

Hydro One Networks Inc.

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LAW

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February 14, 2017

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
Suite 2700
2300 Yonge Street
Toronto, ON
M4P 1E4

Dear Ms Walli:

Re: EB-2016-0155 - E.L.K. Service Area Amendment Application

Enclosed please find the response of Hydro One Networks Inc. to undertaking J1.1, given by Hydro One at the February 10th oral hearing of the above-noted Application.

Yours very truly,

ORIGINAL SIGNED BY MICHAEL ENGELBERG

Michael Engelberg

cc: Mr. John Vellone, Borden Ladner Gervais
Mr. Richard Lanni, OEB Staff

enc

1 **UNDERTAKING – J1.1**

2
3 **Undertaking**

4
5 To provide just a short reconciliation table to show the differences between what Hydro
6 One says is applying the income correctly and applying it, what Hydro One says is
7 incorrectly to show the difference.

8
9 **Response**

10
11 Table 1, which is Attachment 1 to this undertaking response, provides a reconciliation
12 showing the differences between Hydro One's evidence as to the correct procedure to
13 offset low voltage and transmission costs, and E.L.K.'s procedure of using an offset that
14 comprises the total bill. Table 1 depicts the revenue flows and resulting economic
15 impacts by showing both the annual costs and the offsetting Sellick or embedded
16 distributor revenue for each LDC.

17
18 The results show that under either calculation methodology, if E.L.K. serves Sellick, all
19 E.L.K. customers would need to subsidize revenue shortfalls from Sellick. Under an
20 offset comprising the entire bill, which Hydro One says is incorrect, E.L.K. will need to
21 recover \$15,930.37 annually from all other E.L.K. customers (shown at Line 34 of Table
22 1 in Attachment 1). But the correct analysis to calculate the incremental impact of this
23 SAA Application is to consider only the low voltage and retail transmission service rate
24 revenue from Sellick: the incremental costs to serve Sellick should be compared only
25 against the revenues generated from Sellick using OEB-approved rates to recover those
26 specific types of costs. Hydro One's evidence is that this is the correct calculation
27 methodology as stated by Mr. Andre at page 93 of the transcript. As shown at Lines 36-
28 45 of Table 1 in Attachment 1, E.L.K. will need to recover an additional \$52,182.54
29 from all E.L.K. ratepayers to subsidize the consequences of taking on Sellick as a
30 customer in the SAA area. This \$52,182.45 exceeds E.L.K.'s materiality threshold.

31
32 A brief explanation of these shortfalls is provided below.

33
34 **Total Bill Analysis:**

35
36 Consistent with the E.L.K. compendium, Lines 14-16 of Table 1 shows that all IESO
37 charges, both electricity commodity and regulatory charges, are pass-through charges that
38 are ultimately paid for by Sellick: there is no balance after accounting for these charges.
39 This is precisely why Hydro One's calculation focuses only on the delivery portion of the
40 bill.

1 Lines 18-20 of Table 1 predominantly address the Debt Retirement Charge (“DRC”) that
2 is levied upon Sellick as a large customer. These dollars are not to the benefit of the
3 distributor and are redirected to OEFC to retire debt. Again, like the IESO charges, these
4 are pass-through charges. However, these costs are missing from E.L.K.’s total cost
5 analysis, even though the associated monthly *revenues* of \$1839.60, shown in the E.L.K.
6 compendium at Tab 3, Page 1, Column 1, were used by E.L.K. (in evidence at the
7 hearing) to offset the combined IESO and Hydro One charge of \$48,414.00 provided at
8 Tab 3, Page 2, Columns 5 and 6 of the E.L.K. compendium. It is inappropriate and
9 incorrect to redirect monies intended for the OEFC debt retirement to pay for E.L.K.
10 distributor costs. The net result will be that on a total bill basis (the method being
11 suggested by E.L.K.), once these monies are flowed through to OEFC and including all
12 distribution, low voltage, and retail transmission service rates revenue, E.L.K. will still
13 need to recover \$15,930.37 annually from all E.L.K. customers (shown at Line 34 of
14 Table 1 in Attachment 1) if they service Sellick. On the other hand, under the same
15 calculation, using Hydro One-specific costs and offsetting revenues, Hydro One will have
16 collected an extra \$17,508.96 that will ultimately be to the benefit of all Hydro One
17 customers (shown again at Line 34 of Table 1 in Attachment 1).

