SUMMARY OF APPLICATION

Hydro One Networks Inc. ("Hydro One" or "Hydro One Distribution" or "the Company") is applying for an Order approving the revenue requirement, cost allocation and rates for Hydro One’s Distribution Business for the years 2015 through 2019 ("test years") filed under the Board’s Custom Application process.

This submission reflects Hydro One Distribution’s investment plan to maintain fourth quartile reliability service levels through the test years, while keeping total electricity bill impacts for the average customer below the forecasted 2.0% annual increase in consumer’s price index (Exhibit A, Tab 16, Schedule 1). This plan reflects well-researched customer preferences (as detailed in Exhibit A, Tab 5, Schedule 1), incorporates productive efforts to promote sustainable efficiencies for the benefit of Hydro One Distribution and its customers (as detailed in Exhibit A, Tab 19, Schedule 1), and meets objectives regarding public and employee safety, regulatory and legislative compliance, system security and reliability, system growth and investments required to meet government initiatives (as detailed in Exhibits C1 and D1); all in a manner which preserves the company’s financial viability so that it can continue to provide quality services to its customers. Hydro One Distribution respectfully submits that, for these reasons, the plan reflected in this Application effectively promotes the four outcomes endorsed by the Renewed Regulatory Framework for Electricity Distributors of Customer Focus, Operational Effectiveness, Public Policy Responsiveness and Financial Viability.

This summary provides a brief description of the approvals being sought through this Application and of the reasons for the increase in revenue requirement.
1.0 SCOPE OF APPLICATION

This Application is a five-year Custom Application which is being submitted under the Board’s *Renewed Regulatory Framework for Electricity Distributors*. It has been customized to fit Hydro One Distribution’s specific circumstances, which necessitate significant and necessary multi-year investments, as evidenced in the supporting exhibits.

The scope of this Application includes:

- a review of Hydro One Distribution’s evidence in support of Distribution revenue requirements for 2015 through 2019;
- a review of revised Distribution rates to be implemented for 2015 through 2019; and
- a review of Hydro One Distribution’s proposed criteria for Off-Ramps, Adjustments Outside of Normal Course of Business and Annual Adjustment Measures.

The proposed investment plan has been informed by the extensive customer data Hydro One collects from customer research, transactional surveys, customer focus groups and its Customer Advisory Board, all of which is further described in Exhibit A, Tab 5, Schedule 1.

A description of the Company’s rigorous planning process is provided in Exhibit A, Tab 17 Schedule 1. Specifically, the asset management planning process is described in Exhibit A, Tab 17, Schedule 2. The project and program approval and control policy is presented in Exhibit A, Tab 17, Schedule 5. Details of Hydro One Distribution’s capital expenditures are provided in schedules filed at Exhibit D2, Tab 2 and discussed in detail in schedules within Exhibit D1, Tab 3. The Company’s OM&A expenditures are itemized in Exhibit C2, Tab 2, Schedule 1 and discussed in written direct evidence in Exhibit C1, Tab 2.
Hydro One Distribution continues to assume that capital costs associated with expansion and enabling improvements for renewable generation work will be eligible for provincial funding through the Global Adjustment Mechanism and therefore do not impact the 2015 through 2019 revenue requirement requested in this Application.

This Application addresses all outstanding Board directives with respect to its Distribution Business. A listing of all relevant directives and the corresponding exhibit or a statement of status is provided in Exhibit A, Tab 21, Schedule 1.

In determining its 2015 through 2019 revenue requirements, Hydro One has applied the deemed capital structure of 60% debt and 40% common equity approved by the Board in the EB-2009-0096 Decision for Hydro One Distribution. Hydro One Distribution is requesting test year equity returns of 9.71% for 2015, 9.96% for 2016, 10.16% for 2017, 10.21% for 2018 and 2019. The equity returns have been derived using the latest Board formulaic methodology from the EB-2009-0084 proceeding issued on December 11, 2009, applied using the September 2013 Consensus Forecast and Bank of Canada.

Hydro One assumes that the return on equity ("ROE") for each test year will be updated in accordance with the Cost of Capital Report, upon the final decision in this case. Specifically, for 2015, the Board would determine the ROE for Hydro One Distribution based on the September 2014 Consensus Forecasts and Bank of Canada data which would be available in October 2014. Similarly, the 2016 to 2019 ROE would be updated to reflect the September Consensus Forecasts and Bank of Canada data available in October of the preceding year as part of the Draft Rate Order for those test years. The derivation of the Cost of Capital is provided at Exhibit B1, Tab 1, Schedule 1.
Hydro One has incorporated the methodologies of the Lead Lag study, based on the methodology accepted by the Board in previous Hydro One Distribution and Transmission rate applications and updated for this current filing. The calculation of working capital, filed in Exhibit D1, Tab 1, Schedule 3, incorporates the methodologies of the Lead Lag study filed as Attachment 1 to the same exhibit.

