

# Custom Incentive Rates Application

February 8, 2017

# Distribution Rate Application

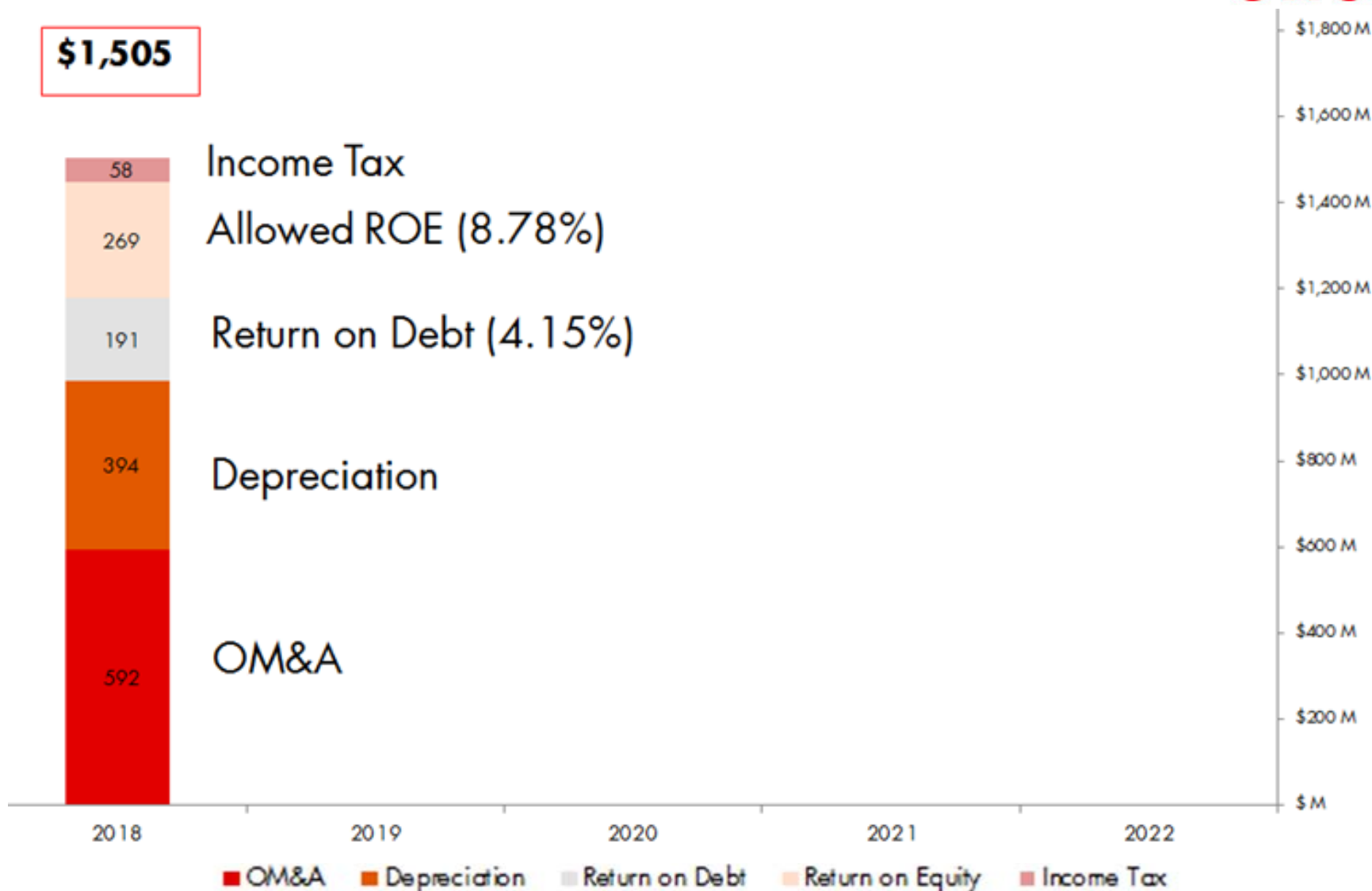


- Application will determine the 2018-2022 revenue envelope Hydro One must live within.
  - 2018 rate set using cost-of-service approach
  - 2019-2022 rates set by applying an annual “custom” escalator for:
    - Inflation less Productivity;
    - Capital Factor (recovery for in-service additions); and
    - OM&A and rate base adjustment of acquired LDCs (2021)

