

RP-2000-0023

HYDRO ONE NETWORKS INC

SETTLEMENT PROPOSAL

March 11, 2002

## 1.0 PROPOSED DISTRIBUTION REVENUE REQUIREMENT (Settled)

- **REASONABLENESS OF 1999 REVENUE REQUIREMENT FOR SETTING UNBUNDLED RATES AND COMPARABILITY WITH OEB RATE ORDER (RP-1998-0001)** (Settled)

### The Applicant's Proposal

Hydro One Networks Inc (Networks) has requested approval of rates to apply in the initial PBR period as specified in the Electricity Distribution Rate Handbook.

Networks would have a \$814.5 million revenue requirement based on its 1999 costs including its market-based rate of return and payments in lieu of taxes. Networks has proposed to recover this revenue requirement through a combination of retail rates, miscellaneous charges and LV charges.

The Networks' proposal is that the revenue requirement applicable to retail rates is \$762.2 million. As a consequence of Regulation changes Networks' cost of power has increased from 4.97¢/kWh in 1999 to 6.82¢/kWh effective October 1, 2001. When the full increase in the cost of power to 6.82¢/kWh is taken into account the increase in the retail customer bill effective October 1, 2001 would be 22%, compared to the Handbook's distribution revenue requirement for 1999.

Networks proposes to mitigate the increase in the average retail customer's bill by limiting the proposed increase to 4% on October 1, 2001, and 2.8% on each of March 1, 2002 and 2003. In order to effect this mitigated level of increase, the revenue requirement for purposes of setting the retail rates has been reduced from \$762.2 million to \$593.7 million for October 1, 2001, \$641.7 million as of March 1, 2002 and \$690 million as of March 1, 2003. Exhibit D, Tab 1, Schedule 1, provides a more complete explanation of the bill impact mitigation plan.

The total combined impact of incorporating the timing differences set out in the Board's Guidelines and application of the annual corporate tax rate would result in an increase in Handbook Revenue Requirement of \$7 million in 2001. There would be a reduction of \$20 million in 2002 and a reduction of \$17 million in 2003. However, as the Application is based on Networks' rate mitigation plan, the distribution revenues being requested are well below the PILs guidelines adjusted Handbook Revenue Requirements. Networks has already embarked on a cost reduction plan as set out in Exhibit A, Tab 2, Schedule 1 and Exhibit G, Tab 1, Schedule 5, to address the revenue shortfall during the transition period. Even with these measures in place, Networks will likely not recover the approved return on equity.

After considering the impact of Networks rate mitigation plan the aggregate charges to be collected by Networks from retail rates, miscellaneous charges and LV charges are \$646 million effective October 1, 2001, \$694.0 million effective March 1, 2002 and \$742.3 million effective March 1, 2003. In each of 2001, 2002 and 2003 LV rates are proposed

to recover revenues of \$38.6 million and miscellaneous charges are set to recover \$13.7 million.

In RP-1998-0001, the Board had approved distribution revenue requirements for OHSC (Networks' predecessor) retail rates of \$656.6 million for 1999 and \$602.8 million for 2000 respectively. These revenue requirements are both substantially lower than the revenue requirement for use in setting retail rates of \$762.2 million that Networks is requesting in this application. A full explanation of this difference is included in Exhibit G, Tab 1, Schedule 42. Among the more significant factors are the inclusion of Retail Customer Relations with the Distribution business, inclusion of contributed capital and the change to the allowed return on equity.

The evidence regarding the calculation of the \$814.5 million revenue requirement, and the retail rate revenue requirement of \$762.2 million can be found at Exhibit D, Tab 1, Schedule 3, page 1; Exhibit E, Tab 1, Schedule 1 and Exhibit G, Tab 1, Schedule 4, page 1. The evidence respecting the distribution revenues secured through 1999 rates of \$755 million can be found at Exhibit D, Tab 1, Supplementary Schedules 3 and 4 and Exhibit E, Tab 1, Schedule 1, pages 9 and 10.

