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August 31, 2018

VIA RESS, EMAIL AND COURIER

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, Ontario M4P 1E4

Dear Ms. Walli:

RE: EB-2017-0049 – Hydro One Networks Inc.’s Reply Argument

Pursuant to Procedural Order No. 7 in this proceeding, please find enclosed Hydro One Networks Inc.’s reply argument.

Please contact the undersigned with any questions in regards to the foregoing.

Yours truly,

McCarthy Tétrault LLP

Per: *Signed in the original*

Gordon M. Nettleton

GMN

cc: EB-2017-0049 All Parties

ONTARIO ENERGY BOARD

OEB PROCEEDING EB-2017-0049

**APPLICATION FOR ELECTRICITY DISTRIBUTION RATES
BEGINNING JANUARY 1, 2018 UNTIL DECEMBER 31, 2022**

**REPLY ARGUMENT OF
HYDRO ONE NETWORKS INC.**

August 31, 2018

Table of Contents

1	INTRODUCTION	9
2	A. GENERAL:	14
3	Issue 1. Has Hydro One responded appropriately to all relevant OEB	
4	directions from previous proceedings?.....	14
5	Issue 2. Has Hydro One adequately responded to the customer concerns	
6	expressed in the Community Meetings held for this Application?.....	14
7	Issue 3. Is the overall increase in the distribution revenue requirement from	
8	2018 to 2022 reasonable?	14
9	Issue 4. Are the rate and bill impacts in each customer class in each year in	
10	the 2018 to 2022 period reasonable?.....	14
11	Issue 5. Are Hydro One’s proposed rate impact mitigation measures	
12	appropriate and do any of the proposed rate increases require rate	
13	smoothing or mitigation beyond what Hydro One has proposed?.....	14
14	Issue 6. Does Hydro One’s First Nations and Métis Strategy sufficiently	
15	address the unique rights and concerns of Indigenous customers with	
16	respect to Hydro One’s distribution service?	18
17	B. CUSTOM APPLICATION	19
18	Issue 7. Is Hydro One’s proposed Custom Incentive Rate Methodology, using	
19	a Revenue Cap Index, consistent with the OEB’s <i>Rate Handbook</i> ?.....	19
20	(a) Staff submissions	19
21	(b) Other intervenors’ submissions	20
22	Issue 8. Is the proposed industry-specific inflation factor, and the proposed	
23	custom productivity factor, appropriate?.....	23
24	(a) Inflation factor.....	23
25	(b) X-factor	24
26	(c) Staff’s submissions regarding Service Territory Size	26
27	Issue 9. Are the values for the proposed custom capital factor appropriate?.....	27
28	(a) Submissions on growth factor.....	27
29	(b) Other submissions on the custom capital factor.....	30
30	Issue 10. Are the program-based cost, productivity and benchmarking studies	
31	filed by Hydro One appropriate?	33

1	Issue 11.	Are the results of the studies sufficient to guide Hydro One’s plans to	
2		achieve the desired outcomes to the benefit of ratepayers?.....	33
3	Issue 12.	Do these studies align with each other and with Hydro One’s overall	
4		custom IR Plan?	33
5	(a)	Navigant.....	35
6	Issue 13.	Are the annual updates proposed by Hydro One appropriate?	36
7	(a)	Staff submissions	36
8	(b)	Other intervenors’ submissions	37
9	Issue 14.	Is Hydro One’s proposed integration of the Acquired Utilities in 2021	
10		appropriate?.....	40
11	Issue 15.	Is the proposed Earnings-Sharing mechanism appropriate?.....	41
12	Issue 16.	Are the proposed Z-factors and Off-Ramps appropriate?	42
13	(a)	Z-factor:.....	42
14	(b)	Off-ramp proposal	43
15	C.	OUTCOMES, SCORECARD AND INCENTIVES	45
16	Issue 17.	Does the Application adequately incorporate and reflect the four	
17		outcomes identified in the Rate Handbook: customer focus, operational	
18		effectiveness, public policy responsiveness, and financial performance?.....	45
19	Issue 18.	Are the metrics in the proposed additional scorecard measures	
20		appropriate and do they adequately reflect appropriate outcomes?	45
21	Issue 19.	Are the proposals for performance monitoring and reporting adequate	
22		and do the outcomes adequately reflect customer expectations?	45
23	Issue 20.	Does the Application promote and incent appropriate outcomes for	
24		existing and future customers including factors such as cost control, system	
25		reliability, service quality, and bill impacts?	45
26	(a)	Reliability Issues.....	48
27	(b)	Additional Scorecard Metrics and Reporting	50
28	Issue 21.	Does the Application adequately account for productivity gains in its	
29		forecasts and adequately include expectations for gains relative to external	
30		benchmarks?	51

1	Issue 22.	Has the applicant adequately demonstrated its ability and	
2		commitment to manage within the revenue requirement proposed over the	
3		course of the custom incentive rate plan term?	54
4	D.	DISTRIBUTION SYSTEM PLAN	55
5	Issue 23.	Was the customer consultation adequate and does the Distribution	
6		System Plan adequately address customer needs and preferences?	55
7	(a)	Customer Consultation	55
8	(b)	Incorporation of Customer Needs and Preferences	59
9	Issue 24.	Does Hydro One's investment planning process consider appropriate	
10		planning criteria? Does it adequately address the condition of distribution	
11		assets, service quality and system reliability?	66
12	(a)	Investment Planning Process	66
13	(b)	Alleged Data Issues	68
14	(c)	AESI Report	72
15	(d)	Optimization	74
16	(e)	Contingency	75
17	(f)	Copperleaf.....	76
18	Issue 25.	Does the Distribution System Plan adequately reflect productivity	
19		gains, benefit sharing and benchmarking?.....	77
20	(a)	Benchmarking	77
21	Issue 26.	Does the Distribution System Plan address the trade-offs between	
22		capital and OM&A spending over the course of the plan period?	79
23	Issue 27.	Has the distribution System Plan adequately addressed government	
24		mandated obligations over the planning period?	79
25	Issue 28.	Has Hydro One appropriately incorporated Regional Planning in its	
26		Distribution System Plan?	80
27	Issue 29.	Are the proposed capital expenditures resulting from the Distribution	
28		System Plan appropriate, and have they been adequately planned and	
29		paced?.....	80
30	(a)	Development of the Capital Plan	80
31	(b)	Redirection	83

1	Issue 30.	Are the proposed capital expenditures for System Renewal, System	
2		Service, System Access and General Plant appropriately based on the	
3		Distribution System Plan?	86
4	(a)	Pole Replacement Program.....	86
5	(b)	Station Refurbishment.....	94
6	(c)	PCB Line Equipment.....	98
7	(d)	Distribution Lines Sustainment Initiatives.....	99
8	(e)	Smart Meter Replacement.....	100
9	(f)	Trouble Calls.....	101
10	(g)	Customer Service Regulatory Related Investments.....	102
11	(h)	ISOC.....	103
12	(i)	General Comments on Capital Expenditures.....	106
13	(j)	Other Capital Expenditure Issues.....	108
14	(k)	In-Service Additions.....	109
15	Issue 31.	Are the methodologies used to allocate Common Corporate capital	
16		expenditures to the distribution business appropriate?.....	112
17	Issue 32.	Are the methodologies used to determine the distribution Overhead	
18		Capitalization Rate for 2018 and onward appropriate?.....	112
19	E.	RATE BASE AND COST OF CAPITAL	113
20	Issue 33.	Are the amounts proposed for the rate base from 2018 to 2022	
21		appropriate?.....	113
22	Issue 34.	Are the inputs used to determine the working capital component of	
23		the rate base and the methodology used appropriate?	113
24	Issue 35.	Is the proposed capital structure appropriate?.....	113
25	Issue 36.	Are the proposed timing and methodology for determining the return	
26		on equity and short-term debt prior to the effective date of rate	
27		implementation appropriate?.....	113
28	Issue 37.	Is the forecast of long term debt for 2018 and further years	
29		appropriate?.....	114
30	F.	OPERATIONS MAINTENANCE AND ADMINISTRATION COSTS	115

1	Issue 38.	Are the proposed OM&A spending levels for Sustainment,	
2		Development, Operations, Customer Care, Common Corporate and Property	
3		Taxes and Rights Payments, appropriate, including consideration of factors	
4		considered in the Distribution System Plan?	115
5	(a)	General OM&A Submissions	115
6	(b)	Vegetation Management	117
7	(c)	Information Technology	119
8	Issue 39.	Do the proposed OM&A expenditures include the consideration of	
9		factors such as system reliability, service quality, asset condition, cost	
10		benchmarking, bill impact and customer preferences?.....	120
11	Issue 40.	Are the proposed 2018 human resources related costs (wages,	
12		salaries, benefits, incentive payments, labour productivity and pension costs)	
13		including employee levels, appropriate?	121
14	(a)	Compensation other than pension costs.....	121
15	(b)	Diversity	127
16	(c)	Pension costs.....	128
17	Issue 41.	Has Hydro One demonstrated improvements in presenting its	
18		compensation costs and showing efficiency and value for dollar associated	
19		with its compensation costs?	130
20	Issue 42.	Is the updated executive compensation information filed by Hydro	
21		One in the distribution proceeding on December 21, 2017 consistent with the	
22		OEB's findings on executive compensation in the EB-2016-0160	
23		Transmission Decision?	131
24	Issue 43.	Are the methodologies used to allocate Common Corporate Costs	
25		and Other OM&A costs to the distribution business for 2018 and further	
26		years appropriate?	131
27	G.	REVENUE REQUIREMENT	133
28	Issue 44.	Is Hydro One's proposed depreciation expense for 2018 and further	
29		years appropriate?	133
30	Issue 45.	Are the proposed other revenues for 2018 – 2022 appropriate? and	
31	Issue 54.	Are the proposed specific service charges for miscellaneous	
32		services over the 2018-2022 period reasonable?.....	133
33	(a)	Specific service charges – updates vis-à-vis original Application.....	134
34	(b)	Concerns with specific charges	136

1	H.	LOAD AND REVENUE FORECAST	138
2		Issue 46. Is the load forecast methodology including the forecast of CDM	
3		savings appropriate?.....	138
4		Issue 47. Are the customer and load forecasts a reasonable reflection of the	
5		energy and demand requirements for 2018-2022?.....	139
6		(a) Staff submissions	139
7		(b) BOMA submissions	140
8		(c) VECC submissions.....	140
9		Issue 48. Has the load forecast appropriately accounted for the addition of the	
10		Acquired Utilities' customers in 2021?.....	147
11	I.	COST ALLOCATION AND RATE DESIGN	148
12		Issue 49. Are the inputs to the cost allocation model appropriate and are costs	
13		appropriately allocated?	148
14		(a) Staff submissions	148
15		(b) BOMA submissions	148
16		(c) VECC submissions.....	149
17		Issue 50. Are the proposed billing determinants appropriate?.....	150
18		Issue 51. Are the revenue-to-cost ratios for all rate classes over the 2018 –	
19		2022 period appropriate?	150
20		(a) Staff submission	150
21		(b) Energy Probe submission.....	151
22		(c) VECC submission	152
23		Issue 52. Are the proposed fixed and variable charges for all rate classes over	
24		the 2018 – 2022 period, appropriate, including implementation of the OEB's	
25		residential rate design?.....	153
26		(a) Staff Submissions.....	153
27		(b) Balsam Lake submissions	153
28		(c) City of Hamilton submissions.....	156
29		(d) ESC Submissions.....	157

1	Issue 53.	Are the proposed Retail Transmission Service Rates appropriate?	158
2	Issue 54.	Are the proposed specific service charges for miscellaneous services	
3		over the 2018-2022 period reasonable? (Addressed in response to Issue	
4		45). 158	
5	Issue 55.	Are the proposed line losses over the 2018-2022 period appropriate? .	158
6	Issue 56.	Do the costs allocated to acquired utilities appropriately reflect the	
7		OEB's decisions in related Hydro One acquisition proceedings?	159
8	(a)	Staff submissions	159
9	(b)	VECC submissions.....	159
10	(c)	BOMA, CCC and SEC submissions	161
11	J.	DEFERRAL/VARIANCE ACCOUNTS	169
12	Issue 57.	Are the proposed amounts, disposition and continuance of Hydro	
13		One's existing deferral and variance accounts appropriate?	169
14	(a)	The Staff Proposal in relation the IESO Credit.....	170
15	(b)	The IESO Credit – no error on Hydro One's part.....	171
16	Issue 58.	Are the proposed new deferral and variance accounts appropriate?	173
17	(a)	Background.....	173
18	(b)	Staff's suggestion that the Board require Hydro One to switch to	
19		MIFRS.....	175
20	(c)	Capital In-Service Variance Account	177
21	Issue 59.	Is the proposal to discontinue several deferral and variance accounts	
22		appropriate?.....	177
23	Additional Issue:	Effective Date	179
24	CONCLUSION		183

1 **INTRODUCTION**

2

3 These are the reply submissions of Hydro One Networks Inc. ("**Hydro One**") in respect of its
4 application for electricity distribution rates beginning January 1, 2018 until December 31, 2022
5 (the "**Application**").

6

7 In summary, Hydro One's Application adheres to the letter and the spirit of the Ontario Energy
8 Board's ("**OEB**") expectations for Custom Incentive Rate Making ("**CIRM**") as reflected in the
9 Report on the Renewed Regulatory Framework for Electricity ("**RRFE**"), the Handbook for
10 Utility Rate Applications (the "**Handbook**"), and the Board's previous decisions, in particular, its
11 decision on Toronto Hydro's CIRM. These expectations are aimed at driving "performance-
12 focused and outcomes based"¹ results that properly align the utilities' and customers' interest in
13 productivity and improved results.

14

15 This application includes a Distribution System Plan that was designed to encapsulate the goals
16 of Hydro One being a responsible steward of the assets, meeting customer needs and
17 preferences, and achieving a reasonable rate impact. The level of capital investment reflected
18 in the Distribution System Plan was arrived at as a result of Hydro One's efforts to strike the
19 right balance between those goals. The investments were developed from the bottom up,
20 optimized, and then Hydro One selected the "level of capital investment required to avoid
21 degradation in overall system asset condition, to meet regulatory requirements and maintain
22 current reliability levels."² The capital budget reflects a balancing of interests. It is that balance
23 of interests that is the central tension in the application.

24

25 Board Staff ("**Staff**") and intervenors have proposed numerous cuts to the Distribution System
26 Plan. Some are focused on particular programs, some are focused on particular categories of
27 spending, and some are just broad cuts to the capital investment level proposed by Hydro One.
28 For example, Staff proposes to cut 11% from the capital plan with 8% coming from System
29 Renewal Investments, and 3% from the rest of the plan. The Association of Major Power
30 Consumers in Ontario ("**AMPCO**") proposes cuts to various particular capital programs totalling
31 \$496M. The School Energy Coalition ("**SEC**") proposes program cuts of \$558M. The Canadian

¹ Handbook, p 25.

² A-3-1, p 2.

1 Manufacturers & Exporters (“**CME**”) submits the 11% cut proposed by Staff should be a floor,
2 but further cuts should be made. Other intervenors have proposed different levels of cuts.

3

4 Although different rationales are provided by Staff and each intervenor for their particular cuts,
5 common themes emerge. First, the submissions of Staff and the intervenors implicitly question
6 an outcomes-based approach. They largely ignore the balancing between customer needs and
7 preference, asset condition, and reliability. Rather, they typically focus on top down financial
8 assessments, or on historical performance. Asset condition is rarely addressed, and when it is,
9 it is always in isolation or is dismissed as a concern. For example, Staff proposes an “overall 2%
10 reduction in revenue requirement” based in large part on “factors that are more difficult to
11 quantify.”³ Given all of the evidence and testing of evidence in this case, this type of
12 unsubstantiated approach is inadequate to support such significant disallowance.

13

14 Second, the submissions made by the Staff and the intervenors routinely fail to address the
15 evidence of Hydro One’s witnesses at the oral portion of the hearing. There are numerous
16 examples, discussed below, where Staff or an intervenor has made a submission that was
17 squarely addressed by Hydro One’s witnesses, but Staff or the intervenor has not referenced,
18 let alone addressed, that evidence. Notable examples include the basis for Plan B-Modified (see
19 Issue 23), pole replacement costs (see Issue 30), and vegetation management costs (see Issue
20 38). They are not required to accept such evidence, but failing to address it, when it squarely
21 responds to their submission, undermines the credibility of their arguments.

22

23 Third, there is no evidence or explanation from Staff or the intervenors regarding the
24 sustainability of their cuts. The Distribution System Code requires Hydro One to “maintain its
25 distribution system in accordance with good utility practice and performance standards to
26 ensure reliability and quality of electricity service, on both a short-term and long-term basis.”⁴
27 There is no explanation from Staff or the intervenors as to how their cuts can be made, while
28 still allowing Hydro One to meet that obligation. As Hydro One has repeatedly emphasized, it
29 has put forward the minimum level of spending necessary to maintain the condition of its

³ Staff, p 4 (the abbreviation of the party or intervenor, followed by the page number, refers to the submission submitted to the Ontario Energy Board).

⁴ Distribution System Code, section 4.4.1.

1 system. The significant cuts being proposed will cripple Hydro One's ability to do that, and will
2 unfairly shift the burden to future ratepayers.

3
4 Finally, Staff and intervenors take the position that anything that is not perfect is a basis for a cut
5 to the capital program. The response to the Auditor General report is an example. At the time of
6 the Application, Hydro One had completed or substantially completed 70% of the management
7 actions arising from the report.⁵ But Staff and intervenors focused on one recommendation –
8 concerning the Asset Analytics – which was “partially complete” to justify significant cuts to
9 Hydro One's capital program. They largely ignored the recommendation immediately after,
10 concerning “Quality of Asset Data”, which was substantially complete and was more relevant to
11 the asset planning process. The Staff and intervenors approach judges Hydro One against an
12 unreasonable standard. Instead, Hydro One should be judged against the standard set out in
13 the Distribution System Code, which provides that Hydro One is required to follow practices
14 “which, in the exercise of reasonable judgment in light of the facts known at the time the
15 decision was made, could have been expected to accomplish the desired result at a reasonable
16 cost consistent with good practices, reliability, safety and expedition.”⁶ Hydro One submits it has
17 done that, for the reasons set out below in these reply submissions.

18
19 With respect to operation maintenance and administration (“**OM&A**”), similar large – across the
20 board – cuts are made to OM&A expenditures with little to no analysis of how Hydro One will be
21 able to perform necessary work if its budget is cut so drastically. Staff, for example, proposes a
22 reduction of \$17 million in OM&A, but does not refer to the evidence on what is required for the
23 test period. Instead, it refers to historical spending and the unsubstantiated statement that “there
24 may be room for additional OM&A cut beyond this level, given the significant increase in Hydro
25 One's non-executive compensation costs forecast in 2018.”⁷ Again, as will be addressed in
26 detail in the discussion of Issue 38, Staff's critique of the cost forecast does not address the
27 evidence in support of the need for those costs.

28
29 Staff therefore propose somewhat impressionistic cuts to Hydro One's proposed OM&A of
30 \$576.7 million “to provide Hydro One with an additional incentive to achieve greater efficiencies

⁵ A-3-1, Attachment 3, p 2.

⁶ Distribution System Code, p 13, “good utility practice”.

⁷ Staff, p 5.

1 in the five-year period of the proposed Custom IR plan.”⁸ The basis for this significant
2 disallowance are based on a number of unquantified factors, including “subjectivity of Hydro
3 One’s internally determined productivity savings” and “concerns Hydro One’s customers
4 expressed regarding rate increases during the community meetings.”⁹

5
6 Given that Hydro One has committed to these productivity initiatives, the rigour with how
7 productivity savings are to be evaluated, and the implications for employees for achieving them,
8 the evidence is clear that productivity savings are substantive and effective. Further, Hydro One
9 takes customer concerns for increased rates seriously and has tailored its application in light of
10 them. Customer concerns are not the basis for an arbitrary rates cut. In addition, Staff’s
11 proposal to reduce revenue requirement by \$1.6 million by not allowing Hydro One to recover
12 the costs of specific service charges from either the customers that use those services or from
13 distribution customers generally is an unprecedented attempt to deny Hydro One revenue from
14 costs that it actually incurs to provide those services. Staff’s proposals here reflect less of a
15 search for a just and reasonable rate than a somewhat opportunistic search for disallowing
16 demonstrated revenue requirements.

17
18 The success of the Board’s RRFE initiative imposes obligations on utilities to incorporate
19 productivity and improve outcomes. It also imposes an obligation on the Board to provide a
20 principled and fair review of the costs that are reasonably required to provide the quality of
21 service expected by customers.

22
23 Hydro One notes that Staff’s summary table on page 3 starts from the 2018 revenue
24 requirement of \$1,475.5. This is in fact Hydro One’s rates revenue requirement (after adjusting
25 for external revenue and variance account disposition). Hydro One’s revenue requirement for
26 2018 is \$1,514.2 million.¹⁰

27
28 Hydro One’s detailed response to intervenor submissions on each of the issues list are set out
29 below.

⁸ Staff, p 111.

⁹ Staff, p 111.

¹⁰ See: Final Argument of Hydro One, Issue 3, p 19.

- 1 All capitalized terms not defined in these reply submissions have the meaning ascribed to them
- 2 in the Final Argument of Hydro One Networks Inc., dated July 20, 2018.

1 **A. GENERAL:**

2
3 **Issue 1. Has Hydro One responded appropriately to all relevant OEB directions**
4 **from previous proceedings?**

5
6 Staff confirmed in its submissions that “Hydro One has responded appropriately to all relevant
7 directions from previous proceedings.”¹¹

8
9 **Issue 2. Has Hydro One adequately responded to the customer concerns**
10 **expressed in the Community Meetings held for this Application?**

11
12 Staff addressed certain matters raised during Community Meetings in its submissions, but did
13 not submit that Hydro One’s response to any specific issue was inadequate in any way.¹²

14
15 **Issue 3. Is the overall increase in the distribution revenue requirement from 2018 to**
16 **2022 reasonable?**

17
18 Staff has made submissions concerning proposed reductions to the revenue requirement in
19 response to other issues, but did not make any specific submissions concerning reductions in
20 response to this issue.¹³

21
22 **Issue 4. Are the rate and bill impacts in each customer class in each year in the**
23 **2018 to 2022 period reasonable?**

24 **Issue 5. Are Hydro One’s proposed rate impact mitigation measures appropriate**
25 **and do any of the proposed rate increases require rate smoothing or**
26 **mitigation beyond what Hydro One has proposed?**

27
28 Issues 4 and 5 are considered together as Staff has considered them in this manner in the Staff
29 submissions.

30

¹¹ Staff, p 8.

¹² Staff, p 9.

¹³ Staff, p 10.

1 Staff submits that Hydro One's proposed mitigation measures for its distributed generation
2 customers are appropriate.¹⁴ Moreover, Staff considers that bill impacts for the remaining
3 customer classes are supported by the evidence (subject to adjustments proposed by Staff in
4 other sections of its submission).¹⁵

5
6 Building Owners and Managers Association ("**BOMA**") submits that rate and bill impacts in each
7 customer class are not reasonable based on its submissions in relation to the Distribution
8 System Plan ("**DSP**")/capital budget.¹⁶ Similarly, other parties making submissions under this
9 issue have referred to their submissions on other parts of Hydro One's proposals (such as
10 capital and OM&A) which affect rate and bill levels.¹⁷

11
12 BOMA supports the mitigation measures proposed by Hydro One for its distributed generation
13 customers, and incorrectly notes that Hydro One has not proposed any other mitigation
14 measures.¹⁸ In fact, Hydro One also proposes rate mitigation plans for acquired customers of
15 the following rate classes: street lighting, sentinel lighting and unmetered scattered load (USL)
16 in 2021.¹⁹

17
18 Hydro One agrees with Staff that bill impacts, as well as rate impacts, are reasonable. Hydro
19 One notes that its applied-for revenue requirement will result in a 3.5% rate increase in 2018
20 over 2017 OEB-approved levels.²⁰ The Application seeks a further 3% increase in rates in 2018
21 due to declines in load which are beyond Hydro One's control.²¹ The average increase over the
22 proposed 5 year period is 3.4% per annum.

23
24 Moreover, total bill impacts for all legacy and acquired utility customers resulting from this
25 Application, calculated per the OEB's methodology, are well within the limits prescribed by OEB

¹⁴ Staff, p 11. Also on p 11, Staff acknowledges in its Background section that Hydro One proposes a rate mitigation plan for acquired street lighting, sentinel lighting and unmetered scattered load (USL) customers in 2021 but Staff's submissions do not provide comments on the rate mitigation plan for acquired street lighting, sentinel lighting and unmetered scattered load.

¹⁵ Staff, p 11.

¹⁶ BOMA, p 37.

¹⁷ See, for example, VECC, p 3.

¹⁸ BOMA, p 37.

¹⁹ See H1-4-1.

²⁰ Q-1-1, p 3.

²¹ Q-1-1, p 3.

1 guidelines,²² except in limited circumstances where mitigation has been proposed.²³ Hydro One
 2 submits that its proposed rate mitigation plans are appropriate.²⁴

3
 4 With respect to the rate and bill impacts for customers of the Acquired Utilities, some
 5 intervenors, particularly SEC, spend considerable time discussing historical acquisitions,
 6 criticizing Hydro One's cost-to-serve, and offering (incorrect) allegations about Hydro One's
 7 application of principles of cost allocation and rate design. What they neglect to acknowledge is
 8 that the rate impacts on these customers are, on whole, positive.

9
 10 The following table sets out the bill impacts on customers relative to existing frozen rates and
 11 relative to the scenario where the utilities were not acquired:

12
 13 ***Impact on Acquired Utility Customers Moving to New Acquired Classes in 2021***

Service Area	Rate Class	Monthly Consumption (kWh/kW)	Impacts Relative to Existing Frozen Rates (Ref: I-53-CCC 68)		Impacts Relative to Estimated Rates if the Utilities had Not Been Acquired (Ref: I-56-Staff 264)	
			Change in DX Bill (%)	Change in Total Bill (%)	Change in DX Bill (%)	Change in Total Bill (%)
Woodstock	Residential	750	1.7%	1.9%	-13.7%	-2.9%
	GS < 50 kW	2,000	11.4%	2.0%	-4.6%	-1.3%
	GS 50-999 kW	61,239/177	22.8%	-1.6%	12.1%	-2.0%
Norfolk	Residential	750	1.7%	2.9%	-16.7%	-3.8%
	GS < 50 kW	2,000	-9.3%	-1.4%	-26.1%	-7.3%

²² H1-4-1, Tables 1 and 2.

²³ Hydro One has proposed a rate mitigation plan for three classes of customers of recently acquired utilities which are merging with Hydro One's current classes. These are: (i) street lighting customers, (ii) sentinel light customers and; (iii) unmetered scattered load ("USL") customers of the Acquired Utilities. Rate mitigation in the form of a bill credit is proposed for those customers within these rate classes that are experiencing rate increases to ensure that they will not experience total bill impacts greater than the 10%. See: H1-4-1, p 7. Moreover, rate mitigation is proposed in the form of adjustments to the revenue-to-cost ratios for the DGen customer class to limit total impacts to no more than 10% for a typical customer in that class. See: H1-4-1, p 6.

²⁴ In H1-4-1, p 7, mitigation in the form of phasing in revenue-to-cost ratios adjustments was proposed for some of the new acquired rate classes, however, as indicated in Q-1-1, p 19, II 1-5, the reduction in the allocation of costs to the new acquired rate classes proposed in Q-1-1 eliminated the need for this mitigation.

	GS 50-4,999 kW	57,223/161	6.3%	-0.1%	-12.4%	-2.3%
Haldimand	Residential	750	5.6%	2.3%	-9.0%	-2.2%
	GS < 50 kW	2,000	13.1%	2.0%	-2.2%	-1.3%
	GS 50-4,999 kW	50,917/143	34.3%	0.0%	16.2%	-1.4%

In this regard, the following should be noted:

i) Impacts Relative to Existing Frozen rates (Ref: I-53-CCC 68)²⁵

- The impacts shown in these columns are relative to the acquired utilities frozen distribution rates that also include a -1% reduction to distribution rates.
- Given that by 2021 these rates will not have increased for 7 years (in the case of Haldimand and Woodstock) and for 9 years (in the case of Norfolk), it is not unexpected that distribution rates will have gone up.
- On a total bill basis, and taking into account Hydro One's proposal to adjust Retail Transmission Service Rates ("RTSR") to reflect its methodology²⁶, the total bill impacts are reasonable and well within the bill impact limits prescribed by the Board.
- A number of acquired utility general service customers (Woodstock GS>50kW, Norfolk GS<50kW, Norfolk >50kW) will see total bill reductions of up to -1.6%, while the remaining acquired customers will see total bill increases ranging from 0% to 2.9%, well below the Board limit on total bill impacts of 10%.

ii) Impacts Relative to Estimated Rates if the Utilities had not been Acquired (Ref: I-56-Staff 264)²⁷

- All Acquired Utility residential customers will see lower distribution charges ranging from -9% to -17%, and lower total bills by about -2% to -4%.
- All Acquired Utility general service energy-billed customers will see lower distribution charges ranging from -2% to -26%, and lower total bills ranging from -1% to -7%.

²⁵ These impacts were originally provided in Table 2 of Exhibit H1-4-1, and subsequently updated in this IR to reflect the changes made in Exhibit Q-1-1

²⁶ The basis for the lower RTSR rates is detailed in the evidence at Exhibit Q-1-1 pg. 23-24 and in interrogatory I-56-SEC 101.

²⁷ These impacts were originally shown in Table 12 of Exhibit Q-1-1, and subsequently updated to reflect a minor correction to the calculations as discussed during the oral hearing at Transcript Vol 10, pg 83 lines 5-16.

- 1 • Norfolk general service demand-billed customers will see a decrease in both their
2 distribution charges (-14%) and their total bill (-2%).
- 3 • Haldimand and Woodstock general service demand-billed customers will see an
4 increase in distribution charges ranging from +12% to +16%, but the distribution charge
5 impacts are more than fully offset by Hydro One's proposal that lowers their RTSR rates,
6 such that on a total bill basis these customers will see a -1% to -2% decrease.

7
8 **Issue 6. Does Hydro One's First Nations and Métis Strategy sufficiently address the**
9 **unique rights and concerns of Indigenous customers with respect to Hydro**
10 **One's distribution service?**
11

12 Staff commended Hydro One for its development of its First Nations and Métis Strategy, and is
13 supportive of the settlement proposal and agreement reached between Hydro One and
14 Anwaatin Inc.²⁸
15

16 Hydro One is appreciative of the support given to the agreement with Anwaatin ("**Anwaatin**")
17 received from other intervenors, including the Quinte Manufactures Association ("**QMA**"),
18 BOMA,²⁹ and the Society of United Professionals ("**SUP**").³⁰
19

20 Hydro One opposes Anwaatin's request that the Board incorporate in future scorecards "the
21 DERs reflected in the Pilot Project and the communications and cooperation plan reflected in
22 the Settlement Proposal as innovative non-wires approaches to attempt to address the reliability
23 challenges and the disparate impact of those challenges in Indigenous communities".³¹ The
24 description of the proposed metric is too vague, and it is premature to include any metrics in
25 Hydro One's scorecard based on a not yet complete pilot project that impacts a select few
26 communities. Scorecards are intended for ongoing operational practices and management, the
27 pilot project is a fundamentally different endeavor.

²⁸ Staff, p 14., K 4.4.

²⁹ BOMA, p 37.

³⁰ QMA, pp 6-7; SUP, p 2.

³¹ Anwaatin, para 26.