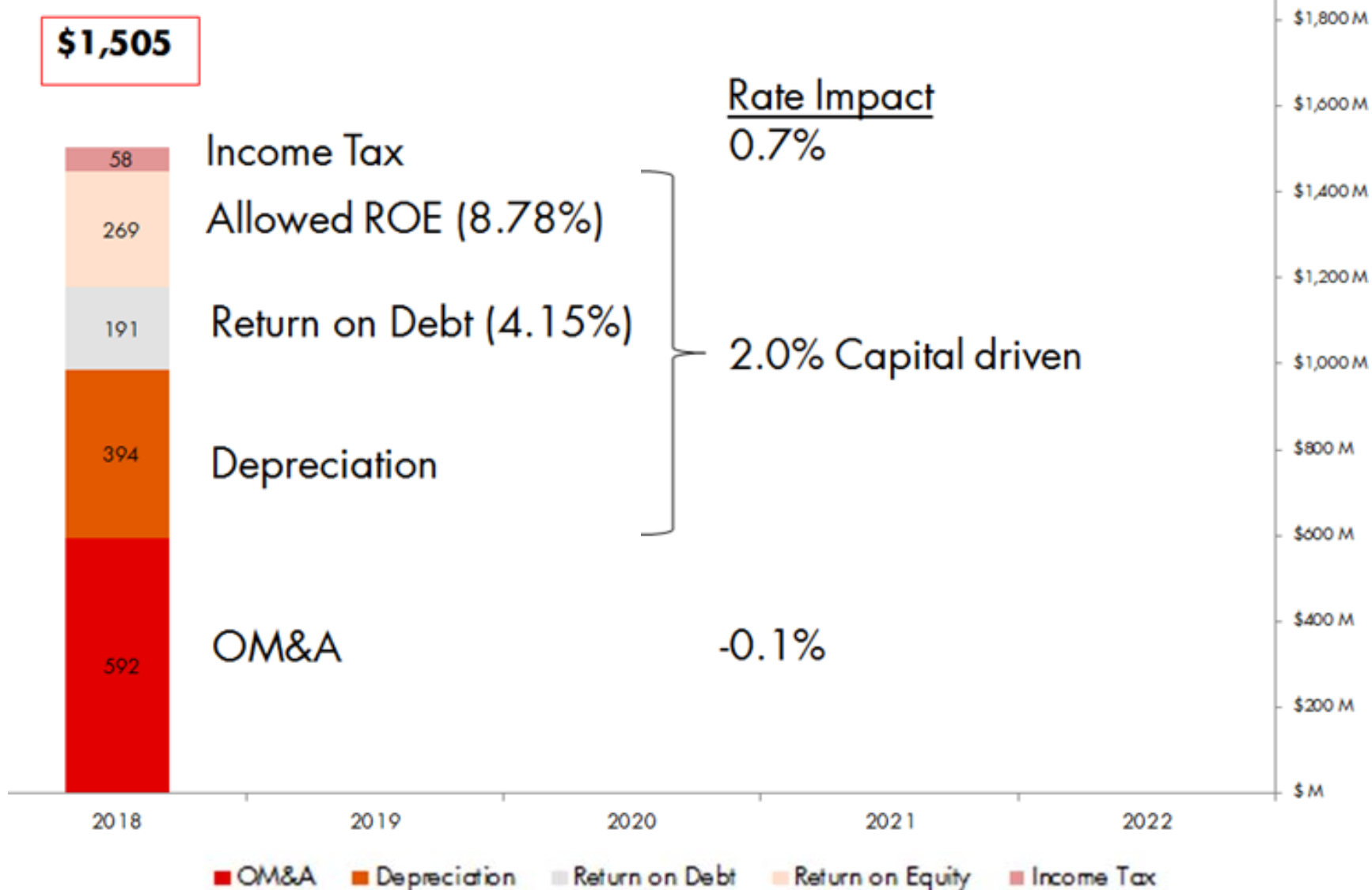
# 2018 Revenue Requirement: *Rebasing Year*