Hydro One has used the Corporate Cost Allocation Methodology which was accepted by the Board in previous Hydro One Distribution and Transmission rate applications and updated for this current filing, to allocate Common Corporate OM&A costs and Common Assets between its Transmission and Distribution businesses. The updated study is filed as Attachment 1 to Exhibit C1, Tab 5, Schedule 1. The Common Asset Allocation Methodology is described at Exhibit C1, Tab 5, Schedule 3, and the updated report is filed as Attachment 1 to the same exhibit.

The overhead capitalization rates for the test years have been calculated consistent with the methodology that has been accepted in previous Hydro One Distribution and Transmission rate applications and updated for this current filing. The updated Black & Veatch study is filed as Exhibit C1, Tab 5, Schedule 2, Attachment 1.

The process Hydro One Distribution uses to perform an Asset Risk Assessment on distribution system assets is described at Exhibit A, Tab 17, Schedule 7. The result of this assessment is utilized in the planning and prioritization process for sustainment investments. The assessment conveys the state of the distribution system; identifying current asset needs, and creating a line of sight to future needs.

Hydro One undertook an extensive stakeholder consultation process to increase understanding of the issues raised by this Application and to enable early identification of
any stakeholder concerns and suggestions for improving Hydro One’s proposed Custom Application approach. A total of 4 sessions were held during 2013, as documented in Exhibit A, Tab 20, Schedule 1.

Prior to the submission of blue page updates supporting this Application, three technical conferences and one executive panel presentation were held. The technical conferences were helpful to Hydro One Distribution by identifying areas in the original pre-filed evidence that required clarification and additional justification for the Hydro One revenue requirement to intervenors and Board staff. In its blue page updates to this Application, Hydro One Distribution responded to the feedback it received during these conferences.

2.0 APPROVALS REQUESTED

2.1 Revenue Requirement

Respecting Hydro One’s revenue requirement in the years 2015 through 2019 for its Distribution Business, the Company is seeking approvals for:

1. Revenue requirements of $1,415 million for 2015 test year, $1,523 million for 2016, $1,578 million for 2017, $1,615 million for 2018 and $1,660 million for the 2019 test year, the underlying calculations of which are set out in Exhibit E2, Tab 1, Schedule 1;

2. Proposed OM&A expenditures of $564.3 million for 2015 test year, $610.2 million for 2016, $614.0 million for 2017, $603.9 million for 2018 and $600.0 million for the 2019 test year, all of which are itemized in Exhibit C2, Tab 2, Schedule 1 and discussed in Exhibit C1, Tab 2;
3. Forecasted total capital expenditures of $648.9 million for 2015, $654.7 million for 2016, $661.4 million for 2017, $655.1 million for 2018 and $669.1 million for 2019, the details of which are set out in the schedules filed at Exhibit D2, Tab 2 and discussed further in Exhibit D1, Tab 3;

4. Recovery of regulatory assets with a net balance of $21.3 million, to be collected over a 5-year period at $4.26 million per year;

5. A Distribution business rate base of $6,553 million for 2015, $6,864 million for 2016, $7,191 million for 2017, $7,541 million for 2018 and $7,870 million for the 2019 test year, as described in Exhibit D1, Tab 1, Schedule 1; and

6. Depreciation and amortization expenses of $355.4 million for 2015, $374.9 million for 2016, $390.2 million for 2017, $402.9 million for 2018 and $413.6 million for 2019 which were determined by applying the accepted Foster’s methodology and are described in Exhibit C1, Tab 6, Schedule 1 and further detailed in C2, Tab 4, Schedule 1.

Relative to the 2014 distribution rates set by the Board under the 3rd Generation Incentive Regulation Mechanism, the resulting change to the distribution portion of the average customer bill will be -1.4 % in 2015, 3.8% in 2016, 2.3% in 2017, 1.2% in 2018 and 2.6% in 2019. This amounts to a change to the average customer’s total bill of, approximately, -1.5% in 2015, 1.3% in 2016, 0.8% in 2017, 0.4% in 2018 and 0.9% in 2019.
2.2 Cost Allocation and Rates

With respect to cost allocation and rates, Hydro One Distribution is seeking approvals of:

1. The 2015 rate schedules, including terms and conditions of service as set out in Schedule 1 of Exhibit G2, Tab 2, which incorporate Hydro One Distribution’s proposed Retail Transmission Service Rates and loss factors;

2. The charges for the provision of miscellaneous services as set out in Exhibit G2, Tab 5, Schedule 1;

3. Hydro One Distribution’s proposed cost allocation and rate design methodology, as described in Exhibit G1, Tab 1, Schedule 1 and supported by the remainder of the G Exhibit;

4. The modifications to the Board’s cost allocation model as discussed in Exhibit G2, Tab 1, Schedule 1;

5. The disposition of the balances accumulated in Regulatory Accounts as shown in Exhibit F1, Tab 1, Schedule 3;

6. Hydro One’s revised line loss factors as described at Exhibit G1, Tab 8, Schedule 1; and

7. Hydro One Distribution also seeks approval for the following rate-related adjustments:
   
   • reclassification of customers to reflect the findings of the review of existing customer rate classifications;
• changes to the definition of its “Seasonal” customer class;
• the addition of a new “Unmetered Scattered Load” rate class;
• to increase the amount of revenue collected via fixed charges;
• to move the revenue-to-cost (“R/C”) ratios for all its rate classes to within the range of 98% to 102% over the five year period;
• adjustments to reflect the Board-directed line loss study; and
• proposed rate mitigation plans for some customers moving between rate classes in accordance with the results of the rate class review.