1 **B. CUSTOM APPLICATION**

2
3 **Issue 7. Is Hydro One’s proposed Custom Incentive Rate Methodology, using a**
4 **Revenue Cap Index, consistent with the OEB’s *Rate Handbook*?**

5
6 (a) Staff submissions

7
8 Staff submits that Hydro One’s proposed revenue cap index is more accurately described as a
9 “revenue requirement” index; however, Staff finds that the distinction between revenue cap and
10 a price cap is not significant and that Hydro One’s proposed Custom IR methodology is
11 consistent with the Handbook.³² Moreover, Staff agrees with Hydro One that the revenue cap
12 approach allows for addition of the rate base and operating expenses of the Acquired Utilities to
13 those of legacy Hydro One customers.³³ Hydro One agrees with Staff that its proposed index
14 may be described as a “revenue requirement” index; however, Hydro One’s overall proposal
15 which includes adjusting rates annually to account for changes in the load forecast effectively
16 results in a revenue cap.

17
18 Regarding Pacific Economic Group’s review of Hydro One’s proposed Custom IR proposal and
19 the total factor productivity and cost benchmarking evidence conducted by Power Systems
20 Engineering (“PSE”), Staff submits that overall, there are more similarities in the approaches
21 taken by the experts than there are differences, and that the similarities of the experts’ analyses
22 outweigh the differences in the context of Hydro One’s application.³⁴

23
24 Hydro One agrees with Staff’s above-described assessment, and further notes that as
25 suggested by Staff,³⁵ the appropriate forum for the Board to address these technical differences
26 between the experts would be when it considers the next IRM rate-setting regime for electricity
27 distributors and possibly other rate-regulated utilities in Ontario.

28

³² Staff, pp 16-17.

³³ Staff, p 37. As noted further in these submissions, Hydro One notes that the creation of new proposed Acquired Utilities rate classes also drives the need for the revenue cap approach.

³⁴ Staff, p 18.

³⁵ Staff, p 18.

1 (b) Other intervenors' submissions

2
3 *i. CCC, SEC AMPCO, and PWU agree that Hydro One's proposed revenue cap approach*
4 *is appropriate*

5
6 Consumers Council of Canada ("**CCC**") agrees with Staff that Hydro One's proposed plan is not
7 a "revenue cap" but rather a revenue requirement index, but is not opposed to this approach
8 and generally supports Hydro One's proposals in relation to Custom IR³⁶ (with exceptions as
9 noted herein).

10
11 SEC concludes that overall, it accepts that Hydro One's use of a revenue cap instead of a price
12 cap is a reasonable approach that the Board should approve.³⁷

13
14 SEC also agrees with Hydro One that the revenue cap approach is preferable since it allows
15 Hydro One to incorporate the three Acquired Utilities in 2021³⁸, and similarly AMPCO agrees
16 that the revenue cap approach provides this needed flexibility³⁹. Hydro One agrees.

17
18 Power Workers' Union's ("**PWU**") submits that the proposed revenue cap index has a number of
19 advantages over the price cap index approved for Toronto Hydro given Hydro One's unique
20 circumstances such as the integration of the Acquired Utilities in 2021.⁴⁰ Hydro One agrees – as
21 explained at the oral hearing and noted by PWU, the integration of the Acquired Utilities is both
22 simplified⁴¹ and made possible⁴² by the use of a revenue cap index approach. As PWU
23 summarizes:

24
25 Integration of the Acquired Utilities necessitates a new cost allocation process that will
26 not uniformly impact the existing rate classes. Under a price cap index the rates for
27 each class would likely have to be reset at that time to account for the change in

³⁶ CCC, p 8.

³⁷ SEC, p 8.

³⁸ SEC, s 2.1.5, p 7.

³⁹ AMPCO, p 4.

⁴⁰ PWU, p 9.

⁴¹ PWU, p 9.

⁴² Transcript Vol 1, pp 24-29.

1 allocated costs. Aside from adding the additional revenue in 2021, annual mechanical
2 adjustments can be made consistently throughout the term of the application using a
3 revenue cap index.⁴³
4

5 *ii. BOMA misreads the Handbook in arguing that Custom IR does not permit a revenue cap*
6 *approach*
7

8 BOMA asserts that the Handbook's option of Custom IR (along with Price Cap IR and the
9 Annual IR Index) as one of three rate setting mechanisms does not allow for a revenue cap
10 approach.
11

12 Hydro One strongly disagrees. Under Custom IR, pursuant to the very quote from the Handbook
13 quoted by BOMA, "rates are set for five years considering a five-year forecast of the utility's
14 costs and sales volumes. This method is intended to be customized to fit the specific utility's
15 circumstances, but expected productivity gains will be explicitly included in the rate adjustment
16 mechanism."⁴⁴ The Handbook further states that "A Custom IR application is by its very nature
17 custom, and therefore no specific filing requirements have been established."⁴⁵ The Handbook
18 sets out criteria which must be met in a Custom IR application as discussed in Hydro One's
19 argument-in-chief;⁴⁶ none of the criteria impede a utility from proposing a revenue cap approach
20 in its Custom IR.
21

22 *iii. Energy Probe's objections to Hydro One's use of a revenue cap approach*
23

24 Energy Probe ("EP") argues against the advantages originally noted by Hydro One in relation to
25 a revenue cap model⁴⁷. Hydro One's view is that the principal advantage to the revenue cap
26 approach is that it allows for the introduction of new rate classes as part of the integration of the
27 Acquired Utilities. Staff, SEC and AMPCO agree⁴⁸ that this is an advantage of revenue cap and

⁴³ PWU, p 11.

⁴⁴ Handbook, p 24.

⁴⁵ Handbook, p 25.

⁴⁶ Hydro One's argument-in-chief, pp 30-36.

⁴⁷ EP, p 12.

⁴⁸ See submissions under "CCC, SEC and AMPCO generally agree with Staff that Hydro One's proposed revenue cap approach is appropriate", above.

1 as Mr. Andre confirmed at the oral hearing, it is in fact not possible to use a price cap approach
2 to set rates in 2021 given the creation of new rate classes.⁴⁹

3
4 EP argues that a price cap would be preferable to a revenue cap for reasons based on the
5 theoretical differences between a price cap and a revenue cap as stated in a Board report from
6 1999⁵⁰. The principal theoretical difference EP notes is in relation to an upper limit or a cap to
7 the rates. Yet as noted by Mr. Andre in response to EP's cross-examination question asking
8 whether a revenue cap does not actually provide an upper limit or a cap to the rates that the
9 customers are charged, whereas the price cap does, Mr. Andre replied that he disagreed:

10
11 "The revenue cap defines the revenue to be collected, and then the prices are capped at
12 that revenue -- are capped to deliver on that revenue, taking into account the change in
13 load that the utility is going to see in the subsequent year."⁵¹

14
15 In essence, EP has failed to fully consider Hydro One's evidence and what it actually proposes
16 to do. Instead, EP has continued to make arguments about the theoretical differences between
17 a hypothetical price cap and a hypothetical revenue cap.

18
19 *iv. Revenue cap approach does not fail to decouple revenue from costs as stated by VECC*

20
21 Vulnerable Energy Consumers Coalition ("**VECC**") states that "theoretically, a properly
22 constituted revenue cap can achieve [decoupling] but in a less straightforward manner" and
23 appears to be submitting that Hydro One's plan does not achieve sufficient decoupling.⁵²

24
25 Yet as SEC correctly notes in its submissions: "since Hydro One is fixing its load and customer
26 forecasts (i.e. sales volume) for the first three years, there is still sufficient decoupling for that
27 period."⁵³

28

⁴⁹ Transcript Vol 1, pp 24-29.

⁵⁰ EP, pp 14-15.

⁵¹ Transcript Vol 1, p 47.

⁵² VECC, p 5.

⁵³ SEC s 2.1.7, pp 7-8.

1 Hydro One agrees with SEC that there is sufficient decoupling in Hydro One's proposed
2 approach. Moreover, Hydro One notes that the stretch factor as proposed also adds further
3 decoupling. SEC also seeks to have the Board fix the load and customer forecasts now for the
4 last two years of the CIRM and states that this would result in revenues and costs being
5 effectively decoupled for the full five years. For the reasons indicated under issues 13 and 14
6 below, Hydro One believes it is necessary to update these forecasts to properly follow the
7 Board's direction that customers of the Acquired Utilities be charged their costs to serve.

8

9 **Issue 8. Is the proposed industry-specific inflation factor, and the proposed**
10 **custom productivity factor, appropriate?**

11

12 (a) Inflation factor

13

14 Staff notes that there was no opposition to Hydro One's proposal to use the industry-specific
15 inflation factor set by the OEB.⁵⁴ Staff further notes that Staff's expert Dr. Lowry suggested
16 Average Hourly Earnings as a potential substitute, but Staff submits that this matter should be
17 left to generic policy development for IRM rate-setting.⁵⁵ Hydro One agrees that this matter can
18 be addressed generically in a future review and it is not necessary to undergo a separate review
19 here.

20

21 SEC⁵⁶ and CME⁵⁷ also agree with Hydro One's approach to the inflation factor.

22

23 VECC explains its preference for using the consumer price index (CPI) inflation rate but
24 concludes that as a practical matter there appears to be little difference between the Board's
25 inflation factor and the CPI.⁵⁸ BOMA supports a 2% inflation factor.⁵⁹

26

27 As indicated, Hydro One's proposal is to use the industry-specific inflation factor set by the
28 OEB.

⁵⁴ Staff, p 19.

⁵⁵ Staff, p 19.

⁵⁶ SEC s 2.2.6, p 13.

⁵⁷ CME s 3.1.1, p 5.

⁵⁸ VECC, pp 5-6.

⁵⁹ BOMA, p 38.

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(b) X-factor

Staff submits that there is no disagreement with the proposed overall stretch factor of 0.45% for Hydro One as the two expert witnesses agree that this is the appropriate stretch factor.⁶⁰ Staff concurs that the 0.45% stretch factor, and therefore the overall 0.45% X-factor, is reasonable for the proposed 5-year term.⁶¹ More specifically, Staff considers Hydro One’s proposal to hold the stretch factor constant over the plan term to be reasonable.⁶²

SEC⁶³ and BOMA also support the 0.45% stretch factor.⁶⁴

In regards to the 0% base productivity estimate that both experts and parties⁶⁵ agree to, Hydro One notes that Staff incorrectly states⁶⁶ that Pacific Economics Group Research LLC (“**PEG**”) in its analysis, came up with an Ontario LDC TFP of +0.23%. The +0.23% is in fact the long run productivity for electricity distributors in the US, as correctly noted by SEC.⁶⁷ In fact, PEG’s “best current estimate of the cost efficiency trend of Ontario power distributors” is -0.25%.⁶⁸

Consumers Council of Canada (“**CCC**”)⁶⁹ and AMPCO⁷⁰ accept the 0.45% stretch factor but submit that it should be subject to change if Hydro One is moved to a different cohort.⁷¹ CME disagrees with holding the stretch factor at the same level over the Custom IR term, and also disagrees with the need to have a custom productivity stretch factor as opposed to using the Board’s process for updating stretch factor rankings.⁷² CME further submits that should the Board allow Hydro One to fix its productivity stretch factor at 0.45% an incentive should be

⁶⁰ Staff, p 21.
⁶¹ Staff, p 21.
⁶² Staff, p 22.
⁶³ SEC s. 2.2.3, p 12.
⁶⁴ BOMA, p 38.
⁶⁵ Such as BOMA, p 38.
⁶⁶ Staff, p 18.
⁶⁷ SEC s. 2.2.10, p 13.
⁶⁸ PEG report, p 17, also cited in SEC s. 2.2.10, p 13.
⁶⁹ CCC, p 8.
⁷⁰ AMPCO, p 4.
⁷¹ CCC, p 8.
⁷² CME, para 15, p 6.

1 established to incent Hydro One to improve its cost effectiveness. SEC also agrees with the
2 0.45% stretch factor but submits that Hydro One’s annual stretch factor should adjust depending
3 on its costs as benchmarked against other Ontario utilities.⁷³

4
5 In response to the above submissions that Hydro One’s 0.45% stretch factor should be fixed for
6 the plan term, Hydro One submits the following:

- 7
8 • First, the Board’s policy is to limit annual updates to those required for “exceptional
9 circumstances”.⁷⁴
- 10 • Second, Hydro One’s evidence is that Hydro One’s forecast trend in performance for
11 2017-2022 will allow it to remain in its current 4th cohort position (which is consistent with
12 a 0.45% stretch factor). Moreover, SEC mischaracterizes the Board’s approach when it
13 states that “the Board has developed an IRM model in which utilities have immediate
14 consequences – either good or bad – based on their cost performance.” This is a
15 mischaracterization because the stretch factor is based on a rolling 3-year average of
16 total cost benchmarking performance, where a utility must have multiple years of
17 increased cost performance in order to move to a lower cohort.⁷⁵
- 18 • Third, Hydro One strongly disagrees with CME⁷⁶ and SEC⁷⁷’s assertions that Hydro One
19 should be subject to the same 4th generation IR benchmarking results as the rest of the
20 distributors. The 4th generation IR uses an Ontario-only dataset which is inappropriate
21 for Hydro One because the dataset is unable to capture Hydro One’s large and rural
22 characteristics due to the lack of distributors in Ontario that contain these two
23 characteristics to the extent that Hydro One does. PSE’s dataset enables benchmarking
24 models to properly adjust for these characteristics and produce an accurate benchmark.
25 As a result, it is contrary to the evidence before the Board for SEC and CME to suggest
26 that the Board’s 4th generation IR benchmarking results should be used to determine the
27 appropriate stretch factor for Hydro One.

⁷³ SEC s. 2.2.26, p 16.

⁷⁴ Rate Handbook, p 26.

⁷⁵ See Pacific Economics Group Empirical Research in Support of Incentive Rate-Setting: 2016 Benchmarking Update, Report to the Ontario Energy Board, July 2017, p 8 and see also A-3-2 attachment 2, p 6-7.

⁷⁶ CME, p 7.

⁷⁷ SEC, p 5.

1 In response to SEC's submissions regarding cost performance, Hydro One notes that as
2 documented in the DSP, its increased costs are driven by significant capital spending
3 requirements due to asset condition. Moreover, Hydro One's overall cost performance in the
4 total cost benchmarking study over the rate term reflects an improvement over historical
5 levels.⁷⁸

6
7 (c) Staff's submissions regarding Service Territory Size

8
9 Staff makes a number of submissions regarding the size of Hydro One's service area. QMA
10 concurs with these submissions and submits that improving the accuracy of Hydro One's more
11 remote, non-urban, customer density on a connected customer per distribution line kilometer
12 may better inform the benchmarking exercise.⁷⁹

13
14 In regards to the impact of the service territory size input on the work conducted by PSE, it is
15 important to note that as correctly noted by Staff,⁸⁰ PSE relied on GIS maps purchased from
16 Platts⁸¹ in order to determine the service area of all utilities. PSE did not change or manipulate
17 any of the data for Hydro One or the rest of the sample; instead, the Platts data was used
18 consistently across the entire sample of 380 distributors. If PSE had changed the Hydro One
19 data in regards to service territory size, it would have had to make the same changes to the
20 data for each other distributor used in the sample. This would have been a time-consuming
21 activity for PSE to undertake and would have been unlikely to meaningfully change the final
22 result given that PEG came to the same stretch factor conclusion as PSE.

23
24 If Staff is suggesting that Hydro One change the manner in which it reports its service territory
25 size to the Board for the purpose of RRR filings, Hydro One submits that such changes should
26 be guided by the Board such that they are applied on a consistent, principled basis across all
27 Ontario utilities.⁸²

28

⁷⁸ A-3-2-2, p 6, tables 1-1 and 1-2.

⁷⁹ QMA, p 8.

⁸⁰ Staff, p 24.

⁸¹ See Staff footnote 42.

⁸² Hydro One notes that it is unclear how to delineate large areas of currently unserved territory in "northern" Ontario. Hydro One further notes that other LDC service territories could also have rivers/bodies of water and/or parks within their service territory.

1 Moreover, for clarity and in response to the submission of QMA on this point, the reason that
2 PSE does not use customers per km of line as used by PEG's work is that distributors reported
3 this data inconsistently, that is, some report primary lines only while other report primary and
4 secondary lines.

5

6 **Issue 9. Are the values for the proposed custom capital factor appropriate?**

7

8 Staff notes that Hydro One's proposed C-factor is directly based on the C-factor approved in
9 Toronto Hydro's most recent distribution rates proceeding and that methodologically speaking,
10 the concept of the C-factor is logical.⁸³ However, Staff makes a number of submissions
11 regarding a growth, or "g" factor which are supported, in general, by VECC.⁸⁴ These are
12 addressed first below. Following this, other parties' submissions regarding the custom capital
13 factor are addressed.

14

15 (a) Submissions on growth factor

16

17 *i. Hydro One's proposal includes a growth factor*

18

19 First of all, it is important to be clear that Hydro One's proposal includes an implicit growth
20 factor. Hydro One explained at the oral hearing that its approach of adjusting the revenue
21 requirement using the proposed revenue cap index, with a C-factor that includes capital which
22 already includes any growth related needs as well as using an annual load forecast to calculate
23 rates annually allows for the incorporation of growth in a direct and precise manner in Hydro
24 One's proposal.⁸⁵ VECC agrees with Hydro One in this regard as it states that the deficiency of
25 not including a growth factor is addressed by Hydro One's proposal in relation to load forecast.⁸⁶
26 Moreover, Hydro One notes that PEG also agreed that growth is considered in Hydro One's
27 proposed revenue cap model.⁸⁷

28

⁸³ Staff, p 27.

⁸⁴ VECC, p 5.

⁸⁵ Transcript Vol. 1, pp 21-23.

⁸⁶ VECC, p 5.

⁸⁷ Exhibit L1-9-Schedule HONI-4 PEG.

1 *ii. Addition of a growth factor does not provide a distinction between growth and non-*
2 *growth capital spending*

3
4 Staff's principal reason for proposing the addition of a growth factor is that doing so will provide
5 a "distinction" between non-discretionary spending (which it defines as growth related) and
6 discretionary spending (which it defines as non-growth related).⁸⁸ Staff's submissions on this
7 point appear to be based on the premise that a growth factor would be intended to "account" for
8 spending related to growth in demand (which the Staff submissions define as number of
9 customers, consumption and energy demand).

10
11 Hydro One agrees that, generally speaking, the theoretical basis of a g-factor is to provide an
12 escalation of revenue requirement due to growth. As noted above, Hydro One's proposed
13 custom IR includes an implicit g-factor.

14
15 However, Hydro One submits that the fact that a g-factor is intended to allow for escalation in
16 revenue due to growth does not in turn mean that it creates a distinction between discretionary
17 and non-discretionary spending. A great deal of non-discretionary spending is not related to
18 growth at all such as spending on measures to ensure that reliability is maintained and
19 safety/compliance/regulatory standards and requirements are met.

20
21 As a result, the addition of an explicit g-factor does not create the distinction which Staff has
22 submitted it creates, and there is no basis for concluding that all non-growth related spending is
23 discretionary.

24
25 *iii. Brand new g-factor proposal is entirely untested and unclear and therefore cannot be*
26 *adopted at this time*

27
28 Staff's proposal for a g-factor has not been tested in evidence in this proceeding as it is being
29 put forward for the first time in final argument. The one piece of evidence which Staff appears to
30 rely upon is a spreadsheet prepared by Staff at page 25 of Exhibit K2.1. When this exhibit was
31 put to Hydro One in cross-examination, Mr. Andre noted that the exhibit incorrectly assumed
32 that the impact on revenue requirement is completely driven by the change in the number of

⁸⁸ Staff, pp 29-30.

1 customers.⁸⁹ In other words, the analysis shows capital related revenue requirement and overall
2 revenue requirement adjusted for customer growth. Staff's analysis is therefore not even
3 consistent with Staff's definition of growth which includes number of customers, consumption
4 and energy demand.

5
6 Moreover, it is not clear from Staff's proposal how the g-factor would actually operate. For
7 example, what g-factor is Staff proposing and is Staff proposing a reduction in the C-factor (and
8 if so, by how much)? None of these questions are answered in Staff's proposal such that it is
9 not even possible for Hydro One to provide submissions on what Staff's proposal would actually
10 look like in terms of revenue requirement impact. Hydro One notes that there is no evidence on
11 what an appropriate g-factor would be and that even if there were evidence on this point, it
12 would be significantly complicated by the integration of the acquired utilities in 2021.

13
14 *Addition of explicit g-factor results in higher revenue requirement, to the detriment of Hydro*
15 *One's customers*

16
17 The evidence is that the addition of an explicit g-factor to Hydro One's proposal would, as stated
18 in PEG's evidence⁹⁰ and confirmed in oral testimony⁹¹, result in a higher revenue requirement.
19 More specifically, even if the C-factor is reduced to account for the addition of a g-factor, capital
20 revenue will remain the same but the g-factor will result in higher OM&A – and therefore higher
21 overall – revenue requirement. The addition of an explicit g-factor would therefore work against
22 most parties' submissions, including Staff's, that Hydro One's proposed revenue requirement be
23 lowered.

24
25 Moreover, as shown above, Staff's submissions regarding the theoretical benefits of including
26 an explicit g-factor do not hold up. The result is that from both a practical and theoretical
27 perspective, there is no reason for the Board to add an explicit g-factor to Hydro One's proposal.

28
29

⁸⁹ Transcript Vol 2, pp 69-70.

⁹⁰ See PEG Report p 32 ("In either case, OM&A revenue would grow by this additional amount. The C factor would fall but allowed capital revenue would likely be unaffected on balance.")

⁹¹ See: Transcript Day 11, p 208, lines 10-14.

1 (b) Other submissions on the custom capital factor

2
3 Power Workers' Union ("**PWU**") submits that the custom capital factor is appropriate and
4 consistent with the OEB's Rate Handbook.⁹² Hydro One agrees.

5
6 CCC does not oppose the custom capital factor itself but thinks that it should not be set for 2021
7 and 2022 until Hydro One returns to the Board mid-term. AMPCO similarly suggests that if the
8 Board determines that an update is appropriate in 2021 to coincide with the integration of the
9 Acquired Utilities, the capital factor should be revised at that time to determine if a reset is
10 appropriate.⁹³ These proposals effectively require a new hearing on Hydro One's costs after
11 three years. This is inconsistent with the Handbook's rejection of updates that require
12 "adjudication...[which] requires the expenditure of significant resources by both the OEB and
13 the utility."⁹⁴ Ultimately, these suggestions appear to be based on concerns with whether Hydro
14 One has appropriately forecasted its level of capital spending for 2021 and 2022, a point which
15 Hydro One addresses in relation to the DSP, below.

16
17 BOMA makes a number of submissions regarding the custom capital factor. Overall, BOMA's
18 submissions ignore the Board's acceptance of the custom capital factor in the Toronto Hydro
19 proceeding and incorrectly assume that a custom capital factor should include all the elements
20 of the Board's test in relation to incremental capital module ("**ICM**") projects.

21
22 Specifically, BOMA asserts that the C-factor lessens Hydro One's incentive to impose discipline
23 on its capital expenditures, as it is designed to ensure that Hydro One's proposed capital
24 expenditures are recoverable⁹⁵. However, the C-factor is based on a detailed 5-year capital plan
25 that maintains but does not improve asset condition in consideration of customer concerns over
26 rate impacts and that includes productivity measures,⁹⁶ and the C-factor includes a 0.45 stretch
27 factor⁹⁷, all of which provide incentives to reduce capital expenditures from those planned
28 pursuant to the DSP. BOMA further states that the C-factor is proposed without a deadband or

⁹² PWU, p 10.

⁹³ AMPCO, p 6.

⁹⁴ Rate Handbook, p 26.

⁹⁵ BOMA, p 7.

⁹⁶ I-9-VECC-11.

⁹⁷ See A-3-2 p 6, table 1 and Q-1-1 p 4, table 2.

1 other constraints⁹⁸; this assertion is also incorrect given that Hydro One is proposing that the
2 0.45 stretch factor be applied to its proposed capital related revenue requirement.

3

4 BOMA's second main argument is that the Board's policy with respect to ICMs contains
5 requirements which are not present in a Custom IR application such as a general materiality
6 threshold, a project specific materiality threshold, a deadband and a separate identification of
7 projects.⁹⁹ EP also notes that the capital factor proposed by Hydro One "does not have the
8 same level of review as an ICM"¹⁰⁰.

9

10 In response, Hydro One notes that it chose the Custom IR option over the other options in the
11 Handbook and the RRFE because the Custom IR option was the only option which would
12 recognize Hydro One's large recurring variable investment requirements in each year of the
13 plan term.¹⁰¹ As stated in the RRFE Report, "[t]he Custom IR method will be most appropriate
14 for distributors with significantly large multi-year or highly variable investment commitments that
15 exceed historical levels."¹⁰² Hydro One's multi-year investment commitments are outlined in its
16 DSP.

17

18 Moreover, Hydro One notes that the Board's 2014 report on the Advanced Capital Module
19 makes it clear that an Application under Price Cap IR with embedded ACM Applications was not
20 an option for Hydro One, again given its large, multi-year capital requirements. The relevant
21 passage of the 2014 report is the following:

22 The Board is of the view that projects proposed for incremental capital funding
23 during the IR term must be discrete projects, and not part of typical annual capital
24 programs. This would apply to both ACMs and ICMs going forward.

25

26 ... The use of an ACM is most appropriate for a distributor that:

27

28 • does not have multiple discrete projects for each of the four IR years for which it

⁹⁸ BOMA p 7.

⁹⁹ BOMA p 7.

¹⁰⁰ EP, p 13.

¹⁰¹ See Transcript Day 1, p 49, ll 3-5.

¹⁰² RRF Report, p 19.

1 requires incremental capital funding;

2 • is not seeking funding for a series of projects that are more related to recurring
3 capital programs for replacements or refurbishments (i.e. “business as usual”
4 type projects); or

5 • is not proposing to use the entire eligible incremental capital envelope available
6 for a particular year.¹⁰³

7
8 As a result, BOMA submissions regarding the Board not having the opportunity to consider a
9 detailed project by project analysis¹⁰⁴ are inconsistent with Board policy and with the RRF.
10 Moreover, individual projects/programs are detailed in the ISDs provided in the DSP and
11 therefore the Board and intervenors have had the opportunity to consider the details of Hydro
12 One’s planned projects.¹⁰⁵ In a similar vein, EP’s assertions that Hydro One should have done
13 calculations to see if its capital plan could be covered by the Board’s ICM and ACM policies¹⁰⁶
14 are contrary to the Board’s clear statements as to the purpose of Custom IR.

15
16 VECC’s submissions on the custom capital factor are unclear. On the one hand, VECC submits
17 that “the capital factor needs to be eliminated” by a reduction to Hydro One’s capital spending
18 plans or to “adjust the total formula in any year to achieve a revenue requirement increase no
19 greater than the post period rate of inflation”, or a combination of these.¹⁰⁷ Yet later in its
20 submissions, VECC notes that its understanding of the proposed capital factor is unclear and
21 asks as to why the revenue would not be simply adjusted by an average 3.3% per annum.
22 Hydro One is not clear as to what VECC is proposing but in regards to an annual adjustment,
23 VECC’s proposal assumes that Hydro One is in a position to “smooth” its capital investments
24 when there is no evidence of this on the record. Hydro One also notes that such a “smoothing”
25 proposal would significantly complicate the administration of its proposed ESM and CISVA
26 accounts whose calculations are based on the forecast in-service dates of Hydro One’s
27 proposed capital expenditures.

28

¹⁰³ See EB-2014-0219, Report of the Board, New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, pp 13-14 (emphasis added).

¹⁰⁴ BOMA, pp 7-8.

¹⁰⁵ Exhibit B1-1-1, s 3.8.

¹⁰⁶ EP, p 15.

¹⁰⁷ VECC, p 7.

1 CME submits that it is inappropriate for the capital factor to be calculated to include the working
2 capital component of rate base, because the working capital component of rate base is
3 independent of the DSP.¹⁰⁸ Hydro One notes the proposed calculation is consistent with the
4 approach already approved by the OEB in the Toronto Hydro proceeding. The inclusion of the
5 working capital component of rate base in the capital factor is appropriate because: (i) it is
6 consistent with prior decisions, (ii) it represents a prudently incurred cost and (iii) because it
7 allows for the integration of the additional working capital requirements of the acquired utilities in
8 2021.

9
10 **Issue 10. Are the program-based cost, productivity and benchmarking studies filed**
11 **by Hydro One appropriate?**

12 **Issue 11. Are the results of the studies sufficient to guide Hydro One's plans to**
13 **achieve the desired outcomes to the benefit of ratepayers?**

14 **Issue 12. Do these studies align with each other and with Hydro One's overall**
15 **custom IR Plan?**

16
17 Staff submits that it is not possible to identify the impact of the benchmarking studies on the
18 Custom IR plan and on the revenue requirement that Hydro One is seeking approval. This is not
19 accurate. The impact of the studies on the Custom IR plan is clearly demonstrated through the
20 Distribution System Plan,¹⁰⁹ interrogatory evidence,¹¹⁰ and oral hearing evidence.¹¹¹ There is
21 detailed evidence explaining how the conclusions and recommendations of each of the
22 benchmarking studies have been considered and implemented.¹¹² Hydro One also made
23 extensive submissions on that very point in response to Issue 25 in its Final Argument.¹¹³

24
25 Regarding the impact on the revenue requirement, where there is an impact as a result of a
26 particular benchmarking study, that impact is reflected in the costs of the particular program the
27 study was looking at. However, for many of the benchmarking study conclusions and
28 recommendations, there will not be a revenue requirement impact. Indeed, the purpose of

¹⁰⁸ CME, p 9.

¹⁰⁹ Distribution System Plan, Section 1.6.

¹¹⁰ I-25-Staff-122, I-25-Staff-126, I-25-Staff-130.

¹¹¹ Transcript, Day 5.

¹¹² Distribution System Plan, Section 1.6.3, I-25-Staff-122, I-25-Staff-126, I-25-Staff-130.

¹¹³ Hydro One, Final Argument, Issue 25, pp 76-83.

1 benchmarking studies is not to change the revenue requirement being sought by Hydro One.
2 Rather, the purpose is to examine how Hydro One completes certain work and compare Hydro
3 One's performance to its peers. That exercise may result in program changes or improvements
4 that may have a revenue impact, but that is not the fundamental purpose of the study. Indeed,
5 Staff acknowledges that "these benchmarking studies deal with specific capital and operational
6 programs which are, individually, only portions of Hydro One's total portfolio", which makes the
7 basis of the original criticism unclear. The application contains a total cost benchmarking study
8 as well as a total factor productivity analysis¹¹⁴, which look at Hydro One's total costs and which
9 are addressed in detail in response to other issues.

10

11 Staff also submits that "[i]t is not clear how much the results of these benchmarking studies
12 influenced strategic decisions by the Board of Directors or senior executives." Again, there was
13 clear evidence from the senior executives, Darlene Bradley, Brad Bowness, and Lincoln Frost-
14 Hunt, who testified at the oral hearing that they considered these benchmarking studies. Staff
15 chose not to examine these executives further on these points, and there are no submissions
16 from Staff clarifying what more evidence could have possibly been provided concerning senior
17 executives' consideration of the benchmarking studies, or why that evidence is necessary in any
18 way to the Board's determination of the issues in this hearing.