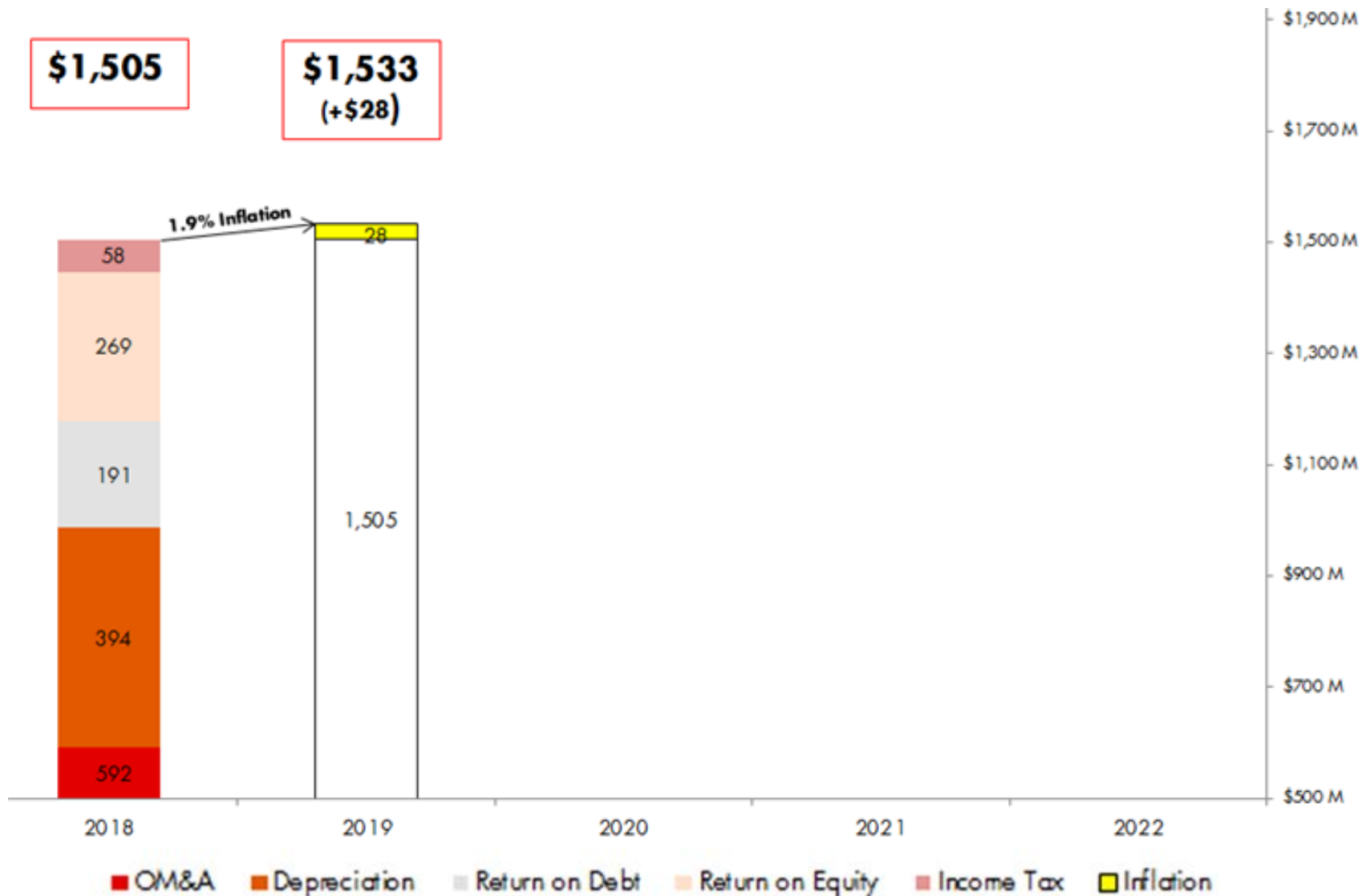
**\$1,505**



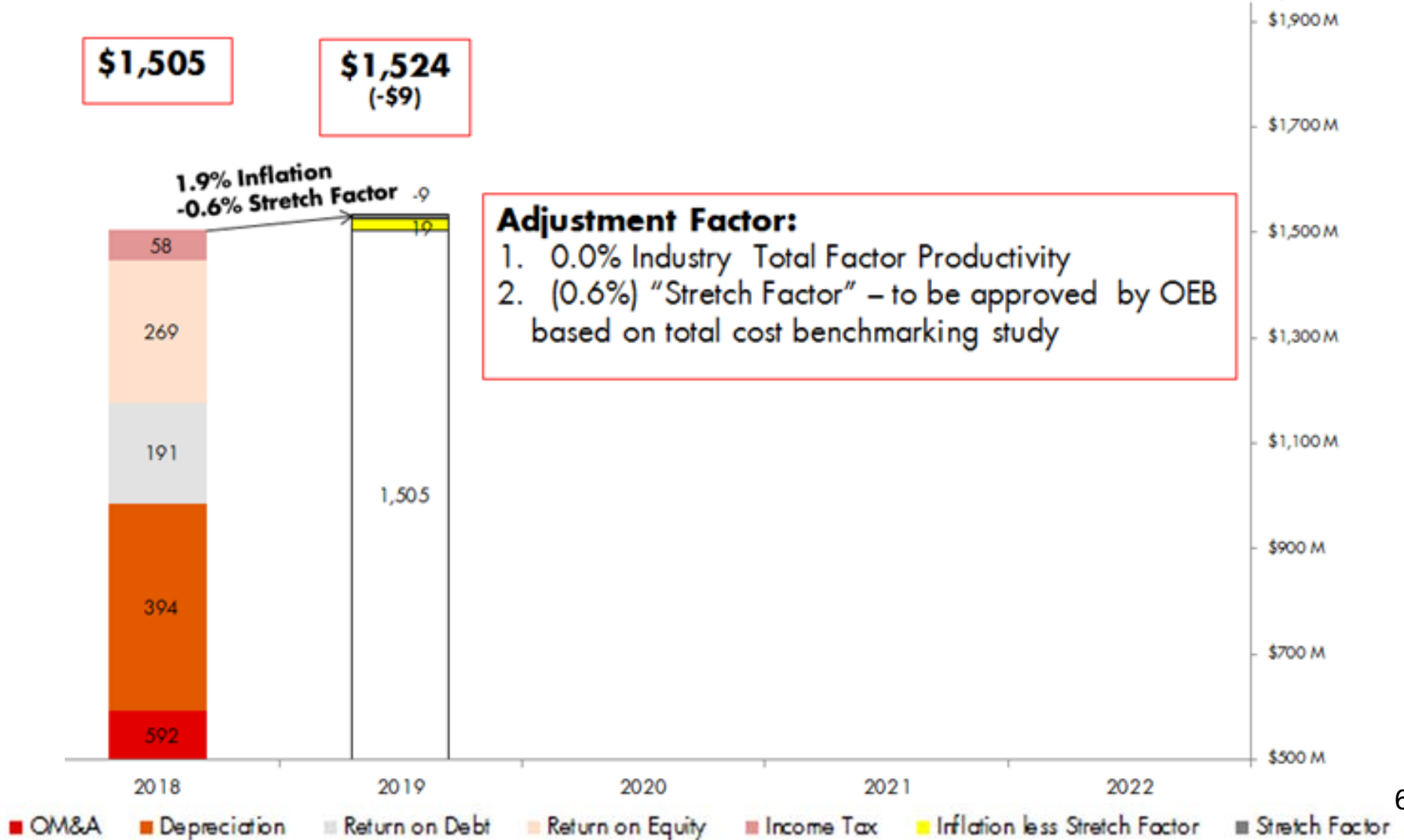
# 2018 Revenue Requirement: *Rebasing Year*



