EXECUTIVE SUMMARY OF APPLICATION

1. SCOPE OF APPLICATION

Hydro One Networks Inc. ("Hydro One") is applying for an Order approving the revenue requirement, cost allocation and rates for Hydro One's transmission business for years 2017 and 2018 ("test years") under the assigned docket number EB-2016-0160.

This executive summary addresses the requirements listed in Section 2.3.1 of Chapter 2 of the Ontario Energy Board's (the "Board") *Filing Requirements for Electricity Transmission Applications* issued on February 11, 2016.

In this Application, Hydro One is requesting the Board's approval of:

- rates revenue requirements of $1,505 million for 2017 and $1,586 million for 2018;
- charge determinants by rate pools to assist in the development of Uniform Transmission Rates effective January 1, 2017;
- the performance scorecard proposed in this Application;
- the continuation of the regulatory accounts discussed in Section 10 of this Exhibit; and
- the disposition of regulatory accounts with a net credit balance of $95.6 million effective January 1, 2017.

The requested rates revenue requirements reflect a year-over-year increase of 1.6% for 2017 versus 2016 Board-approved levels and 5.4% for 2018 versus 2017. After adjusting for the load forecast, the requested increase in 2017 is 3.7%. The requested increase for 2018 is unchanged and remains 5.4%.

The estimated increase of the total bill for Hydro One general service energy (2000 kWh/month) customers is 0.1% in 2017 and 0.2% in 2018. For Hydro One medium density residential (750 kWh/month) customers, the estimated increase is 0.2% in 2017 and 0.3% in 2018. The estimated bill impact for transmission connected-customers is 0.3% in 2017 and 0.4% in 2018, assuming that transmission represents 8.3% of the average transmission-connected customer's total bill.

The applied-for rate increase is likely to be mitigated by anticipated reductions in transmission pension contribution operating expenses, arising from the receipt of an updated actuarial valuation report that was not finalized at the time this Application was filed. The report is expected to be finalized at the end of June 2016. These circumstances are described further in Section 7 of this Exhibit.

2. OVERVIEW OF HYDRO ONE'S INVESTMENT PLAN

2.1 Strategic Goals, Values and Objectives

Hydro One aspires to be a best-in-class, customer-centric, commercial utility. Consistent with its past performance and its new status as a commercial entity, Hydro One remains committed to delivering safe, reliable power, and supporting the sustainable development of the Ontario economy. The company's core values remain unchanged:

- Maintaining a safe workplace;
- Caring for customers;
- Operating as one company;
- Being people-powered; and
- Executing with excellence.

Hydro One's new executive leadership and Board of Directors are committed to building a stronger performance management culture and are focused on achieving excellence in execution in all aspects of the company's work. The ability to measure and track performance is essential to this vision, as set out in Exhibit B2, Tab 1, Schedule 1 of this Application and Section 6 of this Exhibit. Hydro One's commitment to productivity and cost efficiency is further illustrated in Section 7 of this Exhibit, as OM&A expenses are expected to demonstrate a declining trend in the 2016 bridge year and in the 2017 and 2018 test years.

In order to achieve its corporate goals, Hydro One is also in the process of devising new approaches relating to serving its customers, forming its investment plans, and operating and maintaining its assets, while maintaining a strong commitment to safety and the environment.

The principles of the Board's *Renewed Regulatory Framework for Electricity Distributors* ("RRFE") are consistent and directly aligned with Hydro One's aspirations. Key areas of focus for Hydro One include ensuring that transmission services, capital program execution, and customer operations are more efficient and effective, enhancing the internal performance management culture, and strengthening relationships with key stakeholders. The Transmission System Plan, summarized in Section 4 of this Exhibit, reflects the alignment between Hydro One's values and business objectives with the RRFE, as set out in Exhibit B1, Tab 1, Schedule 2 and in Table 1 below.

Table 1: Hydro One's Values and Business Objectives

Customer Focus	**Customer Satisfaction**	• Improve current levels of customer satisfaction
	Customer Focus	• Engage with our customers consistently and proactively • Ensure our investment plan reflects our customers' needs and desired outcomes
Operational Effectiveness	**Cost Control**	• Actively control and lower costs through OM&A and capital efficiencies
	Safety	• Drive towards achieving an injury-free workplace
	Employee Engagement	• Achieve and maintain employee engagement
	System Reliability	• Maintain top quartile reliability relative to transmission peers
Public Policy Responsiveness	**Public Policy Responsiveness**	• Ensure compliance with all codes, standards, and regulations • Partner in the economic success of Ontario
	Environment	• Sustainably manage our environmental footprint
Financial Performance	**Financial Performance**	• Achieve the ROE allowed by the OEB

Hydro One submits that the forecasted expenditures and associated timing described in this Application are necessary if these objectives are to be achieved.