19

20 To be clear, the benchmarking studies completed by Hydro One were completed as part of
21 directives from the OEB in the last distribution rates decision. Staff's criticisms of Hydro One
22 appear to be that the directions requiring the studies should have required them to do different
23 things, including provide a direct link to revenue requirement. This is not supported by the
24 directions to which Hydro One is responding, or usual benchmarking practice – which is focused
25 on program evaluation not direct revenue impacts. Further, Staff, and intervenors, had an
26 opportunity to provide feedback concerning the "proposed approach and framework" for each of
27 the studies at stakeholder engagement sessions that were held by Hydro One prior to filing the
28 Application. The feedback now being provided by Staff was not provided at those sessions,
29 when it could have been considered and potentially incorporated into the studies.¹¹⁵

30

¹¹⁴ The Total Factor Productivity can be found in A-3-2-1 and the Total Cost Benchmarking Study at A-3-2-2.

¹¹⁵ Summaries of the Stakeholder Sessions are included in the Application at Distribution System Plan, Section 1.3, Attachment 3.

1 BOMA submits that the productivity study is broadly appropriate and that the studies are very
2 different and as such do not align with each other.¹¹⁶

3

4 (a) Navigant

5

6 Staff submits that it is unsure what the implications of Hydro One having the oldest poles in the
7 comparator group are.¹¹⁷ The implications are, with respect, clear. Hydro One is replacing its
8 poles at the slowest rate of any of the compared utilities, and is not replacing poles earlier than
9 any of its comparators.

10

11 Staff submits that it is unclear whether Hydro One will be starting to refurbish poles as a result
12 of the Navigant recommendations.¹¹⁸ The evidence is that Hydro One will be starting a pole
13 refurbishment program.¹¹⁹

14

15 Staff submits that the studies do not align because they do not overlap.¹²⁰ Hydro One does not
16 agree with this submission. Benchmarking studies, if done efficiently and effectively, should
17 never overlap. Otherwise, Hydro One and ratepayers will be paying for the same work twice.
18 The alignment of the benchmarking studies is demonstrated through the consistency of the
19 conclusions. Namely, for all of the programs studied, Hydro One's costs are in-line with its peer
20 group.¹²¹

21

22 Finally, Staff reiterates its argument regarding the incorporation of the benchmarking studies.¹²²
23 Again, these studies are reflected in the Application, namely the Distribution System Plan, and

¹¹⁶ BOMA, p 38. BOMA also submits that the Navigant study is not appropriate, this submission is considered below.

¹¹⁷ Staff, p 33.

¹¹⁸ Staff, p 33.

¹¹⁹ I-25-Staff-122.

¹²⁰ Staff, p 33.

¹²¹ See: Distribution System Plan, Section 1.6, Attachment 1, p I (Pole Replacement Conclusion 1 and Substation Refurbishment Conclusion 2); Distribution System Plan, Section 1.6, Attachment 2, p 2, "Hydro One has maintained the high level of efficiency"; and Distribution System Plan, Section 1.6, Attachment 3, p 9, "Hydro One spends a similar amount on IT compared to the peer group".

¹²² Staff, p 34.

1 further discussed in the interrogatory responses.¹²³ They have been fully considered and
2 incorporated where possible and appropriate.

3
4 **Issue 13. Are the annual updates proposed by Hydro One appropriate?**

5
6 (a) Staff submissions

7
8 Staff notes that annual applications to establish rates for each year of a plan are normal for
9 Custom IR plans and have been approved in similar applications such as recent Enbridge Gas
10 Distribution, Toronto Hydro and Horizon Utilities applications.¹²⁴ BOMA agrees, though it thinks
11 that the annual review should be “a little more substantive” than what Hydro One proposes, and
12 it would also add an update on productivity initiatives and the savings created by productivity.¹²⁵

13
14 Staff also notes that while most of the elements of Hydro One’s proposed plan are common with
15 these other approved plans, the adjustments related to the Acquired Utilities would be unique to
16 Hydro One’s application.¹²⁶ Staff notes that these updates would require greater work for
17 processing and submits that to update cost of capital parameters is a deviation from the
18 Handbook.¹²⁷

19
20 Staff proposes an alternative option: to use the 2018 cost of capital parameters approved in this
21 application instead of 2021 cost of capital parameters. Staff bases this proposal on the “distinct
22 possibility of increased variability in rate impacts, which may also mean that there is an
23 increased possible need for rate mitigation with both legacy and acquired LDC customer
24 classes potentially being impacted.”¹²⁸

25
26 Hydro One submits that Staff’s above-noted reasoning is flawed. Firstly, yes, increased
27 variability in rate impacts is a possibility but it is not necessarily going to take place in the future
28 – and if it does, there is a clear process in relation to rate mitigation. More importantly, however,

¹²³ Distribution System Plan, Section 1.6.3, I-25-Staff-122, I-25-Staff-126, I-25-Staff-130.

¹²⁴ Staff, p 35.

¹²⁵ BOMA, p 38. This submission is addressed in the section on productivity, below.

¹²⁶ Staff, p 35.

¹²⁷ Staff, pp 35-36.

¹²⁸ Staff, p 36.

1 Staff's reasoning is flawed because if indeed there is a dramatic variability in rates in 2021, then
2 it would be inconsistent with the Board's direction in the decisions approving Hydro One's
3 acquisition of the Acquired Utilities¹²⁹ that rates reflect cost to serve to ignore this variability. The
4 same is true in regards to Staff's submission that different growth rates between different
5 classes would result in differences in allocators and hence shifting of costs between classes.
6

7 In other words, the Board's direction that rates reflect cost to serve requires that Hydro One
8 reflect any variability and differences in growth in 2021 rates and, of course, implement any
9 mitigation that may be required as a result.

10
11 (b) Other intervenors' submissions
12

13 CCC also submits that Hydro One should not be permitted to reset its return on equity for the
14 last two years of the term, based on the Handbook's statement that the Board does not expect
15 annual rate applications for cost of capital.¹³⁰ CCC disagrees that the integration of the Acquired
16 Utilities represents exceptional circumstances because it is standard practice for the OEB to set
17 ROE for the base year and leave it in place for the duration of an applicant's plan.¹³¹ VECC also
18 submits that the Board should not permit a mid-term cost of capital review,¹³² as does AMPCO,
19 for similar reasons as CCC. BOMA also disagrees with the cost of capital update but does not
20 provide reasons for this.¹³³
21

22 In addition to submitting that the Board should not permit a mid-term cost of capital review, a
23 few parties¹³⁴ oppose updating the load forecast for 2021 as well. Staff makes the same
24 submission under issue 14, and also opposes an update to cost allocation at the time that the
25 Acquired Utilities are integrated.
26

27 As noted, the main reasons put forward by parties in opposition to Hydro One's proposal to
28 update cost of capital parameters and load forecast in 2021 are that these updates are not

¹²⁹ Decision and Order in EB-2013-0196/EB-2013-0187/EB-2013-0198; EB-2014-0244; and EB-2014-0213.

¹³⁰ CCC, p 9.

¹³¹ CCC, p 9.

¹³² VECC, pp 12-13.

¹³³ BOMA, p 39.

¹³⁴ SEC, pp 8-10; CME, pp 12-14; AMPCO, p 5.

1 consistent with the Handbook and does not amount to the exceptional circumstances which, if
2 present, would permit a departure from the Handbook. Parties point to the Handbook's
3 statement that it does not expect to address annual (emphasis added) updates for cost of
4 capital or sales volumes, and also point to the Handbook's statement that a utility that cannot
5 forecast its needs within the first year term should not apply for a Custom IR.¹³⁵

6 In response, Hydro One submits as follows:

- 7
- 8 • As highlighted above, the Handbook's statement is that the Board does not expect to
9 address annual updates. Hydro One is not proposing annual updates. It is proposing
10 updates at the time of the integration of the Acquired Utilities in order to ensure that the
11 Acquired Utilities are charged Hydro One's costs to serve them, as required by the
12 Board's directions when it approved the integration of the Acquired Utilities.¹³⁶

 - 13 • Some parties have submitted that the integration of the Acquired Utilities are not special
14 circumstances within the meaning of the Handbook and yet, no party has suggested
15 what type of circumstance *would* qualify as an exceptional circumstance. The fact is that
16 the Board's policies regarding s. 86 merger applications do not anticipate a circumstance
17 where a large acquiring utility such as Hydro One integrates acquired utilities within an
18 IR term.¹³⁷ Based simply on this, Hydro One's circumstances and those of the Acquired
19 Utilities would in fact appear to be exceptional.

 - 20 • SEC notes that the Board rejected OPG's recent request for a mid-term update to the
21 nuclear production forecast.¹³⁸ SEC states that "similar to OPG, changes to load forecast
22 in 2021 and 2022 are not exceptional circumstances requiring adjustment".¹³⁹ In
23 response, Hydro One submits that its load forecast is driven by externalities out of its
24 control such as economic conditions and customer demand. In contrast, OPG's
25 production forecast is driven by the timing of the outages of its nuclear facilities which
26 are related to OPG's planned execution of its work and more reasonably within its
27 control as a utility.

¹³⁵ Handbook, pp 26-27.

¹³⁶ Decision and Order in EB-2013-0196/EB-2013-0187/EB-2013-0198; EB-2014-0244; and EB-2014-0213.

¹³⁷ See Handbook to Electricity Distributor and Transmitter Consolidations, p 15.

¹³⁸ SEC s 2.1.12 and 2.1.13.

¹³⁹ SEC s 2.1.12.

- 1 • SEC further notes that the Board rejected OPG’s proposal for a variance account to
2 track the difference between embedded nuclear ROE and actual Board deemed ROE in
3 any given year as the Board found that this was analogous to an annual cost of capital
4 update which is not consistent with Handbook.¹⁴⁰ In response, Hydro One submits that
5 its proposed mid-term update is proposed to take place only once, not annually, and is
6 driven by Hydro One’s intent to meet the Board’s requirement that Hydro One charge the
7 customers of the Acquired Utilities the costs to serve them.
- 8 • Hydro One agrees with Staff that using a consistent data set in regards to cost of capital
9 parameters for both the legacy and acquired utility assets at the time of integration is
10 important¹⁴¹ in order to ensure fairness in allocation of costs across legacy and new
11 acquired rate classes. However, in order to ensure that the absolute quantum of costs
12 that are allocated to the acquired classes is appropriate (as required by the Board’s
13 direction in relation to the acquisitions), Hydro One needs to be able to update those
14 elements for 2021.
- 15 • Staff, SEC¹⁴² and CME¹⁴³ question why Hydro One would update cost of capital and load
16 forecast for 2021 but not its capital and OM&A forecasts. Hydro One’s response to this is
17 that Hydro One has worked to balance (i) the Board’s requirement to charge the
18 customers of the Acquired Utilities the costs to serve them, and (ii) the Custom IR
19 requirements which only allow an index adjustment of costs and minimal updates. Hydro
20 One struck this balance by proposing to update cost of capital, for which adjustments will
21 be mechanistic and based on externally set parameters,¹⁴⁴ and to update load forecast
22 because this simply requires a refresh of Hydro One’s load forecast based on the
23 methodology as approved by the Board. Unlike OM&A and capital updates, this updated
24 information relies on factors exogenous to Hydro One and does not involve reviewing
25 prudence, which is much more time consuming.
- 26 • Staff suggests that given the relative size and impact of the Acquired Utilities to Hydro
27 One’s legacy demand and costs, “the error and risk should be relatively minor for the

¹⁴⁰ SEC s 2.1.12 and 2.1.13.

¹⁴¹ Staff, p 38.

¹⁴² SEC, p 9.

¹⁴³ CME, p 18.

¹⁴⁴ See D1-2-1, p 1 line 20-22.

1 proposed Custom IR plan of five years¹⁴⁵. Hydro One agrees that differences to cost
2 allocation and rate design arising from an update to the cost of capital parameters and
3 load forecast is not expected to have a material impact on legacy customer rates, but it
4 could have a material impact on new acquired classes' rates given the small size of
5 those franchises. As a result and as explained above, this is why Hydro One believes it
6 is necessary to make the mid-term adjustments proposed.

- 7 • As noted, parties have pointed to the Handbook's statement that a utility that cannot
8 forecast its needs within the first year term should not apply for a Custom IR. To be clear
9 and as stated by Hydro One in the oral hearing, the proposed mid-term updates are not
10 proposed because Hydro One does not have confidence in its forecasts¹⁴⁶. The updates
11 are proposed, as explained above, in order to best meet the Board's requirement that
12 Hydro One charge the customers of the Acquired Utilities the costs to serve them.
- 13 • On load forecast specifically, Hydro One considers that a more accurate forecast for the
14 years 2021 and 2022 can be provided based on information that will be available in the
15 year 2020. This would be instrumental to arrive at a better cost allocation amongst both
16 the new acquired classes and currently existing rate classes in 2021, which is
17 particularly important given that brand new rates are being established for the six new
18 acquired rate classes in that year.

19
20 **Issue 14. Is Hydro One's proposed integration of the Acquired Utilities in 2021**
21 **appropriate?**

22
23 Staff submits that should the OEB approve the integration of demand and assets for the
24 Acquired Utilities rate classes in 2021 as proposed by Hydro One, Staff considers that the
25 methodology proposed by Hydro One in this regard is reasonable, with two caveats. These two
26 caveats, which relate to (i) cost of capital update and (ii) methodological issues relating to load
27 forecast and cost allocation, are addressed under issue 13 above. Other submissions on this
28 issue are discussed under issue 56.

¹⁴⁵ Staff, p 39.

¹⁴⁶ Transcript Vol 2, p 84.

1 **Issue 15. Is the proposed Earnings-Sharing mechanism appropriate?**

2

3 Staff agrees with Hydro One's proposed Earnings-Sharing Mechanism ("**ESM**"), subject to two
4 points of clarification to which Hydro One has agreed in its replies to interrogatories.¹⁴⁷ SEC too
5 agrees with Hydro One's proposed ESM, stating that it is generally consistent with other ESMs
6 that have been approved by the Board.¹⁴⁸ QMA also agrees with the proposed ESM, submitting
7 that it "is a fair and reasonable approach that incents the utility to carefully manage its business
8 and hit its stated financial targets for the benefit of both its shareholders and its customers."¹⁴⁹

9

10 CCC "sees no rationale" for a 100 basis point deadband and submits that earnings above ROE
11 should be shared with ratepayers.¹⁵⁰ CCC also notes that the Board has approved an ESM for
12 Enbridge with no deadband¹⁵¹. BOMA agrees with CCC that the ESM account should not have
13 a deadband.¹⁵²

14

15 The reason for a deadband is to create a greater incentive for a utility to increase productivity.
16 As the Board notes in the Handbook, "Utilities that achieve productivity improvements above
17 what it expected are allowed to keep certain earnings above the approved ROE."¹⁵³ Indeed, the
18 Board went so far as to say that "While an earnings sharing mechanism protects customers
19 from excess earnings, it can diminish the incentives for a utility to improve their productivity, and
20 any benefits to customers are deferred."¹⁵⁴

21

22 With respect to the Enbridge decision, Hydro One notes that the reason the Board eliminated
23 the 100 basis point deadband in the Enbridge proceedings was due to shortcomings in
24 Enbridge's Custom IR, specifically, lack of total cost benchmarking and independent budget
25 assessments).¹⁵⁵ Hydro One submits that those shortcomings are not present in its application.

¹⁴⁷ Staff, pp 39-40.

¹⁴⁸ SEC s 2.4.1, p 19.

¹⁴⁹ QMA, p 8.

¹⁵⁰ CCC, p 8.

¹⁵¹ CCC, p 8.

¹⁵² BOMA, p 39.

¹⁵³ Handbook, p 27.

¹⁵⁴ Handbook, p 28.

¹⁵⁵ EB-2012-0459 Decision and Order p 15.

1 Hydro One also notes that the ESM calculation in the Enbridge proceeding is based on weather-
2 normalized revenue which is not the case in this Application.

3

4 CME argues for a much reduced deadband on the ESM, stating that the deadband should be no
5 greater than the Z-factor materiality threshold and that ratepayers have less certainty and
6 protection under a revenue cap as opposed to a price cap.

7

8 CME also argues that the ESM should be cleared annually, for three reasons: one, holding
9 balances to be rebated to ratepayers until HONI's next rebasing application generates
10 unnecessary intergenerational inequity; two, there is no certainty as to when Hydro One next
11 distribution rate rebasing will take place; and three, Hydro One has proposed to review and
12 dispose of Group 1 deferral and variance accounts as part of the annual updates during the
13 Custom IR term and there would be no issue with including the ESM account in this group.¹⁵⁶
14 BOMA also indicates that any refunds to customers should be made on an annual basis.¹⁵⁷
15 Hydro One's proposal is consistent with the Handbook which states that an ESM "should be
16 based on overall earnings at the end of term, not an assessment of earnings in each year of the
17 term".¹⁵⁸

18

19 **Issue 16. Are the proposed Z-factors and Off-Ramps appropriate?**

20

21 (a) Z-factor:

22

23 Staff submits that the materiality threshold should be increased to \$3 million on a revenue
24 requirement impact basis¹⁵⁹; BOMA also submits that \$3 million would be an appropriate
25 threshold.¹⁶⁰ CME submits that the materiality threshold should be at least \$2 million,¹⁶¹ while

¹⁵⁶ CME, paras 88-92, p 21.

¹⁵⁷ BOMA, p 39.

¹⁵⁸ Handbook, p 28.

¹⁵⁹ Staff, p 42.

¹⁶⁰ BMA, p 39.

¹⁶¹ CME, para 95, p 22.

1 VECC and CCC submit that the materiality threshold should be \$3.75 million¹⁶² and \$4 million
2 respectively.¹⁶³

3

4 Hydro One notes that the materiality threshold established in the OEB's filing requirements is
5 used for more than Z-factor applications. For example, it is also used to determine the
6 appropriate threshold of materiality for discovery in rate hearings, as well as to determine the
7 minimum level of spending for which details must be provided in support of capital projects and
8 programs. Hydro One is therefore agreeable to a \$3 million materiality threshold provided it is
9 applied consistently to all elements of its future applications. Hydro One notes that the OEB has
10 stated its preference that Hydro One file combined applications for its distribution and
11 transmission operations in the future¹⁶⁴ and the \$3 million materiality threshold would ensure
12 alignment with both of Hydro One's regulated businesses.

13

14 CCC also argues that Z-factor relief must be symmetrical such that to the extent something
15 happens that is "outside of the control of management and meet the other criteria, but
16 represents a cost reduction, Hydro One should be required to bring an application forward in
17 order to allow that cost reduction to be credited to ratepayers."¹⁶⁵ Hydro One does not agree.
18 Firstly, Hydro One notes that ratepayers are already protected in the event that there is a
19 material cost reduction through the proposed ESM. Secondly, CCC's proposal is not consistent
20 with OEB guidelines as these do not provide for "symmetrical" Z-factor claims.¹⁶⁶

21

22 (b) Off-ramp proposal

23

24 Staff agrees with Hydro One's proposal to adopt the Board's existing off-ramp mechanism¹⁶⁷,
25 that is, a trigger mechanism with an annual return on equity dead band of plus or minus 300
26 basis points, at which point a regulatory review of the Revenue Requirement arising from Hydro

¹⁶² VECC, p 14.

¹⁶³ CCC, p 10.

¹⁶⁴ As communicated by the OEB in its March 16, 2018 letter to Hydro One.

¹⁶⁵ CCC, p 10.

¹⁶⁶ See s 3.2.8, "Z-factor Claims", OEB Filing Requirements for Electricity Distribution Rate Applications 2016 Edition for 2017 Rate Applications dated July 14, 2016 p 15-16.

¹⁶⁷ Staff, p 43.

1 One's Custom IR may be initiated.¹⁶⁸ BOMA agrees that the existing mechanism is appropriate
2 but submits that a review should be required if there is an annual return on equity of plus or
3 minus 300 basis points.¹⁶⁹ Hydro One notes that BOMA has not explained why there such be a
4 departure from the Board's policy. Hydro One submits that the Board's current off-ramp policy is
5 appropriate and should be applicable to this Application.

¹⁶⁸ A-3-2, p 12. As set out in I-16-Staff 65, ROE would be calculated on Hydro One's regulated distribution operations.

¹⁶⁹ BOMA, p 39.

1 **C. OUTCOMES, SCORECARD AND INCENTIVES**

2
3 **Issue 17. Does the Application adequately incorporate and reflect the four outcomes**
4 **identified in the Rate Handbook: customer focus, operational effectiveness,**
5 **public policy responsiveness, and financial performance?**
6

7 Staff agrees that the Application adequately incorporates and reflects the public policy
8 responsiveness outcome. Staff have concerns with the other three outcomes, but address those
9 concerns in response to other issues, and make no substantive submissions in response to this
10 issue.¹⁷⁰
11

12 Ontario Sustainable Energy Association (“**OSEA**”) submits that Hydro One should be required to
13 achieve more than its target of 1,221 GWh of net energy savings by 2020. A change to net
14 energy savings was not an issue identified on the issues list, and there was minimal evidence
15 concerning the issue at the hearing. Hydro One submits that there are other, more appropriate,
16 forums for addressing energy savings issues than a rates application. Certainly before any
17 changes to Hydro One’s already established targets are made, there should be a complete
18 evidentiary record and proper notice to all interested parties.
19

20 **Issue 18. Are the metrics in the proposed additional scorecard measures appropriate**
21 **and do they adequately reflect appropriate outcomes?**
22

23 **Issue 19. Are the proposals for performance monitoring and reporting adequate and**
24 **do the outcomes adequately reflect customer expectations?**
25

26 **Issue 20. Does the Application promote and incent appropriate outcomes for existing**
27 **and future customers including factors such as cost control, system**
28 **reliability, service quality, and bill impacts?**
29

30 Staff is concerned that Hydro One has not provided targets for certain metric in the OEB’s
31 Electricity Distributor Scorecard.¹⁷¹ Hydro One has targets for most metrics. Hydro One does not

¹⁷⁰ Staff, p 45.

¹⁷¹ Staff, p 48.

1 have targets for PEG derived metrics, but has introduced the OM&A per customer and OM&A
2 per kilometre of line metrics to complement the PEG metrics, which it does have targets for.
3 Hydro One also does not have targets for financial ratios. As explained in the response to an
4 SEC interrogatory:

5

6 For the Electricity Distributor Scorecard, consistent with the evidence filed, Hydro
7 One cannot provide targets for the measures in the Financial Ratios Performance
8 Category or measures which are reported by third parties.¹⁷²

9

10 Staff is concerned that the Distribution OEB Scorecard does not contain aggressive enough
11 targets. In particular, Staff submits that the target for Handling of Unplanned Outages
12 Satisfaction% was 76% in 2017 but is only increasing to 77% in 2018 and 78% in 2019.¹⁷³
13 Customer Satisfaction targets were directly addressed by Mr. Pugliese during cross-
14 examination:

15

16 Yeah, maybe I'll jump in on that one. I appreciate the question, but I also think
17 that, you know, if I can just pick on the one, which is the perception survey -- and
18 I think I'm qualified to say this from my several years of work in the customer-
19 service industry -- is that customer perception does not change overnight, nor
20 does it change in a year or two years, so what I would suggest you do is you look
21 at what we have as a trend line in terms of increases to customer service which
22 have actually seen upticks since 2016, and we are forecasting for improvement
23 to see this carry all the way through to 2022, based on the work that we've got in
24 place, on the feedback we receive from multitude of sources from customers.

25 So although the current targets are not as good as what you might see in 2013,
26 in 2014 and '15 the company did underperform in those areas, but it is improving.
27 And those improvements will take time.

28 So it's rather unrealistic to suggest that we could take a target from 2016 or '17
29 and move a 2018 target to as high as it was in 2013. You just don't recover that
30 fast. That's just the reality.¹⁷⁴

31 For the above reasons, Hydro One submits that the Handling of Unplanned Outages
32 Satisfaction targets are appropriate as are other customer satisfaction targets. EP similarly
33 submits that Hydro One's customer service scorecard targets are unreasonable because, in
34 some cases, they are lower than certain historic levels. To reiterate, Hydro One has proposed

¹⁷² I-18-SEC-29.

¹⁷³ Staff, p 48.

¹⁷⁴ Transcript, Day 5, June 18, p 117, l 15 to p 118, l 8.

1 increasing targets for every year of the plan. Its goal is to get customer service back on track. It
2 would be unreasonable, and counterproductive, to include targets that cannot be met due to the
3 nature of the customer satisfaction surveys. Maintaining and improving customer satisfaction in
4 circumstances of unplanned outages must also be placed into a context that extends beyond
5 mere statistical analysis. The measure examines satisfaction when outages occur beyond
6 Hydro One's control. In this application, Staff seek significant reductions in system renewal
7 investments, placing the system at greater risk for more – not less – unplanned outages. Staff
8 provide no explanation how it believes it is reasonable to reconcile greater customer satisfaction
9 when it seeks to have Hydro One's customers effectively bear greater risk of unplanned outages
10 by not allowing system renewal investments that are necessary and due to asset condition.

11
12 The second metric identified by Staff is the pole replacement costs. This issue was addressed
13 by both Navigant and the Asset Management Panel, who explained that pole replacement costs
14 are increasing across the industry due to increases in material costs and increases in labour
15 costs.¹⁷⁵ The rate of increase included in the scorecard is the rate of inflation. Further, Mr.
16 Bowness explained that going forward, the issue that Hydro One is seeking to address is
17 focusing on poles that have the greatest reliability impact.¹⁷⁶ Yet those poles are not necessarily
18 located in the most convenient and most efficient location for replacement and replacement
19 costs are likely to be higher, and not lower, than poles that have been replaced in the past.

20
21 The final metric Staff raised a concern with was Number of Line Equipment Caused
22 Interruptions, which were 7,674 in 2016 and 8,786 in 2017, with a 2018 target of 8,200.¹⁷⁷ Hydro
23 One's 2018 target represents approximately a 7% improvement over 2017 levels. Hydro One
24 submits that is appropriate. With continued improvement, Hydro One expects that the target will
25 drop below 2016 levels in the future.

26
27 Staff also notes that the Team Scorecard contains both Distribution and Transmission
28 measures.¹⁷⁸ Given that the Team Scorecard is a general scorecard used by Hydro One and
29 impacts compensation for all of management, Hydro One submits that it is appropriate to have

¹⁷⁵ Staff, p 48.

¹⁷⁶ Transcript, Day 8, June 22, p 48, ll 8 – 15.

¹⁷⁷ Staff, p 48.

¹⁷⁸ Staff, p 48.

1 both Distribution and Transmission measures on the scorecard. Distribution specific issues are
2 addressed more fulsomely by the other two scorecards.

3
4 Finally, Staff submits that the OEB should direct Hydro One to include more challenging targets
5 in its scorecards.¹⁷⁹ Hydro One's targets are set through a rigorous process involving the Board
6 of Directors and Senior Management.¹⁸⁰ Hydro One submits that process is sufficient over the 5
7 year custom IR period for continuing to ensure Hydro One holds itself to a high standard. Hydro
8 One submits that, given that Staff has not proposed any particular more challenging target, that
9 procedural fairness requires that Hydro One be permitted to make submissions on any
10 particular proposed more challenging target before it is imposed without notice.

11
12 (a) Reliability Issues

13
14 AMPCO submits that Hydro One should be required to use Adverse Weather and Lightning as
15 outage cause codes. Hydro One's witnesses provided a persuasive, and detailed, explanation
16 as to why they do not use those codes:

17
18 MR. JESUS: Yes, that's correct, and the reason why we're doing that is because
19 if we didn't do that, when the responders, or the responders to the incident and
20 they arrive at site, they would look at the tree that has fallen into a line, broken a
21 pole, and they would categorize almost every incident as tree-caused -- sorry, as
22 lightning or adverse weather.

23 And what we're trying to do is prevent them from doing that, so that when they
24 get there they are actually categorizing the outage description as whether or not
25 it is a broken pole, or whether or not there's a tree contact that caused the outage
26 if there is no broken pole, as opposed to everything was weather-related.

27 MS. GRICE: By doing that, are you not over-stating the SAIDI and SAIFI
28 contributions by defective equipment and tree contact because you're putting that
29 data into those two categories?

30 MR. JESUS: The reality is all of those tree contacts are very likely due to
31 weather. So having them then moved into weather would not be useful from a
32 planning point of view. That's why we do that.

33 So you can -- you can separate it into the cause codes that we are area doing, or
34 you can categorize everything as being weather-related or lightning.

¹⁷⁹ Staff, p 49.

¹⁸⁰ A-5-1.

1 MS. BRADLEY: I would actually like to add to that. We can't control the weather,
2 but we do have programs that are intended to mitigate the risk of trees contacting
3 lines, whether it is during a normal sunny calm day or during adverse weather.
4 We can't use this data to do analysis of the things that we can't control, be that
5 through our work programs or through our design standards. If we look at it just
6 saying "weather", it doesn't help us in doing our analysis and developing
7 programs or plans to address what's actually failing on the system.¹⁸¹

8
9 With that said, Hydro One is willing to look at incorporating the other two cause codes – as it
10 confirmed to AESI, and is continuing that process.¹⁸²

11
12 AMPCO submits that Hydro One's SAIDI and SAIFI have "been constant at 7.4 hours and 2.6
13 timers per customer per year."¹⁸³ However, the evidence AMPCO was referencing was based
14 on 2016 data. The evidence now shows that Hydro One's SAIDI has increased from 6.98 in
15 2012 to 7.95 in 2017, an increase of 13.9%.¹⁸⁴

16
17 AMPCO submits that targets beyond 2019 are not included in the Distribution OEB
18 Scorecard.¹⁸⁵ Targets for all measures in the Distribution OEB Scorecard were provided in
19 J1.11.¹⁸⁶

20
21 AMPCO submits that Hydro One is unable to provide "subcomponent equipment performance
22 data".¹⁸⁷ Hydro One tracks defects in equipment subcomponents. Given that this equipment is
23 repaired on a defect basis, it is unclear what additional data Hydro One could or should be
24 collecting, or the utility of collecting additional data. Hydro One does collect condition data about
25 assets it replaces on a condition basis, such as poles or stations, in those circumstances
26 collection of additional data can inform replacement decisions. It cannot with line equipment
27 because line equipment is replaced on a defect, not condition, basis.¹⁸⁸

28

¹⁸¹ Transcript, Day 8, June 22, p 169, l 9 to p 170, l 14.

¹⁸² B-1-2. Transcript, Day 8, June 22, p 177, ll 14-19.

¹⁸³ AMPCO, pp 15-16.

¹⁸⁴ I-18-SEC-29.

¹⁸⁵ AMPCO, p 47.

¹⁸⁶ J1.11.

¹⁸⁷ AMPCO, p 16.

¹⁸⁸ Transcript, Day 190, ll 1-12.

1 BOMA submits that Hydro One “does not commit to a specific improvement in reliability in the
2 plan.”¹⁸⁹ That is not accurate. The Electricity Distributor Scorecard contains year-by-year
3 reliability targets for the entire plan.¹⁹⁰
4

5 (b) Additional Scorecard Metrics and Reporting
6

7 AMPCO proposes additional scorecard metrics in its submissions.¹⁹¹ Hydro One does not
8 believe the proposed metrics are appropriate. The vegetation management cost per kilometre
9 metric is duplicative of the OM&A cost per kilometre metric. Regarding outages per kilometre,
10 Hydro One already reports on total vegetation caused outages, and Hydro One’s inventory of
11 right of way does not change enough year over year to make this metric non-duplicative.
12

13 AMPCO proposes a number of sustained interruption to large customer metric.¹⁹² Hydro One
14 does not think it is appropriate to have different metrics for different rate classes on its
15 scorecard as it would be difficult to ensure a balanced approach that did not unduly favour one
16 rate class over another.
17

18 AMPCO proposes a job estimate to actual metric.¹⁹³ Hydro One has agreed to, and is continuing
19 to review that metric for inclusion in the scorecard. Hydro One submits that its internal process
20 for evaluating metrics should be allowed to continue rather than having this metric imposed
21 upon it.
22

23 VECC requests that Hydro One report on its “comprehensive” scorecard.¹⁹⁴ Hydro One does not
24 have a comprehensive scorecard. Hydro One assumes VECC is referring to the Distribution
25 OEB Scorecard. Hydro One proposes to report on the Distribution OEB Scorecard at its next
26 application, but is not opposed to reporting on an annual basis.
27

¹⁸⁹ BOMA, p 28.