# 2019 Revenue Requirement: *IRM Adjustment for Inflation*



# 2019 Revenue Requirement: *IRM Adjustment for Inflation and Stretch Factor*

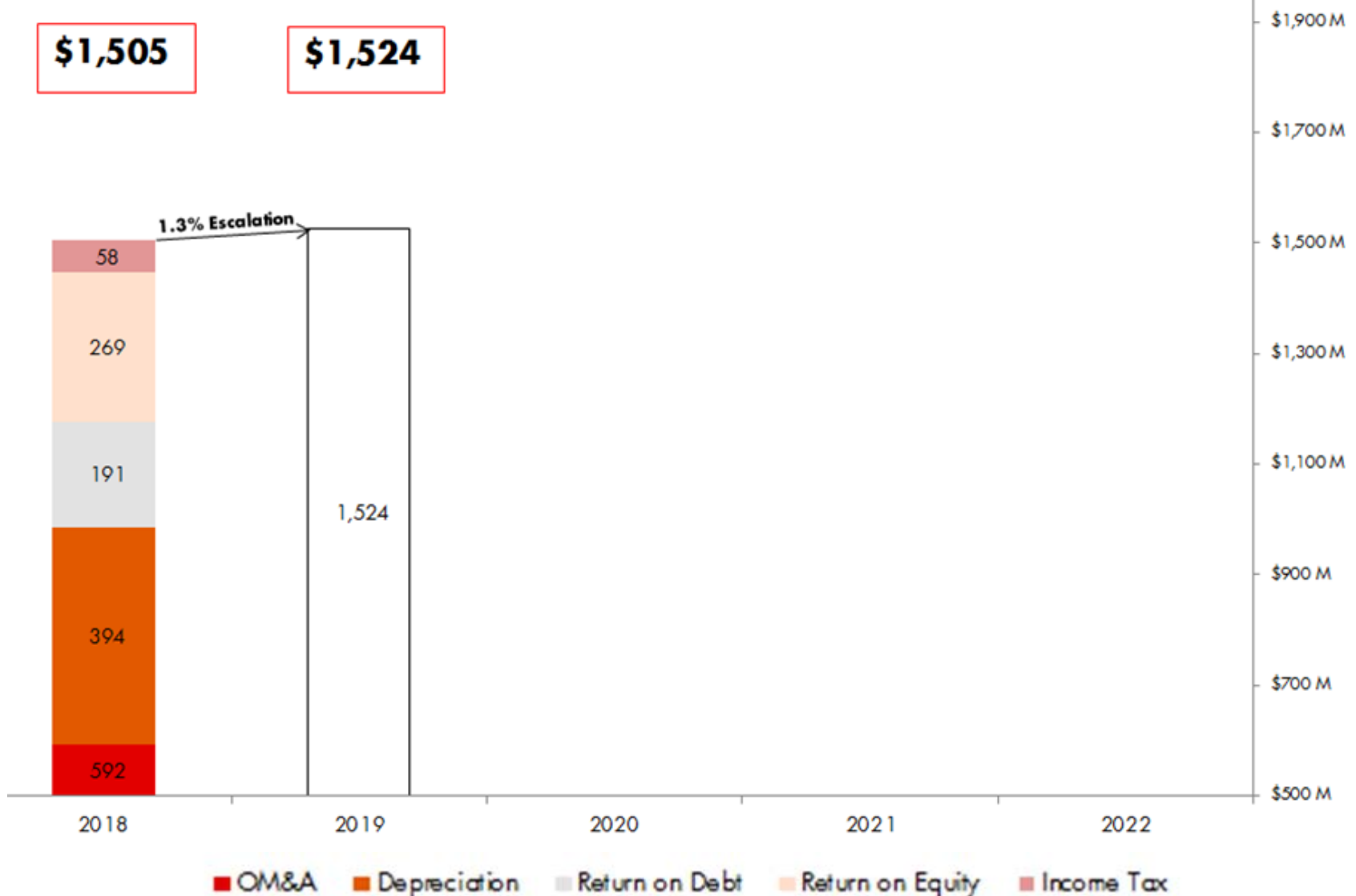