Other

1. As part of this Application, Hydro One Distribution is seeking the inclusion of in-service assets totalling $564.9 million previously recorded as regulatory assets into its rate base effective January 1, 2015 including:

• The final disposition of the smart meter costs recorded in the Minimum Functionality (1555) and Exceeding Minimum Functionality (1556) variance accounts. Hydro One is seeking the cost recovery associated with smart meter activities from 2009 through 2013 consistent with the Board’s filing instructions set out in the OEB guideline G-2011-0001 “Smart Meter Funding and Cost Recovery – Final Disposition Guideline” (“Guideline”) issued on December 15, 2011;
• Smart Grid assets up to December 31, 2013;
• Assets to facilitate Distributed Generation up to December 31, 2013; and
• Projects approved for interim funding as part of the EB-2012-0136 Incremental Capital Module approved by the Board.
2. Hydro One Networks seeks Board approval to discontinue the following regulatory accounts effective January 1, 2015:

- Smart Meter – Minimum Functionality;
- Smart Meter – Exceeding Minimum Functionality;
- Distribution Generation – Other Costs – HONI - Variance Account;
- Distribution Generation - Express Feeders – HONI - Variance Account;
- Smart Grid Variance Account;
- Distribution System Code (DSC) Exemption Deferral Account;
- Deferred Revenue Project Costs Variance Account (2009);
- Generator Joint Use Revenue Variance Account;
- Special Purpose Charge Variance Account (1595 - Recovery of Regulatory Balances Account – Sub Account);
- Microfit Connection Charge Variance Account (1508 - Other Regulatory Assets – Sub Account); and
- OEB Cost Differential Account.

3. Hydro One Networks also seeks approval of the following additional components of the Company’s Custom Application described at Exhibit A, Tab 4, Schedules 1 through 4:

- the proposed Annual Adjustment Mechanisms;
- the proposed Off-Ramp conditions;
- the proposed Adjustments Outside of Normal Course of Business; and
- the proposed Annual Outcome Measurement Reporting.

4. Hydro One Networks seeks Board approval to establish two new deferral/variance accounts effective January 1, 2015:
• Bill Impact Mitigation Variance Account; and
• Rate Smoothing Deferral Account.

5. Hydro One Networks seeks approval to continue the following deferral accounts: the Tax Rate Changes Account and the Pension Cost Differential Account.

6. Hydro One Networks also requests the establishment of a rate rider to implement its proposed rate smoothing methodology over the 2015 to 2019 period.

7. Hydro One Networks also requests an exemption to section 7.5.2 of the Distribution System Code as it applies to section 7.5.1 thereof. Section 7.5.1 directs distributors’ obligations respecting missed and re-scheduled appointments with customers. Section 7.5.2 requires that these obligations be met 100 per cent of the time on a yearly basis. Hydro One requests that the Board grant, on a permanent basis, an exemption from the 100 per cent requirement and instead, direct Hydro One to meet these requirements 90 per cent of the time on a yearly basis. Details supporting this request are set out in Exhibit A, Tab 18, Schedule 1, Appendix A.

3.0 CAUSES OF THE INCREASE IN REVENUE REQUIREMENT

The main contributions to the increase in revenue requirement in 2015 are set out below.

• Rate base growth which reflects the capital additions made during the IRM period and proposed additions during the test years, including additions from regulatory assets, as well as the associated increase in return and depreciation amounts since last approved by the Board for the 2011 test year. This expansion is required to meet growth in customer connections as required by regulation, replace assets damaged by
storms, replace end-of-life assets, and include installed smart grid equipment and
smart meters. This manifests in capital expenditures which are higher than historical
levels and somewhat variable, but sufficiently definitive which permits Hydro One
Distribution to commit to manage within the revenue requirement requested in this
Custom Application.

- Increases in OM&A requirements, largely precipitated by the need to address a
  backlog in vegetation management (which should yield cost efficiencies in the long-
term once cleared), increased PCB testing of oil-filled equipment to meet legal
requirements, increased meter verifications to meet legal requirements, requirements
to support the Distribution Management System and other smart grid investments
made in response to government policy, and escalated replacement parts, materials
and labour rates.

- An increase to the Hydro One Distribution Business’ return on equity from 9.66% in
  2011 to 9.71% in 2015 with further adjustments in return in subsequent years.

- The work program expenditures throughout the test years reflect forecasted
efficiencies resulting from numerous productivity initiatives as described in Exhibit
  A, Tab 19, Schedule 1.

The Application reflects Hydro One Distribution’s efforts to meet customer expectations
while ensuring all customers within the Province will continue to be supplied in a secure
and reliable manner, thereby contributing to the health and competitiveness of the
Province’s economy.