¹⁹⁰ I-18-SEC-29.

¹⁹¹ AMPCO, pp 47-48.

¹⁹² AMPCO, p 48.

¹⁹³ AMPCO, p 48.

¹⁹⁴ VECC, p 15.

1 **Issue 21. Does the Application adequately account for productivity gains in its**
2 **forecasts and adequately include expectations for gains relative to external**
3 **benchmarks?**
4

5 Staff submits that the Application does not adequately account for productivity gains because
6 “what constitutes a productivity gain as determined by Hydro One’s approach appears to be
7 very subjective.”¹⁹⁵ Hydro One disagrees with this submission, the evidence provided by Hydro
8 One through the Application,¹⁹⁶ responses to interrogatories,¹⁹⁷ and oral evidence¹⁹⁸ make very
9 clear how productivity gains are measured and tracked, and the approach taken by Hydro One
10 minimizes the subjectivity in all of the productivity measures.

11
12 The basis of Staff’s submissions is two-fold. First, Staff submits it is unclear why some savings
13 are productivity gains and others are not. Second, Staff submits “where headcount reductions
14 are involved in these types of projects, it appears that these are often reductions in headcount
15 on the project only with the reduced headcount going elsewhere in Hydro One rather than actual
16 overall headcount reductions.”¹⁹⁹ Neither submission has merit.

17
18 The only example of any lack of clarity concerning what constitutes a productivity gain cited by
19 Staff is the telecom services contracts initiative.²⁰⁰ Hydro One submits that, contrary to the
20 assertions of Staff, Mr. Lopez’s evidence is very clear concerning how this productivity benefit
21 would be measured:

22
23 Yes. So just resulting in a lower price, if you also delivered a lower volume or a
24 lower quality of service, that wouldn't be productivity. So sitting behind it, there
25 would be other reasons why a lower price in some cases would get in here and a
26 lower price on others wouldn't.

27 If I'm at a lower price, but the quality of the service failed or something was
28 changed, then that again would not qualify as productivity.²⁰¹

¹⁹⁵ Staff, p 51.

¹⁹⁶ Distribution System Plan, Section 1.5.

¹⁹⁷ I-25-Staff-123.

¹⁹⁸ Transcript, Day 1 and 2, June 11 and 12, Evidence of Mr. Lopez.

¹⁹⁹ Staff, p 51.

²⁰⁰ Staff, p 51.

²⁰¹ Transcript, Day 2, June 12, p 54 | 28 to p 55 | 8.

1
2 The above demonstrates the rigour that Hydro One is applying to its productivity initiatives.
3 Certainly, there may inevitably be an element of subjectivity to any productivity measure. That is
4 an inevitability when dealing with productivity initiatives that impact negotiated agreements, but
5 it does not follow from that, that productivity measures are too subjective to be reported. To the
6 contrary, Hydro One is standing behind its productivity measures and reporting them in public
7 disclosure documents, which are externally audited, something it can only do because of the
8 rigor Mr. Lopez and his team devote to determining whether productivity gains have been made.

9
10 Staff also asserts that “whether or not the quality of the service provided by the contract failed is
11 something that could only be determined retroactively.”²⁰² That is incorrect. The service level of
12 a contract, the quality of service level being paid for, is something that is specified in the
13 contract. Mr. Lopez’s evidence is that if that quality of service level is reduced in the contract,
14 then Hydro One is receiving a lower level of service and there has not been a productivity
15 improvement to the extent there is a price reduction as a result of that lower level of service.²⁰³

16
17 Staff also submits that “[o]ne challenge in determining labour savings for these types of projects
18 is the question of whether a productivity gain is considered to arise only if there is an absolute
19 reduction in Hydro One’s overall FTEs, or whether a productivity gain is also considered to be
20 the case even if there is only a reduction in the FTE level in the area of the project, with no
21 overall reduction in FTEs but instead, staff are moved over to other areas of Hydro One.”²⁰⁴
22 Hydro One disagrees that this is indeed a challenge or that productivity improvements based on
23 FTE reductions are in any way unclear.

24
25 The evidence of Mr. Lopez, cited by Staff, was clear, the only way a productivity initiative FTE
26 reduction can be counted is if it results in a “permanent reduction in that activity”, meaning that
27 the number of FTEs that are required to complete that work are reduced, or that but for the
28 productivity initiative, the number of FTEs for Hydro One would be higher.²⁰⁵

29

²⁰² Staff, p 52.

²⁰³ Transcript, Day 2, June 12, p 54 | 28 to p 55 | 8.

²⁰⁴ Staff, p 52.

²⁰⁵ Transcript, Day 2, June 12, p 55, ll 18 to 28.

1 Staff suggests this issue is “subjective” because, as a matter of course, Hydro One may
2 redeploy the reduced FTEs into other open positions within the company. Hydro One disagrees.
3 The positions that the reduced FTEs are redeployed into are open positions that would
4 otherwise have to be filled with new employees if there had not been redeployment. The fact
5 remains that the total number of FTEs is lower than it would be but for the productivity initiative.
6

7 Indeed, Mr. Lopez’s evidence is supported by the evidence of Mr. Bowness on this issue, which
8 evidence was not referenced anywhere in Staff’s submission, as Mr. Bowness testified:
9

10 What I can say is that if we can pull up Staff 123 as an example. What we did
11 with the move to mobile savings is we updated our planned costs within the filing
12 with respect to the move to mobile expected savings, so the business plan
13 reflected those savings right embedded within the business plan and the budget.

14 So by delivering upon the work program we are effectively delivering upon the
15 move to mobile savings. So that's the macro view.

16 However, on a micro level, what we do on a monthly basis is we have about ten
17 different types of work that we assess every month as to how we're performing
18 as compared to the 2015 baseline, so as the example with pole replacements
19 we're looking at how many hours are we spending deploying poles in May of
20 2018 as compared to the baseline of 2015. And then based on that we cost that
21 out at labour rates and we demonstrate a productivity saving, and every month
22 each team on each one of these work streams is doing similar-level bottom-up
23 culminations that culminates in a monthly update that goes to our executive
24 leadership team meeting and on a quarterly basis is reported to our board as a
25 part of our team scorecard.²⁰⁶

26
27 Given that neither of OEB’s rationales for questioning the productivity measures are valid, Hydro
28 One submits that their submission on this issue should be rejected.
29

30 BOMA submits that Hydro One should have to annually report on each productivity initiative
31 identified in the Application.²⁰⁷ Hydro One disagrees. Hydro One is including its productivity
32 savings in its public financial report. Further reporting on an initiative by initiative basis would be
33 unduly burdensome, increase audit costs, and would not provide any benefit to rate payers
34 given that Hydro One is the party at risk for productivity targets.

²⁰⁶ Transcript, Day 8, p 155, ll 3-24.

²⁰⁷ BOMA, p 34.

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Issue 22. Has the applicant adequately demonstrated its ability and commitment to manage within the revenue requirement proposed over the course of the custom incentive rate plan term?

Staff does not make any substantive submissions under this issue.²⁰⁸

BOMA submits that Hydro One “seems to think that it will be able to seek rate relief from the Board for overspend during the term of the IRM plan. Such relief, consistently afforded, would turn the custom IR plan into a multi-year cost of service arrangement...”²⁰⁹ Hydro One is not clear what the basis for this submission is. Hydro One does not believe it will be able to seek rate relief for overspend during the course of the rate period.

²⁰⁸ Staff, p 54.

²⁰⁹ BOMA, p 23.

1 **D. DISTRIBUTION SYSTEM PLAN**

2
3 **Issue 23. Was the customer consultation adequate and does the Distribution System**
4 **Plan adequately address customer needs and preferences?**

5
6 (a) Customer Consultation

7
8 Staff submits that customer consultation was inadequate because “it did not establish a clear
9 enough relationship between the reliability/cost trade off that customers were prepared to
10 accept. This is because as the reliability outcomes were only indicative, customers were not
11 able to comment on a quantifiable relationship between the increases in system reliability and
12 the associated level of capital spending.”²¹⁰

13
14 Hydro One disagrees with the above submission. The purpose of customer consultation is not to
15 obtain specific figures or amounts concerning relationships between reliability and capital
16 spending, or any of the other trade-offs that Hydro One must make when developing a
17 Distribution System Plan. Rather, the purpose was to understand the needs and preferences of
18 Hydro One’s customers so they could be considered, along with other inputs, in the
19 development of the Distribution System Plan. Indeed, the Board criticized another utility for
20 seeking “input to confirm the plan it had already prepared rather than engaging its customers to
21 ascertain their preferred options in the context of [the distributor’s] current cost and reliability
22 situations”.²¹¹

23
24 AMPCO submits that Hydro One should have provided much more information to customers
25 including trend information concerning various causes of outages, and asset condition trends.
26 Hydro One submits that providing this level of detail to customers would be counter-productive.
27 Hydro One cannot expect its customers to be distribution system planners, or to parse various
28 trend information in order to make decisions. Hydro One attempted to strike the right balance
29 regarding the level of detail provided to customers, and the level selected was supported by the
30 subject matter expert – IPSOS.

31

²¹⁰ Staff, p 60.

²¹¹ EB-2014-0116, December 29, 2015, p 8.

1 CME submits that the questions developed by IPSOS and Hydro One were inappropriate
2 because one question was based on a determination made by Hydro One that a rate increase
3 was necessary to maintain reliability.²¹² This submission should be rejected. The questions in
4 the IPSOS survey were hypothetical questions posed in order to obtain customers feedback on
5 certain scenarios. They were not based on determinations or any particular investment plan.
6 CME's dissection of one sentence in one question does not call into question the veracity of the
7 survey results. To the contrary, IPSOS, the independent expert retained by Hydro One, felt that
8 the question was an "accurate and fair way of articulating the question."²¹³ CME did not cross-
9 examine IPSOS on that opinion, or otherwise undermine it in anyway.

10
11 CME submits that other alleged flaws in the customer engagement process, namely the fact that
12 Hydro One did not go back to customers a second time, after the development of the
13 Distribution System Plan, should result in the capital budget being reduced.²¹⁴ This submission
14 should be rejected. It is predicated on an examination of customer needs and preferences in
15 isolation from the other inputs to the planning process including asset condition and system
16 requirements.

17
18 The capital budget reflects a balancing of interests. It is that balancing of interests that is the
19 central tension in the application. CME's approach, of ignoring that central issue to focus on
20 certain inputs in isolation, leads to a distorted view of an appropriate capital budget.

21
22 QMA identified a number of concerns under issues 17 and 23 regarding engagement with its
23 members. As Mr. Pugliese testified at the oral portion of the hearing in response to questioning
24 from the QMA:

25
26 We certainly want to do everything we can to continue to improve the
27 engagement with our large distribution accounts, large customers,
28 manufacturers, and so on. I've actually been out to your neck of the woods a few
29 times, out to chamber of commerce meetings there in Belleville and Kingston,
30 and heard directly from the community there on this very matter.

²¹² CME, p 31.

²¹³ Transcript, Day 5, June 18, p 61, l 22.

²¹⁴ CME, p 34.

1 So what are we doing about it? There is as a few things. I mean, obviously the
2 IPSOS survey is a source and it is a snapshot that allows us to get that sort of
3 quantitative data.

4 What we are finding with the large customers, though, in particular is the
5 qualitative data is really important too, which is the engagement directly with the -
6 - with industry. So I mentioned to you key account representatives with our large
7 customers is now breaking that out geographically, assigning them to various
8 customers, and now having regular program review meetings with the customer.
9 That is something that is early days, it's underway, and you will see more of that.

10 The other phases we introduced, our large customer conferences have been
11 going on for some time in the company. We overhauled that process this year to
12 make that large customer conference more specific to some of the trends and
13 issues that we're hearing from large customers.

14 And as you can appreciate, most of that has to deal with reliability and power
15 quality issues, and so we have our asset team, our planning team, everyone
16 there to deal with that.

17 So -- and then maybe to get your other question is, I think what would be very
18 important is even post this is to get discussions around who, in particular,
19 amongst your group you would want us to engage with, and we should arrange
20 to engage in those meetings as soon and as quickly as possible. If there are
21 significant gaps that you see, allow us the opportunity to look at those, and I
22 assure you we'll act on those and lead on those.

23 It is an area of the business that has now in the last six, eight months gone
24 through a tremendous overhaul, and it's like I was saying to the gentleman
25 earlier, that we change the philosophy of how we are doing business, how we are
26 engaging. We've done a lot with the residential customers. There is a lot of work
27 that needs to be done with large distribution accounts, C&I customers, and small
28 businesses.²¹⁵

29
30 Hydro One looks forward to continuing to work with the QMA and its members going forward,
31 and hopes to continue to improve its engagement with the QMA, its members, and other large
32 power customers.

33
34 BLC submits that "Hydro One failed to adequately advance the interests of seasonal customers"
35 in Hydro One's submissions to the Province regarding affordability. Hydro One does not agree
36 with this submission. As Mr. Merali explained at the hearing:

37

²¹⁵ Transcript, Day 4, June 15, p 180, l 20 to p 182, l 8.

1 Hydro One was trying to address affordability for our customers. In
2 our experience, our R1 and R2 customers were experiencing
3 significant challenges with affordability, and we felt that
4 immediately addressing that was the priority.
5

6 As mentioned, there were four proposals outlined to the provincial
7 government as part of this paper. Three of them would and could
8 provide benefit to seasonal customers. But this one, however, was
9 more specifically targeted at our R1 and R2 customers.²¹⁶

10 ...
11 It was simply a matter of prioritizing the customers that we felt
12 were struggling the most. This proposal was obviously quite
13 costly, and we target -- we made a proposal to target the
14 customers that we felt were struggling with affordability the
15 most.²¹⁷
16

17 This approach to customer advocacy is entirely reasonable. Three of the four proposals that
18 Hydro One put forward were to the benefit of the seasonal rate class. There was only one that
19 was not. Hydro One made an informed decision about which classes of customers needed
20 which forms of rate relief, and then advocated for that relief. While seasonal customers may
21 have preferred more rate relief, the data available to Hydro One, and provided to BLC but not
22 referenced in their submissions, made clear that the R1 and R2 classes had more significant
23 affordability issues than the seasonal class.²¹⁸ That was the basis on which Hydro One
24 conducted its advocacy for its customers, and it was reasonable.
25

26 PWU submits that the Fair Hydro Plan “invalidates the result of the customer engagement
27 process”.²¹⁹ Hydro One does not agree. First, the Fair Hydro Plan and its impact was presented
28 to customers at the 10 community engagement meetings held after the Application was filed.²²⁰
29 At those meetings, customers still identified costs as a significant concern.²²¹ Second, the Fair
30 Hydro Plan provides temporary rate relief, the impact will expire before the end of the 5-year
31 term. Third, the intent of the Fair Hydro Plan was to provide rate relief, not to permit a greater
32 than otherwise acceptable increase in spending.
33

²¹⁶ Transcript, Day 4, June 15, p 144, l 4 to 13.

²¹⁷ Transcript, Day 4, June 15, p 144, l 27 to p 145, l 3.

²¹⁸ J 4.5 and J 11.3.

²¹⁹ PWU, p 8.

²²⁰ [OEB Staff Community Meeting Report](http://www.rds.oeb.ca/HPECMWebDrawer/Record/582843/File/document) for EB-2017-0049 (September 7, 2017), p 24 online at:
<http://www.rds.oeb.ca/HPECMWebDrawer/Record/582843/File/document>

²²¹ [OEB Staff Community Meeting Report](#) for EB-2017-0049 (September 7, 2017), p 15.

1 In PWU's submission, the Fair Hydro Plan, "severs" the link between Hydro One's actual costs
2 and its customers bill impacts. That severing is temporary. It cannot be a basis on which to plan
3 investments. The upshot of the PWU's submissions is, in effect, that Hydro One should spend
4 as much money now as possible while the Fair Hydro Plan is in effect – even though the
5 protections only apply to a subset of Hydro One's customers (R1 and R2 customers). If Hydro
6 One did that, the bill impacts would be even more significant once the Fair Hydro Plan
7 protections expire. Further, the costs of the additional spending would be unfairly borne by
8 Ontario taxpayers. Rather than modify its spending based on external legislative decisions
9 made by the Province, Hydro One submits that it should spend at a sustainable level in order to
10 maintain the condition of its assets, while minimizing the impacts on ratepayers, present and
11 future. That is what it is proposing through Plan B-Modified.

12

13 PWU submits that Hydro One developed Plans A, B, and C after the customer engagement
14 initiative, which were reviewed by Hydro One's Board of Directors.²²² That is not accurate. Plan
15 C was only prepared after the initial review of Plans A and B by the Board of Directors.²²³

16

17 (b) Incorporation of Customer Needs and Preferences

18

19 Staff submits that the incorporation of customer needs and preferences into the Distribution
20 System Plan was inadequate because it does not take into account the impact of the new
21 vegetation management program.²²⁴

22

23 Staff submission is based on a fundamental misunderstanding of the rationale underlying the
24 selected investment plan. This fundamental misunderstanding is that Plan B-Modified was
25 selected "because it represented the minimum possible rate increase required to hold reliability
26 performance constant over the planning period."²²⁵ This is incorrect. Staff's submissions on this
27 point are directly contradicted by the Application, including the overview of the Application and
28 the materials provided to Hydro One's Board of Directors when Plan B-Modified was selected,
29 and the oral evidence of the Asset Management Panel, which expressly and repeatedly rejected

²²² PWU, p 12.

²²³ I-24-SEC-36.

²²⁴ Staff, p. 60.

²²⁵ Staff, p 60.

1 Staff's suggestion that keeping reliability constant was the basis on which Plan B-Modified was
2 selected. As Ms. Bradley and Mr. Bowness testified:

3

4 MS. BRADLEY: The plan that we have is based on achieving a
5 balanced set of outcomes. So we've used the OEB's Renewed
6 Regulatory Framework that focuses on customers, operational
7 effectiveness, public policy responsiveness, and financial
8 performance. It isn't only reliability that drives our investments; it is
9 sustaining our fleet of assets.

10

11 So we didn't do a lot of investigation of scenarios that would focus
12 on only one factor; we focused on the balance of factors for long-
13 term sustainability.

14

15 MR. SIDLOFSKY: But do we agree that status quo reliability is the
16 basis of the Plan B modified proposal?

17

18 MS. BRADLEY: I view the primary driver of the Plan B modified as
19 being to sustain the fleet of assets and not to enable them to
20 deteriorate. We can walk through some of the board materials that
21 we presented when we were going through plan A, B, C and B
22 modified, and in that material,

23

24 I can walk you through where we demonstrated to our board of
25 directors the impact on our fleet and the condition of our fleet as a
26 primary factor in the discussion with our board, and then we came
27 back with Plan B modified to enable that sustained plan.

28

29 MR. SIDLOFSKY: The discussion about the RRFE and improving
30 reliability really only seems to have come up during the hearing,
31 though. My understanding of Plan B modified was that you were
32 maintaining reliability.

33

34 MR. BOWNESS: Sorry, I think something that's important here is
35 between the time of submitting the evidence, which was based on
36 a Board approval around maintaining reliability, we came up with a
37 very innovative approach of implementing our new vegetation
38 management strategy.

39

40 We looked at the cost envelope that was submitted to the Board
41 and we challenged ourselves to do better, and we've committed to
42 doing better.

43

44 If what you're suggesting is that based on being able to achieve a
45 better outcome in a certain area for lower cost would allow us to
46 then degrade the assets from another dimension and do fewer
47 pole replacements of poles that have a high likelihood of failure, I
48 think that is stretch -- what I struggle with is that if we don't replace

1 those poles on a planned basis, they are going to fail -- have a
2 high probability of failure on a reactive basis within the next five
3 years. So the cost of trouble and storm and such will go up.
4

5 So I'm really not seeing the correlation to making a better strategic
6 decision on vegetation management should result in us degrading
7 our asset base, to negatively impact reliability and cost for our
8 ratepayer.
9

10 I think macro-ly there has been some discussion here around
11 Hydro One's reliability performance and comparing to other
12 utilities, and if we could just, you know, for reference pull up the
13 chart within Exhibit A, tab 5, schedule 1, page 35 of 52, this is the
14 summary level SAIDI impact of ourselves as compared to other
15 Ontario LDCs, so if we could just pull that up for a second, page
16 35 of 52.

17
18
19
20

1 So if you look at this, with the exception of the 2013 year, which
2 was -- that was the -- which was a direct impact of most utilities
3 with the ice storm, I think it's fair to say that Hydro One's
4 performance is far poorer for Ontario ratepayers as compared to
5 the other major LDCs. That's the nature of the size of the stack
6 bars. And we are really challenging ourselves to improve our 19
7 reliability. We want to achieve a better outcome. We believe that
8 for the costs that our ratepayers in Ontario pay, they deserve
9 better reliability, and that is why the basis -- that's one of the
10 basises (sic) for our vegetation management strategy is to get this
11 in check. We don't believe that we should be harvesting that
12 savings and degrading the assets and passing on costs to future
13 periods and future generations.

14
15 MS. BRADLEY: But I'd also like to add that I strongly disagree
16 with your strong characterization that reliability was the only thing
17 that was mentioned and that the fleet of assets and condition is
18 only now coming up. In every piece of documentation we have in
19 our business plan, our summary on the top of the second page
20 talks about the need of the plan to appropriately align the needs
21 and preferences of customers, customer rates, and effective
22 stewardship of the distribution system by Hydro One.

23
24 In every board meeting we talk about reliability, we talk about
25 condition of our assets, we talk about being sensitive to our
26 customers and rates. I don't know that I can find any spots in our
27 documentation, whether it to be to the board or to our board of
28 directors, where the fleet of assets and the condition of our system
29 aren't forefront in any discussion that's taking place.²²⁶

30
31 In making its submission in this section, Staff did not allude to any of that relevant evidence.
32 Instead, it asserted, without support, that the "Hydro One's fundamental premise in developing
33 Plan B-Modified was to minimize rates while holding reliability constant."²²⁷ This is a significant
34 misstatement of the evidence and Staff's submissions on this point should be rejected.

35
36 The basis for selecting Plan B-Modified was not holding reliability constant. The basis for
37 selecting Plan B-Modified, as stated on the second page of the overview of the Application was
38 "to avoid degradation in overall system asset condition, to meet regulatory requirements and
39 maintain current reliability levels".²²⁸ As will be discussed later in these reply submissions, the
40 new approach to vegetation management will not address asset condition issues. Those issues

²²⁶ Transcript, Day 9, June 25, p 52, l 13 to p 55, l 15. [emphasis added]

²²⁷ Staff, p 61.

²²⁸ A-3-1, p 2.

1 exist and must be addressed. Staff's proposed reductions will not allow for a sustainable
2 distribution system and will cause undue impact on future generations of ratepayers.

3

4 SEC similarly submits that the basis of Plan B-modified was keeping reliability constant.²²⁹
5 Again, that is incorrect. System reliability was only one of the inputs into the investment planning
6 process.

7

8 SEC submits that it was only after the Board of Directors rejected Plan B that Hydro One
9 considered its customer needs and preferences. This is inaccurate. As Hydro One explained, in
10 response to an SEC interrogatory, the key themes from the customer engagement were
11 provided in advance of prioritization and risk optimization of investment, and before the
12 enterprise engagement on the preliminary list of prioritized investments.²³⁰

13

14 SEC also submits that there was "confusion" amongst the Asset Management Panel members
15 concerning how the customer needs and preferences were considered by Hydro One.²³¹ This is
16 inaccurate. The evidence of Ms. Bradley and Mr. Jesus does not conflict in anyway.²³² Rather, it
17 identifies the multiple points in the investment planning process where customer needs and
18 preferences are incorporated during Hydro One's investment planning process.

19

20 SEC notes that final customer needs and preferences were only available to Hydro One as of
21 August 18, 2016. SEC does not address the evidence which demonstrates that IPSOS's draft
22 customer engagement report was provided to Hydro One on July 18, 2016, and the key themes
23 identified through the customer engagement process were shared with Hydro One's asset
24 management leadership on July 19, 2016.²³³ As Ms. Guiry from IPSOS testified, the data was

²²⁹ SEC at 2.8.12.

²³⁰ I-24-SEC-36.

²³¹ SEC at 2.7.9.

²³² Transcript, Day 7, June 21, pp 25-27 [Ms. Bradley discussing how customer needs and preferences are taken into account during: (i) initial planning stages in May 2016 as reflected in memos to the Board of Directors (p 25); (ii) setting the overall envelope (p 26); (iii) during investment calibration (p 26, ll. 20-28 and p 27, ll. 1-4; and (iv) during prioritization and risk optimization (p 27, ll. 5-18 and p 28, ll. 6-8)]. See also Transcript, Day 7, June 21, pp 28-29 (Mr. Jesus discussing how customer needs and preferences are taken into account during the risk and optimization processes specifically.)

²³³ I-24-SEC-36, p 2.

1 complete by that time, with the exception of some unprocessed data from the “open link” survey
2 that was promoted by Hydro One and completed online by volunteer customers.²³⁴

3
4 SEC submits that Hydro One’s customer engagement process was about “optics” not truly
5 listening to Hydro One’s customers.²³⁵ This allegation has no factual basis, and SEC provides
6 none in its submissions. To the contrary, all of the evidence, including the oral testimony of the
7 customer panel and management’s modification of Plan B, demonstrates the commitment Hydro
8 One has made to its customers and its customer engagement.

9
10 Elsewhere in its application, when discussing reliability, SEC returns to its mischaracterization of
11 the basis for the selection of Plan B-Modified.²³⁶ The same submissions made above in
12 response to Staff address this fundamental mischaracterization.

13
14 SEC submits there was an error in Hydro One’s reliability calculations that formed the basis of
15 Plan B-Modified, and that if the error had not been made, Plan B-Modified would have shown a
16 10% improvement on system SAIDI.²³⁷ That is not accurate. The table in the Application does
17 contain an arithmetic error, but the impact to SAIDI is 1%.²³⁸ That table has since been
18 corrected, updated, and explained in response to an EP interrogatory.²³⁹ In any event, the basis
19 of selection of Plan B-Modified was not its reliability impact, but, as discussed above, “to avoid
20 degradation in overall system asset condition, to meet regulatory requirements and maintain
21 current reliability levels”.²⁴⁰

22
23 AMPCO submits that because reliability is improving due to the new vegetation management
24 program, the Distribution System Plan does not reflect customer needs and preferences.²⁴¹ This
25 submission should be rejected. First, the second and third highest concerns expressed by
26 customers were related to reliability. Second, the reliability improvements are being made within
27 the same budget as was originally put forward as part of the Distribution System Plan. Third,

²³⁴ Transcript, Day 5, June 18, p 65, ll 16 to 22.

²³⁵ SEC, p 24.

²³⁶ SEC s 2.8.6.

²³⁷ SEC s 2.8.3.

²³⁸ A-3-1, p 16: $(0.2*7\%+0.2*0\%+1.6*(-5\%)+2.0*8\%)/7.3 = 1\%$.

²³⁹ I-18-EP-17.

²⁴⁰ A-3-1, p 2.

²⁴¹ AMPCO, p 46.

1 this Board has laid out its expectation that Hydro One improve reliability without increasing
2 cost.²⁴² If the result of forecasting reliability improvements is that budgets are cut further until
3 those improvements can no longer be made, then Hydro One will never be able to improve
4 reliability.

5

6 CME, like others, also misstates the basis of the selection of Plan B-Modified.²⁴³ As discussed
7 above, the basis was not a fixation on keeping reliability constant. It was, as is stated throughout
8 the Application and other evidence, “to avoid degradation in overall system asset condition, to
9 meet regulatory requirements and maintain current reliability levels”.²⁴⁴

10

11 BOMA submits that the Application does not reflect Hydro One’s customers’ needs and
12 preferences.²⁴⁵ That is not the case. There is clear evidence of the consideration and
13 incorporation of customer needs and preferences in the investment level that was ultimately
14 approved by the Board. The process, including the incorporation of customer needs and
15 preferences is outlined in Hydro One’s Final Argument, Issue 23.

16

17 BOMA submits that the timing of the customer consultation was inappropriate because it
18 occurred too late in the process to be considered by Hydro One’s planners as they had already
19 “made their initial statement of priorities or selection of themes for projects and programs.”²⁴⁶

20 That is not accurate. As discussed above, initial results were available while investments were
21 being optimized. Complete results were available before an investment plan was selected.
22 Hydro One’s planners do not make statements of priorities or select themes. BOMA’s
23 submission implies that the planners are developing investments in a top-down manner. The
24 evidence contradicts that – investments are planned from the bottom up based on the needs
25 that are identified.²⁴⁷

26

²⁴² EB-2013-0416, March 12, 2015, pp 17-18.

²⁴³ CME, p 12.

²⁴⁴ A-3-1, p 2.

²⁴⁵ BOMA, p 12.

²⁴⁶ BOMA, p 16.

²⁴⁷ Distribution System Plan, section 2.1.3.

1 BOMA submits it is not clear what specific changes were made to Plan B-Modified to take into
2 account customer needs and preferences.²⁴⁸ Those changes are clearly laid out in the
3 Distribution System Plan.²⁴⁹

4
5 VECC makes similar submissions concerning the basis for the selection of Plan B-Modified,
6 and, like other intervenors, attempts to ignore the asset condition issues that are driving the
7 capital spending levels and narrowly focuses on reliability. For the reasons discussed above,
8 this is inappropriate and contrary to Hydro One's obligation as asset stewards. Hydro One
9 repeats and relies on the reply submissions, above, in reply to VECC's submissions on
10 customer consultation.²⁵⁰

11
12 EP makes similar submissions and submits that Hydro One should have cut its capital spending
13 when it developed the new vegetation management program.²⁵¹ Again, this submission ignores
14 the basis for the capital spending program, articulated throughout the Application, the materials
15 provided to the Board of Directors, and the oral evidence.²⁵²

16
17 **Issue 24. Does Hydro One's investment planning process consider appropriate**
18 **planning criteria? Does it adequately address the condition of distribution**
19 **assets, service quality and system reliability?**

20
21 The evidence in the Application demonstrates that Hydro One has adequately considered
22 customer needs and preferences, asset condition, service quality and system reliability.

23
24 (a) Investment Planning Process

25
26 Staff submits that the following information about the risk calibration process is unclear.²⁵³ Hydro
27 One disagrees with each submission and has identified where the information, asserted by Staff
28 to be missing, can be found in the application:

²⁴⁸ BOMA, p 17.

²⁴⁹ Distribution System Plan, section 2.4.

²⁵⁰ VECC, p 17.

²⁵¹ EP, p 8.

²⁵² A-3-1, p 2. Transcript, Day 9, June 25, p 52, l 13 to p 55, l 15.

²⁵³ Staff, p 63.