# 2019 Revenue Requirement: *Net (Inflation less Productivity)*



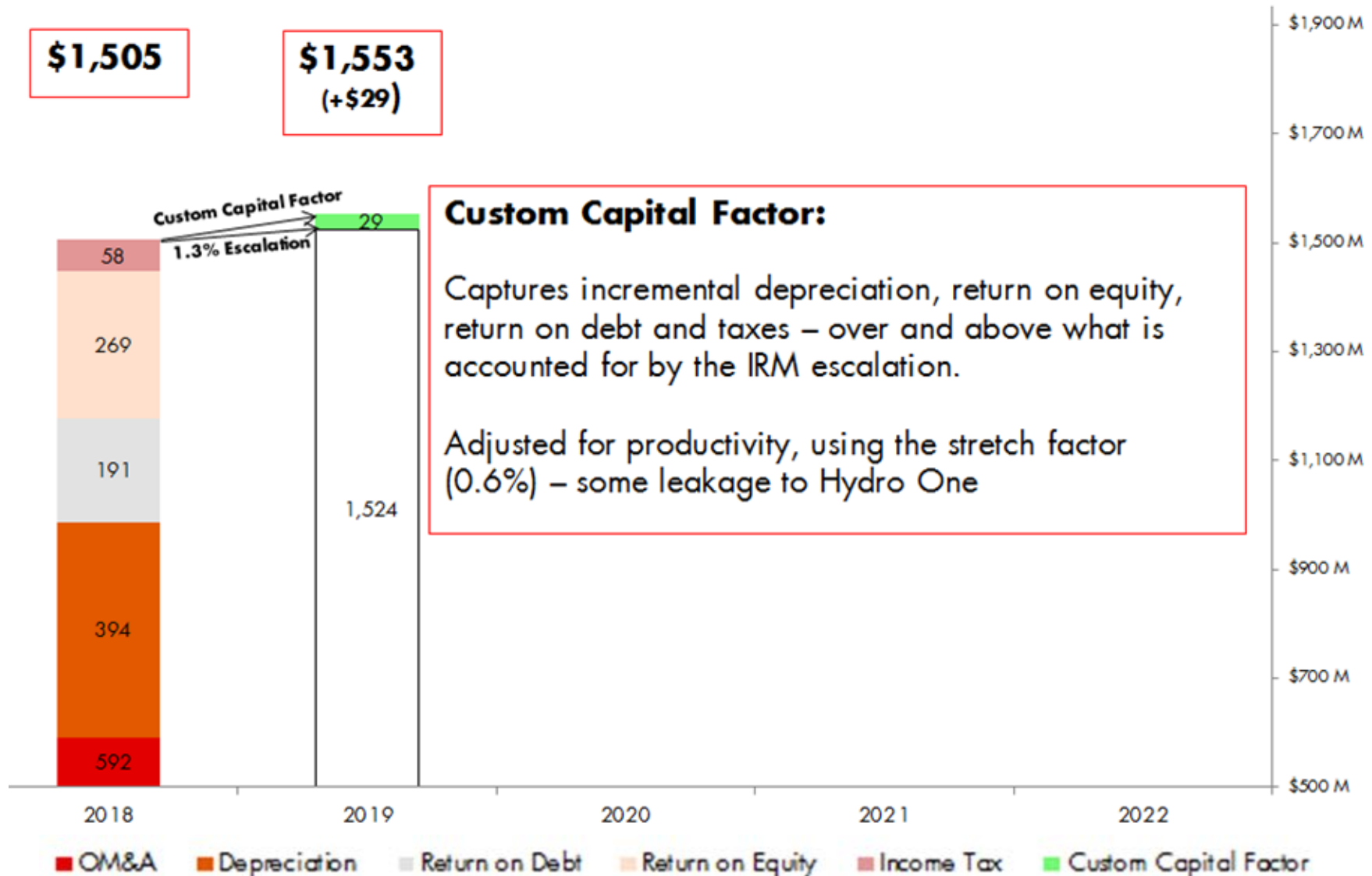
**\$1,505**

**\$1,524**



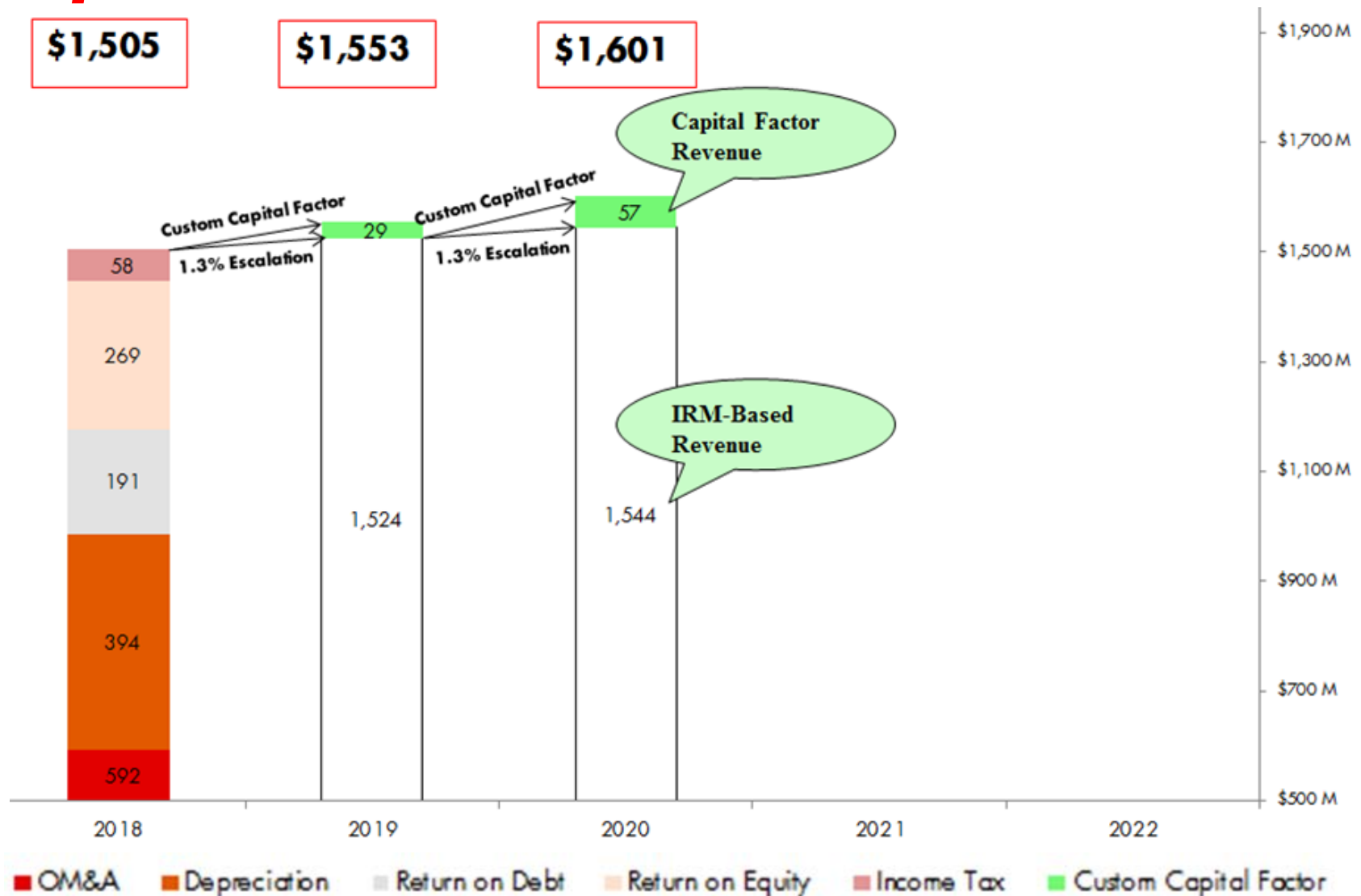
# 2019 Revenue Requirement:

