL

1. Has Hydro One responded appropriately to all relevant OEB directions from previous proceedings?
2. Has Hydro One adequately responded to the customer concerns expressed in the Community Meetings held for this application?
3. Is the overall increase in the distribution revenue requirement from 2018 to 2022 reasonable?
4. Are the rate and bill impacts in each customer class in each year in the 2018 to 2022 period reasonable?
5. Are Hydro One's proposed rate impact mitigation measures appropriate and do any of the proposed rate increases require rate smoothing or mitigation beyond what Hydro One has proposed?
6. Does Hydro One's First Nation and Métis Strategy sufficiently address the unique rights and concerns of Indigenous customers with respect to Hydro One's distribution service?

B. CUSTOM APPLICATION

7. Is Hydro One's proposed Custom Incentive Rate Methodology, using a Revenue Cap Index, consistent with the OEB's *Rate Handbook*?
8. Is the proposed industry-specific inflation factor, and the proposed custom productivity factor, appropriate?
9. Are the values for the proposed custom capital factor appropriate?
10. Are the program-based cost, productivity and benchmarking studies filed by Hydro One appropriate?
11. Are the results of the studies sufficient to guide Hydro One's plans to achieve the desired outcomes to the benefit of ratepayers?
12. Do these studies align with each other and with Hydro One's overall custom IR Plan?

13. Are the annual updates proposed by Hydro One appropriate?
14. Is Hydro One's proposed integration of the Acquired Utilities in 2021 appropriate?
15. Is the proposed Earnings/Sharing mechanism appropriate?
16. Are the proposed Z-factors and Off-Ramps appropriate?

C. OUTCOMES, SCORECARD AND INCENTIVES

17. Does the application adequately incorporate and reflect the four outcomes identified in the Rate Handbook: customer focus, operational effectiveness, public policy responsiveness, and financial performance?
18. Are the metrics in the proposed additional scorecard measures appropriate and do they adequately reflect appropriate outcomes?
19. Are the proposals for performance monitoring and reporting adequate and do the outcomes adequately reflect customer expectations?
20. Does the application promote and incent appropriate outcomes for existing and future customers including factors such as cost control, system reliability, service quality, and bill impacts?
21. Does the application adequately account for productivity gains in its forecasts and adequately include expectations for gains relative to external benchmarks?
22. Has the applicant adequately demonstrated its ability and commitment to manage within the revenue requirement proposed over the course of the custom incentive rate plan term?

D. DISTRIBUTION SYSTEM PLAN

23. Was the customer consultation adequate and does the Distribution System Plan adequately address customer needs and preferences?
24. Does Hydro One's investment planning process consider appropriate planning criteria? Does it adequately address the condition of distribution assets, service quality and system reliability?
25. Does the Distribution System Plan adequately reflect productivity gains, benefit sharing and benchmarking?
26. Does the Distribution System Plan address the trade-offs between capital and OM&A spending over the course of the plan period?

27. Has the distribution System Plan adequately addressed government mandated obligations over the planning period?
28. Has Hydro One appropriately incorporated Regional Planning in its Distribution System Plan?
29. Are the proposed capital expenditures resulting from the Distribution System Plan appropriate, and have they been adequately planned and paced?
30. Are the proposed capital expenditures for System Renewal, System Service, System Access and General Plant appropriately based on the Distribution System Plan?
31. Are the methodologies used to allocate Common Corporate capital expenditures to the distribution business appropriate?
32. Are the methodologies used to determine the distribution Overhead Capitalization Rate for 2018 and onward appropriate?

E. RATE BASE & COST OF CAPITAL

33. Are the amounts proposed for the rate base from 2018 to 2022 appropriate?
34. Are the inputs used to determine the working capital component of the rate base and the methodology used appropriate?
35. Is the proposed capital structure appropriate?
36. Are the proposed timing and methodology for determining the return on equity and short-term debt prior to the effective date of rate implementation appropriate?
37. Is the forecast of long term debt for 2018 and further years appropriate?

F. OPERATIONS MAINTENANCE & ADMINISTRATION COSTS

38. Are the proposed OM&A spending levels for Sustainment, Development, Operations, Customer Care, Common Corporate and Property Taxes and Rights Payments, appropriate, including consideration of factors considered in the Distribution System Plan?
39. Do the proposed OM&A expenditures include the consideration of factors such as system reliability, service quality, asset condition, cost benchmarking, bill impact and customer preferences?
40. Are the methodologies used to allocate Common Corporate Costs and Other OM&A costs to the distribution business for 2018 and further years appropriate?

G. REVENUE REQUIREMENT

41. Is Hydro One's proposed depreciation expense for 2018 and further years appropriate?
42. Are the proposed other revenues for 2018 – 2022 appropriate?

H. LOAD AND REVENUE FORECAST

43. Is the load forecast methodology including the forecast of CDM savings appropriate?
44. Are the customer and load forecasts a reasonable reflection of the energy and demand requirements for 2018 – 2022?
45. Has the load forecast appropriately accounted for the addition of the Acquired Utilities' customers in 2021?

I. COST ALLOCATION AND RATE DESIGN

46. Are the inputs to the cost allocation model appropriate and are costs appropriately allocated?
47. Are the proposed billing determinants appropriate?
48. Are the revenue-to-cost ratios for all rate classes over the 2018 – 2022 period appropriate?
49. Are the proposed fixed and variable charges for all rate classes over the 2018 – 2022 period, appropriate, including implementation of the OEB's residential rate design?
50. Are the proposed Retail Transmission Service Rates appropriate?
51. Are the proposed specific service charges for miscellaneous services over the 2018 – 2022 period reasonable?
52. Are the proposed line losses over the 2018 – 2022 period appropriate?
53. Do the costs allocated to acquired utilities appropriately reflect the OEB's decisions in related Hydro One acquisition proceedings?

J. DEFERRAL/VARIANCE ACCOUNTS

54. Are the proposed amounts, disposition and continuance of Hydro One's existing deferral and variance accounts appropriate?

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