- 1
- 2 1. when the sessions occur in the project portfolio optimization process – *during the*
- 3 *development of the Distribution System Plan, these sessions were held in Early-Mid*
- 4 *August, a detailed timeline addressing all steps can be found in response to I-24-SEC-*
- 5 *36;*
- 6 2. what evaluation criteria the calibration sessions use – *the calibration criteria were*
- 7 *provided in response to JT 2.9;*
- 8 3. what outcomes the calibration sessions are intended to produce – *Ms. Bradley explained*
- 9 *what the calibration sessions were intended to produce – to align risk assessments*
- 10 *across business units;*²⁵⁴
- 11 4. how significantly the optimized project portfolio is modified during these calibration
- 12 *sessions – the “optimized project portfolio” did not exist when the calibration sessions*
- 13 *took place, as Ms. Bradley testified “[t]he calibration sessions take place before we*
- 14 *prioritize the plan.”;*²⁵⁵ and
- 15 5. what is the resulting impact on the capital investment budget filed as Plan B-Modified –
- 16 *risk calibration does not impact the capital budget, it impacts the assessment of risk*
- 17 *mitigation for each potential project.*
- 18

19 Staff submits that “setting pre-defined financial constraints is contradictory to Hydro One’s
20 claimed bottom-up approach since the spending envelope constrains the amount of money to
21 be spent.”²⁵⁶ At the same time, Staff is concerned that “the case record does not adequately
22 demonstrate that Plan B-Modified was developed by building an optimized bottom-up project
23 portfolio that would simultaneously maintain historical reliability performance and fill the pre-
24 determined spending envelope.” In other words, Staff is concerned that Hydro One uses a
25 spending envelope, but at the same time is concerned that Hydro One has not demonstrated
26 that its plan will fill the pre-determined spending envelope. These submissions are contradictory.

27
28 To be clear, the proposed spending level is the result of the investment planning process
29 described in Hydro One’s Final Argument, Issue 23. The level of spending reflects a balance of
30 customer needs and preferences, system needs and rate impacts, and is ultimately approved by

²⁵⁴ Transcript, Day 9, June 25, p 100, ll 25 to 28.

²⁵⁵ Transcript, Day 9, June 25, p 101, ll 22 to 23.

²⁵⁶ Staff, p 63.

1 the Board of Directors – in this case, after an iterative process and Board of Directors feedback
2 on the proposed plan. The individual investments that comprise the Distribution System Plan
3 are developed independently and built using a bottom-up approach to arrive at an ultimate
4 priority of projects based on the amount of risk mitigated by each project.

5
6 In other words, the final spending level is arrived at through an iterative planning process
7 which is both bottom-up and top-down. The bottom-up approach is focused on individual
8 investment needs driven by asset condition and customer and compliance requirements. Top
9 down, there is a constraint reflecting management’s judgment about the appropriate balance of
10 customer needs and preferences, system needs and rate impacts. For this Application, Hydro
11 One considered three scenarios (Plan A, B and C). After much review and internal dialogue,
12 Hydro One determined that Plan B-modified reflected the best balance.

13
14 (b) Alleged Data Issues

15
16 Regarding data quality issues, a number of intervenors made similar submissions concerning
17 the data quality issues.²⁵⁷ The fundamental problem with the intervenors submissions is that
18 they conflate Hydro One’s access to and ability to use data with a specific tool, the Asset
19 Analytics Tool. Hydro One’s Asset Management Panel made it clear during cross-examination
20 that the Asset Analytics tool is only a tool to access data. It is not the data itself. The Internal
21 Audit Report, Investment Planning Follow-up makes that clear that it has concerns with the
22 Asset Analytics “tool”. Nowhere does it suggest that it is has concerns with the underlying
23 data.²⁵⁸ As Ms. Garzouzi testified:

24
25 From a planners' perspective, we have more data than we've ever had before.
26 These findings, whether they be AG or internal audit, are more about
27 effectiveness of the use of the data and aggregating it into one screen, right, so
28 rather than going to six sources to get the data, are you able to roll it up into one
29 tool to have it at the click of a button for a planner. That is the criticism that you
30 are reading about.²⁵⁹

31

²⁵⁷ CME, p 34; SEC, p 33; AMPCO, p 18; BOMA, p 25; Staff, p 70.

²⁵⁸ JT 3.02, Attachment 2.

²⁵⁹ Transcript, Day 7, p 41.

1 Indeed, the reports that the intervenors rely on, but quote from selectively, demonstrate that
2 Hydro One does not have a problem with its asset condition data, and Hydro One's asset
3 management strategy is largely condition-based. The Internal Audit Report, Auditor General
4 Report 2016 Follow-up, included as part of the Application, found that the Auditor General's
5 recommendations regarding "Quality of Asset Data" and "Quality of Data for Distribution Assets"
6 were both substantially complete and effective.²⁶⁰

7
8 Certain intervenors made other submissions concerning data quality issues. SEC submits that
9 planning data is the central focus of both the Auditor General's Report and the 2017 internal
10 audit follow-up. It is not. In the Auditor General's report, only 3 of the 17 recommendations
11 related to data issues.²⁶¹ In the 2017 follow-up report, the Asset Analytics data item is only one
12 of 18 in the audit action plan.²⁶² It is important to note, when reading the audit reports, the
13 distinction between transmission and distribution and the types of data each system requires in
14 order to make planning decisions, as Ms. Garzouzi explained:

15
16 The context here is data that allows you to operate the distribution system. If we
17 contrast the distribution system with the transmission system, the transmission
18 system is largely automated, largely monitored, and almost every component is
19 maintained.

20 On the distribution system it's not that way. It is a radial system. Some
21 components are run to failure, and largely, it is not operated the same way the
22 distribution -- the transmission system is operated.

23 What I mean by that is it's not a smart system, and so the importance and the
24 latency and the updated data is very important if you are operating a smart grid,
25 for example, but in the case where you are maintaining your assets and you're
26 managing it from a condition perspective, that data, again, is up-to-date and
27 captured, so I think we want to distinguish condition-based maintenance to data
28 that helps you operate your system in real-time or near real-time. So this finding
29 is about operating the distribution system.²⁶³

30

²⁶⁰ A-3-1, Attachment 3, pp 5, 8.

²⁶¹ A-3-1-3.

²⁶² JT 3.02, Attachment 2.

²⁶³ Transcript, Day 7, June 21, p 44, ll 3-21.

1 SEC submits that Hydro One's risk calibration process had flaws, despite the internal auditor
2 finding that risk calibration had moderate success in aligning risk across all investments.²⁶⁴ The
3 SEC's submissions are an attempt to hold Hydro One to a standard of perfection and are
4 without merit. In any organization, there will be room for improvement. Hydro One is
5 continuously improving its practices and operations. The evidence demonstrates that risk
6 calibration has been effective, and will continue to improve over the course of the plan. SEC's
7 attempt to hold Hydro One to a standard of perfection should be rejected as it is illogical and
8 impractical.

9

10 SEC submits that the expressed data concerns, including the recommendations made in the
11 Navigant report, could lead to suboptimal decision making.²⁶⁵ Mr. Grunfeld, the expert who
12 authored the Navigant report, disagreed:

13

14 MR. SIDLOFSKY: So just to turn that around a bit, does that suggest that the
15 lack of a formal governance process or formal data governance process leads to
16 suboptimal project planning decisions?

17 MR. GRUNFELD: Not necessarily.²⁶⁶

18

19 SEC submits that the evidence of Ms. Garzouzi is in conflict with the conclusions of the Auditor
20 General and the Internal Auditor in that Ms. Garzouzi's evidence is that condition data is nearly
21 complete. SEC's submission is predicated on a mis-description of the Auditor General and
22 Internal Auditor conclusions. Ms. Garzouzi is correct that condition data, is largely available, as
23 demonstrated in the evidence filed by Hydro One.²⁶⁷ The Auditor General and Internal Auditor
24 do not dispute that. Their analysis is focused on different issues. Indeed, the Internal Auditor
25 report itself noted that:

26

27 [T]he AA tool are one of many inputs that feed into the development of candidate
28 investments, and that these ARIs are not intended to be used as a replacement
29 for the sound engineering judgment and decisions of the qualified Planning

²⁶⁴ SEC, p 36.

²⁶⁵ SEC, p 32.

²⁶⁶ Vol 6 p89 L21-28.

²⁶⁷ A-3-1, Attachment 3, pp 5, 8.

1 engineers, and is only one step of the broader process which is used in
2 conjunction with physical inspections."²⁶⁸

3 SEC's submission should be rejected.

4 SEC submits that Hydro One's treatment of this issue should raise the Board's alarm. This
5 submission is at odds with the heavy reliance the SEC placed on Hydro One's own internal
6 auditor reports. SEC is simultaneously arguing that Hydro One's internal auditors have found
7 and are addressing important issues, while also arguing that Hydro One is attempting to explain
8 away the issues. It goes without saying that the internal auditors are a part of Hydro One. It
9 should give the Board confidence rather than concern that these internal auditors are following
10 up on work done by the Auditor General, and continuing to address outstanding issues. It is
11 noteworthy that that SEC addressed none of the other internal auditor reports addressing Asset
12 Deployment, Constriction Project Management, or Asset Management & Preventative
13 Maintenance Optimization.²⁶⁹ Nor did SEC address any of the other 17 issues discussed in the
14 investment planning reports.²⁷⁰ Collectively, these reports demonstrate the seriousness with
15 which Hydro One has considered and acted on the Auditor General report.

16
17 SEC criticized Hydro One for not having witnesses from the internal audit department testify at
18 the hearing. Hydro One provided its witnesses panels in advance of the hearing and provided
19 the intervenors with the opportunity to provide comment. Neither the SEC nor any other party
20 raised a concern that the internal audit department would not be testifying.

21
22 BOMA also submits there is "strong disagreement" between Hydro One's internal auditors and
23 planning executives about data issues.²⁷¹ Hydro One submits there is no such strong
24 disagreement. Hydro One's witnesses did not disagree with any of the conclusions of the
25 internal auditor. Rather, they disagree with the intervenors' interpretation of the issues, most
26 notably the failure by the intervenors to recognize the distinction between comments on data
27 issues generally in Hydro One and the Asset Analytics Tool.

28

²⁶⁸ JT 3.02, Attachment 2.

²⁶⁹ JT 3.02 and attachments.

²⁷⁰ JT 3.02, Attachment 2.

²⁷¹ BOMA, p 26.

1 EP also makes submissions regarding asset data.²⁷² EP, unlike others, acknowledges that
2 issues identified by the auditors relate to the asset analytics tool rather than data generally.²⁷³
3 However, EP submits that Hydro One has changed its position regarding the Asset Analytics
4 Tool. That submission should be rejected. Hydro One has always agreed that the Asset
5 Analytics Tool is important, but it is only a tool, it is not the data. Hydro One has the data and
6 used it to prepare the Application – that is what the evidence confirms.²⁷⁴

7

8 (c) AESI Report

9

10 Unlike Board Staff, SEC takes the position that Hydro One has not obtained an independent
11 review of its Distribution System Plan.²⁷⁵

12

13 SEC submits that AESI was “in effect, asked to assist the utility in making the DSP look
14 good.”²⁷⁶ In the course of making that submission, SEC fails to cite AESI’s actual mandate or
15 the conclusions reached by AESI.

16

17 AESI was retained to do the following:

18

19 1. Provide best advice on the structure and format of the stand-alone Distribution System
20 Plan document to show direct and clear alignment of the various components, explicitly
21 showing how the process steps lead to an optimized Distribution System Plan and
22 corresponding capital and OM&A investment programs;

23

24 2. Demonstrate expertise and capability in identifying areas of opportunity to meet the
25 requirements of the RRF and Chapter 5 of the OEB’s Filing Requirements regarding
26 Distribution System Plans;

27

²⁷² EP, p 10.

²⁷³ EP, p 11.

²⁷⁴ JT 3.1-11.

²⁷⁵ Staff, p 71. SEC, at 3.3.34.

²⁷⁶ SEC s 3.3.35.

- 1 3. Showcase that the Hydro One business planning process is based on its business
2 values and strategic objectives, which consider the balance of its work programs and
3 associated risks;
4
- 5 4. Ensure evidence demonstrates alignment between the proposed investment levels,
6 customer engagement results and asset needs; and
7
- 8 5. Identify any inconsistencies throughout the Distribution System Plan including but not
9 limited to the terminology for the different stages of the investment planning and
10 optimization process.²⁷⁷
11

12 Based on its review, AESI concluded that the Distribution System Plan “was prepared in
13 accordance with Good Asset Management Practice, Industry Best Practices and the current
14 Chapter 5 Filing Requirements.”²⁷⁸ AESI also concluded that it was “impressed with the
15 reliability and robustness of the Asset Management Process”, and that “Hydro One has also
16 illustrated an appropriate alignment between the proposed investment levels, customer
17 engagement results and asset need.”²⁷⁹
18

19 Despite the above conclusions, the SEC chose not to cross-examine AESI on the above
20 conclusions. Instead, SEC now submits that AESI were “not asked to do was ensure that the
21 investment plan levels were actually aligned with customer engagement result and asset
22 needs.”²⁸⁰ That submission flies directly in the face of the conclusions of the expert, whose
23 evidence the SEC elected not to test through cross-examination. The SEC’s submissions on the
24 AESI report should be rejected.
25

26 CCC submits that AESI was not retained to do an independent review of the “asset
27 management plan or HON’s planning processes.”²⁸¹ That is not what Hydro One was directed to
28 obtain in the last decision. Rather, Hydro One was directed to prepare a “consolidated
29 Distribution System Plan, with either an independent third party review of the Plan if conducted,

²⁷⁷ I-24-SEC-46, Attachment 1, p 2.

²⁷⁸ Distribution System Plan, Section 1.6, Attachment 4, p 2.

²⁷⁹ Distribution System Plan, Section 1.6, Attachment 4, p 2.

²⁸⁰ SEC at 3.3.36.

²⁸¹ CCC, p 12.

1 or an explanation of the decision not to conduct such a review.” Hydro One prepared a
2 Distribution System Plan, and obtained a third party review, which is what it was directed to do
3 by the Board.

4
5 (d) Optimization
6

7 SEC submits that a problem with Hydro One’s investment plan is that only 23% is optimizable.
8 That is because the other 77% is required by demand programs or projects. In other words,
9 Hydro One does not have any discretion in whether to complete 77% of its capital program. The
10 reason this is down from 32% in the last plan is because Hydro One has listened to its
11 customers and cut its capital program as much as possible while still maintaining the condition
12 of its assets. Asset condition is the fundamental driver of system renewal investments and these
13 cannot simply be downplayed or ignored. Again, the right approach that has been adopted by
14 Hydro One is to balance these needs along with those expressed by customers, including rate
15 impacts and reliability.

16
17 AMPCO makes a similar submission.²⁸² Again, the low level of possible optimization is a
18 reflection of the lean nature of Hydro One’s capital plan.

19
20 BOMA questions why “top level financial guidance from the senior executives is not made
21 available to planners.”²⁸³ Hydro One’s planners develop investments, financial guidance is
22 irrelevant to the development and assessment of investments. Indeed, providing such
23 information would simply encourage top down, rather than bottom up, planning.

24
25 BOMA also submits that Hydro One’s planners are in an “ivory tower” within the company.²⁸⁴
26 That was directly contradicted by the evidence of Ms. Bradley, the vice-president of planning,
27 and Mr. Bowness, the vice-president of Distribution:

28
29 MS. BRADLEY: Redirection doesn't happen on a project-by-project sort of swap
30 basis. We meet monthly and talk about the number of factors that result in
31 changes each month. It could be changes due to storm activity. It could be

²⁸² AMPCO, p 22.

²⁸³ BOMA, p 26.

²⁸⁴ BOMA, p 26.

1 changes due to customer needs have changed. It could be a project is being
2 deferred for a reason, you know, customers might not want it in-service at the
3 time. We could have had some environmental factors that led to a delay.

4 So we talk about things that are changing, both adding more needs to the system
5 or the year's budget or plan, and we talk about things that are reducing, so we
6 might have less of something needed because of changes in conditions as well.

7 So it's not like you say, I need to do this project so let's defer this project; we talk
8 about the budget as a whole and the envelope of work and the impact on
9 outcomes as a whole, and make those decisions on a monthly basis.

10 MR. BOWNESS: And the feed-in to that is the process that my team executes on
11 are monthly basis to update forecast based on actuals. You know, an example
12 that I think we spoke to a few days ago was, you know, this year with the two
13 major storms that we had around the 500,000 customer mark. Those were \$40
14 million worth of storms. Our storm budget for the whole year is \$65 million.

15 So we're currently going through a process of looking at which other program line
16 items can be deferred this year out into future years. And that's the type of
17 process we go through on a monthly basis.²⁸⁵

18 (e) Contingency

19
20 BOMA, SEC, and CME make submissions concerning the alleged inappropriateness of Hydro
21 One's project contingency suggesting it is too high.²⁸⁶ Hydro One disagrees with those
22 submissions. The industry standard for project contingency is 10%.²⁸⁷ That is what Hydro One's
23 executing team typically uses when they develop project estimates, and they only develop such
24 estimates when projects are close to execution because of the costs involved in estimating.
25 Until then, Hydro One uses planners' estimates which are based on historical actuals and do not
26 contain any contingency amounts. Projects comprise about 18% of the capital envelope, but
27 only approximately \$129M of the capital projects in the application contain a contingency figure.
28 The difference between different contingency amounts, in light of these figures, is less than \$1M
29 – it is not material.²⁸⁸

30

²⁸⁵ Transcript, Day 9, June 25, p 74, l 9 to p 75, line 9.

²⁸⁶ BOMA, p 23, CME, p47, and SEC, pp 43-35.

²⁸⁷ Transcript, Day 7, June 21, p 98, l 10-12.

²⁸⁸ Transcript, Day 7, June 21, p 98, l 18-22.

1 CCC submits that there is no evidence that Hydro One has the ability to improve its capital plan
2 execution.²⁸⁹ Hydro One disagrees. The evidence on the record does not support CCC's
3 assertion. Consider the testimony of Mr. Bowness.²⁹⁰ Consider the evidence found in the
4 Application. Hydro One has demonstrated significant improvement from 2015 to 2017. In-
5 Service Additions were over approved by \$104.6M in 2015, but were only \$33.2M over in 2016,
6 and in 2017, they were under by \$15M.²⁹¹ This shows a dramatic improvement over a three year
7 period and reflects Hydro One's commitment to do better.

8
9 EP also submits that there is no evidence of improvement.²⁹² Again, Hydro One disagrees.
10 There is a clear trend of improvement over the past 3 years.²⁹³

11
12 (f) Copperleaf
13
14 BOMA submits that the Copperleaf program used by Hydro One to optimize its projects does
15 not have any value, and that Hydro One does not understand how it works.²⁹⁴ BOMA provides
16 no evidentiary references so it is difficult to understand the basis for these comments. Further,
17 there was only limited questioning of Hydro One witnesses about the Copperleaf program, Mr.
18 Jesus testified:

19
20
21 So as part of the Copperleaf system, we are part of the users
22 group that uses Copperleaf and Copperleaf is being used
23 extensively in the utility industry. So we are staying abreast of the
24 developments on that front from a risk assessment point of view,
25 and our risk assessment tools are very much in line with what
26 other utility are doing...²⁹⁵
27

28 Hydro One submits that Mr. Jesus' un-contradicted evidence should be accepted, and there is
29 nothing in evidence, or in BOMA's submissions, that should cause this Board to question Hydro
30 One's ability to use the Copperleaf program.

²⁸⁹ CCC, p 7.

²⁹⁰ Transcript, Day 6, June 19, p 136.

²⁹¹ I-33-AMPCO-52.

²⁹² EP, p 5.

²⁹³ I-33-AMPCO-52.

²⁹⁴ BOMA, p 27.

²⁹⁵ Transcript, Day 9, June 25, p 102, ll 17 to 25.

1
2 BOMA also submits “the priority setting for the next two years should be included in the annual
3 rate adjustment process on a rolling basis, at least for this initial custom IR, otherwise the
4 projects tend to disappear from consideration.”²⁹⁶ Again, Hydro One does not understand this
5 submission, and submits that this proposal lacks sufficient clarity to be accepted by the Board.
6

7 BOMA also submits that assets do not have needs and that projects do not have risks, and
8 suggests that this terminology is unique to Hydro One. Hydro One does not agree, and there is
9 nothing in evidence to suggest this terminology is unusual or inappropriate in any way. To the
10 contrary, it is standard terminology that Hydro One has used for many years.
11

12 **Issue 25. Does the Distribution System Plan adequately reflect productivity gains,**
13 **benefit sharing and benchmarking?**
14

15 (a) Benchmarking
16

17 Staff’s only substantive submission in response to this issue concerns Navigant’s conclusions
18 regarding the Pole Replacement Program. Recall that in Navigant’s opening statement, it
19 cautioned against cherry picking individual statistics from its report to support a particular
20 argument because of the limitations of the available data.²⁹⁷ Instead, Navigant testified that it is
21 more helpful to look at the report as a whole, including its conclusions and recommendations
22 wherein it concluded that “Hydro One’s costs are in line with the average of the comparison
23 group, with low unit costs for inspections and average costs for replacement of poles.”²⁹⁸
24

25 Staff did not reference Navigant’s warning concerning cherry picking of data. Instead, Staff
26 cherry picked two pieces of data in order to suggest that Hydro One’s pole replacement costs
27 were inappropriate.²⁹⁹ Worse than that, Staff cherry picked a single year from both data
28 points.³⁰⁰ This approach should be rejected for the reasons provided by Navigant. Indeed, even
29 within the two metrics cherry picked by Staff, Hydro One did significantly better in the other

²⁹⁶ BOMA, p 27.

²⁹⁷ See the Pole Replacement section under Issue 30 for more details.

²⁹⁸ Distribution System Plan, Section 1.6, Attachment 1, p i.

²⁹⁹ OEB Staff, pp 65-66.

³⁰⁰ OEB Staff, pp 65-66

1 years, that Staff did not reference, and when those other data points are included, Hydro One's
2 performance is again in-line with its peers.

3

4 Relying on this cherry picking of two data points from the Navigant study, Staff submits that it
5 calls into question the extent to which the Distribution System Plan adequately reflects
6 productivity gains, benefit sharing, and benchmarking.³⁰¹ Hydro One submits there is no basis
7 for that submission. Staff does not address any of the conclusions or recommendations from
8 any of the benchmarking studies, or the evidence concerning how those conclusions and
9 recommendations have been incorporated into the Distribution System Plan. It is inappropriate
10 to cherry pick two data points in one of the four benchmarking studies to call into question Hydro
11 One's Distribution System Plan.

12

13 BOMA submits that Navigant made "only a modest effort to obtain data from more sources."³⁰²
14 Hydro One disagrees with this submission. As Mr. Grunfeld testified:

15

16 Because we don't have the ability to compel information from other companies,
17 we had to reach out to other distributors to ask for that information.

18 We approached 45 North America utilities. For a complete list, I'd refer to you to
19 your response to AMPCO interrogatory 19. A total of 20 said yes in addition to
20 Hydro One, so 21 in total. Those companies that said yes are listed in schedule
21 A of our report.

22 Of the companies that did not say yes, some came out and said no and gave us
23 reasons for their decision not to participate, and others just did not respond to our
24 outreach.

25 I should make it clear that not every company that said yes provided data for
26 every metric that we wanted to look at. In fact, it's fair to say that for almost every
27 metric, it's a subset of the 21 companies that provided data that we have in our
28 comparisons.

29 Nonetheless, we felt that we collected enough data to reach certain conclusions
30 about Hydro One's poles and stations program, and those conclusions are
31 summarized in the executive summary of our report on page I. And we also
32 made certain recommendations, which are outlined in the executive summary of
33 our report on page II.³⁰³

³⁰¹ OEB Staff, pp 66.

³⁰² BOMA, p 30.

³⁰³ Transcript, Day 5, June 18, p 134, l 10 to p 135, l 4.

1
2 EP submits that Navigant’s recommendation for the use of dedicated pole replacement crews
3 would reduce costs.³⁰⁴ There may be many good reasons to use dedicated pole replacement
4 crews, and, indeed, Hydro One used dedicated pole replacement crews in 2017,³⁰⁵ but there is
5 no evidence they materially reduce costs.

6
7 **Issue 26. Does the Distribution System Plan address the trade-offs between capital**
8 **and OM&A spending over the course of the plan period?**

9
10 Staff advised that it was satisfied that the DSP adequately addressed these trade-offs given the
11 limitations concerning the potential for trade-offs between capital and OM&A.³⁰⁶

12
13 Both BOMA and VECC submitted that Hydro One did not provide any detailed evidence
14 concerning the maintenance cost savings arising from the capital plan and the potential trade-
15 offs.³⁰⁷ Hydro One disagrees with this submission. It has provided extensive evidence
16 concerning the build-up of the OM&A maintenance programs. Hydro One also provided a
17 detailed, 18 page, “Asset Analytics: Asset Maintain – Refurbish / Repair – Replace Economic
18 Evaluation Model”.³⁰⁸ Neither BOMA nor VECC addressed any aspect of that model, or any of
19 the other evidence cited in Hydro One’s final argument pertaining to this issue.

20
21 **Issue 27. Has the distribution System Plan adequately addressed government**
22 **mandated obligations over the planning period?**

23
24 Staff agrees that Hydro One has adequately allowed for costs to carry out its government
25 mandated obligations.³⁰⁹

26
27 BOMA submits that Hydro One did not address distribution generation in its Application.³¹⁰ That
28 is incorrect - Hydro One did address Distribution Generation in the application.³¹¹

³⁰⁴ EP, p 9.
³⁰⁵ I-25-Staff-126.
³⁰⁶ Staff, p 67.
³⁰⁷ BOMA, p 41; VECC, p 22.
³⁰⁸ I-25-BOMA-B131, Attachment 1.
³⁰⁹ Staff, p 68.

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Issue 28. Has Hydro One appropriately incorporated Regional Planning in its Distribution System Plan?

Staff agrees that Hydro One has appropriately conducted Regional Planning activities and incorporated the resulting capital investment considerations in its Distribution System Plan.³¹² BOMA and VECC also agree that Regional Planning was properly incorporated.³¹³

OSEA submits that the Board should “encourage Hydro One to continue to explore and implement other potential opportunities for DERs where appropriate.” Hydro One does not agree there should be any direction from the Board regarding DERs. Hydro One will continue to explore potential opportunities for DERs and may proceed with implementation if it is feasible, prudent, and cost effective.

Issue 29. Are the proposed capital expenditures resulting from the Distribution System Plan appropriate, and have they been adequately planned and paced?

(a) Development of the Capital Plan

Staff submits that:
the link between expected reliability outcomes under Hydro One’s proposed plans and the respective related capital expenditure plans is still not clear. Each plan involves different levels of expenditure in each of four main programs: poles replacement, stations refurbishment, line component replacement, and vegetation management; yet Hydro One’s overall capital envelope also includes many other capital projects outside of these four programs which appear to be held constant under all four plans.³¹⁴

³¹⁰ BOMA, p 41.
³¹¹ Distribution System Plan, Sections 3.5 and 3.8, ISD SA-05.
³¹² Staff, p 69.
³¹³ BOMA, p 41; VECC, p 22.
³¹⁴ Staff, p 72.

1 The basis of Staff's concern is unclear. There are capital programs that do not have a direct
2 impact on reliability. That was explained numerous times in the evidence and at the hearing. For
3 example, as Ms. Bradley testified:

4
5 The plan that we have is based on achieving a balanced set of outcomes. So
6 we've used the OEB's Renewed Regulatory Framework that focuses on
7 customers, operational effectiveness, public policy responsiveness, and financial
8 performance. It isn't only reliability that drives our investments; it is sustaining our
9 fleet of assets. So we didn't do a lot of investigation of scenarios that would focus
10 on only one factor; we focused on the balance of factors for long-term
11 sustainability.³¹⁵

12
13 Staff submits that it is "unclear if the overall capital envelope was developed based on a bottom-
14 up approach where projects are selected to achieve the minimum risk tolerance threshold that
15 Hydro One is willing to accept, or a top-down approach where the overall capital envelope is
16 predefined based on expenditure trends approved in prior applications."³¹⁶ Hydro One disagrees
17 that this is unclear. It has repeatedly explained, confirmed, and demonstrated that candidate
18 investments are developed in a bottom-up approach, and that the overall investment level was
19 selected "to avoid degradation in overall system asset condition, to meet regulatory
20 requirements and maintain current reliability levels".³¹⁷

21
22 Staff submits that "if one asset is not replaced because of missing data, it may lead to another
23 asset being replaced earlier than would otherwise be the case due to the availability of the
24 funding that would have been used on the asset which would have been replaced, but for the
25 missing data."³¹⁸ In response, it is important to note that the evidence demonstrates that the
26 data necessary for asset planning decisions is available, and therefore the premise of Staff's
27 submission is incorrect. As Ms. Bradley testified:

28
29 And the other point I would make -- and I actually don't believe this
30 is true. But if there was data missing, what that would mean is we
31 don't have visibility to something in poor condition, which would
32 mean it's not in the plan. So the risk that we would have is that

³¹⁵ Transcript, Day 9, June 25, p 52, ll 13-22.

³¹⁶ Staff, p 72.

³¹⁷ A-3-1, p 2.

³¹⁸ Staff, pp 72-73.

1 when it talks a less than optimal investment decision, that would
2 mean we didn't pick up something that needed to be replaced and
3 it failed.
4

5 It wouldn't mean we put something into the plan for which we had
6 no data. So it doesn't suggest that we would have an over-inflated
7 investment plan. If anything, if there was missing data, we
8 wouldn't have things in there.
9

10 But these are factors that people look at separately and bring
11 together with their engineering expertise and judgment. To bring
12 together four or five factors, we used to have to do them all
13 outside of the tool. But we were still aware of the data and the
14 sources. They are just not brought together.³¹⁹
15

16 Staff submits that Hydro One may be prematurely replacing assets due to data issues. As
17 explained in oral evidence, Hydro One only replaces assets that are at end of life.³²⁰
18

19 Finally, Staff submits that as part of its next rebasing application,³²¹ Hydro One should
20 undertake a comprehensive review of its capital project portfolio to identify:
21

- 22 1. Which projects were completed as shown in the forecast
- 23 2. Actual versus estimated cost of each project at completion
- 24 3. Which projects were deferred or eliminated
- 25 4. Reasons for deferral or elimination
- 26 5. Consequences of each deferral or elimination³²²
27

28 The OEB directed Hydro One to produce a report on material variances in its capital program as
29 part of its recent transmission rates application.³²³ If the OEB determines that a variance report
30 is necessary in this case, Hydro One proposes to provide the report in a format consistent with
31 the variance report ordered in EB-2016-0160 so that when the company files a consolidated
32 application for both its transmission and distribution businesses for the 2023-2038 period, both
33 reports can be consolidated into a single document containing the same information.³²⁴

³¹⁹ Transcript, Day 7, June 21, p 48, l 20 to p 49, l 9.

³²⁰ Transcript, Day 7, June 21, p183, ll1-3; Transcript, Day 8, June 22, p 80, l 17 to p 81, l 12.

³²¹ CME supports Staff's submission, CME, p 40.

³²² Staff, p 75.

³²³ EB-2016-0160, September 28, 2017, pp 30-31.

³²⁴ EB-2016-0160, September 28, 2017, pp 30-31.

1
2 EP submits that Hydro One should be required to track budget versus actual costs of its capital
3 projects and report that information to the Board.³²⁵ Hydro One believes the above report will be
4 responsive to the EP request.

5
6 VECC submits that capital plans of a utility have the sole purpose of ensuring safe and reliable
7 distribution of power to customers, and that safety is addressed by the ESA and reliability is
8 addressed by the Board.³²⁶ Hydro One submits that it is not an accurate description of the
9 Board's role. Nor is VECC's narrow focus on reliability data an appropriate method of evaluating
10 the appropriate level of capital investment. Reliability is a lagging indicator and ignoring
11 important information such as asset condition is contrary to prudent utility practice.