## **Net + Addition of Capital Factor**





# 2020 Revenue Requirement: 1.3% OM&A Escalation and Capital Factor



# 2021 Revenue Requirement: *Incorporation of Acquired LDCs*

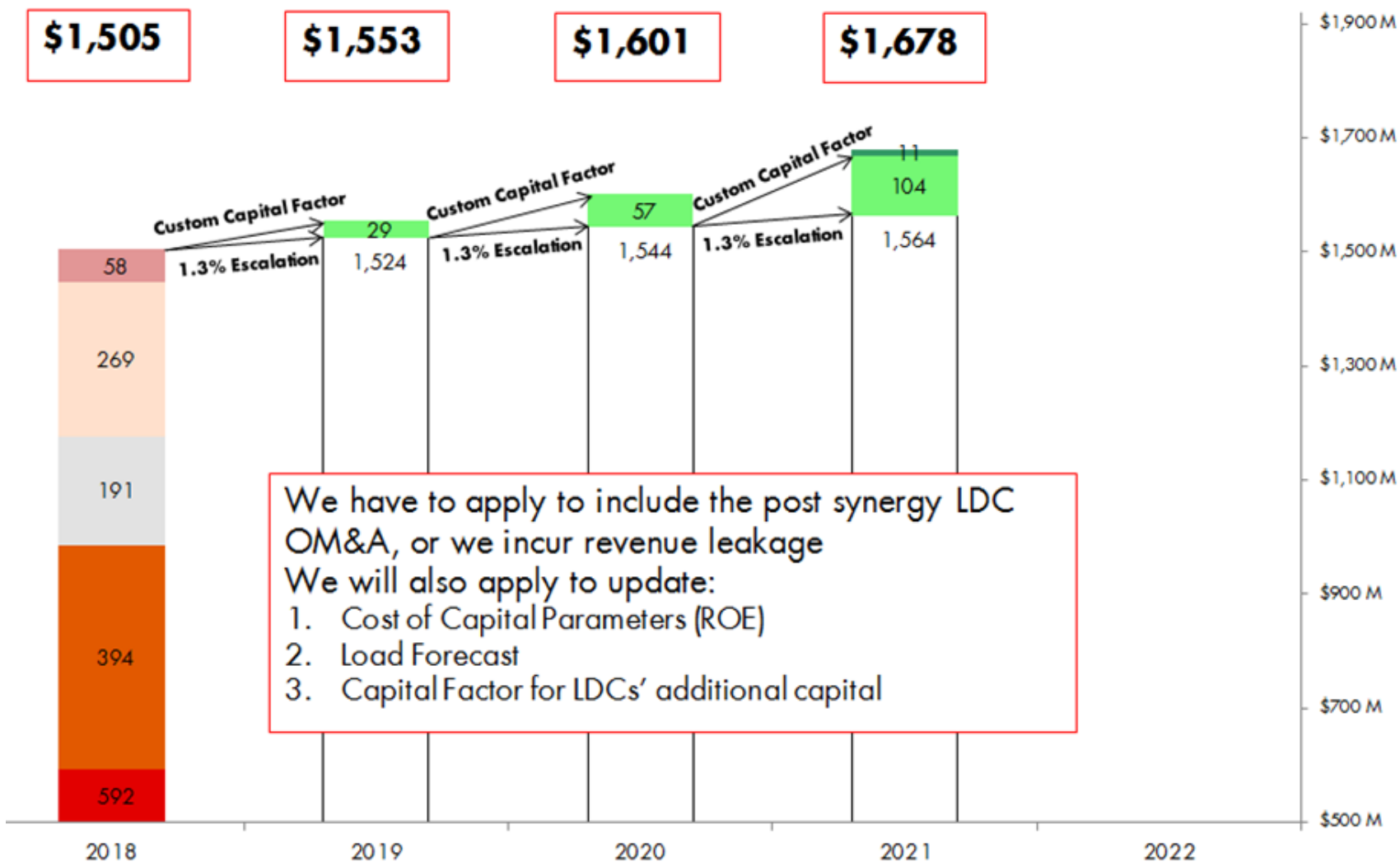


**\$1,505**

**\$1,553**

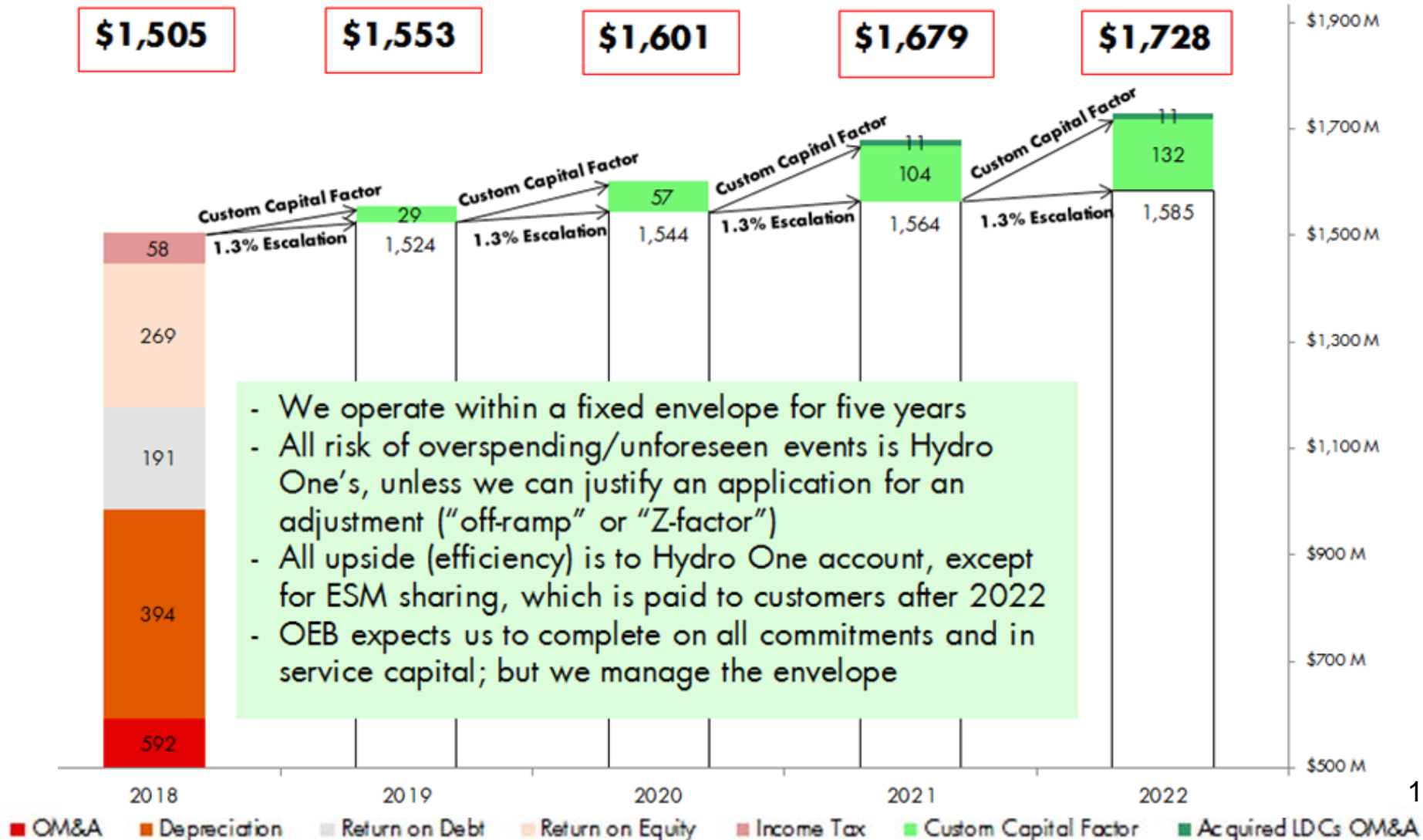
**\$1,601**

**\$1,678**



We have to apply to include the post synergy LDC OM&A, or we incur revenue leakage  
 We will also apply to update:  
 1. Cost of Capital Parameters (ROE)  
 2. Load Forecast  
 3. Capital Factor for LDCs' additional capital