#### Agreement

All Parties agree or take no position respecting the aggregate revenue requirement of \$814.5 million proposed by the Applicant respecting 2001, 2002 and 2003.

All Parties agree or take no position regarding the aggregate of amounts proposed to be collected by Networks via miscellaneous charges, retail rates and LV rates in the amount of \$646 million, \$694.0 million and \$742.3 million in 2001, 2002 and 2003 respectively, subject to AMPCO's and the Power Budd Coalition's right to argue that the shareholder should bear some portion of the low voltage cost.

However, as indicated under "Line Loss Allocation" and under "Low Voltage Rates" some Parties have expressed concerns respecting the apportionment of aggregate revenues between LV rates as compared to other charges.

No Party expressed any concern regarding compatibility with the order in RP-1998-0001.

The Agreement of the Power Workers' Union to settlement of this issue is given in consideration of the Applicant filing with the Board prior to the hearing a statement setting out in more detail its plans concerning work which may be deferred as part of its rate mitigation plan. The statement will include information with respect to:

- (a) The nature and amount of work being deferred;
- (b) An estimate of when Networks anticipates that the deferred work will be completed;
- (c) An estimate of the units of work being deferred;
- (d) A description of Networks' plan with respect to how the catch up of deferred work will be funded, for example related to the incremental increase to the Revenue

Requirement; reallocation of resources within present level of Revenue Requirement, or other options.

The parties have agreed to defer further consideration of issues relating to affiliate transactions, non-utility eliminations and revenues from miscellaneous services [Exhibit E, Tab 4, Schedule 1] and external recoverable work [Exhibit C, Tab 2, Schedule 2, page 2 and Exhibit E, Tab 2, Schedule 1, page 6] in light of the following considerations:

1. Networks has proposed a rate mitigation adjustment whereby it is expected to under-recover relative to its derived revenue requirement in all years of the first generation distribution PBR plan. Such under-recovery produces a fiscal pressure to ensure that the charges for miscellaneous, non-utility and external recoverable work recover the full costs of the activities underlying these service offerings, thereby partially addressing cross-subsidy concerns.
2. Networks has also advised that costs have been allocated to the miscellaneous services [Exhibit E, Tab 4, Schedule 2] (save for those deterrent charges listed below under issue 4.0 and set to be comparable to fees charged by a number of other utilities) and to the external recoverable work on a "fully loaded" or "fully allocated" basis (including allocations of administrative and general overheads, taxes and return on equity).
3. Summary information regarding the costs underlying the miscellaneous services has been provided in Exhibit E, Tab 4, Schedule 2.
4. Given the imminence of market opening and the need to have unbundled distribution rates approved and in place, there is value to the public in having this proceeding disposed of as quickly as reasonably possible.
5. Networks anticipates a full cost of service review for both the distribution and transmission functions, to be filed in the spring of 2003 for review and approval of 2<sup>nd</sup> generation PBR rates to be in place for 2004.

In order to facilitate full review of issues relating to affiliate transactions, non-utility eliminations and revenues from miscellaneous services and external recoverable work, Networks has agreed at the request of ECAO that its filing for FYE 2004 rates will include evidence related to the following topics:

1. The corporate structure of the Hydro One group of companies.
2. The internal organization of Networks and its various lines of business, including transmission, distribution and any non-utility or contestable activities (including the miscellaneous services and external recoverable work referred to at the evidence cited above).

3. Any plans in respect of "separation" (from the utility company) or discontinuance (by the utility company) of any non-utility or contestable activities (including the miscellaneous services and external recoverable work referred to at the evidence cited above).
4. For any miscellaneous services and external and recoverable work activities proposed to be continued by the utility beyond FYE2003:
  - a. Responses to appropriate interrogatories requesting Networks' position in respect of retaining such activities in the utility in light of subsection 50(4) of the *Electricity Act, 1998* and Appendix D of the *Electricity Distribution Rate Handbook*.
  - b. Explanation of the methodology used for the allocation of costs to each of these activities, and provision of the cost allocations resulting.
  - c. Rate of return schedules for each such material activity.
5. A listing of transactions between Networks and its affiliates, which includes the following information:
  - a. A list of the affiliates to which the utility provides or from which the utility procures services, or with which the utility shares services.
  - b. A general description of the services provided, procured or shared.
  - c. A description of the methodology used to cost, set transfer prices for, or derive non-utility eliminations for any such services.