12

13 (b) Redirection

14

15 Staff broadly asserts that "it does not appear there are negative consequences to SAIDI in this
16 case, when capital projects are deferred."³²⁷ Hydro One does not agree. Certainly deferring a
17 particular capital investment may not lead to an immediate SAIDI impact as the asset may not
18 immediately fail, or the investment may be focused on an item that is not directly related to
19 SAIDI. However, in aggregate, deferring capital investments will eventually have negative
20 impacts on SAIDI – to suggest otherwise is to suggest that capital investments never have an
21 impact on SAIDI.

22

23 Staff submits that "historically, Hydro One has had relatively stable SAIDI and SAIFI trends even
24 though it has deferred prioritized projects that were deemed to be required in the last DSP."³²⁸
25 However, the evidence Staff was referencing was based on 2016 data. The evidence now
26 shows that Hydro One's SAIDI has increased³²⁹ from 6.98 in 2012 to 7.95 in 2017, an increase of
27 13.9%.

28

³²⁵ EP, p 32.

³²⁶ VECC, p 23.

³²⁷ Staff, p 74.

³²⁸ Staff, p 73.

³²⁹ I-18-SEC-29 (updated May 4, 2018).

1 Staff also submits, in support of its submissions on deferral of investments, that 8% of Hydro
2 One's capital investments were deferred in the past plan period.³³⁰ The fact that 8% of capital
3 projects were deferred cannot support the proposition that deferring capital projects does not
4 have any negative consequences. The impact of capital project deferral is determined by the
5 projects that are deferred. If Hydro One deferred 100% of its capital projects, no capital work
6 would be completed and there would be enormous impacts. Alternatively, if Hydro One deferred
7 0.001% of its capital projects, there would be no noticeable impact whatsoever. The actual level
8 of deferral, which is necessitated by redirection due to unforeseen events such as storms,
9 determines the impact of the deferrals. Hydro One believes a deferral of 8%, meaning 92% of
10 programs and projects that were planned were completed is necessary and reasonable given
11 the nature of the distribution system.³³¹

12

13 It is also important to recall the evidence of Mr. Bowness concerning the rolling nature of
14 deferrals, evidence given in response to Staff's questioning on this very point but not addressed
15 by Staff in their submissions:

16

17 So I think what we need to look at is we need to look at the rolling nature of the
18 deferrals. So when we have something that's redirected out of this calendar year,
19 we target to do it is as early as possible the following calendar year. And yes,
20 that's going to push something out that's in the last quarter of next calendar year,
21 out into the first quarter of the following calendar year.

22 So by deferring something, it's not necessarily taking it and moving it out five
23 years; it's about rolling it ahead into a future one-year plan.

24 If you look at the items that are within this distribution station scenario, the items
25 that were in the 2015, '16, '17 period would have a high probability, and subject
26 to check, of things that we're doing within 2018 and 2019. So it's not that they are
27 far beyond the delivery period; it is within a year or two of when we want to do it,
28 and that's the basis of the decisions that we have when we go into redirection.

29 There are some scenarios, though, when we get into redirection and we say, you
30 know what, we just can't afford to push that work out into future years. And that's
31 where we have to make a conscious decision as to whether we will need to go
32 over our capital envelope and then we will need to come in to true-up and secure
33 that over-allotment in future submissions.

³³⁰ Staff, p 74.

³³¹ Transcript, Day 9, June 25, p 81, ll 13-21.

1 But we really try to work within our means and manage within our means as best
2 we can.³³²

3
4 BOMA supports giving the company discretion to promptly “redirect funds in the event a project
5 is stalled for reasons beyond the company's control, or to deal with a suddenly emerging urgent
6 need, subject to complete documentation being retained and made available to the Board and
7 stakeholders in the following annual rate adjustment proceedings.”³³³ Hydro One is uncertain
8 what BOMA envisions when it says “complete documentation”, but Hydro One agrees, and
9 submits that it has, provided documentation evidencing that redirection when it occurs, and
10 Hydro One will continue to do so in the future. Further, as discussed above in response to
11 submissions from Staff, Hydro One has agreed to provide reporting similar to the reporting
12 ordered in its last Transmission decision on its capital program.

13
14 CME submits that Hydro One's practice of redirection makes evaluation of Hydro One's
15 performance difficult.³³⁴ It is important to note that redirection of funds is not in any way unique
16 to Hydro One. Every business does that based on changing circumstances. As the Rate
17 Handbook states, “Planning is an ongoing utility activity, not just something done to prepare for
18 an application.”³³⁵

19
20 QMA submits that capital expenditures necessary to address the PCB contaminated equipment
21 during the forecast years should not be put in jeopardy and be left to future rate payers.³³⁶
22 Hydro One agrees with that submission.

³³² Transcript, Day 9, June 25, p 78, l 19 to p 79, l 18.

³³³ BOMA, p 24.

³³⁴ CME, pp 39-40.

³³⁵ Rate Handbook, p.12.

³³⁶ QMA, p 13.

1 **Issue 30. Are the proposed capital expenditures for System Renewal, System**
2 **Service, System Access and General Plant appropriately based on the**
3 **Distribution System Plan?**

4
5 (a) Pole Replacement Program

6
7 Staff and many intervenors made submissions concerning Hydro One's wood pole replacement
8 program. However, none of the submissions offered by any of the intervenors have called into
9 question two basic facts that demonstrate the reasonableness of Hydro One's requested budget
10 for its Pole Replacement Program. Namely:

- 11
12 1. The wood pole replacement rate, reflected by the investment amount in the Pole
13 Replacement Program, will maintain, but not meaningfully improve, the condition of
14 Hydro One's wood poles,³³⁷ and
15 2. As found by Navigant, an independent expert, Hydro One's "costs are in line with the
16 average of the comparison group, with low unit costs for inspections and average costs
17 for replacement of poles."³³⁸

18
19 The individual submissions are addressed below, based on the following three main themes: (i)
20 rate of replacement, (ii) cost of replacement, and (iii) inclusion of a refurbishment program as an
21 alternative to replacement.

22
23 *i. Rate of Replacement*

24
25 Staff submits that a certain number of the 12,000 wood poles that are replaced each year as a
26 result of other work programs, aside from the Pole Replacement Program, will be poor condition
27 poles allowing for a reduction in the number of planned replacements under the Pole
28 Replacement Program.³³⁹ This submission lacks merit. As Ms. Garzouzi testified, there is no
29 way of knowing for sure how many poor condition poles will be replaced under these other work
30 programs.

³³⁷ Transcript, Day 8, p 114 | 19 to p 115, | 7.

³³⁸ Distribution System Plan, Section 1.6, Attachment 1, p i.

³³⁹ OEB, p 78.

1
2 As an example, Hydro One has about 1.6M wood poles.³⁴⁰ Approximately 106,000 poles need
3 to be replaced because they are in poor condition (i.e., they have failed testing criteria and are
4 at end of life)³⁴¹ or are the subset red pine poles that do not meet CSA standard for penetration
5 and retention of treatment. In other words, approximately 6.6% of Hydro One's wood pole fleet
6 needs to be replaced.

7
8 Given that Hydro One will be performing about 12,000 wood pole replacements outside of the
9 wood pole replacement program each year, that means that only approximately 800 (6.6% of
10 12,000) additional wood poles that need to be replaced will be replaced each year due to other
11 programs. This estimate assumes that the poles replaced have the same frequency of poor
12 condition poles as the entire population, and that the 12,000 estimate is accurate (which it may
13 or may not be given that some of those programs depend on variables outside of Hydro One's
14 control, such as weather).³⁴² Over the 5 years of the plan, that means that only an
15 approximately additional 4,000 of the 106,000 wood poles that need to be replaced will be
16 replaced due to the other work programs.

17
18 AMPCO, like Staff, suggests that replacement of wood poles through other work programs
19 should reduce the Pole Replacement Program. The submissions provided in response to Staff
20 should be referred to in response to those submissions. AMPCO does make a mathematical
21 error in its submissions. It suggests that 2,400 additional wood poles in poor condition will be
22 replaced every year due to other programs.³⁴³ That is incorrect. AMPCO made this error
23 because it calculated the number of poles to be replaced over the 5 year term, and then added
24 that to the yearly replacement total.³⁴⁴ As a result, it over counted by a factor of 5.

25
26 SEC submits that Hydro One will be unable to complete its projected wood pole replacements
27 and that a different maximum number should be arbitrarily selected.³⁴⁵ There is no evidence to
28 support this contention. It was not that Hydro One was unable to complete the number of poles

³⁴⁰ I-24-AMPCO-23, Attachment 1.

³⁴¹ Transcript, Day 8, June 22, p 81.

³⁴² Transcript, Day 9, June 25, p 91, ll 15-23.

³⁴³ AMPCO, p 37.

³⁴⁴ AMPCO, p 37.

³⁴⁵ SEC, p 53.

1 that were planned (even though the program was 91% achieved), it was that money was
2 needed for other demand projects, such as storms, and therefore Hydro One could not
3 complete all of the pole replacements that it planned. If SEC's submission is accepted, it will
4 result in an unsustainably low replacement rate for wood poles.

5
6 AMPCO also submits such a significant increase in pole replacements beginning in 2019 is not
7 supported and that the Board should make a cut to Hydro One's Pole Replacement
8 Program.³⁴⁶ AMPCO suggests that Hydro One should continue to replace its wood poles at the
9 historical average rate of replacement since condition has been improving at this rate of
10 replacement since 2008 and there is a lack of evidence that pole reliability performance is
11 deteriorating over time.³⁴⁷ Hydro One submits this is an unreasonable approach to wood pole
12 replacement. Hydro One's pole condition has not improved since 2008. There was a
13 classification change. Evidence of that classification change was provided in the last distribution
14 rate application under IR I-3.02-3PWU7. In this proceeding, Hydro One has provided evidence
15 that the condition of its wood poles has remained stable since 2014.³⁴⁸ Furthermore the number
16 of outages per year related to poles has been increasing.³⁴⁹ Reliability is a lagging indicator,
17 reliability problems with wood poles only occur when the poles failure, which leads to higher
18 replacement costs and safety concerns as well as significant reliability impacts.

19
20 AMPCO notes that Navigant made a recommendation concerning pole testing.³⁵⁰ Hydro One is
21 acting on that recommendation,³⁵¹ however, more extensive testing will only find further
22 problems with poles, it will not reduce the number of poles in poor condition – it will increase the
23 number.³⁵² It will also increase testing costs, which are an OM&A expense. For this reason,
24 Navigant's recommendation concerning pole testing is not a basis to reduce Hydro One's pole
25 replacement program.

26

³⁴⁶ AMPCO, p 3.

³⁴⁷ AMPCO, p 30.

³⁴⁸ I-24-AMPCO-23, Attachment 1.

³⁴⁹ I-29-AMPCO-28, p 2.

³⁵⁰ AMPCO, p 38.

³⁵¹ I-25-Staff-126. See also: Transcript, Day 9, June 25, p 22-23.

³⁵² Transcript, Day 9, June 25, p 23, l 18 – p 24, l 1.

1 AMPCO submits that Hydro One has not provided “any underlying empirical evidence” on
2 testing results.³⁵³ It is unclear what is meant by this submission. Hydro One has provided its
3 asset condition data, and responded to all requests for additional information concerning poles
4 through interrogatories or undertakings.

5
6 AMPCO submits that there is a “data gap regarding pole information”. There is no such data
7 gap. The evidence demonstrates that Hydro One has complete pole condition data.³⁵⁴

8
9 AMPCO submits that “Navigant does not recommend that Hydro One increase its spending on
10 pole replacements.”³⁵⁵ That is not accurate. Navigant testified that they do not make
11 recommendations concerning pole replacement rate.³⁵⁶

12
13 AMPCO submits that the number of wood poles found to be in poor condition each year will be
14 approximately 9,000. The evidence relied on by AMPCO is out of date. Based on recent trends
15 in pole condition information, Hydro One updated it in response to a PWU interrogatory.³⁵⁷ That
16 updated evidence was confirmed to be correct³⁵⁸ by Ms. Garzouzi at the oral hearing.

17
18 VECC submits that it is problematic that Hydro One replaces poor condition poles, because, as
19 a result, Hydro One is not assessing whether all poles assessed to be in poor condition are at
20 an elevated risk of failure.³⁵⁹ Hydro One disagrees. A pole found to be in poor condition no
21 longer meets the Canadian Standards Association (“**CSA**”) requirements, which warrants the
22 replacement of the pole due to its increased risk of failure. VECC’s submissions on this issue
23 are, in essence, requesting that Hydro One ignore CSA guidance and conduct its own review of
24 CSA requirements which is unnecessary. If Hydro One were to stop replacing poor condition
25 poles, it would lead to significant reliability and safety consequences.

26

³⁵³ AMPCO, p 38.

³⁵⁴ JT 3.1-11.

³⁵⁵ AMPCO, p 37.

³⁵⁶ Transcript, Day 6, June 19, p 67, ll 19-25.

³⁵⁷ I-29-PWU-11.

³⁵⁸ Transcript, Day 7, June 21, p 149.

³⁵⁹ VECC, p 30.

1 AMPCO submits that Hydro One does not use hazard rates or curves to justify making specific
2 asset replacement decisions.³⁶⁰ That is accurate. Hazard curves are used to identify population
3 characteristics of survival, failure rates probabilities of failure and expected service life. They are
4 not used to make asset specific replacement decisions. Condition assessments together with
5 other risk factors, e.g. obsolescence, criticality or customer, environmental impacts,
6 performance, and utilization are used to make asset specific replacement decisions.

7
8 *ii. Cost of Replacement*
9

10 SEC submits that Navigant changed its evidence concerning pole replacement costs. That is
11 contradicted by the evidence. In Navigant's report it concluded that Hydro One's replacement
12 costs were "average".³⁶¹ During its opening statement, Navigant cautioned against cherry
13 picking individual pieces of data from its report in order to attempt to undermine that conclusion,
14 and urged the Board and intervenors to assess the conclusions and recommendations. As Mr.
15 Grunfeld testified:

16
17 I do want to provide a caution about pulling specific data out of our
18 report, because of the limitations of the data that we had to work
19 with. Our sample size, four individual metrics, are small.

20 This is particularly true for some certain metrics. In stations, for
21 example, there are metrics where we only had a handful of utilities
22 to benchmark against Hydro One's performance.
23

24 With that said, we do think we had enough data, and combined
25 with our experience in the industry, to reach the conclusions and
26 recommendations that we did.
27

28 Another example of the limitations of the data is in regard to the
29 pole replacement costs, which is found in section 3.5 of our report.
30 If you look there, you will see that Hydro One's average three-year
31 pole replacement costs from 2012 to 2014 was \$8,266, which was
32 16 percent higher than the mean of the comparison group, which
33 was \$7,105.
34

35 The \$7,105 mean of the comparison group is based on all the 11
36 companies that provided data for that metric, including Hydro One.
37 So nine of the 21 companies that provided data for some of the
38 metrics in our study did not provide specific pole replacement cost

³⁶⁰ AMPCO, p 31.

³⁶¹ Distribution System Plan, Section 1.6, Attachment 1, p i.

1 data, which includes, as an example, say BC Hydro, which would
2 be a good comparator given weather and service territory.

3
4 If you dive deeper into that pole replacement cost data, for
5 example, you can see that there are some issues with the data
6 that arise given the small sample size. So one of the comparison
7 group companies, which is ID number 39 in the report, has a
8 three-year average pole replacement cost of \$185, which frankly
9 doesn't make a whole lot of sense.

10
11 This value is in an order of magnitude different than the other
12 companies that provided data in the comparison group, which
13 range from roughly 4,300 to roughly 10,900.

14
15 If we exclude the data for that company, ID number 39, the mean
16 of the comparison group increases from 7,105 to 7,797, and in
17 which case Hydro One's three-year replacement cost is 6 percent
18 higher.

19
20 In either of those cases, we can't say with statistical confidence
21 that Hydro One's pole replacement cost is different from the mean
22 of the comparison group. And again, this is due to the small
23 sample size and the variability within the sample results.³⁶²

24
25 SEC has attempted to discount Navigant's clear and persuasive evidence on the danger of
26 cherry picking statistics, and instead rely on a single data point to support a reduction in Hydro
27 One's Pole Replacement Program.³⁶³ This submission should be rejected. Navigant concluded
28 that Hydro One's costs were average, and it explained in great detail why, statistically, Hydro
29 One's costs were indistinguishable from average.³⁶⁴ If SEC's submission is accepted, the only
30 result will be that fewer poles will be replaced than necessary for Hydro One to maintain the
31 condition of its poles, and a problem will be unfairly deferred to future generations of rate
32 payers. For those reasons, the SEC's submissions should be rejected.

33
34 AMPCO and CME also ignore Navigant's warning about cherry picking data points due to
35 limitations of the data set and suggests the Hydro One's average historical three year pole
36 replacement costs are 16% higher than the mean of the comparison group – ignoring Navigant's
37 conclusion that the costs are “average... for replacement of poles”.³⁶⁵ Navigant provided

³⁶² Transcript, Day 5, June 18, p 135, l 6 to p 136, l 19.

³⁶³ SEC, p 55.

³⁶⁴ Transcript, Day 5, June 18, p 135, l 6 to p 136, l 19.

³⁶⁵ Distribution System Plan, Section 1.6, Attachment 1, p i.

1 extensive evidence explaining the 16% number that appears in its report, that evidence was not
2 addressed or challenged by AMPCO in its submissions.

3

4 CME inaccurately submits that Hydro One is in the bottom quartile when compared to its peers
5 in terms of program costs. That is directly contradicted by Navigant who found that Hydro One's
6 costs are "in line with the average of the comparison group".³⁶⁶

7

8 VECC submits that Hydro One's budget for wood pole replacements should also be reduced so
9 that its Wood Pole replacement costs are \$6,388 per pole.³⁶⁷ Hydro One disagrees. VECC is
10 proposing a wood pole replacement cost that is approximately \$700 below the average cost
11 found in the Navigant report, which considered data from 2012 to 2014 (and Navigant testified
12 that pole replacement costs are rising across industry).³⁶⁸ As discussed above, the evidence
13 demonstrates that Hydro One's pole replacement costs are average. VECC wants to cut them
14 by almost 23%. VECC submits that this drastic reduction in unit cost, to a level far below
15 anything Hydro One has ever achieved, will drive efficiencies. It will not. It will result in a
16 drastically fewer number of wood poles being replaced, which is unsustainable.

17

18 Like other intervenors, EP makes submissions concerning pole replacement costs.³⁶⁹ Hydro
19 One relies on the submissions above in reply to EP.

20

21 EP also submits that Hydro One's Pole Replacement Program is a "large-scale renovation" to its
22 electrical system.³⁷⁰ Hydro One disagrees with this submission. The number of poles in poor
23 condition at the end of the 5 year plan will be approximately the same as the number of poles in
24 poor condition now – Hydro One is maintaining the condition of its wood poles, not improving it.

25

³⁶⁶ Distribution System Plan, Section 1.6, Attachment 1, p i.

³⁶⁷ VECC, p 31.

³⁶⁸ Transcript, Day 6, June 19, p 110, ll 6-27.

³⁶⁹ EP, p 12.

³⁷⁰ EP, pp 22-23.

1 *iii. Inclusion of Refurbishment Program*

2
3 AMPCO made submissions concerning a wood pole refurbishment program, and its ability to
4 reduce the cost of the wood pole replacement program.³⁷¹ Hydro One disputes this submission.
5 Navigant, the independent expert who recommended that Hydro One consider a refurbishment
6 program, testified “a pole refurbishment program is not a substitute for the pole replacement
7 program that Hydro One is undertaking.”³⁷² Rather, a pole refurbishment program would be
8 additional to the current cost of the pole replacement program. Using Navigant’s approximation
9 of a pole refurbishment costing 1/7th the average pole replacement, the cost of refurbishing
10 10,000 poles would be \$13M of Capital, on top of the cost of the Pole Replacement Program.
11

12 It is important to note that the estimate of 10,000 possible refurbishments out of the existing
13 inventory of poor condition poles is a rough estimate, provided during oral evidence.³⁷³ It is not
14 based on an independent review, or Hydro One analysis. It has limited utility from a planning
15 perspective. Further, the evidence of Hydro One’s witnesses is that the poles that are less
16 suitable for refurbishment are the poles that are scheduled to be replaced.³⁷⁴ Finally, Hydro One
17 has no data on its pole refurbishment costs, the 1/7th of a replacement cost was an estimate
18 provided in oral evidence from Navigant based on questioning from intervenors. It is based on
19 the other utilities that already have a refurbishment program.
20

21 Staff makes similar submissions to AMPCO regarding the use of a pole refurbishment program.
22 Hydro One repeats and relies on the above submissions in response to Staff’s submissions.
23

24 Unlike AMPCO, Staff submits that pole refurbishment should be a capital investment cost.³⁷⁵
25 Hydro One agrees.
26

27 SEC also makes similar submissions to AMPCO regarding the use of a pole refurbishment
28 program. Further SEC submits that Hydro One has taken too long to investigate the

³⁷¹ AMPCO, p 36.

³⁷² Transcript Day 6, June 19, p 13.

³⁷³ Transcript, Day 8, June 22, p 28.

³⁷⁴ Transcript, Day 8, June 22, p 28.

³⁷⁵ Staff, p 80.

1 implementation of a wood pole refurbishment program.³⁷⁶ Hydro One disagrees with this
2 submission. Developing and implementing a wood pole refurbishment program into Hydro One's
3 work streams is a significant undertaking and should not be rushed. Hydro One has considered
4 a variety of different types of refurbishment and is moving ahead with chemical treatment.³⁷⁷
5 This is a reasonable approach and was done in a reasonable time frame. Rushing a significant
6 change to a large capital program would not be prudent.

7
8 VECC also makes submissions concerning a wood pole refurbishment program.³⁷⁸ VECC
9 submits that the average life of a wood pole is between 99 and 144 years. The data does not
10 support that conclusion. Hydro One does not have a single pole that is 99 years old.³⁷⁹ No
11 comparator utility had wood poles that were as old as Hydro One's.³⁸⁰ There is no basis, and it
12 defies common sense and the conclusions of the experts, to suggest that an average wood pole
13 could last for 100 years. VECC then attempts to dispute the expert evidence of Navigant, and
14 suggest that Hydro One should be refurbishing poles that are more than 50 years old. All of the
15 evidence submitted at the proceeding on this issue contradicts this position. VECC also asserts,
16 again without any evidence, that wood poles have improved in quality and newer wood poles
17 are higher quality.³⁸¹ There is no foundation for that conclusion in the evidence.

18
19 BOMA makes similar submissions to other intervenors concerning the wood pole replacement
20 program. Hydro One repeats and relies on its above reply submissions in reply to BOMA's
21 submissions.

22
23 (b) Station Refurbishment

24
25 Like the Pole Replacement Program, Staff and a number of intervenors made submissions
26 concerning the station refurbishment program. Also like with the Pole Replacement Program,
27 none of those submissions, addressed below, undermine two basic facts that demonstrate the

³⁷⁶ SEC, pp 53-54

³⁷⁷ I-25-Staff-122.

³⁷⁸ VECC, p 28.

³⁷⁹ I-35-BOMA-31.

³⁸⁰ Distribution System Plan, Section 1.6, Attachment 1, p i.

³⁸¹ VECC, p 28.

1 reasonableness of Hydro One's requested budget for its Station Refurbishment Program.
2 Namely:

3
4 1. The station refurbishment rate, reflected by the investment amount in the Station
5 Refurbishment Program, will maintain, but not improve, the condition of Hydro One's
6 stations;³⁸² and

7 2. As found by Navigant, an independent expert, Hydro One's costs are "are within range
8 observed across the comparison utilities."³⁸³

9
10 Staff's submits that Hydro One should have detailed engineering for each station
11 refurbishment.³⁸⁴ The submission would lead to higher planning costs, and is based on a
12 misunderstanding of how engineering projects are completed, which is completely unsupported
13 by any evidence and ignores the direct evidence on this very point from Hydro One's Asset
14 Management Panel:

15
16 To go through a Class A estimate say seven years in advance to facilitate a five-
17 year application would contain a lot of risks around, you know, the environmental
18 conditions at the time, the real-estate conditions at the time. You would have to
19 carry the costs associated with preparation of that estimate and potentially
20 acquisition of land and rights to move lines or facilities, so we try to do that
21 estimating in a time where the conditions are going to be similar and reflective of
22 when we built and where we're not going to carry the costs associated with doing
23 enough work to give a plus or minus 10 percent estimate. You don't want to carry
24 those costs for five to seven years before you intend to put a shovel in the
25 ground or build a project.³⁸⁵

26
27 Staff submits that because Hydro One has not produced detailed Class A estimates for projects
28 (that will be inaccurate when the projects are actually executed), Hydro One's capital budget
29 should be reduced.³⁸⁶ Hydro One disagrees. Complete engineering for each of the over 70
30 proposed station refurbishments would not provide the Board with any additional information
31 beyond what has already been provided. Further, the reliability, cost, and potential safety

³⁸² I-35-BOMA-31.

³⁸³ Distribution System Plan, Section 1.6, Attachment 1, p. i.

³⁸⁴ Staff, p 80.

³⁸⁵ Transcript, Day 9, June 25, p 95, l 9 to l 22.

³⁸⁶ Staff, p 80. SEC, p 49, and CME, p 47 raise similar concerns. These submissions are in reply to those concerns as well.

1 consequences when distribution stations fail are high, the benchmarking expert, Navigant,
2 concluded that Hydro One's costs are in-line with its peers, and the asset need is clear based
3 on the number of stations that are at end of life.³⁸⁷ Staff does not address any of this information
4 when requesting a reduction in Hydro One's capital budget.

5
6 SEC raises a concern that Hydro One underperformed on stations in the 2015 to 2017 period,
7 while overspending.³⁸⁸ As explained during oral evidence, that is because Hydro One's previous
8 application significantly underestimated the unit cost of station refurbishments as th epilot of an
9 innovative concept – the integrated modular distribution station or IMDS – did not deliver the
10 savings that were expected. Instead of costing about \$1M per station, they cost about \$1.9M
11 per station.³⁸⁹ Further, the station centric approach that Hydro One adopted, which Navigant
12 approves of, increased costs because Hydro One did more work at each station it
13 refurbished.³⁹⁰ It is important to note that it is the combination of the two factors that caused the
14 increase costs. SEC makes a number of pejorative comments about this explanation. Leaving
15 those aside, estimates are estimates. Sometimes they are under and sometimes they are over
16 final cost. When using a new technology, expected cost savings may not materialize. Hydro
17 One should not be penalized for having an optimistic cost projection in its last application. There
18 is no evidence that the station refurbishment costs were, in fact, unreasonable. To the contrary,
19 Navigant concluded that Hydro One's costs are in line with its peers.

20
21 SEC submits that the Station Refurbishment budget should be cut because they say historic
22 reliability performance of stations has not been bad enough to warrant the requested budget.
23 The investment in the station refurbishment program is based on asset condition. Reliability is a
24 lagging indicator. Indeed, the OEB Handbook recognizes that "in reviewing proposals the OEB
25 will analyze past performance but is more concerned with future performance."³⁹¹ Examining a 3
26 year reliability window in order to make investment decisions is not prudent. Rather, the focus
27 should be on the condition of the assets. All of the assets proposed to be replaced by Hydro
28 One are at end of life, ie they have failed testing, and Hydro One is not planning on improving
29 the total number of stations in that condition over the course of the plan. Rather, Hydro One has

³⁸⁷ Transcript, Day 9, Jun 25, p 92 ll 15-17, and p 96 ll 11-21.

³⁸⁸ SEC, p 47.

³⁸⁹ Transcript, Day 6, June 19, p 144, l 18-26.

³⁹⁰ Transcript, Day 6, June 19, p 144, l 18-26.

³⁹¹ OEB Handbook, p 9.

1 set the spending level to maintain condition.³⁹² To do otherwise would be to unfairly burden
2 future ratepayers with greater expense.

3

4 SEC also submits that Hydro One has provided limited evidence regarding how it has selected
5 stations to be refurbished.³⁹³ Hydro One disagrees. It has provided extensive evidence
6 concerning the Station Refurbishment Program.³⁹⁴ It has answered every interrogatory,
7 undertaking, and cross-examination question. The evidence makes clear that Hydro One has
8 chosen to replace end of life stations.³⁹⁵ This is a reasonable approach, and SEC's submission
9 should be rejected.

10

11 AMPCO submits that the station refurbishment budget should be cut by more than one third or
12 by \$50.7M.³⁹⁶ AMPCO does not address the findings of Navigant that Hydro One's stations are
13 the oldest amongst its peer group. Nor does AMPCO address the fact that the proposed budget
14 is the minimum budget required to maintain the condition of Hydro One's stations. AMPCO's
15 statistical analysis is the wrong approach to assessing station refurbishment as reliability is a
16 lagging indicator. Rather, asset condition should be considered when making replacement
17 decisions. In any event, AMPCO's statistical analysis is inaccurate. AMPCO submits that the
18 replacement rate should be 10 per year, consistent with 2016 and 2017 average.³⁹⁷ However,
19 the average during the last 3 year application (2015-2017) was 16 per year. AMPCO
20 misleadingly excluded the 2015 replacements from its calculation.³⁹⁸

21

22 The result of the cuts proposed by AMPCO would be that Hydro One's station fleet would
23 degrade further, leaving significant costs to be unfairly born by future rate payers.³⁹⁹

24

25 BOMA submits that Hydro One's planners "would err on the high side on estimate for projects
26 three, four, and five years in the future."⁴⁰⁰ There is no evidence to support that. To the contrary,

³⁹² I-35-BOMA-31, and Distribution System Plan, section 3.8, SR-06.

³⁹³ SEC, p 49.

³⁹⁴ Distribution System Plan, section 3.8, SR-06.

³⁹⁵ AMPCO, p 41.

³⁹⁶ AMPCO, p 41.

³⁹⁷ AMPCO, p 41.

³⁹⁸ AMPCO, p 41.

³⁹⁹ I-26-Staff-159.

⁴⁰⁰ BOMA, p 22.

1 Hydro One has been criticized in this proceeding because its planners underestimated the costs
2 of stations in the last application.

3

4 EP also raises concerns with Hydro One's historic station refurbishment, achievement, and
5 uncertainty in cost estimates.⁴⁰¹ Hydro One relies on the comments above in reply to EP's
6 submissions. EP further submits that Hydro One did not disclose its station refurbishment
7 results to its Board of directors. That is not accurate, when Plan B-Modified was selected, the
8 only complete year of data was 2015. Hydro One's 2015 station refurbishment results were
9 included in materials that were provided to the Board of Directors.⁴⁰²

10

11 (c) PCB Line Equipment

12

13 SEC submits that Hydro One's PCB line equipment costs are inflated based on its historical
14 performance. This is based on a projection from an assessment of historic costs. Ms. Garzouzi
15 explained the problem with assessing PCB Line Equipment costs based on historical trends –
16 the work is not like for like:

17

18 If we look at the trends, so if what you're getting at is the unit price, I don't agree
19 that it's getting worse. I think that it depends on the mix. So this is a program that
20 addresses pole top transformers that are contaminated with PCB, and there was
21 a pad-mounted element to this historically, so there was pad-mounted, pole-
22 mounted. In some instances the pole is also being replaced, which could affect
23 your unit cost, so if you consider the pole top and the pad, I don't think that there
24 is a unit price trend that can be correlated here. I would say that it's average
25 price.⁴⁰³

26 The PCB Line Equipment work must be completed by 2025 – it is a legal requirement. If the
27 budget is cut so that the work cannot be done during this rate period, then there will be a
28 significant cost in the next rate application for this work, which is unreasonable from a planning,
29 execution, and pacing perspective.

30

31

⁴⁰¹ EP, p 7.