2.2 Customer Engagement and Needs Assessment

Hydro One's goal is to engage with customers consistently and proactively to better understand the customer and enhance the company's ability to provide services that meet their needs and improve customers' overall satisfaction with the service they receive. One critical element of achieving this goal is the development of an investment plan that is outcome-focused and designed to meet customers' needs and preferences.

In preparing this Application, Hydro One has engaged in an intense and focused level of customer engagement, which is detailed in Exhibit B1, Tab 2, Schedule 2. The company

found the feedback from these sessions to be critical in understanding customer preferences and being better able to identify customer needs. Customers indicated that the consultations were valuable to them in understanding Hydro One's operations and investment process.

Hydro One expects to continue to engage customers in the future, not only to receive input to consider in the development of future investment plans, but also to receive feedback and communicate key information about the system and investments that have or are likely to impact transmission system reliability risk and actual system performance.

Based on Hydro One's customer engagement process, the company believes that any deterioration in current service levels is unacceptable to customers and that the maintenance of current reliability levels is a customer priority.

2.3 Asset Needs Assessment

Based on Hydro One's assessment of its transmission system, a significant portion of its assets have deteriorated to the point where they pose a risk to its business objectives of maintaining current levels of reliability and improving customer satisfaction. Detailed information on Hydro One's asset needs is provided in Exhibit B1, Tab 2, Schedules 4 to 6.

Hydro One continues to strike a careful balance between: (a) developing the transmission system and building new infrastructure; (b) sustaining existing assets and maintaining the health of the system; and (c) rate impacts on customers. Between 2009 and 2012, Hydro One invested heavily in system development, in order to comply with government policies related to the connection and integration of renewable energy generation and the retirement of coal-fired generation. Since then, system development needs have declined

while system renewal needs have increased to the point of creating risk to current reliability levels.

As described in Exhibit B1, Tab 2, Schedule 4, Hydro One has modified its asset management approach to include reliability risk as a leading indicator of future transmission system performance. Hydro One's approach has been informed by the development of this approach in other jurisdictions. This approach is new for Hydro One, and the company intends to develop the reliability risk approach and refine its application.

Reliability risk is a metric that is derived using a probabilistic calculation based on asset demographics and the historical relationship between asset age and the occurrence of failure or replacement. Reliability risk is used by Hydro One in its asset management process to gauge the impact of its investments on future transmission system reliability. It also provides a directional indicator to inform the appropriate level and pacing of sustainment investments. The reliability risk model is not used to identify specific asset needs and investments. Instead, these are determined by condition assessments and other asset-specific information, as described in Exhibit B1, Tab 2, Schedule 5.

Table 2 below reflects the relative change in risk for each critical asset class and for the system as a whole, as a result of 2017 and 2018 investments. With the planned investments, overall reliability risk would improve (i.e. decline) by 2% by 2019. Without the applied-for investments that are reflected in the 2017 and 2018 test years, overall reliability risk would deteriorate by 10%.

Table 2: Relative Change in Reliability Risk

	Relative Change in Risk from Jan. 1, 2017 to Dec. 31, 2018, as per proposed investment	**Relative Change in Risk from Jan. 1, 2017 to Dec. 31, 2018, <u>without</u> investment**	**% of Interruption Duration***
Lines	-2%	11%	69%
Transformers	-9%	14%	9%
Breakers	1%	17%	6%
Other[1]	-	-	16%
Total*	**-2%**	**10%**	

* Total is calculated by weighting the change in risk by the asset class' contribution to interruption duration.

In addition to incorporating customer feedback and new information on system reliability risk, Hydro One also considered and incorporated the results of a total cost benchmarking study into the development of its Transmission System Plan (Exhibit B1, Tabs 1 to 4 of this Application). The study found that Hydro One's historical capital spending levels were significantly below median in its peer group. For the purposes of developing its investment plan, Hydro One used the total cost benchmarking study as a reference tool to further validate the proposed increases in spending associated with its Transmission System Plan. Based on the results of the report and Hydro One's investment proposal, the 2017 and 2018 total expenses (capital expenditures and OM&A) will still remain at or below median levels relative to the company's peer group.

