

Canadian Manufacturers & Exporters Interrogatory # 36

Issue:

Issue 44: Is Hydro One's proposed depreciation expense for 2018 and further years appropriate?

Reference:

C1-06-01 Updated

Interrogatory:

- a) Please provide a table that shows for each of 2018 through 2019 the total depreciation and amortization expense based on Hydro One's historically approved depreciation rates and based on the 2016 Foster Associates study, along with the difference for each year.
- b) What is the change in the revenue requirement impact on the 2018 test year of using the depreciation rates based on the 2016 Foster Associates study as compared to using the current approved rates?
- c) Based on the \$21.9 million difference noted on page 1, will Hydro One's rate base at the end of 2022 be more than \$100 million higher under the proposal to retain the existing depreciation rates as compared to changing to the rates from the 2016 Foster Associates study beginning in 2018

Response:

- a) The table below provides a comparison for depreciation expense as per Exhibit Q between currently proposed depreciation rates and 2016 Foster Associates updated study rates:

Description	Test	
	2018	2019
Total Depreciation Expenses	383.9	406.4
Total Amortization Expenses	17.3	16.2
Exclude Other Regulatory Amortization	4.2	4.5
Total	397.1	418.2
Update for 2016 study - Dx specific and Common rates	13.1	16.2
New Depreciation total	410.2	434.4

- b) Based on a comparison to Exhibit Q, the impact to revenue requirement in 2018 is \$17.4M.

Witness: CHHELAVDA Samir

- 1 c) Hydro One's rate base will not be more than \$100 million higher under the current proposal
- 2 to retain the existing rates as compared to changing to the rates from the 2016 Foster
- 3 Associates study beginning in 2018.

1 **Canadian Manufacturers & Exporters Interrogatory # 37**

2
3 **Issue:**

4 Issue 44: Is Hydro One's proposed depreciation expense for 2018 and further years appropriate?

5
6 **Reference:**

7 C1-06-01 Updated

8 A-03-02

9
10 **Interrogatory:**

11 a) What is the impact on the total revenue requirement in each of 2019 through 2022 of using
12 the 2016 Foster Associates study depreciation rates in place of the current approved rates?

13
14 b) Please provide a version of Table 1 from Exhibit A, Tab 3, Schedule 2 that shows the impact
15 on the calculation of the capital factor if Hydro One used the depreciation rates from the
16 2016 Foster Associates study.

17
18 **Response:**

19 a) The impact on the total revenue requirement is provided below based on Exhibit Q update:

20

	2018	2019	2020	2021	2022
Total Capital Related Revenue Requirement	17.4	20.4	22.3	24.1	27.9

21

- 1 b) Summary of Revenue Requirement Components is provided below based on Exhibit Q
 2 update and the depreciation rates from the 2016 Foster Associates study.

	Reference	2018	2019	2020	2021	2022
Rate Base	D1-1-1					
Return on Debt	E1-1-1	198.9	207.9	217.9	231.0	239.9
Return on Equity	E1-1-1	275.8	288.2	302.1	320.3	332.7
Depreciation	C1-6-2	410.2	434.4	451.6	473.0	490.9
Income Taxes	C1-7-2	70.0	74.5	77.7	85.7	87.5
Capital Related Revenue Requirement		954.9	1,005.0	1,049.3	1,110.0	1,151.0
Less Productivity Factor (0.45%)			(4.5)	(4.7)	(5.0)	(5.2)
Total Capital Related Revenue Requirement		954.9	1,000.5	1,044.6	1,105.0	1,145.8
OM&A	C1-1-1	579.6	584.0	588.3	592.8	608.0
Integration of Acquired Utilities	A-7-1				10.7	
Total Revenue Requirement		1,534.5	1,584.5	1,632.9	1,708.5	1,753.8
Increase in Capital Related Revenue Requirement			45.6	44.1	60.4	40.8
Increase in Capital Related Revenue Requirement as a percentage of Previous Year Total Revenue Requirement			2.97%	2.78%	3.70%	2.39%
Less Capital Related Revenue Requirement in I-X			0.47%	0.47%	0.48%	0.49%
Capital Factor			2.51%	2.31%	3.22%	1.90%

Canadian Manufacturers & Exporters Interrogatory # 39

Issue:

Issue 44: Is Hydro One's proposed depreciation expense for 2018 and further years appropriate?