⁴⁰² I-3-SEC-4, Attachment 3, p 24.

⁴⁰³ Transcript, Day 6, p 146, l 17, p 146, l 27.

1 (d) Distribution Lines Sustainment Initiatives

2
3 Like other investments, a number of intervenors have proposed cuts to the Distribution Lines
4 Sustainment Initiative investment based on a review of historic spending and achievement. As
5 discussed elsewhere – this is not the appropriate way to plan investments. It ignores the asset
6 needs, and the balancing exercise undertaken by Hydro One in order to arrive at a particular
7 level of investment. It is also contrary to guidance from the OEB Handbook, which reads:

8
9 The OEB sets just and reasonable rates based on a total revenue
10 requirement that is informed by an assessment of a utility's spending
11 proposals. If the OEB determines that a specific project or program has not
12 been adequately justified, this may result in a reduction to the requested
13 revenue requirement. It is the utility's responsibility to operate its system, and
14 undertake the projects and programs it needs to meet performance
15 requirements, within the funding provided through rates. This provides the
16 utility with the responsibility and flexibility to meet its obligations in ways
17 which benefit customers and the utility.⁴⁰⁴

18
19 AMPCO asserts that Hydro One has not justified its expenditures on Distribution Lines
20 Sustainment Initiatives. Hydro One disagrees, it has provided extensive evidence concerning
21 the need for these initiatives and their cost.⁴⁰⁵ AMPCO does not reference any of that evidence,
22 and instead asserts that the costs are not justified. Without any commentary from AMPCO
23 regarding the evidence submitted by Hydro One, it is difficult to understand their concerns with
24 the justification offered in that evidence. In any event, Hydro One submits that the evidence
25 speaks for itself and supports the requested funds.

26
27 SEC submits that Hydro One's proposed increase in rate of replacement is unfeasible. Hydro
28 One disagrees. SEC's premise is that Hydro One does not have the ability to ramp up based on
29 past performance, and that increase is not warranted as reliability has remained stable at
30 current replacement rate.⁴⁰⁶ Hydro One completed fewer projects than planned due to
31 redirection, not because it cannot actually complete the projects. As discussed elsewhere,

⁴⁰⁴ OEB Handbook, p 9.

⁴⁰⁵ Distribution System Plan, Section 3.8, SR-12.

⁴⁰⁶ SEC, p 52.

1 Hydro One had a significant number of unexpected expenses that required redirection. As a
2 result of redirection, fewer Large Line Sustaining Initiatives were completed than planned.

3
4 SEC submits that there should be a 1/3rd reduction in the budget – that will result in 1/3rd the
5 number of projects being completed. The projects identified are necessary for Hydro One to pro-
6 actively address distribution lines that have problems with multiple components.⁴⁰⁷ Without
7 these proactive replacements, Hydro One will be required to address problems with these
8 components reactively, which will increase costs and begin degrade reliability.

9
10 (e) Smart Meter Replacement

11
12 SEC submits that Hydro One’s entire budget for smart meter replacement should be disallowed.
13 In support of this submission, SEC submits that Hydro One did not provide any evidence that
14 meters have a higher than expected failure rate.⁴⁰⁸ That is incorrect. The evidence at the
15 hearing was that the failure rate of smart meters is approximately 2% per year, 4 times greater
16 than what was expected.⁴⁰⁹

17
18 SEC submits that Hydro One should do “analysis” about the replacement of smart meters. It is
19 left unclear what analysis Hydro One could possibly perform to satisfy SEC. Hydro One is
20 legally required to have functioning meters. There are no early indications for failure, and there
21 are no other utilities with an older fleet of smart meters.⁴¹⁰ Hydro One submits that, for the
22 reasons provided in the Argument in Chief of Hydro One Networks Inc., July 20, 2018 at pages
23 104 to 105, the Smart Meter Replacement is necessary and prudent.

24
25 AMPCO submits that Hydro One should not replace any smart meters.⁴¹¹ Like SEC, they do not
26 address the evidence in the ISD,⁴¹² or the oral evidence of Ms. Bradley,⁴¹³ that explains the
27 need for this investment. Instead, AMPCO submits that independent testing should be

⁴⁰⁷ Distribution System Plan, Section 3.8, SR-12.

⁴⁰⁸ Distribution System Plan, Section 3.8, SR-12.

⁴⁰⁹ Oral Hearing, Vol 8, pp 14-15.

⁴¹⁰ Oral Hearing, Vol 8, p15.

⁴¹¹ AMPCO, p 44.

⁴¹² Distribution System Plan, Section 3.8, SR-14.

⁴¹³ Transcript, Day 8, June 22, p 20, ll 2 - 13.

1 conducted to verify the condition of the meters. Ms. Bradley squarely addressed this issue in her
2 oral evidence.⁴¹⁴ There is no evidence that any independent testing can even be completed in
3 order to verify the condition of meters, or what that independent testing would be looking for. To
4 the contrary, the only evidence on record is that experience has been that there are no warning
5 signs before the smart meter fails, similar to most digital technology.⁴¹⁵
6

7 CME makes submissions concerning the approximately 123,000 smart meters that are installed
8 outside of the range of a reliable telecommunications network, and suggests that Hydro One
9 should not replace these meters.⁴¹⁶ However, these meters still need to function in order to
10 provide customers with accurate and timely billing – whether they are read remotely or not.
11 Hydro One has a legal obligation to provide accurate and timely billing, it cannot ignore its
12 customers outside of the range of a telecommunications network – nor should it.
13

14 CME, like other intervenors, submits that Hydro One should obtain independent analysis of the
15 service life of smart meters.⁴¹⁷ Hydro One repeats and relies on the submissions made above in
16 reply to CME on this point.
17

18 (f) Trouble Calls
19

20 SEC suggests that Hydro One's trouble calls and storm repair capital programs should be
21 reduced by \$13.5M over the five year plan (assuming a linear increase in savings over the plan)
22 due to expected savings from the new vegetation management program.⁴¹⁸ AMPCO makes
23 similar submissions recommending a \$12M reduction with reductions in years 2020 to 2022.⁴¹⁹
24 Hydro One disagrees. There are no significant cost savings anticipated in 2018 to 2020.⁴²⁰
25 There are some savings expected in the last two years of the plan, however, those savings
26 have not been subjected to the rigorous productivity improvement analysis that Hydro One has
27 subjected its other productivity savings to, and Hydro One submits there is a meaningful risk in

⁴¹⁴ Transcript, Day 8, June 22, p 15, ll 14-20.

⁴¹⁵ Transcript, Day 8, June 22, p 15, ll 14-20.

⁴¹⁶ CME, p 49.

⁴¹⁷ CME, p 50.

⁴¹⁸ SEC, p 63.

⁴¹⁹ AMPCO, p 43.

⁴²⁰ Transcript, Day 7, June 21, p 120.

1 reducing the trouble calls program based on such savings, with a likely result being the need to
2 redirect funds away from other programs if the savings do not materialize (which Hydro One has
3 been criticized by the same intervenors for doing in this Application).

4
5 CME makes general submissions that Hydro One’s capital program should be reduced due to
6 reliability improvements that are forecasted due to the vegetation management program.⁴²¹

7 CME acknowledges that Hydro One’s position is that the capital program is the minimum
8 necessary to maintain asset condition. CME asserts that explanation is unpersuasive, but does
9 not explain why. Rather, CME returns to its approach of ignoring asset needs and focusing
10 exclusively on customer needs and preferences.⁴²²

11
12 In contrast, EP submits that Hydro One’s Storm and Trouble Calls program is under budgeted,
13 and that as a result “Hydro One is vastly underestimating the true cost of its capital program”.⁴²³
14 Hydro One does not agree. The budget is based on historical performance. This program will
15 always have a high degree of variability year-to-year because it is largely driven by severe
16 weather events, which vary year-to-year. If Hydro One were to set the budget at the high end of
17 what can be expected in any given year, then the budget would be higher than necessary in
18 other years – costing the ratepayers more money.

19
20 (g) Customer Service Regulatory Related Investments

21
22 Staffs’ submission that there is a typographical error in ISD GP-30 is correct;⁴²⁴ the date related
23 to the Decision and Order should read September 23, 2016.⁴²⁵ This investment included costs
24 related to a Dynamic Energy Pricing initiative that Hydro One withdrew in June 2018. Staff
25 submitted that it would not be appropriate for Hydro One to recover the revenue requirement
26 related to that element of Investment GP-30, which amounts to \$4.9M. Hydro One submits that
27 a reduction related to this investment would not be appropriate at this time as approximately
28 \$2.3M has already been spent and any remaining funds would be redirected to the Demand to

⁴²¹ CME, p 23.

⁴²² CME at p 43.

⁴²³ EP, p 30.

⁴²⁴ Distribution System Plan, Section 3.8, GP-30.

⁴²⁵ Staff, p 86.

1 Interval Conversion part of this ISD (which is a regulatory requirement) as these costs are
2 higher than originally estimated two years ago.

3

4 (h) ISOC

5

6 SEC and CME made submissions in respect of Hydro One's request for funding to build a new
7 ISOC. No other intervenors or Staff made submissions on this point. In their submissions, they
8 used a variety of numbers to describe the cost of the ISOC, some of which reference the total
9 cost rather than the distribution costs, or reference out of date costs. For clarity, the costs
10 associated with Alternative Six are as follows, as outlined in GP-18.⁴²⁶

11

Project Costs	(\$M)
Distribution Allocation	69.3*
Transmission Allocation	69.1
Total Project Costs	138.4

12

13 Note that the costs allocated to the distribution business over the plan period are estimated to
14 be \$61.3M

15

16 SEC and CME submit that because the Hydro One Board of Directors has not approved the
17 ISOC, funding should not be approved by the OEB. In support of this analysis, they rely on the
18 fact that the business case for the ISOC has not yet been signed by the Board of Directors. This
19 argument has no merit for two reasons. First, the intervenors fundamentally misunderstand the
20 content, purpose and function a business case serves. Second, the ISOC is included in the
21 Board of Directors approved Business Plan.

22

23 A business case is a summary document presented to the Board of Directors for the purpose of
24 final funding approval.⁴²⁷ The business case is not the vehicle by which a project is first
25 proposed or introduced to the Board of Directors. While a business case is a summary
26 document, ISD GP-18 contains all of the same requirements but in much more detail, as set out
27 below.

⁴²⁶ I-38-Staff-173, GP-18 at p 12 and p 20.

⁴²⁷ Transcript Vol 10, p 27, ll 2-7, p 29, ll 12-22. See also JT 3.01, Q7, Attachment 1 under "Purpose and Scope" which states that "this document describes the procedure required to be followed to approve expenditures including Corporate Common Costs, Programs and Projects..."

1

Elements of a Business Case	ISD GP-18 Mapping
Total Cost:	Page 11-12, "Costs"
Need for the Investment:	Page 1, "Investment Need"
Scope:	Page 5 -9, "Investment Description"
Expected Results:	Page 9, "Result" and Page 11 "Outcome Summary"
Other Alternatives:	Page 1-5, "Alternative 1-6"
Regulatory Impact:	To be determined based on the outcome of EB-2017-0049
Potential Risks:	Page 9 "Risk Mitigation"

2

3 The ISOC project has been carefully and thoroughly scoped, as evidenced by the depth of
4 supporting information on the record. ISD GP-18 is 24 pages long and includes: a description of
5 the ISOC; details of six alternatives the company considered, a comparison of a constructed
6 versus a leased data centre and a comparison to the costs of six other system operators; a
7 ranked site assessment of 12 potential sites, the architecture and IT design, connectivity and
8 telecommunication, network infrastructure and compliance issues; a list of risk mitigation
9 factors; the company's detailed analysis; an assessment of the OEB's outcomes-based criteria;
10 a detailing of costs; and a process description including the planning needs assessment phase,
11 the detailed design phase and the construction phase.⁴²⁸ In addition, independent assessments
12 were undertaken in respect of the cost estimates⁴²⁹ and the site selection.⁴³⁰

13

14 Indeed, the Board of Directors is well-aware of the ISOC in its current scope and design form
15 and included it in their approved Business Plan at page 16 as follows.⁴³¹

16

⁴²⁸ GP-18.

⁴²⁹ GP-18, p 12 which states: "[A]n independent cost consultant has provided costing of the current stage of detail designs." See also Transcript, Vol 10, p 22.

⁴³⁰ I-29-SEC-61, Attachment 1 which contains an independent review of sites for the facility conducted by Andrew Thompson and Associates.

⁴³¹ A-2-1, Attachment 1, p 16.

Integrated Systems Operations Centre

The Integrated System Operations Centre (ISOC) will serve as the backup center for the Ontario Grid Control Center and the Integrated Telecommunications Management Centre. The current backup facilities are currently at capacity and do not meet Hydro One minimum standards. Security Operations Centre and an Emergency Operating Centre are included due to the risk and lack of a primary site for operations, monitoring and coordinated response for physical security threats, which are imperative for business continuity. Security Event Monitoring provides cyber surveillance monitoring services and will be provisioned with Data Centre capacity.

The ISOC has a planned in-service of 2020 with capital spend of \$10.5 million in 2018, \$42.6 million in 2019 and \$3.3 million in 2020.

1
2 SEC and SME ignore this evidence entirely and their submissions in respect of the ISOC
3 should be rejected.

4
5 Based on its erroneous conclusions, SEC goes on to argue that the OEB should create a
6 deferral account to capture the revenue requirement associated with the ISOC so that spending
7 may be reviewed for prudence “at a later date”. This proposed step is redundant and
8 unnecessary - spending on the ISOC will be open to a prudence review in any event at the
9 company’s next rebasing. It is also based on an inaccurate review of the evidence provided in
10 respect of the ISOC and the Board of Directors inclusion of it in the Business Plan. However, if
11 the OEB decides to create a deferral account for the ISOC in any event, Hydro One suggests
12 that the ceiling be removed to allow Hydro One to make adjustments to accommodate any new
13 or revised NERC-driven requirements or unexpected events. Hydro One notes that any deferral
14 account balances would be subject to a prudence review at the time of disposition.

15
16 CME submits that the Board should withhold approval of the ISOC until Hydro One provides all
17 of the details necessary for the Board to make a decision regarding the ISOC.⁴³² Hydro One
18 submits that it has done that. It has filed an extensive ISD, as well as extensive further
19 information concerning the ISOC project. CME does not identify a single piece of data that is
20 missing, rather, it just asserts further information is required. This submission should be
21 rejected.

22

⁴³² CME, p 55.

1 (i) General Comments on Capital Expenditures

2
3 Staff makes a number of generalized submissions concerning Hydro One's proposed capital
4 expenditures.⁴³³ Hydro One will address each below, however, it is important to note that in
5 making these submissions, Staff is doing exactly what it accuses of Hydro One doing, namely,
6 taking a top-down approach to an evaluation of proposed expenditures. Rather, than critique
7 individual programs, Staff makes generalized submissions based on historical spending. Such
8 an approach is inconsistent with how the capital plan was developed, and does not provide a
9 basis for reducing Hydro One's capital envelop.

10
11 Staff submits that the average historical system renewal expenditures should be used as the
12 baseline for system renewal expenditure going forward.⁴³⁴ Staff then creates new system
13 renewal figures, using a top-down approach, indexing system renewal growth to inflation.⁴³⁵ This
14 approach ignores the yearly fluctuations in different capital programs and is highly inappropriate.
15 Including the fluctuations in programs such as PCB Line Equipment Replacement and Smart
16 Meter Replacement, which Staff submitted in response to Issue 27 demonstrate that Hydro one
17 has adequately allowed for costs to carry out its government mandated obligations. This
18 approach also ignores asset condition, and the other inputs to the planning process, addressed
19 in response to Issue 24 and elsewhere, and is contrary to the principals underlying a Customer
20 IR application.

21
22 It is exactly the top-down approach, that Staff is critical of elsewhere in the application.⁴³⁶ It is
23 also particularly inappropriate, as the adoption of Plan B-modified by Hydro One was to reduce
24 spending in 2018 to smooth rate growth in response to the customer engagement process.
25 Hydro One submits that the approach suggested by Staff is inconsistent with Staff's own
26 submissions, the extensive evidence concerning planning through the Application, including
27 asset condition information, service levels, the benchmarking studies, and good utility practice.
28 All of these elements are fundamental to the RRF and required by the OEB's own instruments.
29 Staff's approach should be rejected.

⁴³³ Staff, p 87.

⁴³⁴ OEB Staff, p 84.

⁴³⁵ OEB Staff, p 84.

⁴³⁶ Staff, p 63.

1
2 Staff included a table of growth rate in capital categories in their submissions. It contains certain
3 errors, in particular, in the table below:
4

Forecast Annual Growth Percentage

Category	Annual Growth Percentage					5-Year Average Growth Percentage
	2018	2019	2020	2021	2022	
System Access	(15.0%)	1.9%	2.1%	3.1%	2.5%	(1.1%)
System Renewal	16%	28.2%	5.6%	7.7%	24.4%	16.4%
System Service	2.1%	14.2%	(8.4%)	(7.9%)	(11.8%)	(2.4%)
General Plant	41.0%	17.6%	(31.0%)	(10.8%)	2.1%	3.8%
Total Capital	(0.8%)	17.2%	(5.0%)	1.6%	12.0%	6.9%

5
6
7 The highlighted cells should be 2018: 8.7%,⁴³⁷ 2019: 12.3%,⁴³⁸ 2020: (6.6%).⁴³⁹
8

9 Staff also includes certain tables in its submissions that are inaccurate regarding capital
10 expenditures.⁴⁴⁰ The correct information was filled in response to I-24-SEC-38, updated June
11 12, 2018.

12
13 VECC submits that system renewal spending should be limited to annual increases of 15% per
14 year.⁴⁴¹ Hydro One disagrees for the reasons discussed above in response to the submissions
15 from Staff.

16
17 CCC submits there should be budget reductions in Station Refurbishment, Pole Replacements,
18 Large Line Sustaining Initiatives, and PCB Line Equipment Program, based on similar
19 submissions focusing on historical performance. Hydro One repeats and relies on the
20 submissions identified above in response to the CCC submissions.

21
22 BOMA also makes similar submissions to other intervenors concerning the underspending of
23 capital relative to planned, in the major renewal asset categories of poles, stations, and lines.

⁴³⁷ [628.1-577.9]/577.9, based on data from I-24-SEC-38 Updated June 12/18 (in Exhibit K1.3).

⁴³⁸ [91.6-81.6]/81.6, based on data from I-24-SEC-38 Updated June 12/18 (in Exhibit K1.3).

⁴³⁹ [85.6-91.6]/91.6, based on data from I-24-SEC-38 Updated June 12/18 (in Exhibit K1.3).

⁴⁴⁰ Staff, pp 76, 77.

⁴⁴¹ VECC, p 26.

1 BOMA submits the proposed increases for system renewal are excessive; and is recommending
2 improvements in past practices before seeking relatively large increases.⁴⁴² Hydro One repeats
3 and relies on its above reply submissions in reply to BOMA's submissions.

4
5 BOMA includes a number of figures in its submissions that are out of date as they rely on the
6 Exhibit Q update, rather than the more recent evidence filed in response to interrogatories and
7 undertakings.⁴⁴³ Reference should be made to the figures in Hydro One's Final Argument, which
8 are the most up to date.

9
10 (j) Other Capital Expenditure Issues

11
12 Staff submits that in addition to its proposed cuts to system renewal, that a further 3% reduction
13 should be made to the capital budget for certain reasons. Unless otherwise addressed above,
14 each submission will be addressed in turn below. In general, Hydro One disagrees that any of
15 these issues should lead to a conclusion that there can be further cuts to capital investment
16 levels. Hydro One has put forward a lean plan that provides the minimum level of investment
17 possible while maintaining asset condition for future generations, consistent with its obligations
18 under section 4.4.1 of the Distribution System Code. Further cuts for reasons that are unrelated
19 to actual capital expenditures will result in less work being completed and asset condition issues
20 being unfairly kicked down the road to future generations of rate payers.

21
22 Staff concludes by asserting that reducing Hydro One's capital budget by 11% would incentivize
23 it to provide better information in its next application. It is not clear what additional information is
24 required. Indeed, Hydro One has vastly improved its Application when compared to its previous
25 application. It has provided far more detail, and demonstrated clear alignment with OEB policy.

26
27 It is also unclear how the preparation and filing of this further information, which could only be
28 used for the purposes of the application, would be helpful to this Board. Hydro One did file
29 numerous ISDs and business cases. Staff referenced the details of none of them. Rather, Staff
30 has taken a top down approach to advocating for reductions to capital and OM&A budgets.

31

⁴⁴² BOMA, pp 21-22.

⁴⁴³ See BOMA, pp 21-24.

1 CME submits that ratepayers are paying for projects “twice” where projects were included in the
2 past application and this Application. That is not accurate. The money that was allocated for
3 deferred projects in the last application was spent on other important investment needs – for the
4 benefit of the ratepayer. Most notably storm response. The ratepayer is not paying twice for a
5 deferred project. It is paying once for the project, and once for unplanned benefits such as storm
6 response instead of the deferred project. Given climate change and that storm response is a
7 significant expense that varies year to year, variation in spending levels is inevitable.

8

9 BOMA submits that Hydro One failed to provide a “rank order” of its projects and programs.⁴⁴⁴
10 BOMA’s submission is inaccurate. Hydro One did provide this rank order in response to J 8.3.

11

12 EP submits that some of Hydro One’s budget estimates were inaccurate, which cost the
13 ratepayers money.⁴⁴⁵ Hydro One does not agree. EP has cherry picked certain projects where
14 the budget was exceeded. There are explanations for those variances.⁴⁴⁶ As the Rate
15 Handbook states, “Planning is an ongoing utility activity, not just something done to prepare for
16 an application.”⁴⁴⁷ Plans change with new information. Cost estimates change with new
17 information. It is inappropriate to point to dated budgets and, pointing to a few unrepresentative
18 examples, argue that Hydro One’s budgets are inaccurate in general.

19

20 (k) In-Service Additions

21

22 SEC submits that Hydro One’s historic capital investments have not been in line with OEB-
23 approved amount given that Hydro One’s ISAs were 6.2% over during the 2015 to 2017 plan
24 period. Hydro One made a submission in respect of capital expenditures for 2015 to 2017,
25 which were 0.7% below of OEB-approved amount.⁴⁴⁸ Hydro One submits that a 6.2% variance
26 over a three year plan is not “out of line, as the \$122.5M in-service overage in comparison to
27 2018 proposed rate base of \$7,649.9M is 1.6%.”⁴⁴⁹ As stated in D1-1-2, some of the reasons for

⁴⁴⁴ BOMA, p 26.

⁴⁴⁵ EP, p 31.

⁴⁴⁶ Transcript, Day 6, June 19, pp.142-148.

⁴⁴⁷ Rate Handbook, p 12.

⁴⁴⁸ I-24-SEC-38 Table56 Updated June12/18 (in Exhibit K1.3)

⁴⁴⁹ Hydro One, Final Argument, p 20.

1 2015 and 2016 overages include storm damage and trouble calls, joint use and relocation
2 projects, and higher spending on metering due to phasing out of network cellular technology.

3

4 CCC similarly submits that Hydro One “significantly” overspent on its capital plan in the last rate
5 period. That is not the case. Capital expenditures for 2015 to 2017 were within 0.7% of
6 planned.⁴⁵⁰ In-Service Additions were higher than originally planned during the plan period, but
7 there is a clear trend of improvement.

8

9 Hydro One has provided a detailed explanation for the ISA levels.⁴⁵¹

10

11 SEC submits that the “evidence shows that most of the renewal work Hydro One did do was at
12 a higher cost than forecast.” SEC does not provide an evidentiary reference. To the contrary,
13 wood pole replacement, by far the largest system renewal program, was 91% achieved for 86%
14 of cost, or 5% lower than forecast.⁴⁵²

15

16 SEC also submits that Hydro Ones ISA should be disallowed because its replacement decisions
17 were “sub-optimal”.⁴⁵³ This submission relies on purported data issues, which were addressed
18 above in response to Issue 24, and alleged risk assessment flaws, which have no basis in the
19 evidence. Furthermore, this is an attempt to hold Hydro One to a standard of perfection. Even if
20 Hydro One replaces an end of life asset, and there was another end of life asset that was
21 possibly in worse condition, ratepayers still get the benefit of the replaced end of life asset. It
22 would have still needed to be replaced at some point in the near future, and the replaced asset
23 should be included in the rate base.

24

25 AMPCO also submits that the entire amount of ISA overages should be disallowed.⁴⁵⁴ This is
26 unreasonable. Hydro One in-serviced the capital assets for the benefit of rate payers. The
27 amounts were higher than expected, largely due to investments responding to events outside of
28 Hydro One’s control. Disallowing the recovery of those funds is a draconian approach given that
29 rate payers have benefited and will continue to benefit.

⁴⁵⁰ I-24-SEC-38 Table 56 Updated June12/18 (in Exhibit K1.3)

⁴⁵¹ D1-1-2.

⁴⁵² Transcript, Day 6, June 19, p 145 ll 14-17.

⁴⁵³ SEC at 3.2.9.

⁴⁵⁴ AMPCO, p 28.

1 AMPCO also submits that Hydro One should be required to advise the Board if any particular
2 year exceeds ISA levels by more than 2% and provide the reasons for the variances.⁴⁵⁵ Hydro
3 One disagrees that this form of annual reporting is appropriate as it is inconsistent with the
4 principals underlying the Custom-IR Application.

5
6 BOMA supports Hydro One's In-Service Additions with respect to storms, but not with respect to
7 joint use relocation. BOMA submits that because relocations are required by law, they should be
8 the last amount removed from a capital budget, and should be done first so Hydro One should
9 not have needed to redirect money to complete the relocations.⁴⁵⁶ Hydro One agrees that
10 relocations must be done by law, but redirection was higher than expected in 2015.

11
12 To be clear, the relocation amounts were not "removed" from a capital budget. They were added
13 because they were higher than expected due to increased demand.⁴⁵⁷ BOMA also submits that
14 Hydro One should have removed more discretionary items from its budget in light of the
15 relocation expenses. Hydro One attempted to strike the right balance from deferring
16 discretionary project work and completing its work plan. It has been criticized by intervenors
17 from deferring work. BOMA's proposal would have made the problem much worse. The tension
18 between deferring projects due to unexpected events, and completing the work plan is one that
19 cannot be resolved perfectly – there are trade-offs – Hydro One has attempted to strike the right
20 balance, and submits that it has done so.

21
22 EP submits that Hydro One's historic underachievement evidences problems with their capital
23 management.⁴⁵⁸ Again, this is the inverse of the BOMA argument, addressed above. The
24 underachievement does not reflect problems with Hydro One's capital management. Rather, it
25 evidences the redirection undertaken by Hydro One as a result of unplanned events.

26
27 EP submits that Hydro One's underspending on certain capital programs evidences an inability
28 to spend capital. That is not the case. Individual capital programs cannot be looked at in
29 isolation. Hydro One's capital expenditures over the last plan were within 0.7% of approved.

⁴⁵⁵ AMPCO, p 28.

⁴⁵⁶ BOMA, p 24.

⁴⁵⁷ D-1-2.

⁴⁵⁸ EP, p 24.

1 What EP's data shows is that Hydro One spent the money on different projects due to
2 unexpected events as a result of the redirection process. Ignoring that redirection, to focus on
3 certain select capital program, is not an appropriate way to assess Hydro One's performance.
4

5 **Issue 31. Are the methodologies used to allocate Common Corporate capital**
6 **expenditures to the distribution business appropriate?**
7

8 Staff accepts Hydro One's proposed approach to common corporate cost allocation as
9 reasonable, stating that there have been "no factors that have arisen since the most recent
10 transmission case that would justify a reconsideration of Hydro One's approach to
11 allocating these costs".⁴⁵⁹ Similarly, BOMA does not object to HONI's methods used to allocate
12 common corporate capital expenditures.⁴⁶⁰
13

14 **Issue 32. Are the methodologies used to determine the distribution Overhead**
15 **Capitalization Rate for 2018 and onward appropriate?**
16

17 Staff does not note any objections under this issue but refers to its submissions on the ongoing
18 use by Hydro One of US GAAP as the basis for capitalizing its overhead costs for regulatory
19 purposes under issue 58.

20 BOMA agrees that US GAAP should continue to be used as a basis for capitalizing overhead.⁴⁶¹

⁴⁵⁹ Staff, p 89.

⁴⁶⁰ BOMA, p 42.

⁴⁶¹ BOMA, p 42.

1 **E. RATE BASE AND COST OF CAPITAL**

2
3 **Issue 33. Are the amounts proposed for the rate base from 2018 to 2022 appropriate?**

4
5 Staff submits that Hydro One's proposed distribution rate base for the 2018 to 2022 period is
6 reasonable, subject to Staff's proposed revisions in other sections of the Staff submission.⁴⁶²
7 Similarly, other parties providing comments on this issue 33 refer the other sections of their
8 submissions where they have made suggestions which will affect the amount in rate base.⁴⁶³

9
10 **Issue 34. Are the inputs used to determine the working capital component of the rate**
11 **base and the methodology used appropriate?**

12
13 Staff submits that Hydro One's proposed 7.7% working capital rate for 2018 is reasonable, and
14 BOMA agrees.⁴⁶⁴ Staff further submits that "Hydro One's allowance for working capital has been
15 calculated in accordance with OEB policy and should be accepted by the OEB".⁴⁶⁵

16
17 **Issue 35. Is the proposed capital structure appropriate?**

18
19 Staff submits that Hydro One's proposed capital structure is in accordance with the Board's
20 policy and should be accepted⁴⁶⁶. BOMA supports Hydro One's proposed structure and notes
21 that it complies with Board policy.⁴⁶⁷

22
23 **Issue 36. Are the proposed timing and methodology for determining the return on**
24 **equity and short-term debt prior to the effective date of rate implementation**
25 **appropriate?**

26
27 Staff considers Hydro One's approach to this matter as reasonable, except for the

⁴⁶² Staff, p 92.

⁴⁶³ For example, BOMA refers to its DSP argument, see BOMA, p 42.

⁴⁶⁴ BOMA, p 42.

⁴⁶⁵ Staff notes that this is subject to any adjustments to the components of the calculation it proposes in other sections of the Staff submission which would impact the calculation. See Staff, p 93.

⁴⁶⁶ Staff, p 94.

⁴⁶⁷ BOMA, p 42.

1 proposal to update these costs in 2020 for 2021 rates⁴⁶⁸ (see issues 13 and 14, above). BOMA
2 accepts Hydro One's approach.⁴⁶⁹

3

4 **Issue 37. Is the forecast of long term debt for 2018 and further years appropriate?**

5

6 Staff considers Hydro One's approach to this matter as reasonable, except that it does not
7 agree that the long-term debt rate should be updated to reflect the actual issuances of debt
8 since the time of the original application.⁴⁷⁰ BOMA supports Hydro One's approach generally.⁴⁷¹

9

10 For clarity, Hydro One notes that the update to the long-term debt rate it was originally
11 proposing is the rate already set out in Exhibit Q.⁴⁷² Hydro One does not propose to further
12 update the long-term debt rate (except for the mid-term update to the cost of capital parameters
13 for 2021 rates discussed under issues 13 and 14). If Staff understood that Hydro One was
14 seeking to update the long-term debt rate further than the update set out in Exhibit Q, this is not
15 correct. Hydro One's proposal to use the cost of capital parameters as set out in Exhibit Q is
16 entirely consistent with the common practice in rebasing applications whereby utilities file their
17 applications using place-holder cost of capital parameters with the intent to update those
18 parameters with final values, such as the ROE issued by the OEB, prior to the issuance of the
19 final rate order in a proceeding.⁴⁷³

20

21

22

⁴⁶⁸ Staff, p 94.