# 2022 Revenue Requirement: 1.3% OM&A Escalation and Capital Factor

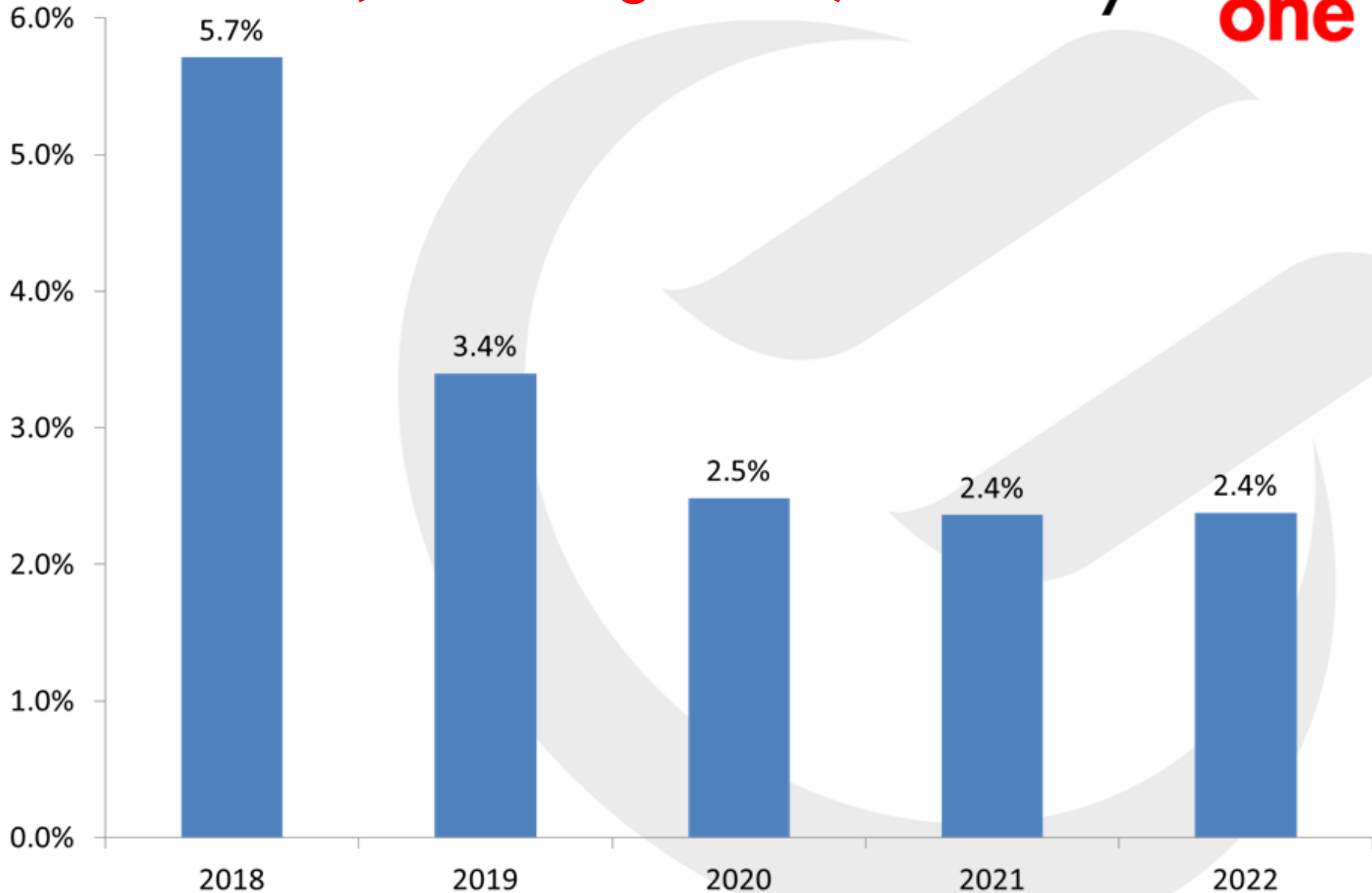


# 2018-22 Revenue Requirement And Estimated Bill Impacts



Distribution Revenue Requirement	2017	2018	2019	2020	2021	2022
	OEB					
Capital Expenditures	661	634	757	719	741	827
In-Service Additions	696	641	776	768	734	815
<b>Rate Base</b>	<b>7,190</b>	<b>7,672</b>	<b>8,049</b>	<b>8,477</b>	<b>9,035</b>	<b>9,435</b>
OM&A	\$ 593	\$ 592	\$ 600	\$ 607	\$ 626	\$ 634
Depreciation	\$ 390	\$ 394	\$ 414	\$ 429	\$ 448	\$ 465
Return on Debt	\$ 183	\$ 191	\$ 200	\$ 211	\$ 225	\$ 235
Return on Equity	\$ 253	\$ 269	\$ 283	\$ 298	\$ 317	\$ 331
Income Tax	\$ 49	\$ 58	\$ 61	\$ 63	\$ 69	\$ 70
<b>Revenue Requirement</b>	<b>\$ 1,468</b>	<b>\$ 1,505</b>	<b>\$ 1,558</b>	<b>\$ 1,607</b>	<b>\$ 1,685</b>	<b>\$ 1,735</b>
Rate Riders	\$ 11	\$ 23	\$ 23	\$ 23	\$ 23	\$ 23
Other revenue impacts	\$ (53)	\$ (49)	\$ (49)	\$ (49)	\$ (50)	\$ (50)
<b>Rates Revenue Requirement</b>	<b>\$ 1,426</b>	<b>\$ 1,479</b>	<b>\$ 1,532</b>	<b>\$ 1,581</b>	<b>\$ 1,658</b>	<b>\$ 1,707</b>
<b>Rate Increase Required, excl Load</b>		<b>3.7%</b>	<b>3.6%</b>	<b>3.2%</b>	<b>4.9%</b>	<b>3.0%</b>
Estimated Load Impact		2.0%	-0.2%	-0.7%	-2.5%	-0.6%
<b>Rate Increase Required</b>		<b>5.7%</b>	<b>3.4%</b>	<b>2.5%</b>	<b>2.4%</b>	<b>2.4%</b>
<b>Est Total Bill Impact (R1 customer - 30%)</b>		<b>1.7%</b>	<b>1.0%</b>	<b>0.7%</b>	<b>0.7%</b>	<b>0.7%</b>

# Projected Distribution Rate Increases (including Load)



# Drivers of Proposed Distribution Rate Increases



## 2018 Distribution Rate Drivers

OM&A	-0.1%
Rate Base & Depreciation	2.0%
Income Taxes	0.7%
Rate Riders	0.8%
Estimated Load	2.0%
External Revenues – Other	0.3%
<b>Total</b>	<b>5.7%</b>

# Drivers of Proposed Distribution Rate Increases



<b>Distribution Rate Drivers</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
OM&A	-0.1%	0.5%	0.5%	1.2%	0.5%
Rate Base & Depreciation	2.0%	2.9%	2.6%	3.3%	2.5%
Income Taxes	0.7%	0.2%	0.1%	0.4%	0.1%
Rate Riders	0.8%	0.0%	0.0%	0.0%	0.0%
Estimated Load Impact	2.0%	-0.2%	-0.7%	-2.5%	-0.6%
External Revenues - Other	0.3%	0.0%	0.0%	-0.1%	0.0%
<b>Total</b>	<b>5.7%</b>	<b>3.4%</b>	<b>2.5%</b>	<b>2.4%</b>	<b>2.4%</b>