18
19 This DRC error example highlights that comparing total costs against a total customer
20 bill is an inappropriate and incorrect way to assess the impacts to customers that will
21 result if E.L.K. takes on Sellick as a customer.

22
23 Incremental costs to serve Sellick must be compared only against the revenues generated
24 from Sellick using OEB-approved rates to recover those specific types of incremental
25 costs, i.e., low voltage charges and retail transmission service rate charges.

26 27 **Application of Low Voltage and Transmission Revenues**

28
29 In determining the total incremental costs to service Sellick, incremental sub-
30 transmission customer class costs levied on E.L.K. as a Hydro One-embedded distributor
31 must be used. Likewise, Hydro One Distribution’s payment to Hydro One Transmission
32 must also be used to provide a correct comparison. Hydro One has included these costs
33 in this analysis, as Hydro One has observed that these costs were not originally captured
34 in Table 1 of Hydro One’s Compendium, and the correction is necessary to provide a fair
35 comparison. Please note, Hydro One’s transmission costs were calculated using the
36 Board-approved 2016 Uniform Transmission rates, and a supporting table is attached for
37 reference purposes only.

38
39 The result is that, if the appropriate portion of Sellick’s revenue is used, E.L.K. will need
40 to recover an additional \$52,182.54 annually from all other E.L.K ratepayers to subsidize

1 the revenue shortfall from Sellick. That cross-subsidization by other E.L.K. customers,
2 which is shown at Lines 36-45 of Table 1, Attachment 1, exceeds E.L.K.'s materiality
3 threshold. Under the same calculation, Hydro One also will not fully recover all
4 transmission costs from Sellick - these costs will be under-recovered annually by
5 \$13,127.98. This amount will not have an impact on Hydro One ratepayers as this
6 amount is significantly smaller than Hydro One's materiality threshold of \$1,000,000.

7
8 All of the analysis used in this response has been completed based on the data provided in
9 the E.L.K. compendium, with the exception of calculating Hydro One Distribution's
10 payment to Hydro One Transmission, as previously discussed. That table has been
11 provided for reference purposes only.

12
13 For ease of reference, the Attachment is provided in live Excel format, including all sub-
14 tables that tally individual revenue sources. The tables provide the source for each
15 revenue item and cost item.