Reference:

C1-06-01 Updated

Interrogatory:

a) Please provide a version of Tables 1 & 2 that shows for each of the historical years and the bridge year where there is a Board approved amount for depreciation and amortization, the Board approved amount, the actual amount and variance for each year in the same level of disaggregation as shown in Tables 1 and 2.

Response:

a) Please see the requested tables below for years where there is a Board approved amount.

Table 1: Total Distribution Depreciation and Amortization Expense (\$ Million)

Description	2015			2016			2017		
	OEB Approved	Historic	Variance	OEB Approved	Historic	Variance	OEB Approved	Bridge	Variance
Total Depreciation Expenses	341.3	349.0	7.7	352.9	359.8	6.9	367.8	362.6	(5.2)
Total Amortization Expenses	14.2	10.5	(3.7)	22.0	12.0	(10.0)	22.4	17.8	(4.6)
Exclude Other Regulatory Amortization	0.0	1.9	1.9	0.0	3.2	3.2	0.0	3.7	3.7
Total	355.4	357.6	2.2	374.9	368.7	(6.2)	390.2	376.7	(13.5)

1

Table 2: Distribution Depreciation Expense (\$ Million)

Description	2015			2016			2017		
	OEB Approved	Historic	Variance	OEB Approved	Historic	Variance	OEB Approved	Bridge	Variance
Depreciation On Fixed Assets	300.0	308.0	8.0	309.6	322.7	13.1	321.4	325.0	3.6
Less Capitalized Depreciation	(13.2)	(17.0)	(3.8)	(13.7)	(17.6)	(3.9)	(14.0)	(18.3)	(4.3)
Asset Removal Costs	54.5	59.0	4.5	57.0	55.0	(2.0)	60.4	55.9	(4.5)
Losses/(Gains) On Asset Disposition	0.0	(1.0)	(1.0)	0.0	(0.3)	(0.3)	0.0	0.0	0.0
Total	341.3	349.0	7.7	352.9	359.8	6.9	367.8	362.6	(5.2)

2

- 1 d) Networks uses the term “may” when discussing the potentially offsetting impact of its future
2 capital investments on depreciation rates. Please describe the assurance that Networks has that
3 Foster and Associates’ currently observed depreciation rate adjustments will be exactly offset
4 by new capital investments in specific asset pools in the rate period?
5
- 6 e) Is this potential future offset expected to impact each year of the rate setting period exactly
7 equally?
8
- 9 f) Has Networks produced any financial models illustrating this potential future offset? If so,
10 please provide them and attach any relevant assumptions or caveats.
11
- 12 g) Is Networks aware of any regulatory precedents where an independent depreciation study
13 recommending a material adjustment to depreciation expense has not been implemented
14 based on an expectation of possible future reversals or offsets within the rate setting period?
15 If so, please provide any such precedents.
16
- 17 h) Is the acceptance of this position by Networks’ independent external auditor based on an
18 expectation that the existing rates will be approved by the OEB? More specifically, is the
19 auditor’s concurrence predicated on an expectation of OEB approval giving rise to a
20 regulatory accounting exception to US GAAP requirements as they would apply to an
21 unregulated entity?
22

23 **Response:**

- 24 a) As per the Transmittal Letter from Foster Associates, Hydro One could elect to adjust any or
25 all of the proposed rates in the Depreciation Study and not violate the objective of
26 depreciation accounting, which is to allocate the economic life of the asset in proportion to
27 the potential consumption of the asset. Accrual rates recommended in the 2016 Depreciation
28 Rate Review were designed to achieve goals and objectives of depreciation accounting.
29 Deferring on adoption of the recommended rates will do little more than shift the timing of
30 capital recovery.
31
- 32 b) Networks has “precisely applied this conceptual approach” by virtue of being a rate-
33 regulated entity. As Dr. White noted in his transmittal memo, “The dual accounting objective
34 is implicitly achieved under regulation as a consequence of the ratemaking process in which
35 the amount of revenue a utility is authorized to collect is determined from a revenue
36 requirement equation that includes depreciation expense as one of the elements of
37 recoverable cost. Assuming revenue sufficient to cover cash operating expenses and a fair

1 rate of return, the change in the present value of future net revenue will be equal to the
2 depreciation expense allowed by regulation. It is because of regulation that the dual
3 accounting objective will be achieved regardless of the timing of depreciation expense.”
4