[1] Represents all other assets; risk is assumed to be flat over the investment planning horizon for these assets

3. FINANCIAL SUMMARY

3.1 Revenue Requirement

A comparative profile of the annual rates revenue requirement build-up from 2016, the last Board-approved rate year, to 2018 is provided in Table 3, along with references to the Exhibits in the Application that discuss each cost component.

Table 3: Revenue Requirement ($ Millions)

Comparison of Rates Revenue Requirement	Board - approved 2016	2017	2018	Exhibit Reference
OM&A	436.7	413.1	411.2	C2-1-1
Depreciation	397.3	435.7	470.7	C2-3-1
Income Taxes	72.2	81.3	90.4	C2-4-1
Cost of Capital	661.5	676.1	714.9	D2-4-1
Total Revenue Requirement	**1,567.6**	**1,606.3**	**1,687.2**	E2-1-1
Deduct External Revenues	(32.2)	(28.2)	(28.5)	E1-2-1
Revenue Requirement less External Revenues	**1,535.4**	**1,578.1**	**1658.7**	
Deduct Export Revenue Credit	(31.7)	(39.2)	(40.1)	H1-4-1
Deduct Regulatory Accounts Disposition	(36.1)	(47.8)	(47.8)	F1-1-3
Add Low Voltage Switch Gear	13.0	14.0	14.7	G1-3-1
Rates Revenue Requirement	**1,480.7**	**1,505.1**	**1,585.6**	
Rate Increase Required, excl. Load		**1.6%**	**5.4%**	
Estimated Load Impact		2.1%	0.0%	E1-3-1
Rate Increase Required		**3.7%**	**5.4%**	

The increase in total rates revenue requirement is largely attributable to the impact of rate base growth, as reflected in the increase in depreciation and the return on capital. Higher income taxes and lower external revenues also contribute to the difference. These are partially offset by a lower cost of debt, lower OM&A costs, increased regulatory account disposition, and a higher export revenue credit as described in Exhibit E1, Tab 1, Schedule 1 .

3.2 Budgeting Assumptions

In developing its investment plan, Hydro One assumed 2.0% annual inflation and cost escalators for construction and OM&A expense growth of 2.3% and 1.3%, respectively, in 2017 and of 2.5% and 1.6% in 2018. These assumptions are explained in further detail in Exhibit B1, Tab 2, Schedule 7.

3.3 Load Forecast Summary

Table 4 sets out Hydro One's 2017-2018 transmission system load forecast, which includes the impact of conservation and demand management and embedded generation.

Table 4: Hydro One's 2017-2018 Load Forecast (12-Month Average Peak in MW)

	Ontario Demand	Hydro One Rate Categories (Charge Determinants)		
		Network Connection	Line Connection	Transformation Connection
2017	20,373	20,405	19,741	16,872
2018	20,378	20,410	19,746	16,876
Comparison to Board-approved Forecast for 2016				
2017	-2.6%	-1.9%	-2.1%	-2.6%
2018	-2.6%	-1.9%	-2.1%	-2.6%

The forecast was developed using the econometric and end-use approaches described in Exhibit E1, Tab 3, Schedule 1. The forecast base year was corrected for abnormal weather conditions, and growth rates were applied to the normalized base year value. Consistent with the IESO's approach, normal weather data is based on the average weather conditions experienced over the last 31 years.

4. TRANSMISSION SYSTEM PLAN

Hydro One's Transmission System Plan is set out in Exhibit B1, Tabs 1 to 4.

The proposed five-year capital plan reflects Hydro One's understanding of the investments required to meet the reliability needs, risk tolerance, and power quality needs of its customers. Hydro One expects the plan to result in several key outcomes for Hydro One and its customers:

- Mitigation of risk arising from aging and deteriorating assets;
- Creation of conditions that enable Hydro One to continue to provide first quartile reliability in a safe manner to its customers;
- Avoidance of larger capital replacement costs by extending asset life, where feasible;
- Ensured compliance with regulatory, environmental and reliability standards; and
- Drive towards an injury-free workplace.

To achieve these outcomes, Hydro One has shifted the balance of capital investment towards sustainment capital, with a focus on lines investments. The company has also approached the timing and pacing of investments with a long-term view. In its previous transmission revenue requirement application for the 2015-2016 period, the company had put forth a sustainment capital program that began to address the need for higher sustainment investments, by focusing on stations assets in poor condition that were a significant driver of reliability performance. Since its last filing, Hydro One has focused on developing an improved understanding and knowledge of the condition of its transmission system.