Networks further agrees to consider suggestions provided by interested parties in respect of the presentation and content of the evidence to address the matters listed above, in an effort to ensure a proper evidentiary basis for determination of these issues.

#### Settlement

*Therefore, this issue is settled on the basis that no party will contest the amount of the revenue requirement set out above or seek to cross-examine upon it, except that AMPCO and the Power Budd Coalition have reserved the right to argue that the shareholder should bear some portion of the low voltage costs, and the agreement of the Power Workers' Union and ECAO is given in consideration of the undertakings of Networks set out above.*

*Networks, Power Budd Coalition, FOCA, Toronto Hydro Electric System, VECC, ECMI, AMPCO, BLG Coalition, PWU, and ECAO agree with the settlement of this issue, subject to the qualifications noted.*

*Niagara-on-the-Lake takes no position on the issue.*

**Evidence References**

Exhibits A, B, C, D and E.

**Interrogatories**

Board Staff – 1.1-1.3, 1.6, 1.11-1.13, 1.15, 1.18-1.29, 1.33, 1.37, 1.42, 1.59 and 1.74.

PWU – 2.1-2.8.

VECC – 5.1, 5.3-5.5, 5.8 and 5.12

- **APPROPRIATENESS OF EXCEPTIONS TO RATE HANDBOOK IN SETTING UNBUNDLED RATES (Settled)**

Networks' proposal generally follows the principles and policies laid out in the Electricity Distribution Rate Handbook. In several areas, Networks used more specific information where it existed.

Networks has used its actual cost of debt rather than the deemed cost of debt laid out in the Handbook. Networks also used its actual capital structure, as previously approved by the OEB, rather than the structure deemed by the Handbook. The 2001 tax rate which was 44.49% at the time of filing was used. Other minor differences from the Handbook have been set out in Attachment A to this settlement document.

**Agreement**

All Parties agreed or took no position regarding whether Networks' proposal for the application of the Rate Handbook was an appropriate approach to setting the unbundled rates in this case, with the exception of issues related to allocation of line losses and LV rates, which issues may be pursued by ECMI at the hearing.

An issue was raised regarding the use of actual debt rate, as opposed to the debt rate specified in the rate handbook. However, after further consultation and explanation regarding Networks' cost of debt, it was agreed that it was appropriate in Networks' case to apply the actual cost of debt.

**Settlement**

*Therefore, this issue was settled subject to the qualifications noted above on the basis that no party contests the appropriateness of exceptions to the Rate Handbook in setting unbundled rates in this Application or wishes to cross-examine upon the issue at the hearing.*

*Networks, FOCA, VECC, BLG Coalition, ECMI, and Toronto Hydro Electric System agree with settlement of this issue subject to the qualifications noted above.*

*PWU, Power Budd Coalition, AMPCO, ECAO, and Niagara-on-the-Lake take no position on the issue.*

**Evidence References**

Exhibit A, Tab 4, Schedule 3 and 4

**Interrogatories**

Board Staff – 1.9, 1.14, 1.16, 1.17, 1.34, 1.38, 1.39, 1.45, 1.60 and 1.61

VECC – 5.6

BNGW – 8.6

- **ELABORATION OF EVIDENCE FILED IN EXHIBIT F RELATED TO PBR FOR HYDRO ONE NETWORKS (Settled)**

Networks filed evidence regarding its understanding of PBR and the use of Z factors in Exhibit F of the filing.