5 c) It was noted in the 2016 Depreciation Rate Review, page 10, that “... category lives
6 recommended and approved in the 2013 review were retained in the 2016 review.”
7 Accordingly, recommended adjustments to accrual rates were not driven by technical or asset
8 service life experience. The change in accruals for BU 300 is mostly attributable to large
9 capital expenditures in 2015 and an appropriate rebalancing of reserves. Rebalancing was
10 undertaken to: a) eliminate a negative reserve for Account 1980 (System Supervisory
11 Equipment); and b) to properly realign reserves for amortizable categories. These two factors
12 resulted in a change in the accrual for Account 1955 (Communication Equipment) from
13 negative \$9.4 million to positive \$2.0 million, or an increase of \$11.4 million.
14

15 d) Hydro One does not have assurance that current rates will be exactly offset by future capital
16 spend, however if the OEB finds that the revenue requirement impact of higher depreciation
17 expense is warranted and not overly burdensome to customers, Networks is prepared to
18 implement higher depreciation rates for BU300.
19

20 e) See above response to part d.
21

22 f) No.
23

24 g) See above response to part d.
25

26 h) The setting of depreciation rates are the responsibility of management, and Networks
27 determines them in conjunction with recommendations from Foster Associates depreciation
28 study. The external auditor bases their audit opinion on the financial statements as a whole,
29 to ensure they are not materially misstated and not on specific estimation decisions. In
30 relation to depreciation expense, external auditors will assess to determine if the asset, in this
31 case property, plant and equipment is recoverable over a period not to exceed their useful
32 lives. The transmittal letter issued by Foster and Associates provides an expert opinion that
33 corroborates management’s estimate that the revised depreciation rates not be adopted.

- 1 approved by the OEB in EB-2016-0160. Differences in account statistics are attributable to
2 the passage of time and changes in the age distributions of surviving plant.
3
- 4 b) The requested comparison cannot be made. As noted in response to Part a, depreciation (*i.e.*,
5 population) paramters are identical. It would be meaningless, however, to calculate
6 depreciation expense at December 31, 2015 using account statistics derived at December 31,
7 2014. Surviving vintages at year-end 2015 are one year older and compsite account statistics
8 would be derived from different age distributions.
9
- 10 c) If the OEB finds that the revenue requirement impact of higher depreciation expense is
11 warranted and not overly burdensome to customers, Networks is prepared to implement
12 higher depreciation rates for BU300.

OEB Staff Interrogatory # 218

Issue:

Issue 44: Is Hydro One’s proposed depreciation expense for 2018 and further years appropriate?

Reference:

C1-06-01 Section 5.1

Interrogatory:

From the evidence filed in the above reference, it is not clear what actually underpins Hydro One’s estimate for the amortization related to its environmental costs.

- a) Please explain how this balance is estimated and provide evidence that supports the estimate for the test period.
- b) Please provide a table that compares the amount collected in rates over the last 5 years (2013-2017) with respect to amortization of environmental costs and the actual amortization as per the audited financial statements for the same period.

Response:

- a) The estimates for amortization related to environmental costs are built up from the work programs required to be completed:
 - PCB Oil Sampling and Oil Retrofill for Distributing and Regulating Stations (Ex C1, Tab 1, Sch 2, Pg 10, Ln 3).
 - Land Assessment and Remediation (Ex C1, Tab 1, Sch 2, Pg 11, Ln 24).
 - Overhead Equipment PCB Inspection, Testing, and Waste Management (Ex C1, Tab 1, Sch 2, Pg 19, Ln 24).

b)

<i>\$ in Millions</i>	2013 ⁽¹⁾	2014 ⁽¹⁾	2015 ⁽²⁾	2016 ⁽²⁾	2017 ⁽²⁾
Amount Collected in Rates	16.9	16.9	14.2	22.0	22.4
Amortization per Audited Financial Statements	8.5	11.1	10.5	12.0	Not Yet Available.

- 1. Represents the amount approved for 2011 as part of the prior COS application (EB-2009-0096) in Exhibit C1, Tab 6, Schedule 1, Table 2. 2013 and 2014 were IRM years and therefore approved amounts are based on the 2011 values.
- 2. Source of amount collected in rates: 2015-2017: EB-2013-0416; Exhibit C1, Tab 6, Schedule 1, Table 2.

Vulnerable Energy Consumers Coalition Interrogatory # 79

Issue:

Issue 44: Is Hydro One’s proposed depreciation expense for 2018 and further years appropriate?