The company has gained additional knowledge through the ongoing testing of critical assets and expansion of the scope of condition assessments, combined with information

collected about the actual performance (including failures) of individual assets. Hydro One has also been developing a greater understanding of how equipment unavailability, due to condition and demographics, is a leading indicator of future reliability issues, contributing to higher reliability risk. As a result of these efforts, Hydro One is continuing to prioritize asset replacements with a goal of maintaining top quartile reliability and reducing reliability risk on the system.

Hydro One has relied on maintenance programs to extend the lifespan of assets by addressing asset condition deficiencies, where practical, as a means of deferring large capital expenditures. As a result, many assets are being operated beyond their expected service life.[2] Although this approach defers capital investments, it increases maintenance costs and the risk that assets will fail, deteriorate significantly, or become obsolete as spare parts and manufacturer support become unavailable. Recent examples of this manifest risk include equipment failures in 2015 and 2016 at Elgin TS, Horning TS, Bridgman TS, and Frontenac TS.

As a result of its recent efforts to invest in the sustainment of stations assets, Hydro One has made significant strides in stabilizing the reliability risk from its stations assets. However, lines assets have continued to deteriorate and are now contributing to a larger proportion of the system's reliability risk. Hydro One expects to transition to placing a greater emphasis on lines-related sustainment investments (beginning in 2018) while maintaining a prudent level of stations investment in order to continue to mitigate risk.

[2] Expected service life: the average time in years that an asset can be expected to operate under normal system conditions

In developing its Transmission System Plan, Hydro One was aware that execution of the plan will take place in the context of the broader Ontario power system. In determining the timing and pacing of its investments, Hydro One considered both its own ability to execute capital work efficiently and the ability to secure planned outage time to minimize impacts on customers and other stakeholders in Ontario. Due to the planned refurbishment of large nuclear power plants in 2021 and beyond, Hydro One expects to face greater constraints to outage scheduling in the future. As a result, it has planned the pace of sustainment work so that critical work to reduce risk on the system could be completed in the next five years to ensure that transmission assets are in service before expected outage constraints make work more difficult to complete.

Hydro One is sensitive to the impacts of the investment plan on its customers, and thus has taken steps to ensure a prudent approach to investment and continued alignment with principles of RRFE by:

- ensuring that the investment plan reflects customer needs and preferences identified in the customer engagement process, is consistent with the feedback obtained from the various other customer consultations undertaken by the company, and is aligned with the company's responsibility to provide effective stewardship of its transmission system assets;
- identifying specific opportunities (e.g., steel tower coating) where the company can extend the useful life of its assets and mitigate higher capital spending requirements for asset replacements in the future;
- actively driving cost reduction and improved productivity to help offset the customer rate impacts of the proposed investment plan; and
- implementing an improved performance management system to provide greater transparency to the Board, customers, and Hydro One's management, and to create

confidence that targeted work is completed in an efficient manner, while delivering the promised outcomes for Hydro One's customers.

As further described in Exhibit B1, Tab 3, Schedule 1, Hydro One's capital expenditure forecast for 2017 is $1,076 million for 2017 and $1,122 million for 2018. Table 5 summarizes the capital investment plan.

Table 5: Summary of Transmission Capital Budget ($ Millions)

Including Capitalized Overheads and Interest Capitalized*	**Historic**				**Bridge Year**	**Test Years**		**Forecast**		
Description	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Sustaining	389.3	480.0	621.3	694.3	724.3	776.8	842.1	825.7	915.2	1118.1
Development	329.4	171.7	131.6	166.0	166.0	196.4	170.2	244.0	254.0	258.3
Operations	15.2	17.7	28.4	15.6	30.1	25.4	30.8	58.8	21.1	24.7
Common Corporate Costs Capital	42.1	49.1	63.4	67.1	83.5	77.6	79.1	79.1	78.2	73.8
Total	**776.0**	**718.5**	**844.6**	**943.0**	**1003.8**	**1076.1**	**1122.2**	**1207.5**	**1268.6**	**1474.9**

*Includes Allowed Funds Used During Construction.

A key area of focus for the Transmission System Plan is ensuring that transmission services and capital work execution are more efficient and effective. This is discussed in Exhibit B1, Tab 4, Schedule 1.

5. RATE BASE

Exhibit D1, Tab 1, Schedule 1 provides the details of the derivation of the requested rate base figures for the test years. Table 6 summarizes this request.