TABLE 1 - REVENUE FLOW & ECONOMIC EFFICIENCY RESULTS

Row ID	Distributor Serving Sellick	E.L.K.	Hydro One	Reference
1	Cost Item			
2	One Time Connection Costs			
3	Non-contestable work	\$8,702.67	\$16,103.17	Hydro One Compendium - Table 1
4	Contestable work	Not required	Not required	Hydro One Compendium - Table 1
5	Civil works	Supplied by Sellick	Supplied by Sellick	Hydro One Compendium - Table 1
6	Capital Contribution	\$0	\$0	Hydro One Compendium - Table 1
7	Pole relocation cost (already incurred)	\$8,432.49	\$0	Hydro One Compendium - Table 1
8	Total	\$17,135.16	\$16,103.17	Hydro One Compendium - Table 1
9	Total One Time Connection Costs	\$17,135.16	\$16,103.17	Hydro One Compendium - Table 1
10	Annual Revenue Sources			
11	Hydro One and E.L.K.: Monthly Sellick Bill	\$ 49,165.22	\$ 50,104.71	E.L.K. Compendium - Tab 3, Page 1, Columns 1 & 2
12	Hydro One: Monthly ST Customer Class Delivery Bill to E.L.K.		\$ 10,380.38	E.L.K. Compendium - Tab 3, Page 2, Column 2 (Note: Does not include \$0.28 related to Standard Supply Admin Charge + HST)
13	Annual Costs & Offsetting Total Sellick and Embedded Distributor Bill Revenues			
14	Total Monthly IESO Charges	\$ 38,033.34	\$ 37,110.84	E.L.K. Compendium - Tab 3, Page 1, Columns 1 & 2
15	Total Monthly Revenue Including HST	\$ 38,033.34	\$ 37,110.84	E.L.K. Compendium - Tab 3, Page 1, Columns 1 & 2
16	LDC Monthly Balance Regarding IESO Charges	\$ -	\$ -	Row 14 - Row 15
17	Remaining Sellick Revenue Balance	\$ 11,131.88	\$ 12,993.87	Row 11 - Row 15
18	Total Monthly Debt Retirement & Standard Supply Administration Charges	\$ 2,079.03	\$ 2,099.82	E.L.K. Compendium - Tab 3, Page 1, Columns 1 & 2
19	Total Monthly Revenue Including HST	\$ 2,079.03	\$ 2,099.82	E.L.K. Compendium - Tab 3, Page 1, Columns 1 & 2
20	LDC Monthly Balance Re: Debt Retirement & Standard Supply Administration Charges	\$ -	\$ -	Row 18 - Row 19
21	Remaining Sellick Revenue Balance	\$ 9,052.85	\$ 10,894.05	Row 17-Row 19
22	Total Monthly ST Customer or Embedded Distributor Class Delivery Charges	\$ 10,380.38	\$ 10,541.27	E.L.K. Compendium - Tab 3, Page 2, Columns 4 and 5
23	Total Monthly Revenue Including HST	\$ 6,031.84	\$ 10,380.38	E.L.K. Compendium - Tab 3, Page 2, Columns 4 and 5
24	LDC Monthly Balance Regarding ST Customer or Embedded Distributor Class Charges	\$ (4,348.55)	\$ (160.89)	Row 22 - Row 23
25	Remaining Sellick Revenue Balance	\$ 3,021.01	\$ 10,894.05	For E.L.K.: Row 21 - Row 23. For Hydro One: Row 21 - 0. Note: For Hydro One, the \$10,380.38 Embedded Distributor revenue is sourced from E.L.K. ST customer cost, i.e., Row 12, not Sellick. That revenue is reduced on the next line.
26	Remaining Monthly ST Customer Class Delivery Bill to E.L.K. Balance		\$ -	For Hydro One: Row 12 - Row 23
27	Total Monthly Hydro One Transmission Charges	\$ -	\$ 9,274.08	Uniform Transmission Rates Applied to 1,253 Adjusted Hydro One Peak
28	Total Monthly Revenue Including HST	\$ -	\$ 8,340.97	E.L.K. Compendium - Tab 3, Page 2, Column 5
29	LDC Monthly Balance Regarding Hydro One Transmission Charges	\$ -	\$ (933.11)	Row 27 - Row 28
30	Remaining Sellick Revenue Balance	\$ 3,021.01	\$ 2,553.08	Row 25 - Row 28
31	Total Monthly Costs	\$ 50,492.75	\$ 59,026.01	Sum (Rows 14, 18, 22, 27)
32	Total Monthly Revenue Including HST	\$ 49,165.22	\$ 60,485.09	Sum (Rows 15, 19, 23, 28)
33	Monthly Balance - Total Bill Including All Sellick Revenue and Associated Costs	\$ (1,327.53)	\$ 1,459.08	Row 32 - Row 31
34	Annual Balance - Total Bill Including All Sellick Revenue and Associated Costs	\$ (15,930.37)	\$ 17,508.96	Row 33 x 12 months
35				
36	Application of Low Voltage and Transmission Revenues			
37	Total Monthly ST Customer or Embedded Distributor Class Charges	\$ 10,380.38	\$ 10,541.27	E.L.K. Compendium - Tab 3, Page 2, Columns 4 and 5
38	Total Monthly Revenue	\$ 6,031.84	\$ 10,380.38	E.L.K. Compendium - Tab 3, Page 2, Columns 4 and 5
39	LDC Monthly Balance Regarding ST Customer or Embedded Distributor Class Charges	\$ (4,348.55)	\$ (160.89)	Row 37 - Row 38 (Value is the same as Row 24)
40	Total Monthly Hydro One Transmission Charges	\$ -	\$ 9,274.08	Uniform Transmission Rates Applied to 1,253 Adjusted Hydro One Peak
41	Total Monthly Revenue	\$ -	\$ 8,340.97	E.L.K. Compendium - Tab 3, Page 2, Column 5
42	LDC Monthly Balance Regarding Hydro One Transmission Charges	\$ -	\$ (933.11)	Row 40 - Row 41 (Value is the same as Row 29)
44	Monthly costs to be paid for by other rate payers if only Sellick revenues associated with LV and Transmission Charges are taken into account	\$ (4,348.55)	\$ (1,094.00)	Sum (Rows 39 and 42)
45	Annual costs to be paid for by other rate payers if only Sellick revenues associated with LV and Transmission Charges are taken into account	\$ (52,182.54)	\$ (13,127.98)	Row 44 x 12 months