Reference:

E1-02-01 Page: 4 - Table 2
 E1-02-01 Page 39 – Table E.4

Interrogatory:

a) For each of the Residential and GS customer classes, please provide a schedule similar to Table 2 that compares the actual customer counts for 2014-2016 with those forecast in EB-2013-0416.

Response:

a) Provided below is a comparison of forecast and actual for residential and GS rate classes.

Residential			
Year	2014	2015	2016
Forecast (in EB-2013-0416)			
R1	415,301	433,844	439,437
R2	376,395	329,176	321,826
Seasonal	153,677	163,968	154,490
UR	171,883	209,540	211,691
Actual			
R1	416,493	432,519	441,836
R2	373,551	328,170	328,766
Seasonal	153,957	153,498	148,991
UR	170,796	208,639	213,199
% Change (Actual on Forecast)			
R1	0.3	-0.3	0.5
R2	-0.8	-0.3	2.2
Seasonal	0.2	-6.4	-3.6
UR	-0.6	-0.4	0.7

General Service			
Year	2014	2015	2016
Forecast (in EB-2013-0416)			
GSd	6,748	6,113	6,196
GSe	98,785	93,508	93,788
UGd	1,189	1,901	1,907
UGe	12,343	17,768	17,808
Actual			
GSd	6,504	6,098	5,323
GSe	95,503	87,686	88,878
UGd	1,167	1,893	1,715
UGe	10,807	17,703	17,780
% Change (Actual on Forecast)			
GSd	-3.6	-0.2	-14.1
GSe	-3.3	-6.2	-5.2
UGd	-1.9	-0.4	-10.1
UGe	-12.4	-0.4	-0.2

Filed: 2018-02-12
EB-2017-0049
Exhibit I
Tab 45
Schedule CME-68
Page 2 of 2

- 1 consider the impact of the Fair Hydro Plan. Please see Exhibit I-33-Staff-179 for the impacts
- 2 of the Fair Hydro One on revenue 2018 requirement.

1 **School Energy Coalition Interrogatory # 87**

2
3 **Issue:**

4 Issue 45: Are the proposed other revenues for 2018 – 2022 appropriate?

5
6 **Reference:**

7 H1-02-03 Page: 102

8 With respect to the Pole Attachment Charge:

9
10 **Interrogatory:**

- 11 a. Please confirm that Hydro One enters into a standard ‘Agreement for Licensed Occupancy of
12 Power Utility Distribution Poles’ with third-party telecommunication attachers. If confirmed,
13 please provide a copy of the agreement.
14
15 b. Please confirm that the Agreement states that “line clearing” costs have been included into
16 the Pole Attachment Charge.
17
18 c. Please confirm that Hydro One’s currently approved and proposed Pole Attachment Charge
19 does not include any line clearing or other vegetation management costs.
20

21 **Response:**

- 22 a) Yes, Hydro One enters into a standard template third-party telecommunication agreement
23 with every attacher.
24

25 The issue in this case (Issue 45) is whether proposed other revenues are appropriate. Hydro
26 One is prepared to provide responses on questions relating to the revenues from Pole Access
27 Charges (such as those in this IR). However, the agreements in relation to such revenues are
28 not relevant and will not be disclosed. This is consistent with the Board’s decisions in EB-
29 2015-0004 and EB-2015-0141.
30

- 31 b) Yes, it is confirmed that the existing standard template third-party telecommunication
32 agreement states that “line clearing” is included in the pole attachment charge. This existing
33 template agreement, which was originally executed with the majority of carriers in the
34 province in 2006, is still in effect, utilizing the one year automatic renewal clause within it.
35 Due to the OEB decision in EB-2015-0141 (Rogers Communications Partnership et al.),
36 Section 3.2 (Page 8), stating that forestry costs were not to be included within the rate, and in
37 reference to Section 2.1 (Pages 12-15) of Exhibit Q, Tab 1, Schedule 1 in EB-2017-0049,

Witness: BOLDT John

1 Hydro One is not performing or charging line clearing as outlined in the executed agreement.
2 All carriers in the province are going to be notified in early 2018, that Hydro One is no
3 longer performing any telecom line clearing and the agreement will be amended or
4 terminated, based on the termination clause within the agreement and then a new agreement
5 will be written and executed.

6

7 c) Confirmed. Hydro One's currently approved and proposed Pole Attachment Charge does not
8 include any line clearing or other vegetation management costs.