**Settlement**

*All Parties agreed or took no position on Networks' Application in this respect. Therefore this issue was settled on the basis that no Party contests this evidence or wishes to cross-examine on it at the hearing.*

*Networks, Toronto Hydro Electric System and VECC agreed with the settlement of this issue.*

*Power Budd Coalition, PWU, ECMI, AMPCO, BLG Coalition, ECAO, and Niagara-on-the-Lake took no position on this issue.*

**Evidence References**

Exhibit F

**Interrogatories**

Board Staff – 1.75

VECC – 5.2 and 5.16

## **2.0 COST ALLOCATION AND RATE UNBUNDLING AND DESIGN INCLUDING LV**

*This issue was considered in several components.*

### **COST ALLOCATION AND RATE UNBUNDLING (Partially Settled)**

Networks used a cost allocation model which was reviewed by R.J. Rudden and Associates. Rudden concluded that the study used unbundled cost analysis which generally follows accepted industry practices.

All Parties agree or take no position regarding the aggregate of amounts proposed to be collected by Networks via miscellaneous charges, retail rates and LV rates in the amount of \$646 million, \$694.0 million and \$742.3 million effective October 1, 2001, March 1, 2002 and March 1, 2003 respectively, subject to AMPCO's and the Power Budd Coalition's right to argue that the shareholder should bear some portion of the low voltage cost.

As indicated under "Line Loss Allocation" and "Low Voltage Rates" below, some Parties do not agree with the apportionment of line losses and the amounts to be collected through LV rates and may pursue these issues in the hearing. FOCA believes that costs in addition to low voltage costs should be allocated to large users and wishes to pursue this aspect of the issue at the hearing.

#### **Settlement**

*Therefore, this aspect of the issue is settled on the basis that no party other than FOCA wishes to contest the cost allocation or cross-examine upon the topic except with respect to the apportionment of line losses and the amounts to be collected through LV rates, which the parties may pursue in the hearing, and subject to AMPCO's and the Power Budd Coalition's right to argue that the shareholder should bear some portion of the low voltage cost.*

*Networks, Power Budd Coalition, Toronto Hydro Electric System, VECC, ECMI, AMPCO, and BLG Coalition agree with the settlement of this issue, subject to the qualifications noted.*

*FOCA does not agree with the settlement of this issue.*

*PWU, ECAO and Niagara-on-the-Lake take no position.*

#### **Evidence References**

Exhibit E, Tab 2, Schedule 1

### Interrogatories

Board Staff – 1.35, 1.36, 1.41, 1.44-1.46, 1.48, 1.49, 1.51-1.53, 1.55 and 1.63  
NOTL – 6.1 and 6.2  
TH – 7.2 and 7.5  
BNGW – 8.3  
EHM et al – 9.1-9.6, 9.8-9.13, 9.16-9.19, 9.22, 9.24, 9.25, 9.29, 9.32, 9.33 and 9.36-9.38  
EDA – 10.2  
ECMI – 11.10-11.19 and 11.21-11.24

### **RETAIL RATES (Partially Settled)**

All Parties either agreed or took no position concerning cost allocation and rate design for unbundled rates for retail customers. However, there was no agreement concerning low voltage rates and ECMI did not agree with the allocation of line losses.

### Settlement

*Therefore, this aspect of the issue is settled on the basis that no party wishes to contest the proposed retail rates or cross-examine upon them except for ECMI who did not agree with the allocation of line losses and may pursue the allocation of line losses in the hearing.*

*Networks, ECMI, Power Budd Coalition, FOCA, Toronto Hydro Electric System, VECC, and BLG Coalition agree with the settlement on this issue subject to the qualification set out above.*

*PWU, AMPCO, ECAO, and Niagara-on-the-Lake take no position.*

### Evidence References

Exhibit E, Tab 1, Schedule 1  
Exhibit E, Tab 2, Schedule 1  
Exhibit E, Tab 3, Schedule 1

### Interrogatories

Board Staff – 1.32-1.39, 1.44-1.49, 1.51-1.53, 1.59, 1.65 and 1.66

### **LOW VOLTAGE RATES (Not Settled)**

This issue was not settled.