Table 6: Transmission Rate Base* ($ Millions)

Description	2017	2018
Gross Plant	16,641.1	17,616.4
Less: Accumulated Depreciation	(6,113.4)	(6,418.7)
Net plant in service	**10,527.8**	**11,197.7**
Working Capital	26.6	27.8
Total Rate Base	**10,554.4**	**11,225.5**

*Gross plant and accumulated depreciation values are calculated using a mid-year approach. Third party capital contributions have been netted out.

Table 7 compares 2016 forecast rate base to the 2016 rate base approved by the Board in its Decision on Hydro One's previous transmission application EB-2014-0140.

Table 7: 2016 Board-approved versus 2016 Bridge Year Forecast Rate Base ($M)

Rate Base Component	2016 Bridge Year (Forecast)	2016 Board-approved	Variance
Gross Plant	15,794.8	15,805.2	(10.4)
Less: Accumulated Depreciation	(5,802.8)	(5,787.7)	15.1
Net Utility Plant	9,992.0	10,017.5	(25.5)
Cash Working Capital*	8.5	8.5	0.0
Materials & Supplies Inventory	11.7	14.0	(2.3)
Total Rate Base	10,012.2	10,040.0	(27.8)

* Hydro One does not calculate actual cash working capital, thus the 2016 approved amount was used for illustrative purposes.

Total rate base is expected to be $27.8 million below the Board-approved amount, a variance of 0.3%.

6. PERFORMANCE AND REPORTING

Hydro One's new executive leadership and Board of Directors are committed to building a stronger performance management culture and are focused on achieving excellence in execution in all aspects of the company's work. The ability to measure and track performance is essential to this vision.

Two critical elements of the journey towards stronger performance culture are: (i) the development of a scorecard; and (ii) the selection of key performance indicators that measure the drivers of the company's performance and track productivity improvements.

Exhibit B2, Tab 1, Schedule 1 discusses the cost efficiencies, productivity improvements and key performance indicators ("KPIs") that Hydro One is implementing to ensure that its business objectives are aligned with the principles of the RRFE.

In Exhibit B2, Tab 1, Schedule 1, Hydro One has provided a performance scorecard that will track its performance in areas directly tied to its own business objectives, which are aligned with those of the RRFE. The metrics contained in the scorecard will provide the Board and stakeholders visibility into how the company performs in a variety of areas, including cost control. The proposed scorecard is replicated in Table 8.

Table 8: Proposed Transmission Scorecard

RRFE Principle	Category	Metric	*Definition*
Customer Focus	**Service Quality**	Satisfaction with Outage Planning Procedures	*% satisfied in OGCC survey*
		Customer Delivery Point Performance Standards Outliers (as % of total delivery points)	*% of total delivery points designated as outliers*
	Customer Satisfaction	Overall % satisfied in corporate survey	*Transmission customers (Industrial, Generators, LDC) only*
Operational Effectiveness	**Safety**	# of recordable incidents per 200,000 hours	*Average # of incidents per 200K hours*
	System Reliability	Average. # of sustained interruptions per delivery point	*T-SAIFI-S*
		Average # of momentary interruptions per delivery point	*T-SAIFI-M*
		Average minutes that power to a delivery point is interrupted	*T-SAIDI*
		System unavailability (%)	*% of system not available for use*
		Unsupplied energy (minutes)	*Unsupplied MW-minutes/Peak MW*
	Asset Management	In-service additions as % of OEB-approved plan	*$ ISA as percentage of Planned $ Amounts*
		Capital expenditures as % of Budget	*$ Capital expenditures as % of Budgeted $ Capital expenditures*
	Cost Control	Total OM&A and Capital expenditures/Gross fixed asset value	*OM&A and Capital expenditures/ Gross fixed assets*
		Sustainment capital /Gross fixed asset value	*Sustainment Capital expenditures/ Gross fixed assets*
		OM&A/Gross fixed asset value	*OM&A/ Gross fixed assets*
Policy Response	**Renewables**	% of new connection impact assessments completed on time	*Total assessments completed within expected time/Total connections requested*

	Regulatory Compliance	NERC & NPCC Standards Compliance – High impact issues	*# of high impact compliance violations as defined by NERC/NPCC*
		NERC & NPCC Standards Compliance – Medium/low impact issues	*# of medium/low impact compliance violations as defined by NERC/NPCC*
	Regional Infrastructure	Regional Infrastructure Planning progress - % Deliverables met	*Total deliverables met/Total deliverables expected*
Financial Performance	**Leverage**	Debt to Equity Ratio	*Debt (including Short &Long Term)/ Equity*
	Liquidity	Current Ratio (Current Assets/Current Liabilities)	*Current Assets/Current Liabilities*
	Profitability	Return on Equity (deemed)	*Included in rates*
		Return on Equity (achieved)	*Actual return on equity*

1

Exhibit B1, Tab 1, Schedule 3 provides Hydro One's performance data relating to three of its business objectives: safety, customer satisfaction and reliability.