Annual IESO Costs				
Row ID		E.L.K.	HONI	Reference
1	Monthly IESO Electricity Charges			
2	Electricity	\$ 2,905.57	\$ 2,835.09	E.L.K. Compendium - Tab 3, Page 1
3	Global Adjustment	\$ 29,064.60	\$ 28,359.64	E.L.K. Compendium - Tab 3, Page 1
4	Monthly IESO Regulatory Charges			
5	Wholesale Market Service	\$ 1,012.59	\$ 988.03	E.L.K. Compendium - Tab 3, Page 1
6	Rural and Remote Market Protection	\$ 365.66	\$ 356.79	E.L.K. Compendium - Tab 3, Page 1
7	Ontario Electricity Support Program	\$ 309.40	\$ 301.90	E.L.K. Compendium - Tab 3, Page 1
8	Total Monthly HST on IESO Charges	\$ 4,375.52	\$ 4,269.39	E.L.K. Compendium - Tab 3, Page 1
9	Total Monthly IESO Charges	\$ 38,033.34	\$ 37,110.84	E.L.K. Compendium - Tab 3, Page 1
10	Total Annual IESO Charges	\$ 456,400.04	\$ 445,330.06	Sum (Rows 1 - 9) x 12 months
11	Offsetting Revenues			
12	Total Annual IESO Charges	\$ (456,400.04)	\$ (445,330.06)	
13	Offsetting Revenues Source: Monthly Sellick Bill			
14	Electricity	\$ 2,905.57	\$2,835.09	E.L.K. Compendium - Tab 3, Page 1
15	Global Adjustment	\$ 29,064.60	\$28,359.64	E.L.K. Compendium - Tab 3, Page 1
16	Wholesale Market Service	\$ 1,012.59	\$988.03	E.L.K. Compendium - Tab 3, Page 1
17	Rural and Remote Market Protection	\$ 365.66	\$356.79	E.L.K. Compendium - Tab 3, Page 1
18	Ontario Electricity Support Program	\$ 309.40	\$301.90	E.L.K. Compendium - Tab 3, Page 1
19	HST Electricity and Regulatory Charges	\$ 4,375.52	\$4,269.39	E.L.K. Compendium - Tab 3, Page 1
20	Total Monthly Revenue	\$ 38,033.34	\$37,110.84	E.L.K. Compendium - Tab 3, Page 1
21	Total Annual Revenue to Offset IESO Charges	\$ 456,400.04	\$445,330.06	Sum (Rows 1 - 9) x 12 months
22	Balance Regarding IESO Charges	\$ -	\$ -	Line 12 - Line 21