### **3.0 ALLOCATION OF LINE LOSSES INCLUDING LV (Partially Settled)**

There was no disagreement with the Applicant's approach to line loss allocation except for ECMI and Niagara-on-the-Lake. ECMI wishes to pursue this issue at the hearing.

Niagara-on-the-Lake addressed an issue specific to its facilities during the settlement conference. It has been concerned that the loss factor of 3.4% applied to its high voltage distribution station is too high, given that the HVDS which serves Niagara-on-the-Lake is a "dedicated" facility, with no upstream transformer stations.

It is agreed by Networks that it will address the concerns of Niagara-on-the-Lake by applying a supply facility loss factor of 0.6% (as opposed to 3.4%). Similar treatment will be afforded to comparable stations, of which there are two or three including Vineland. This will result in a modest increase to the distribution loss factor for all other customers.

This is thought to be appropriate because these few stations are unique in that their individual loss factors are identifiable, and the impact on other customers will be very small. All Parties agreed or took no position on this issue.

#### **Settlement**

*Therefore, the issue was settled on the basis that, subject to the proposal regarding Niagara-on-the-Lake and similar stations, no party wishes to contest the allocation of line losses including LV except ECMI which wishes to pursue the issue in the hearing.*

*Networks, Niagara-on-the-Lake, and ECMI agree with the settlement of this issue.*

*Power Budd Coalition, PWU, FOCA, Toronto Hydro Electric System, VECC, AMPCO, BLG Coalition, and ECAO take no position concerning this issue.*

#### **Evidence References**

Exhibit D, Tab 3, Schedule 2 – EB-2001-0233 Other Regulated Charges

Exhibit D, Tab 2, Schedule 1 – regarding Retail Settlement Code Loss Factors

#### **Interrogatories**

NOTL – 6.4

#### **4.0 MISCELLANEOUS CHARGES AND STREETLIGHT/SENTINEL LIGHT RATES (Settled)**

- **APPLICATION FOR HARMONIZATION OF HYDRO ONE NETWORKS AND ACQUIRED MEU RATES (Settled)**
- **INCREASE IN MISCELLANEOUS CHARGES (Settled)**

Networks proposes to adjust miscellaneous distribution charges, as these have not been adjusted since 1993. In most cases these charges are proposed in order to account for labour costs and other costs of providing these services to customers. Charges for NSF cheques, late payment charges, disputed meter tests, billing suspension in trailer parks, termination and connection/disconnection, load limiter reconnection trip, collection trip after registered letter, special trip or trip after business hours are deterrent charges and in most cases are set to be comparable to the fees that are charged by those other utilities who have these charges.

Networks also proposes to unbundle street light and sentinel light rates.

Networks also seeks to harmonize miscellaneous charges, streetlight and sentinel light rates across the recently acquired municipal utilities, with the exception of Brampton Hydro.

Networks justifies its harmonization proposal on the basis that where the miscellaneous charges were concerned, the cost associated with administering multiple schedules for miscellaneous charges is prohibitive when compared to the revenue they generate. Revenues for miscellaneous charges represent less than 1% of the acquired MEUs' revenue in any given year and approximately half of this revenue is related to the late payment charge.

Where streetlight rates were concerned, Networks states that the municipalities who signed the Agreement of Purchase and Sale were in agreement with having Networks' streetlight rates applied and that the municipality was the only streetlight customer in each case. As regards sentinel light rates Networks states that many of the acquired MEUs do not have sentinel light rates and in any event, the impact of standardization would be small.