# Additional Features of the Custom IR Application



# Earnings Sharing Mechanism (ESM)



Purpose: Alignment of customer and Hydro One interests to reduce expenses during the 5 year term

Proposed ESM includes:

- Share with customers 50% of earnings which exceed the Regulatory ROE
- Deadband of 100 basis points
- Creation of a deferral account to be cleared at next rate rebasing

# Capital In-Service Variance Account (CISVA)



Allows Hydro One to have appropriate rates for planned capital investment while protecting customers from paying for assets prior to their completion

CISVA Includes:

- Measurement of Actual in-service additions < OEB approved in-service additions on a cumulative basis
- 2% deadband
- Associated revenue requirement placed in variance account for disposition at next rebasing

# Acquired LDCs



Three acquired LDCs will rebase and be integrated with Hydro One distribution in 2021

- Haldimand County Hydro
- Norfolk Power Distribution
- Woodstock Hydro Services

Application includes:

- Request to extend Norfolk's rebase date by one additional year.
- Net Fixed Assets of acquired LDCs added to Hydro One's opening balance in 2021.
- Incremental OM&A added to Hydro One's in 2021
- New acquired Rate Classes

# Load Forecast



- Rates based on a 5 year load forecast
- Relative to 2017 approved values there is a decrease in load is forecast in 2018
- Application includes a proposal to update the forecast in 2020 for 2021 and 2022 rates

Estimated Load Impact on Rates	2018	2019	2020	2021	2022
Rate Increase prior to Load adjustment	3.7%	3.6%	3.2%	4.9%	3.0%
Estimated Load Impact	2.0%	-0.2%	-0.7%	-2.5%	-0.6%
<b>Rate Increase Required</b>	<b>5.7%</b>	<b>3.4%</b>	<b>2.5%</b>	<b>2.4%</b>	<b>2.4%</b>

# Cost of Capital



- Revenue Requirement for all years based on current Board-approved ROE and short term debt rates, as well as Hydro One's long term debt rates.
- To be updated when the OEB 2018 Cost of Capital Parameters is released (October 2017)
- 2<sup>nd</sup> proposed update in 2020 for 2021 and 2022 rates.
- Update will include Board-approved ROE and short-term debt rates, as well as Hydro One long term debt rates.

**Questions?**