7. OPERATIONS, MAINTENANCE AND ADMINISTRATION (OM&A) EXPENSE

A summary of forecast operations, maintenance and administration ("OM&A") expenses for the test years are provided at Exhibit C1, Tab 2, Schedule 1. Forecast OM&A expenses are expected to demonstrate a declining trend in the 2016 bridge year and in the 2017 and 2018 test years, despite upwards pressure from inflation of approximately 2% per year, a growing asset base, and increasing compliance costs arising from new regulatory standards, such as the North American Electric Reliability Corporation's ("NERC") Critical Infrastructure Protection ("CIP") Cyber Security reliability standards. Table 9 provides a summary of forecast OM&A expenditures.

Table 9: Summary of Transmission OM&A Budget ($ Millions)

Description	Historic				Bridge	Test	
	2012	2013	2014	2015	2016	2017	2018
Sustaining	204.7	221.0	228.6	233.6	227.5	241.2	238.5
Development	8.5	8.6	7.5	6.1	5.3	4.8	5.0
Operations	54.8	56.7	56.6	59.0	60.0	61.3	62.1
Customer Care	4.4	5.3	5.4	5.1	4.1	4.0	3.9
Common Corporate and Other OM&A	80.7	75.8	37.2	73.9	72.3	49.9	47.5
Taxes Other Than Income Taxes	62.1	21.2	64.1	63.9	62.9	63.6	64.3
Pension Adjustment*	-	-	-	-	-	-11.0	-8.0
B2M LP Adjustment*	-	-	-	-	-	-0.8	-2.1
Total	**415.2**	**388.4**	**399.5**	**441.6**	**432.1**	**413.1**	**411.2**

*See Exhibit C1, Tab 2, Schedule 1 for further details.

Total OM&A expenditures for test year 2017 are forecast to be $413.1 million, which is a decrease of $19 million or 4.4% from the 2016 bridge year. Total OM&A expenditures for test year 2018 are forecast to further decrease by $1.9 million or 0.4% versus 2017.

The test year expenditures are required to address the increasing maintenance requirements of a deteriorating, but expanding transmission system.

Table 10 compares 2016 projected costs to the 2016 OM&A expenditures approved by the Board in its Decision on Hydro One's previous transmission application in EB-2014-0140.

Table 10: 2016 Board-approved versus 2016 Projected OM&A Expenditures

OM&A Categories	2016 Board-approved ($ Millions)	2016 Projected ($ Millions)	Variance ($ Millions)*
Sustaining	241.1	227.5	-13.6
Development	13.4	5.3	-8.1
Operations	59.1	60.0	0.9
Customer Care	5.5	4.1	-1.4
Common Corporate & Other Costs	71.3	72.3	1.0
Taxes Other Than Income Taxes	67.0	62.9	-4.1
Less settlement reduction	-20.0		
Exclusion of B2M	-0.7		
Total OM&A	**436.7**	**432.1**	**-4.6**

*Total Variance is not the sum of changes noted.

Hydro One's projected 2016 OM&A costs are $4.6 million lower or 1.1% below Board-approved levels. The Board-approved amounts include the $20.0 million reduction negotiated in the EB-2014-0140 settlement agreement. Most areas were meaningfully below target including Sustaining, Development and Taxes Other Than Income Taxes.

Details of Hydro One's corporate staffing and compensation are provided at Exhibit C1, Tab 4, Schedule 1. As noted at Exhibit C1, Tab 4, Schedule 2, Hydro One has engaged Willis Towers Watson to prepare an actuarial valuation report relating to Hydro One's

defined benefit pension plan as at December 31, 2015. Although the report was not finalized as of the date of filing this Application, Hydro One expects the final valuation to be available at the end of June 2016. In addition to the changes in employee contribution rates, the valuation will also reflect updated investment returns, changes in employee benefits, and updated actuarial assumptions. It is anticipated that the valuation will demonstrate a further reduction in Hydro One's pension contribution operating expenses. To ensure that Hydro One's rates for the 2017 and 2018 test years reflect the anticipated reduction in costs, Hydro One will submit an update to this Application to reflect the actual changes shortly after the final valuation is received.