#### **Settlement**

***No Party took a position on Networks' proposals regarding these issues, except ECAO. In light of the settlement reached on Issue 1, proposed distribution revenue requirement, ECAO accepts the proposed miscellaneous charges for the current PBR term. Therefore this issue was settled on the basis that no party wishes to contest this evidence or cross-examine upon it at the hearing.***

***Networks, FOCA, Toronto Hydro Electric System, VECC, ECAO, and Niagara-on-the-Lake agree with the settlement of this issue, subject to the qualifications noted.***

*ECMI, AMPCO, BLG Coalition, and Power Budd Coalition take no position on this issue.*

**Evidence References**

Exhibit E, Tab 4, Schedule 1  
Exhibit E, Tab 6, Schedule 4

**Interrogatories**

Board Staff – 1.73 and 1.76  
VECC - 5.13-5.15  
EHM et al – 9.19

**5.0 HYDRO ONE NETWORKS APPLICATION FOR AN ACCOUNTING ORDER TO ESTABLISH A DEFERRAL ACCOUNT FOR RECORDING ENVIRONMENTAL COSTS (Settled)**

In its evidence, Networks states that it proposes to delay the recovery of costs incurred respecting PCB management and the remediation of contaminated lands in the amount of approximately \$28 million. Proposals respecting the recovery of these deferred amounts will be made in Networks' next Distribution Rates Application.

The OEB has issued an Interim Order approving a deferral account to set aside these costs for future disposition.

One Party agreed and the rest, except FOCA, took no position with regard to the establishment of this account. It was agreed that FOCA could address its concern in Argument.

**Settlement**

*Therefore, this issue was settled on the basis that no Party, except FOCA, will contest the Applicant's proposal, and no Party will seek to cross-examine upon the issue. It was agreed that FOCA could address its concern in Argument.*

*Networks, VECC, and FOCA agreed with the settlement of the issue.*

*Power Budd Coalition, ECMI, PWU, ECAO, Toronto Hydro Electric System, Niagara-on-the-Lake, AMPCO, and BLG Coalition took no position.*

**Evidence References**

Exhibit A, Tab 4, Schedule 2, page 1 of 2  
Exhibit D, Tab 2, Schedule 1, page 2 of 2

## **Interrogatories**

Board Staff – 1.8 and 1.31

VECC – 5.7

### **6.0 SERVICE QUALITY (RESTRICTED TO LETTERS OF COMMENT RECEIVED BY THE BOARD AS OUTLINED IN THE DECISION AND PROCECURAL ORDER NO. 6 (Partially Settled)**

Consideration of this issue in this proceeding is limited to a review of letters received up to the commencement of the hearing. None of the Parties at the settlement conference expressed any concern with this issue.

Networks summarized the 41 letters received from the Board up to March 1, 2002. None of these customers attended at the Settlement Conference.

Networks provided a breakdown of the letters of concern, and explained that the level of complaints appeared to be small relative to the large number of customers, totalling about 1.2 million.

### **Settlement**

*The Parties have agreed that they do not seek to cross-examine on this issue and will address this matter only by way of Final Argument.*

*Networks, FOCA, Toronto Hydro Electric System, VECC, ECMI, BLG Coalition, ECAO, and Niagara-on-the-Lake agree with the settlement of this issue, subject to the qualifications noted.*

*Power Budd Coalition and AMPCO take no position on this issue.*

## "SCHEDULE A"

### VARIATIONS FROM HANDBOOK

#### COST ALLOCATION

Networks has used a cost allocation study for the categorization of costs to customer related costs and volumetric charges rather than use the Handbook default value for the Incremental Distribution Cost.

The reason Networks took this approach is that the default method proposed in the Handbook would not adequately capture the unique characteristics of Networks' distribution system.

#### RATE CLASSES

The Handbook recommends that utilities use a four rate class structure for the unbundled distribution rates, namely Residential, General Service, Street Lighting and Large Users.

Networks has an approved existing rate class structure which more appropriately reflects the customers served from Networks' distribution system. In effect, the twelve rate class structures used by Networks can be regarded as subclasses of the four rate classes proposed in the Rate Handbook. For example, the Residential class would include Networks UR2, R1, R2, R3 and R4 rate classes. The General Service class would include Network F1, F3, G1, G3, UG2 and T classes. Networks does not have any customers that would fit in the Large User category, however, it will have embedded direct customers.