Annual Embedded Distributor and Sub Transmission Customer Costs				
Row ID		E.L.K.	HONI	Reference
1	Monthly Incremental Embedded Distributor Class Delivery Charge from ELK to H1		\$ 9,328.56	E.L.K. Compendium - Tab 1
2	Monthly HST on Incremental Embedded Distributor Class Delivery Charge from ELK to H1		\$ 1,212.71	E.L.K. Compendium - Tab 1
3	Monthly Incremental Embedded Distributor Class Delivery Charge from ELK to H1 Including HST		\$ 10,541.27	E.L.K. Compendium - Tab 1
4	Annual Incremental Embedded Distributor Class Charge from ELK to H1		\$ 126,495.27	E.L.K. Compendium - Tab 1
5	Monthly Incremental ST Customer Class Delivery Charge from H1 to ELK	\$9,186.18		E.L.K. Compendium - Tab 3, Page 2, Column 2
6	Monthly HST on Incremental ST Customer Class Delivery Charge from H1 to ELK	\$1,194.20		E.L.K. Compendium - Tab 3, Page 2, Column 2
7	Monthly Incremental ST Customer Class Delivery Charge from H1 to ELK Including HST	\$10,380.38		E.L.K. Compendium - Tab 3, Page 2, Column 2
8	Annual Incremental ST Customer Class Charge from H1 to ELK	\$124,568.05		E.L.K. Compendium - Tab 3, Page 2, Column 2
9	Annual Settlement Between Distributors Costs	\$124,568.05	\$126,495.27	
10	Offsetting Revenues			
11	Annual Settlement Between Distributors Costs	\$ (124,568.05)	\$ (126,495.27)	
12	Offsetting Revenues Source: Monthly E.L.K. Sellick Bill			
13	Low Voltage	\$ 546.60		E.L.K. Compendium - Tab 3, Page 1, Column 1
14	Transmission Network Service	\$ 2,850.64		E.L.K. Compendium - Tab 3, Page 1, Column 1
15	Transmission Line Connection	\$ 1,940.67		E.L.K. Compendium - Tab 3, Page 1, Column 1
16	HST on LV and RTSR Charges	\$ 693.93		E.L.K. Compendium - Tab 3, Page 1, Column 1
17	Total Monthly Revenue	\$ 6,031.84		E.L.K. Compendium - Tab 3, Page 1, Column 1
18	Offsetting Revenues Source: Monthly HONI Embedded Distributor Bill to E.L.K.			
19	Monthly Incremental ST Customer Class Delivery Charge from H1 to ELK		\$9,186.18	E.L.K. Compendium - Tab 3, Page 2, Column 2
20	HST on Incremental ST Customer Class Delivery Charge from H1 to ELK		\$1,194.20	E.L.K. Compendium - Tab 3, Page 2, Column 2
21	Total Monthly Incremental ST Customer Class Delivery Charge from H1 to ELK		\$10,380.38	E.L.K. Compendium - Tab 3, Page 2, Column 2
22	Total Annual Revenue to Offset Annual Settlement Between Distributors	\$ 72,382.06	\$ 124,564.60	Monthly revenue from Lines 17 or 21 x 12 months
23	Balance Regarding Annual Settlement Between Distributors	\$ (52,185.99)	\$ (1,930.67)	Row 11 - Row 22

Hydro One Transmission Annual Costs				
Row ID		E.L.K.	HONI	Reference
1	Monthly Hydro One Transmission Network Service Charges		\$4,585.98	Hydro One Transmission Rate Schedule
2	Monthly Hydro One Transmission Line Connection Service Charges		\$1,090.11	Hydro One Transmission Rate Schedule
3	Monthly Hydro One Transformation Connection Charges		\$2,531.06	Hydro One Transmission Rate Schedule
4	Total HST on Hydro One Transmission Charges		\$1,066.93	Hydro One Transmission Rate Schedule
5	Total Monthly Hydro One Transmission Charges		\$9,274.08	Sum (Rows 1-4)
6	Total Annual Hydro One Transmission Charges		\$111,288.95	
7	Offsetting Revenue			
8	Total Annual Hydro One Transmission Charges		-\$111,288.95	
9	Offsetting Revenue Source: Monthly HONI Sellick Bill			
10	Transmission Network Service		\$ 4,185.21	E.L.K. Compendium - Tab 3, Page 1, Column 2
11	Transmission Line Connection		\$ 976.37	E.L.K. Compendium - Tab 3, Page 1, Column 2
12	Transmission Transformation Connection		\$ 2,219.81	E.L.K. Compendium - Tab 3, Page 1, Column 2
13	HST on RTSR Charges		\$ 959.58	E.L.K. Compendium - Tab 3, Page 1, Column 2
14	Total Monthly RTSR Revenue		\$ 8,340.97	Sum (Row 10 -13)
15	Total Annual RTSR Revenue to Offset Hydro One Transmission Costs		\$ 100,091.65	Row 14 x 12 months
16	Balance Regarding Hydro One Transmission Costs	\$ -	-\$11,197.31	Row 15 - Row 8