8. COST OF CAPITAL

Table 11 summarizes the cost of capital parameters reflected in the Application, details of which can be found at Exhibit D1, Tab 4, Schedule 1.

Table 11: Cost of Capital

Comparison of Cost of Capital and Rate Base	Board-approved 2016	2017	2018	Exhibit Reference
Cost of Debt	4.77%	4.48%	4.42%	D2-4-2
Cost of Equity	9.19%	9.19%	9.19%	D2-4-1
Total Debt ($Millions)	6,024.0	6,332.6	6,735.3	
Total Equity ($Millions)	4,016.0	4,221.7	4,490.2	
Rate Base ($ Millions)	**10,040.0**	**10,554.3**	**11,225.5**	D2-1-1
Weighted Average Cost of Capital		**6.4%**	**6.3%**	

Hydro One's deemed capital structure for transmission ratemaking purposes is 60% debt and 40% common equity. The 60% deemed debt component is comprised of 4% short-term debt and 56% long-term debt. Hydro One will continue to use the Board's cost of capital parameters for its deemed short-term debt rate and return on equity, consistent with the Board's report on cost of capital.

Hydro One's Application reflects a return on equity of 9.19% for each of the 2017 and 2018 test years, based on the cost of capital parameters released by the Board on October 15, 2015, for rates effective January 1, 2016. Hydro One will update the return on equity and the cost of short-term debt annually in accordance with the Board's formulaic approach for the purpose of establishing the final revenue requirements for both 2017 and 2018.

Hydro One also proposes to use and update annually its own actual forecast weighted average long-term debt rate, which is market-determined, consistent with its past Board-approved practice (EB-2012-0031, EB-2014-0140) for the purpose of establishing the final revenue requirement for both 2017 and 2018 test years.

9. COST ALLOCATION AND RATE DESIGN

Hydro One continues to follow the Board-approved methodology (EB-2014-0140), for allocating its transmission rates revenue requirement into three rate pools, Network, Line Connection, Transformation Connection, as set out in in Exhibits G1, Tab 1, Schedule 1 through Exhibit G1, Tab 3, Schedule 1 and summarized in Table 12.

The rate pools are based on functional categories of assets and their associated costs. Rates revenue requirement is apportioned amongst the rate pools using direct assignment, to the extent possible.

Table 12: Summary of Rates Revenue Requirement by Rate Pool ($ Millions)

Revenue Requirement (Year)	Network	Line Connection	Transformation Connection	Total
2017	853.4	214.3	437.1	1,504.7
2018	898.9	226.4	460.0	1,585.3

10. DEFERRAL AND VARIANCE ACCOUNTS

Hydro One requests the continuation over the test years of the following regulatory accounts, as described in Exhibit F1, Tab 1, Schedule 1:

- Excess Export Service Revenue;
- External Secondary Land Use Revenue;
- External Station Maintenance, E&CS Revenue and Other Revenue;
- Tax Rate Changes;
- Rights Payments;
- Pension Cost Differential;
- East West Tie Deferral Account – Incumbent Transmitter;
- Long-Term Transmission Future Corridor Acquisition and Development Account;
- North West Bulk Transmission Line Account;
- Supply to Essex County Transmission Reinforcement Account;
- External Revenue – Partnership Transmission Projects Account; and
- In-Service Capital Additions Variance Account.

Hydro One requests the discontinuation of the Local Distribution Company Conservation and Demand Management and Demand Response Variance Account, which was established pursuant to a settlement agreement approved by the Board in proceeding EB-2012-0031, as Hydro One has fulfilled its related obligations.

Hydro One is requesting disposition of the actual audited regulatory account values as at December 31, 2015, plus forecast interest improvement accrued in 2016, on the principal balances as at December 31, 2015 less any amounts approved for disposition in 2016 by

the Board in the EB-2014-0140 rate filing for transmission rate years 2015 and 2016 as described in Exhibit F1, Tab 1, Schedule 3.

It is expected that new transmission rates will be effective and implemented on January 1, 2017 and that disposition of the accounts requested will commence on that date.

Hydro One's requested reduction to the revenue requirement of $95.6 million over 2017 and 2018 is detailed in Table 13.

