

Email Summary for Hydro One's Distribution Application (EB-2017-0049)

Hello All,

On May 24, 2017, the OEB issued a Notice to Hydro One's distribution (Dx) customers noting that Hydro One has applied to the OEB to raise its electricity distribution rates effective January 1, 2018 and continuing each year for another 4 years until December 31, 2022.

The distribution rates for the former customers of Norfolk Power, Haldimand County Hydro and Woodstock Hydro will remain frozen at current levels until December 31, 2020. As part of this application, on January 1, 2021, and January 1, 2022, the distribution rates for these customers will also be increasing.

Below are highlights from the application:

Hydro One Dx is requesting for the OEB's approval for:

- Rates revenue requirement of \$1,452.1M for 2018 (an increase of \$37.2M or 2.6% from 2017 OEB approved revenue requirement)
 - The increase in revenue requirement is largely attributable to rate base growth, increase in depreciation, return on capital, income tax expenses and lower external revenue forecast
- The OEB's mandatory scorecard for electricity distributors ("Electricity Distributor Scorecard") and the proposed supplemental scorecard ("Distribution OEB Scorecard")
- Continuation or creation on various regulatory accounts
- The disposition of regulatory accounts with a forecast net debit balance of \$115.3M effective January 1, 2018 – to be collected over a five-year period at \$23.1M per year
- The proposed specific service charges ~ Tariff of Rates and Charges schedule (E H1, T2, S.3)
- The creation of new customer classes for acquired LDCs

Hydro One notes that its application reflects the level of capital investment required to avoid degradation in overall system asset condition to meet regulatory requirements and maintain currently reliability levels.

Capital Investments

Hydro One notes in the application that most of its distribution system was built in the 1950s (and the 1960s) and many assets are approaching or are beyond their expected service lives. This is resulting in an ongoing need to replace or refurbish assets at an increasing rate if system reliability and safety are to be maintained.

Proposed investments during the Term include:

- Maintenance of poles and distribution stations
- Lines sustainment and life cycle optimization
- Complying with regulatory requirements such as PCB line equipment replacements
- An Integrated System Operations Centre, which will replace the existing back-up power system control and telecommunications centres
- Replacement of smart meters that reaching end-of-life starting in 2021
 - The vast majority of Hydro One's smart meters have a manufacturer service life of 15 years. The replacement schedule will match the historic installation ion schedule which began in 2006

- Smart meters will commence in 2021 with 3,621 replacements and another 206,119 replacements in 2022
- Hydro One notes that by leveraging data from existing smart meters and newly installed Dx automation devices, it will be able to produce new analytics that enable better insights into the Dx system.

Distribution System Plan

Cost Drivers

- System Renewal costs are expected to increase by an average of 12.3% annual from 2017 (\$285M actuals) to 2022
 - Due to an increase in pole replacements, station refurbishments, line sustainment and life cycle optimization investments to deal with assets at end of life.
 - As noted above, in 2021, Hydro One will have a significant increase in spending to replace smart meters that will be at end of life.
- Increase in General Plant investment is tied to Hydro One's investment in the Integrated System Operations Centre

Performance Management – Scorecards

Hydro One is tracking performance through:

- The OEB mandated Electricity Distributor Scorecard;
- Hydro One's proposed distribution OEB Scorecard (provided in section 1.4 of the Distribution System Plan) is intended to provide greater transparency on outcome measures and areas targeted for improvement; and
- The Team Scorecard is used to award annual short-term incentive payments to management employees.

According to Hydro One, the metrics contained in above scorecards align with the RRF objectives and are expected to drive continuous improvement of asset management, work execution and in customer-oriented performance in support of Hydro One's business objectives.

Budgeting Assumptions

- For 2018, Hydro One assumed 2.0% annual inflation and cost escalations for constructions and OM&A expense growth of 2.5% and 2.2% respectively.

Load Forecast

- Hydro One's 2018-2022 distribution system load forecast includes the impact of CDM and embedded generation.

Rural or Remote Rate Protection

- In November 2016, the government of Ontario amended O.Reg. 442/01 to increase the Rural or Remote Rate Protection ("RRRP") amount for eligible rural Hydro One customers from \$127M to \$243.4M – effective January 1, 2017.
 - The monthly RRRP fixed charge for R2 customers increased from \$31.50 to \$60.50
- In its application, Hydro One has estimated a 2018 RRRP funding amount of \$250.6M by applying an annual RRRP adjustment factor of 2.96% (ref: Decision and Order – Algoma's 2017 Dx Rate Application) to the 2017 RRRP amount of \$243.4M.
 - The estimated monthly RRRP credit for R2 customers is \$63.59*

Regional Planning

- Hydro One confirms that the Needs Assessments for all the 19** Regions have been completed or deemed completed for the first cycle of the regional planning process. In addition, Regional Infrastructure Plans (RIPs) for 12 Regions have been completed and remaining 7 Regions are expected to be completed by August 2017
- Hydro One has also submitted a timeline for the next upcoming planning cycle (initiation dates) for the following Regions:
 - Greater Ottawa Region (Group 1) – Q4 2017 or Q1 2018
 - Metro Toronto – over the next two years

I will schedule a meeting for early next week to discuss the next steps – on participation and potential issues of interest to us.

Please let me know if you have any questions or concerns.

Regards,
Phillip

* Forecast for R2 customers is 328,410 – estimate for 2018 monthly credit = $\$250.6\text{M}/328,410/12 = \63.59

** Hydro One's distribution assets are located in 19 of the 21 Regions identified for the purpose of regional planning