Remaining Sellick Distribution Revenue				
Row ID		E.L.K.	HONI	Reference
1	Service Charge	\$ 187.07	\$ 481.41	E.L.K. Compendium - Tab 3, Page 1, Columns 1 & 2
2	Meter Charge	\$ (2,427.60)	\$ 741.21	E.L.K. Compendium - Tab 3, Page 1, Columns 1 & 2
3	Global Adjustment Rate Rider		\$ (274.45)	E.L.K. Compendium - Tab 3, Page 1, Columns 1 & 2
4	E.L.K. Rate Rider Disposition of Deferral Variance	\$ 3,014.76		E.L.K. Compendium - Tab 3, Page 1, Columns 1 & 2
5	E.L.K. Rate Rider Disposition of GA	\$ 1,899.24		E.L.K. Compendium - Tab 3, Page 1, Columns 1 & 2
6	Rate Rider Foregone Revenue		\$ 47.56	E.L.K. Compendium - Tab 3, Page 1, Columns 1 & 2
7	Common ST - Distribution Volumetric		\$ 1,422.89	E.L.K. Compendium - Tab 3, Page 1, Columns 1 & 2
8	Rate Rider : Disposition of Variance General (Volumetric)		\$ 381.90	E.L.K. Compendium - Tab 3, Page 1, Columns 1 & 2
9	Rate Rider: Disposition of Variance Wholesale Market Service		\$ (541.16)	E.L.K. Compendium - Tab 3, Page 1, Columns 1 & 2
10	Subtotal without GA Rider		\$ 2,533.81	Sum(Rows 1-9) - Row 3
11	Subtotal without GA Rider + HST		\$ 2,863.21	Row 10 + HST
12	HST	\$ 347.55	\$ 293.72	0.13 x sum(Rows 1 - 9)
13	Total Remaining Monthly Sellick Distribution Revenue	\$ 3,021.02	\$ 2,553.08	Sum(Rows 1-9) + Row 12

OEFC Debt Retirement and Standard Supply Admin - Annual Costs				
Row ID		E.L.K.	HONI	Reference
1	Debt Retirement	\$ 1,839.60	\$ 1,858.00	E.L.K. Compendium - Tab 3, Page 1, Column 1 & 2
2	Standard Supply Administration	\$ 0.25	\$ 0.25	E.L.K. Compendium - Tab 3, Page 1, Column 1 & 2
3	Monthly HST	\$ 239.18	\$ 241.57	E.L.K. Compendium - Tab 3, Page 1, Column 1 & 2
4	Monthly Total- Debt Retirement & Standard Supply Administration	\$ 2,079.03	\$ 2,099.82	E.L.K. Compendium - Tab 3, Page 1, Column 1 & 2
5	Total Annual Debt Retirement & Standard Supply Administration	\$24,948.37	\$25,197.87	Row 4 x 12 months
6	Offsetting Revenue			
7	Total Annual Debt Retirement & Standard Supply Administration	-\$24,948.37	-\$25,197.87	
8	Debt Retirement	\$ 1,839.60	\$ 1,858.00	E.L.K. Compendium - Tab 3, Page 1, Column 1 & 2
9	Standard Supply Administration	\$ 0.25	\$ 0.25	E.L.K. Compendium - Tab 3, Page 1, Column 1 & 2
10	Monthly HST	\$ 239.18	\$ 241.57	E.L.K. Compendium - Tab 3, Page 1, Column 1 & 2
11	Monthly Total- Debt Retirement & Standard Supply Administration	\$ 2,079.03	\$ 2,099.82	E.L.K. Compendium - Tab 3, Page 1, Column 1 & 2
12	Total Annual Debt Retirement & Standard Supply Administration	\$ 24,948.37	\$ 25,197.87	Row 4 x 12 months
13	Balance Regarding Debt Retirement & Standard Supply Administration	\$ -	\$ -	Row 7 - Row 12

Hydro One Transmission Charges on Hydro One Distribution				
Loss Adjusted Peak (kW)	1,253			
		Rate	Monthly	Annual
Network Service Rate		\$ 3.66	\$ 4,585.98	\$ 55,031.76
Line Connection Service Rate		\$ 0.87	\$ 1,090.11	\$ 13,081.32
Transformation Connection Service Rate		\$ 2.02	\$ 2,531.06	\$ 30,372.72
Total Before HST			\$ 8,207.15	\$ 98,485.80
Total After HST			\$ 9,274.08	\$ 111,288.95