#### JUNE 1, 2001 COP

For the purpose of calculating bill impacts Networks has used June 1, 2001 as the basis for comparing bill impacts as a result of unbundling the distribution rates. Networks believes that this is a more appropriate approach than using the 1999 actual COP since the June 2001 increase in COP established the norm for all utilities, following changes in the government regulation.

#### LOW VOLUME CUSTOMERS

The Handbook proposes that the unbundled distribution rates be adjusted in order to mitigate bill impacts for low use residential customers to be within 10% of their 1999 bundled bill.

For the purpose of doing this assessment, Networks has used its own definition of low use residential customers. The Handbook proposed a cut-off value of 250 kWh per

month as a measure of low use. This value is not representative of the low consumption customers across Networks' distribution system.

### **LOSSES DATA**

The Retail Settlement Code provides the guidelines for calculating the distribution loss factors. It proposes that distribution losses be calculated as an average over a five-year period.

Networks does not have the necessary data that would allow it to establish consistent values over such a period of time. Networks has provided information on losses for a shorter period, 1997-1999, because this is the best information it has. Prior to 1997 the losses data is not directly comparable because of changes in meter locations and other changes in the former Ontario Hydro.

### **DISTRIBUTION LOSS FACTORS (DLF)**

The Retail Settlement Code (RSC) requires utilities to establish two DLF, one for the utilities' primary distribution system and one for its secondary distribution system.

Networks has gone beyond the requirements of the RSC because of the uniqueness of its distribution system. In this respect, Networks has calculated the following DLF.

- (a) DLF for LV system,
- (b) DLF for Primary Distribution System, and
- (c) DLF for Secondary Distribution System.

### **PRIMARY ADJUSTMENT FACTOR (PAF)**

The Retail Settlement Code establishes a PAF of 1%.

Networks has adopted a value that better reflects the character of its distribution system. In this respect it has used a calculated value of 2.8% which was obtained from an engineering study.

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**Brian Gabel**  
Vice President, Regulatory Affairs



February 25, 2002

Mr. Paul Pudge  
Secretary  
Ontario Energy Board  
Suite 2601, 2300 Yonge Street,  
P.O. Box 2319  
Toronto, ON.  
M4P 1E4

Dear Mr. Pudge:

**Re: RP-2000-0023 / EB-2001-0016 Hydro One Networks Inc. - Distribution Rates -  
Recovery of PILs**

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The Ontario Energy Board has instructed utilities subject to section 93 of the Electricity Act on the method they were to employ for recovery of PILs in their rate applications by information circulated on December 21, 2001 (PILs guidelines). Networks understands from discussions with Board Staff that the Board expects Networks, who collects PILs in accordance with sections 89 and 90 of the Electricity Act, to follow similar procedures for PILs recovery.

Networks supports the concept of allowing distribution utilities to recover PILs through the revenue requirement to take into account the statutory tax rate, significant timing differences and the Federal Large Corporation Tax (LCT).

The purpose of this letter is to notify the Board of the impact of the PILs guidelines on Networks RP-2000-0023 proposed revenue requirement.

For tax purposes, Networks returns are filed and PILs payments are made on a legal entity basis. The distribution rate application filed with the Board on January 19, 2001 incorporates a 2001 corporate tax rate of 44.5% comprised of 41% for income tax and 3.5% for LCT.