Table 13: Transmission Disposition of Regulatory Account Balances ($ Millions)

Description	**Forecast Balance as at Dec 31, 2016 ($ Millions)**
Excess Export Service Revenue	(18.5)
External Secondary Land Use Revenue	(26.7)
External Station Maintenance and E&CS Revenue	0.7
Tax Rate Changes	0.1
Rights Payments	(3.0)
Pension Cost Differential	6.0
Long-Term Transmission Future Corridor Acquisition and Development	0.6
CDM Variance Account	(54.0)
External Revenue – Partnership Transmission Projects Account	(0.9)
Total Regulatory Accounts for Approval	**(95.6)**

10.1 Bill Impacts

Exhibit H1, Tab 5, Schedule 1 provides the bill impacts that would result from approval of this Application. Table 14 shows the average bill impacts of the proposed changes in transmission revenue requirement and load forecast in 2017 and 2018.

Table 14: Average Bill Impacts on Transmission and Distribution-Connected Customers

	2016	2017	2018
Rates Revenue Requirement ($ millions)*	**1,480.5**	**1,504.7**	**1,585.3**
% Increase in Rates RR over prior year		1.6%	5.4%
% Impact of load forecast change		2.1%	0.0%
Net Impact on Average Transmission Rates		**3.7%**	**5.4%**
Transmission as a % of Tx-connected customer's total bill		8.3%	8.3%
Estimated Average Bill impact		***0.3%***	***0.4%***
Transmission as a % of Dx -connected customer's total bill		6.8%	6.8%
Estimated Average Bill Impact		***0.3%***	***0.4%***

* This amount is net of the $0.3 million in wholesale meter service revenue which accounts for the difference when comparing to the total rates revenue requirement shown in Exhibit E1, Tab 1, Schedule 1.

The total bill impact for Hydro One medium density residential (R1) customers consuming 350 kWh, 750 kWh and 1800 kWh monthly is determined based on the forecast increase in the customer's Retail Transmission Service Rates ("RTSR") as detailed below in Table 15.

Table 15: Medium Density (R1) Residential Customer Bill Impacts

	Typical R1 Residential Customer		
	350 kWh	**750 kWh**	**1800 kWh**
Total Bill as of Jan 1, 2016*	$ 102.95	$ 179.37	$ 379.98
RTSR included in 2016 R1 Customer's Bill	$ 4.37	$ 9.36	$ 22.47
Estimated 2017 Monthly RTSR**	$ 4.52	$ 9.69	$ 23.26
2017 Increase in Monthly Bill	**$ 0.15**	**$ 0.33**	**$ 0.79**
2017 increase as a % of total bill	*0.1%*	*0.2%*	*0.2%*
Estimated 2018 Monthly RTSR**	$ 4.75	$ 10.18	$ 24.44
2018 Increase in Monthly Bill	**$ 0.23**	**$ 0.49**	**$ 1.18**
2018 increase as a % of total bill	*0.2%*	*0.3%*	*0.3%*

* Total bill including HST, based on time-of-use RPP commodity pricing and 2016 distribution rates approved per Distribution Rate Order EB-2015-0079.

** The impact on RTSR is assumed to be the net impact on average transmission rates, adjusted for Hydro One's revenue disbursement allocator per approved 2016 UTRs per EB-2015-0311.

The total bill impact for a typical Hydro One general service energy less than 50 kW ("GSe < 50 kW") customer consuming 1000 kWh, 2000 kWh and 15,000 kWh monthly is determined based on the forecast increase in the customer's RTSR as detailed below in Table 16.

Table 16: Typical General Service Energy less than 50 kW (GSe < 50 kW) Customer Bill Impacts

	GSe Customer Monthly Bill		
	1,000 kWh	**2,000 kWh**	**15,000 kWh**
Total Bill as of Jan 1, 2016*	$ 262.79	$ 492.00	$ 3,471.80
RTSR included in 2016 GSe Customer's Bill	$ 10.19	$ 20.39	$ 152.89
Estimated 2017 Monthly RTSR**	$ 10.55	$ 21.11	$ 158.29
2017 increase in Monthly Bill	**$ 0.36**	**$ 0.72**	**$ 5.40**
2017 increase as a % of total bill	*0.1%*	*0.1%*	*0.2%*
Estimated 2018 Monthly RTSR**	$ 11.09	$ 22.18	$ 166.32
2018 increase in Monthly Bill	**$ 0.53**	**$ 1.07**	**$ 8.02**
2018 increase as a % of total bill	*0.2%*	*0.2%*	*0.2%*

* Total bill including HST, based on time-of-use RPP commodity pricing and 2016 distribution rates approved per Distribution Rate Order EB-2015-0079.

** The impact on RTSR is assumed to be the net impact on average transmission rates, adjusted for Hydro One's revenue disbursement allocator per approved 2016 UTRs per EB-2015-0311.