Applying the PILs guidelines utilizing timing differences and the lower statutory rates for 2002 and 2003 results in a lower revenue requirement when it is calculated in accordance with the Electricity Distribution Rate Handbook (Handbook Revenue Requirement). When Networks applies the annual corporate tax rate reductions to the Handbook Revenue Requirement, revenues are reduced by about \$1 million for 2001 (due to an updated lower provincial tax rate effective on October 1), \$11 million for 2002 and \$20

Mr. Paul Pudge

- 2 -

February 25, 2002

million for 2003. Application of timing differences, which are primarily the result of changes in Capital Cost Allowance and deferral accounts, results in the Handbook Revenue Requirement being increased by \$8 million for 2001, reduced by \$9 million for 2002 and increased \$3 million in 2003. The total combined impact of these changes would result in an increase in Handbook Revenue Requirement of \$7 million in 2001, a reduction of \$20 million in 2002 and a reduction by \$17 million in 2003. However, as the RP-2000-0023 Application is based on Networks' Rate Mitigation Plan, the distribution revenues being requested are well below the PILs guidelines adjusted Handbook Revenue Requirements (see attached Schedule A). For this reason the mitigated distribution revenue being requested remains the same. A reduction to our proposed distribution revenue for the above tax considerations would not be appropriate.

If you wish to discuss this matter further, please call Anne Powell 416 345-5925.

Yours truly,



Brian Gabel  
Vice-President  
Regulatory Affairs

Attachment

cc: All Intervenors

Hydro One Networks Distribution Application (RP-2000-0023)

(M\$)	October 2001	March 2002	March 2003
Revenue Requirement Derived for Rate Handbook (Without Mitigation)	762.2	762.2	762.2
Mitigation Plan - Proposed Distribution Revenues	593.7	641.7	690.0
Mitigation Amount (annualized)	-168.5	-120.5	-72.2
Mitigation Amount Restated on Annual Basis	-42.1	-128.5	-80.3
Impact of Tax Rate and Timing Changes on Rate Handbook Revenue Requirement	+7	-20	-17

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**Brian Gabel**  
Vice President, Regulatory Affairs



March 12, 2002

Mr. Paul B. Pudge  
Board Secretary  
Ontario Energy Board  
2300 Yonge Street  
26<sup>th</sup> Floor  
Toronto, Ontario  
M4P 1E4

Dear Mr. Pudge:

**RP-2000-0023**

A Settlement Conference was conducted in accordance with the Board's direction on March 4-11, 2002 with the assistance of Ms. Cindy Dymond as facilitator.

I am please to report that the Parties were able to agree on a number of issues for the purposes of this case which, subject to the Board's approval, should shorten the hearing considerably.

I enclose a copy of the Agreement reached between those attending the Settlement Conference. As you will see the major areas of dispute involve the issues of Cost Allocation and Line Losses relating to low voltage facilities.

Attached is a list of the Parties who were represented at this Settlement Conference.

The Board has fixed the date of April 2, 2002 for the commencement of the hearing. In view of the large measure of success of the Settlement Conference, it would be most helpful if the Parties could be advised as to whether the Board will accept the Settlement Agreement as dispositive of the "settled issues" as soon as possible. I know that the Board has a very busy schedule but it would assist the Parties very much if they could be advised of what issues will go to hearing so that unnecessary preparation can be minimized. Any accommodation that the Board could make in this regard would be most appreciated.

Yours truly,

A handwritten signature in black ink that reads "Brian P. Gabel". The signature is written in a cursive, flowing style.

Brian P. Gabel

Enc

cc: All intervenors  
Donald Rogers  
Mary Anne Aldred  
Cindy Dymond

## **PARTIES ATTENDING THE SETTLEMENT CONFERENCE**

Hydro One Networks Inc  
Association of Major Power Consumers in Ontario (AMPCO)  
BNGW Coalition (also referred to as the BLG Coalition)  
Vulnerable Energy Consumers Coalition (VECC)  
Electricity Distributors Association (EDA)  
Energy Cost Management Inc (ECMI)  
Federation of Ontario Cottage Association (FOCA)  
Power Workers Union (PWU)  
EHM Coalition (also referred to as The Power Budd Coalition)  
Toronto Hydro-Electric System Limited  
Electrical Contractors Association of Ontario (ECAO)  
Niagara-on-the-Lake Hydro Inc