⁴⁶⁹ BOMA, p 42. BOMA does not agree with the proposal to update cost of capital, as discussed under issue 13, above.

⁴⁷⁰ Staff, p 96.

⁴⁷¹ BOMA, p 42. BOMA does not agree with the proposal to update cost of capital including long term debt, as discussed under issue 13, above.

⁴⁷² Exhibit Q-1-1, p 9, s 1.3.

⁴⁷³ See, for example, Hydro One's Draft Rate Order and Tariff Schedules dated March 25, 2015 in EB-2013-0416 which shows on pg. 14 a long-term debt rate of 4.87%. B1-1-1 of the pre-filed evidence in EB-2013-0416 shows a long-term debt rate of 4.91%. The OEB's Rate Order on April 23rd approved rates based on the updated value.

1 **F. OPERATIONS MAINTENANCE AND ADMINISTRATION COSTS**

2
3 **Issue 38. Are the proposed OM&A spending levels for Sustainment, Development,**
4 **Operations, Customer Care, Common Corporate and Property Taxes and**
5 **Rights Payments, appropriate, including consideration of factors**
6 **considered in the Distribution System Plan?**

7
8 (a) General OM&A Submissions

9
10 Staff submits that Hydro One's 2018 OM&A spending level should be reduced by \$17M to
11 \$560M.⁴⁷⁴ Such a significant reduction is not appropriate, the vast majority of OM&A expenses
12 are demand programs, vegetation management, or storm response. There is no bottom-up
13 analysis that supports any reduction to the OM&A budget.

14
15 Fundamentally, the flaw in Staff's proposed reduction, and that of other intervenors, is that it,
16 again, takes a top down approach to the analysis of this issue. Rather than identify particular
17 programs where cuts should be made, Staff examine overall, and category, spending levels in
18 order to justify its proposed reduction. This approach should not be followed. Hydro One has
19 provided significant detail and support for each of its OM&A programs. Hydro One has also
20 identified significant productivity savings that are incorporated into the OM&A spending level.
21 Staff asserts that a high level cut to OM&A spending levels will incentivize Hydro One to be
22 more productive. That is not the case. Reducing OM&A spending will only result in cuts to vital
23 programs and results in less work than planned.

24
25 Staff submits that a top-down cut will promote efficiency in order to address concerns it
26 identified in response to Issue 21.⁴⁷⁵ Hydro One has addressed those submissions in response
27 to Issue 21. In any event, a cut to OM&A does not promote efficiency or address the purported
28 "subjective" nature of the productivity savings. It will just result in less work being completed.

29

⁴⁷⁴ Staff, p 113.

⁴⁷⁵ Staff, p 111.

1 Staff submits that the 2017 underspend of OEB approved levels is concerning, and 2018 should
2 be based on a 2% increase over 2017 actuals.⁴⁷⁶ However, the difference between 2017
3 approved, and the 2018 request is nearly identical to the difference between the 2017
4 vegetation management spend and the requested 2018 vegetation management spend. The
5 2017 program was slowed down while it was modified. The new program returns to a level near,
6 although still below, the 2017 approved level.

7
8 SEC asserts that 2018 actual OM&A expenses will be below 2017 actuals. This is directly
9 contradicted by the evidence of Mr. Lopez, which SEC was unable to undermine in any way
10 during cross-examination. SEC submits, without evidence, that Mr. Lopez was lying, and that
11 Hydro One's 2018 OM&A expenses will be \$536M⁴⁷⁷ – far lower than Hydro One's OM&A
12 expenses in any year on record, and well below 2017 actuals. There is no explanation as to
13 what programs should be cut, or how they can be cut while still providing necessary services to
14 customers. Instead, SEC relies on a figure, 4.1%, which reflected a single quarter of information
15 for the entire consolidated business, to suggest that Hydro One's 2018 distribution OM&A for
16 the entire year will be 4.1% below 2017. This submission, directly contradicted by the evidence
17 of Mr. Lopez, should be rejected. It is based on speculation and an out of context figure, which
18 SEC did not even bother to test with the numerous other Hydro One witnesses who testified
19 concerning OM&A costs including the Asset Management Panel, and the Shared Services
20 panel.

21
22 CCC submits that Hydro One's OM&A costs are "increasing significantly." That is not the case.
23 In 2018 they are increasing from 2017 actuals by 3.2% - hardly a significant increase. The 2018
24 amount is still 2.7% below 2017 OEB-approved, demonstrating the positive trend and Hydro
25 One's focus on controlling and reducing costs within its control.

26
27 CCC submits "it is difficult to see how" Hydro One's productivity has been included in OM&A
28 and capital. That is incorrect. To the contrary, it is very clear. The 2018 OM&A budget is \$29.4M
29 lower than it otherwise would be but for the productivity initiatives (not including \$4M in
30 productivity programs in "Corporate Common", which is split between capital and OM&A further
31 reducing OM&A ask). Hydro One has provided a program by program breakdown of the OM&A

⁴⁷⁶ Staff, p 112.

⁴⁷⁷ SEC, p 78.

1 (and capital) productivity initiatives so that the Board can see exactly what programs are lower
2 and by what amounts.⁴⁷⁸ It could not be clearer – it is set out in detail in response to Issue 21 in
3 Hydro One's Final Argument.

4
5 AMPCO submits that the forecast for 2018 is too high given historic spending and that the
6 Trouble Calls OM&A budget should be reduced to account for the positive impact of the new
7 vegetation management strategy.⁴⁷⁹ Hydro One relies on the comments under Issue #30 on
8 Trouble Calls capital expenditures in reply to AMPCO's submissions.

9
10 BOMA submits there should be decreases in Hydro One's corrective maintenance and trouble
11 call programs due to Hydro One's capital spend.⁴⁸⁰ That is incorrect as Hydro One's capital
12 spend is not improving the condition of its assets – it is maintaining it. Therefore, there is no
13 reason why spending in these categories would decline.

14
15 (b) Vegetation Management

16
17 SEC submits that Clear Path's report forecasted a 3 year cycle annual cost of \$108.4M. This is
18 incorrect. As Mr. Tankersley testified:

19
20 There were a number of things that went into that element. The cost -- the cost
21 for labour was unknown. The productivity, based on those classes, was an
22 unknown, and so that we had to make a set of assumptions and then try to
23 validate it, and if you'll notice I do state here that those numbers do need to be
24 validated, but it was a -- at the time it was the best tool that we had for modelling
25 the cost.⁴⁸¹

26 Further, the estimate was only for defect correction work, it did not include significant work that
27 was out of scope of that estimate including customer demand work, enhanced hazard tree work,
28 brush control, QA/QC activities, outage investigations, or any other part of the vegetation
29 management program.⁴⁸²

30

⁴⁷⁸ I-25-Staff-123.

⁴⁷⁹ AMPCO, pp 51-52

⁴⁸⁰ BOMA, p 22.

⁴⁸¹ Transcript, Day 5, June 18, p 172, l 26 to p 173, l 5.

⁴⁸² Q-1-1, p 13.

1 AMPCO submits that vegetation management should be reduced by \$9.6M per year. AMPCO,
2 like SEC, relies on the \$108.4M figure without addressing the evidence that clearly explains that
3 it was an estimate based on significant unknowns including Hydro One's labour rate, and labour
4 productivity as well as the significant work that was out of scope of that estimate, listed above.
5 AMPCO instead arbitrarily suggests that the budget should be reduced to \$140M. No
6 explanation is given as to how that figure was arrived at. It should not be accepted. All of the
7 evidence concerning vegetation management provided at the hearing supports the requested
8 amount. There is no evidence that suggests that the program can be completed for a lower
9 amount. If the budget is cut, Hydro One will not be able to achieve a 3 year cycle and the
10 benefits flowing from a 3 year cycle will not be achieved.

11
12 AMPCO also relies on the vegetation management program, which it submits should be cut, as
13 support for reductions in capital expenditures to replace assets.⁴⁸³ Hydro One disagrees with
14 this submission. The vegetation management program will not improve the condition of Hydro
15 One's assets. Poor condition wood poles still need to be replaced; poor condition stations still
16 need to be refurbished; the vegetation management program will not address these needs.

17
18 BOMA also suggests the funding for vegetation management program should be reduced.⁴⁸⁴
19 Again, reducing the funding will make it impossible for Hydro One to implement a 3 year cycle,
20 and the potential for significant reliability improvements will be lost.

21
22 BOMA submits that Hydro One's projected productivity for the forestry initiative is inconsistent
23 with the new vegetation management program, which does not forecast any new productivity
24 savings.⁴⁸⁵ This is inaccurate. There are \$27.6M in projected forestry productivity savings.⁴⁸⁶

25
26 CCC and CME also make similar submissions that Hydro One has not included savings
27 associated with the new Vegetation Management program. Hydro One relies on the
28 submissions above in reply to CCC and CME.⁴⁸⁷

29

⁴⁸³ AMPCO, p 43.

⁴⁸⁴ BOMA, p 32.

⁴⁸⁵ BOMA, p 33.

⁴⁸⁶ I-25-Staff-123.

⁴⁸⁷ CCC, p 15; CME, pp 68-69.

1
2 EP, in the course of making submissions concerning Hydro One's capital programs, submits
3 that Hydro One's historic underspending on vegetation management evidences an inability to
4 complete work. That is not the case. There was an underspend in 2016 and 2017 due to Hydro
5 One taking steps to improve the program.⁴⁸⁸ That is the explanation for the 2017 underspend.
6 Underspend in other years was much less significant, and the cuts were in areas, such as brush
7 control, which EP and other intervenors have characterized as "gold plating".⁴⁸⁹

8
9 PWU submits that Hydro One should be required to provide the Board with updates during the
10 plan period regarding various metrics to track the effectiveness of the vegetation management
11 program. Hydro One disagrees with this submission. Hydro One recognizes the need for
12 openness, transparency, and reporting, however, reporting on a specific OM&A program within
13 a Custom IR plan is contrary to the principals underlying Custom IR, and imposes a significant
14 regulatory burden for no clear purpose.

15
16 (c) Information Technology

17
18 SEC is critical of Hydro One for relying on the Gartner study, which was conducted based on
19 2015 data. This is a strange criticism as, in response to Hydro One's requested effective date,
20 SEC has submitted that Hydro One should have filed its Application as early as September
21 2016, which would mean an entire Application based on 2015 data. SEC does not provide an
22 explanation for this inconsistency.

23
24 SEC also attempts to introduce evidence from another proceeding, which was never placed on
25 the record in this proceeding, concerning benchmarking that was conducted on Ontario Power
26 Generation's IT spend. It would be procedurally unfair to rely on evidence from another
27 proceeding, not introduced in this one, to arrive at conclusions concerning Hydro One's IT
28 spend.

29
30 In any event, Hydro One's requested 2018 IT OM&A is lower than its approved and actual IT
31 OM&A for every year from 2015 to 2017, and should be allowed for that reason.

⁴⁸⁸ C1-1-1, p 6. See also: I-38-CCC-44 and attachments.

⁴⁸⁹ EP, p 30.

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Issue 39. Do the proposed OM&A expenditures include the consideration of factors such as system reliability, service quality, asset condition, cost benchmarking, bill impact and customer preferences?

Staff submits that it is unclear the extent to which the new vegetation management program will have a positive impact on reliability. While Hydro One agrees that the projected improvement is a forecast and a goal, Hydro One submits that does not weaken the rationale provided for the expected benefits. Indeed, Staff cannot have it both ways – criticizing the new vegetation management program for forecast results, yet relying on the very same program to justify reductions in capital expenditure. Such positions are irreconcilable.

Hydro One has filed expert support from ClearPath supporting the vegetation management program and the forecasted reliability improvements. The author of the report, Mr. Tankersley, testified at the oral hearing and was cross-examined. Certainly the projected improvements are a forecast not a guarantee, but projected improvements are always a forecast. There is never certainty about reliability improvements over the course of a 5 year application. All that can be examined is the strength of the evidence. In this case, the evidence is in the form of a subject matter expert report, which is as strong as evidence can be in a hearing such as this.

Similarly, Staff submits that service quality improvements as a result of bringing the call centre in-house have not been realized yet. Again, such is the nature of applications such as this one. Hydro One cannot provided definitive evidence of the impacts of expenditures that will be made in the future. Everything is a projection, but the evidence of Mr. Pugliese was that it is “advancing well” even though it is “early days”.⁴⁹⁰

⁴⁹⁰ Transcript, Day 4, June 15, p 199, l 9.

1 **Issue 40. Are the proposed 2018 human resources related costs (wages, salaries,**
2 **benefits, incentive payments, labour productivity and pension costs)**
3 **including employee levels, appropriate?**
4

5 (a) Compensation other than pension costs
6

7 *i. Staff submissions*
8

9 Staff submits that compensation amounts proposed for the 2018 test year are too high.⁴⁹¹ Staff
10 considers the results of the most recent (2017) Mercer Compensation Cost Benchmarking
11 study⁴⁹² filed by Hydro One and states that it is “mindful of the improvement relative to [Hydro
12 One’s] comparator group” where Hydro One has moved from 12% above the P50 in comparison
13 with the 2016 study levels of 14% above P50.⁴⁹³ Staff nevertheless is concerned with Hydro
14 One being 12% above the median.⁴⁹⁴
15

16 *ii. Other parties’ submissions*
17

18 CCC submits that the Board should reduce Hydro One’s compensation-related revenue
19 requirement by the amounts set out in the analysis provided by Hydro One setting out the dollar
20 amount differences between the weighted average total compensation for Hydro One’s
21 employees allocated to its distribution business and the P50 median used in the Mercer
22 study.⁴⁹⁵ This amounts to a \$17.5 million reduction to OM&A-related revenue requirement and a
23 \$20.27 million reduction to capital-related revenue requirement. EP and SEC also submit that
24 these amounts should be disallowed by the Board.⁴⁹⁶ SEC adds that for 2019 to 2022, the
25 Board should also make capital reductions.⁴⁹⁷
26

⁴⁹¹ Staff, pp 121-122.

⁴⁹² Dated April 4, 2018, the “Mercer study”.

⁴⁹³ Staff, p 122.

⁴⁹⁴ Staff, p 123.

⁴⁹⁵ CCC, p 18.

⁴⁹⁶ EP, p 20; SEC s 4.5.2, p 75.

⁴⁹⁷ SEC, p 75.

1 SUP submits that the \$17.48 reduction suggested by parties in the paragraph above should be
2 reduced because the Board should apply the 5% deadband noted by Mercer in relation to its
3 study such that Hydro One's compensation cannot be assumed to be anything higher than 12%
4 minus 5% (the deadband), that is, 7%.⁴⁹⁸ As a result, only a 7% reduction to compensation-
5 related revenue requirement – that is, approximately \$10.77 million – should be applied.⁴⁹⁹ SUP
6 also submits that the following adjustments should be made to the 2018 distribution OM&A in
7 any calculation regarding Hydro One's place in relation to market median:⁵⁰⁰

8

- 9 1. Adjustment to account for the fact that SUP, PWU and MCP employee pension
10 contributions increase in 2017 and 2018 thus lowering the benchmarked compensation
11 cost of the pension benefit.⁵⁰¹
- 12 2. Adjustment to account for the fact that the Mercer study does not take into account that
13 starting in March 2025 the value of the pension benefit changes and therefore the Board
14 should direct Hydro One to take the impact of the lower NPV cost of the pension benefit
15 to adjust proposed 2018 distribution OM&A⁵⁰²; and
- 16 3. Adjustment to account for 1400 casual construction FTE's annually who are paid market
17 median compensation or lower.⁵⁰³

18

19 PWU submits that compensation is declining during the test period, and points to evidence on
20 the record of efforts that Hydro One has made to reduce its compensation costs.⁵⁰⁴

21

22 QMA submits that it is important that the Board require Hydro One to make every effort to bring
23 compensation levels in line with its benchmarked peers within a set timeframe.⁵⁰⁵

24

⁴⁹⁸ SUP, p 6.

⁴⁹⁹ SUP, p 7.

⁵⁰⁰ SUP also submits that these items should be addressed directly in any future study (such that a manual adjustment would not need to be made).

⁵⁰¹ SUP, p 7.

⁵⁰² SUP, p 8.

⁵⁰³ SUP, 8.

⁵⁰⁴ PWU, p 50.

⁵⁰⁵ QMA, p 14.

1 *iii. Hydro One's response*

2

3 *a. Proposed human resources costs are prudent*

4

5 Some intervenors⁵⁰⁶ have noted that Hydro One's witness stated that Hydro One has much
6 more generous pensions and benefits than other employers. On this point, Hydro One reiterates
7 that this situation, which – as noted by QMA⁵⁰⁷ and EP⁵⁰⁸ – is a legacy inherited from Ontario
8 Hydro, is only within management's control to a certain extent.

9

10 In other words, having collectively bargained agreements and inability to unilaterally alter them
11 provides the context in which Hydro One operates and the prudence of Hydro One's decisions
12 should be evaluated in that context. This is not simply an "excuse" which is "trotted out" by
13 Hydro One as alleged by SEC.⁵⁰⁹ To the extent management does have some control in this
14 regard, Hydro One submits it has made significant progress. EP suggests that "there is no
15 evidence that Hydro One is doing anything to reduce its labour costs by elimination of
16 represented positions and outsourcing or contracting out more activities"⁵¹⁰, but this is simply
17 not true given that there is evidence in this proceeding of Hydro One doing precisely that⁵¹¹.
18 Contrary to what is submitted by EP, Hydro One's management is doing what it can to reduce
19 labour costs and this can be seen based on the evidence in this proceeding, as noted by
20 QMA,⁵¹² PWU⁵¹³ and SUP.⁵¹⁴

21

22 Indeed, citing Exhibit C1, Tab 2, Schedule 1⁵¹⁵ the evidence is as follows (emphasis added):

23

24 The base rate increases on the wages of PWU represented employees was 1%
25 in each year from 2015 to 2017 and Society wages increased 2.25% in 2015 followed
26 by three years of 0.5% increases. The lower than inflation base-rate wage increases

⁵⁰⁶ EP, s 66; CCC p 18.

⁵⁰⁷ QMA, p14.

⁵⁰⁸ EP, s 69.

⁵⁰⁹ SEC, s 4.1.5

⁵¹⁰ EP, p 69.

⁵¹¹ See Transcript Vol 3, p 20-22 also cited by PWU at pp 50-51.

⁵¹² QMA, p 14.

⁵¹³ PWU, pp 50-54.

⁵¹⁴ SUP, pp 7-8.

⁵¹⁵ P 29-31.

1 coming out of the 2015-2017 collective agreements allow for a lower starting point for
2 which compensation is based within this application.
3

4 The rate of base salary increases embedded in the application maintains the low
5 annual increases negotiated in the 2015 collective agreements. The annual base salary
6 increases are 1% for PWU represented employees from 2018 to 2022 and 0.5% for
7 Society represented employees. These lower-than-inflation wage increases
8 demonstrate Hydro One's commitment to control compensation costs.
9

10 Moreover, SEC and EP⁵¹⁶ make assertions regarding the July 11, 2018 Memorandum of
11 Agreement with the PWU regarding PWU's collective agreement (the "MOA"). SEC and EP
12 assert that the MOA demonstrates that compensation matters "are likely to get worse".⁵¹⁷ Yet a
13 consideration of the numbers in the MOA does not lead to the conclusion reached by SEC and
14 others. As pointed out by PWU, the MOA shows wage increases of 1.8% in April 2018, 2% in
15 April 2019 and 0.6% in January 2020.

16
17 In sum, a closer look at PWU wages shows wages increasing at rates lower than inflation from
18 2015-2022, and Hydro One has confirmed that it is not requesting a higher revenue requirement
19 to account for the recently agreed-to increases for the 2018-22 period.

20
21 Hydro One submits that overall, the evidence demonstrates that Hydro One is working to lower
22 compensation costs as best as it can.

23
24 As a result, Hydro One submits that its proposed revenue requirement related to compensation
25 should be approved as prudent.

26
27 *b. Proposed human resources costs are consistent with market median*
28

29 Alternatively, should the Board seek to make a determination regarding Hydro One's
30 compensation costs based on where Hydro One stands relative to its peers, Hydro One's
31 proposed revenue requirement related to compensation should be approved based on the fact
32 that on a total cash basis, Hydro One is at market median.
33

⁵¹⁶ EP, s 70, p 20.

⁵¹⁷ SEC s 4.2.8.

1 Specifically, Hydro One notes that the reality is that when pension and benefits are removed
2 from compensation Hydro One is at market median. That is, when total cash is considered, non-
3 represented employees are 3% below market median, SUP employees are 3% above market
4 median and trades and technical employees are 1% above market median.⁵¹⁸ Hydro One
5 submits that the Board should look at Hydro One's position in relation to market median based
6 on this total cash basis (base pay, short-term incentives, and lump sum incentives).

7
8 The reason that the Board should consider pensions separately is not only because it is what
9 drives Hydro One to be above P50 – which is the case – but because study methodologies
10 consider the **value** of the pension plan (which is significantly higher than Hydro One's peer
11 group) instead of its **actual cost** to Hydro One. Hydro One submits that the reasonableness of
12 its cost forecast is what is at issue in this rates application.

13
14 Moreover, Hydro One has taken significant steps to keep pension costs manageable,
15 specifically:

- 16
- 17 • Employee contributions are getting closer to 50/50 cost sharing;
 - 18 • The non-represented defined benefit plan has been closed to new entrants and a new
19 defined contribution plan has been introduced; and
 - 20 • For represented employees, in 2025, the early retirement threshold has moved from r82
21 to r85 and the pension formula has changed to high 5 from high 3 – both steps will
22 reduce cost to the pension plan.⁵¹⁹

23 The result of Hydro One's efforts is that rate-recoverable pension costs have declined over
24 time⁵²⁰. Hydro One submits that the Board should give weight to its efforts to control pension
25 costs and, importantly, consider pensions separately from Hydro One's compensation total cash
26 compensation levels in light of the above-noted considerations.

27
28 *c. Any reduction based on Mercer study / recent transmission decision precedent*
29 *must take into account reductions already made by Hydro One*
30

⁵¹⁸ Mercer study, pp 15-17.

⁵¹⁹ See C1-2-1, p 29-30 and Transcript Vol 3, p 8-9.

⁵²⁰ I-40-Staff-211.

1 Should the Board disagree with Hydro One's submission that Hydro One's position relative to
2 market median should be considered on a total cash basis and as a result seek to reduce Hydro
3 One's compensation based on the Mercer study⁵²¹ results as the Board directed in Hydro One's
4 recent transmission rates proceeding, Hydro One submits as follows:

5
6 First, it is important to note that the 2017 Mercer study included more compensation data such
7 as share grants and lump sum payments.⁵²² Although these additional benefits were included,
8 Hydro One still trended lower than the previous study. This is important because it addresses
9 an issue noted by the Board's decision in Hydro One's recent transmission rates proceeding
10 where the Board stated in relation to the 2016 Mercer study that "the OEB agrees that Hydro
11 One's total compensation amounts are likely understated because not all items of Hydro One
12 compensation were included therein."⁵²³ Now that these items are included in the study, Hydro
13 One is still trending lower.

14
15 Most importantly, however, Hydro One notes that should the Board seek to utilize Mercer's
16 finding that Hydro One's compensation is trending at 12% above market median in calculating
17 any human resource revenue requirement reduction, the annual reduction calculation must take
18 into account the three reductions already applied by Hydro One and set out in answer to SEC
19 interrogatory 84, that is:

- 20
- 21 1. In June 2017, Hydro One reduced its 2018 pension OM&A costs by \$7.1 million due
22 to the actuarial revaluation of pension expenses completed by Willis Towers Watson
23 (see page 31 of Exhibit C1, Tab 1, Schedule 7);
 - 24
25 2. In December 2017, Hydro One reduced its 2018 OPEB OM&A costs by \$1.9 million
26 (see pages 5-6 of Exhibit Q, Tab 1, Schedule 1); and
 - 27
28 3. In December 2017, Hydro One 2018 executive compensation OM&A costs by \$3.2
29 million (see pages 5-6 of Exhibit Q, Tab 1, Schedule 1).

⁵²¹ Hydro One notes that some parties have raised methodological issues with the Mercer study. In response, Hydro One notes that the Board has consistently used studies by Mercer and has therefore previously accepted the methodologies used.

⁵²² Mercer study, p 4.

⁵²³ EB-2016-0160 Decision and Order, p 57.

1
2 As set out in SEC interrogatory 84, a reduction to Hydro One Distribution's OM&A costs based
3 on the December 2016 study results which placed Hydro One's compensation costs at 14%
4 above market median would be approximately \$17.5 million. After applying the above
5 reductions, the net reduction would be \$5.3 million.

6
7 *d. Any reduction should not double-count*

8
9 In the Board's most recent decision in regards to Hydro One's transmission rates, it noted that it
10 "appreciates that a portion of total compensation costs are in budget amounts included in
11 transmission capital projects" and since the Board had already decided to make a reduction to
12 the capital budget, this would have some compensation reduction impact.⁵²⁴ Hydro One
13 submits that unless the Board makes no reduction to Hydro One's capital-related revenue
14 requirement in this Application, the Board should follow its approach in the recent transmission
15 rate decision and not make a compensation-related capital reduction as suggested by EP, CCC
16 and SEC as this would result in double-counting.

17
18 Moreover, Hydro One notes that any compensation reductions ordered by the Board in the
19 future as a result of Bill 2, *Urgent Priorities Act, 2018* would overlap with above-noted reductions
20 already applied by Hydro One as set out in SEC interrogatory 84, and therefore there should not
21 be double-counting as between Bill 2 and reductions already applied.

22
23 (b) Diversity

24
25 SUP submits that the Board should assign diversity targets to Hydro One and put at risk a
26 portion of ROE if the diversity targets are not met⁵²⁵. While Hydro One does have diversity
27 targets and believes diversity is very important as made clear at the hearing by Hydro One's
28 witness,⁵²⁶ Hydro One does not agree that the Board should set diversity targets for Hydro One.

⁵²⁴ Decision and Order revised November 1, 2017, EB-2016-0160.

⁵²⁵ SUP, p 10.

⁵²⁶ As stated by Mr. McDonell at the oral hearing (Transcript day 3, pp 68-69):

We totally believe in diversity and inclusion. It is very important to our board of directors. Our board of directors expect a quarterly update of how we are doing in terms of diversity and inclusion. We actually spent a lot of time and effort this year, as I said, doing focus groups and doing an audit on all our policies and procedures that could impact

1 The Board setting diversity targets for utilities would be a new policy that would need to be
2 addressed in a generic Board policy proceeding prior to adoption. This would allow all utilities to
3 provide input to the matter.

4

5 (c) Pension costs

6

7 i. *Staff submissions*

8

9 Staff agrees with Hydro One's continued use of the cash method for Hydro One to recover its
10 pension costs.⁵²⁷ As explained in the Staff submissions, the cash basis represents the annual
11 cash contributions that the utility is required to make to the pension plan as calculated by an
12 actuary, who calculates these contributions in accordance with the *Pension Benefits Act*.⁵²⁸
13 Based on the actuarial valuation filed by Hydro One, Staff submits that no pension costs should
14 be recovered in rates as part of this Application, unless required pursuant to collective
15 agreements in which case Hydro One could be permitted to recover what it is required to
16 contribute pursuant to its collective agreements.⁵²⁹

17

18 ii. *Other parties' submissions*

19

20 CCC agrees with the submissions of Staff on this issue.⁵³⁰ EP submits that the Board should
21 reduce, at least to some extent, the amount the Hydro One is seeking to recover for pension
22 cost.⁵³¹ SEC submits that given the collective agreement requirement that pension contributions
23 not be less than employee contributions, Hydro One should be required to lower its
24 contributions to the plan to equal that of its employees.⁵³²

25

and uncover systemic discrimination. So I don't agree that we don't take it seriously. We do very much so. And, I mean, diversity and inclusion is just not a nice thing. I do actually believe -- or I would agree with part of your comment that having a strong diversity and inclusion environment can improve the business results. It is not just a "nice to have".

⁵²⁷ Staff, p 123.

⁵²⁸ Staff, pp 123-124.

⁵²⁹ Staff, p 127.

⁵³⁰ CCC, p 19.

⁵³¹ EP s 79, p 22.

⁵³² SEC s 4.4.7, p 75.

1 PWU submits that no funding holiday should be taken whatsoever. PWU points to the collective
2 agreement requirement that pension contributions not be less than employee contributions and
3 also submits:
4

5 [T]he forecast of any continuing surplus is based upon a point in time forecast. The
6 variables which factor into a pension solvency analysis are constantly changing. A
7 reduction in employer contributions simply increases the probability that the pension the
8 forecast of any continuing surplus is based upon a point in time forecast.⁵³³
9

10 *iii. Hydro One's response*
11

12 As indicated at the oral hearing, Hydro One has made a commitment under its collective
13 agreements to contribute at least an amount equal to the employee contributions and therefore,
14 at this point in time, Hydro One's contributions cannot be reduced to \$0 regardless of the
15 minimum required legislation.⁵³⁴
16

17 Importantly, however, in regards to what is permitted by the applicable legislation, pension
18 regulator FSCO recently communicated its position with respect to the application of new
19 funding rules which limit the use of a contribution holiday beyond 2018. Even though the
20 December 31, 2017 actuarial valuation indicates that the minimum employer contribution
21 requirement for 2018-2020 is zero, the actuarial valuation also states that the Application of
22 Surplus amounts shown reflect the funding rules in force at the time the current valuation was
23 filed. The actuarial valuation also states that this is subject to the preparation of a cost certificate
24 at the beginning of each year confirming the level of available surplus that may be applied for
25 2019 and 2020.⁵³⁵ In August 2018, FSCO issued their position⁵³⁶ which states that for a
26 contribution holiday to be taken in 2019 and beyond a cost certificate will need to be filed
27 certifying that, at the beginning of the year, the assets of the plan exceed the windup liabilities
28 by 5%. Based on this, it is extremely unlikely that Hydro One will be able to take a contribution
29 holiday in the near future, as assets would have to outperform windup liabilities by more than
30 \$2.7 billion to first cover the windup deficit and then further exceed windup liabilities by 5%.

31

⁵³³ PWU pp 58-59.

⁵³⁴ Transcript Vol 4, p 1; p 78.

⁵³⁵ See footnote 2 in Section 3.1 of actuarial valuation at C1-2-2-1.

⁵³⁶ See <http://www.fSCO.gov.on.ca/en/pensions/actuarial/Pages/2018-funding-reform.aspx>

1 Moreover, taking a complete funding holiday could result in the company having to make
2 additional payments in the future (going concern / special payments) if assumptions / conditions
3 change.

4

5 Hydro One submits that the view expressed by Staff is very short-term in nature. Hydro One
6 believes that Staff should be looking at pension costs over a longer term and trying to minimize
7 the volatility in costs.

8

9 Finally, Hydro One notes that the current service cost determined under the actuarial valuation
10 is funded by both the employer and employees. Given the funded status of the plan, this
11 represents the current service cost – that is, it represents the costs of the service rendered by
12 employees in the current year. Any changes to this could be seen as intergenerational inequity,
13 or "kicking the can down the road." Moreover, given that on a windup basis, the plan is
14 significantly underfunded, contributing the normal cost – that is, the costs attributable to the
15 employees rendering service in the current year – is reasonable.

16

17 **Issue 41. Has Hydro One demonstrated improvements in presenting its**
18 **compensation costs and showing efficiency and value for dollar associated**
19 **with its compensation costs?**

20

21 Submissions regarding efficiency and value for compensation costs are made under issue 40
22 above. This issue therefore includes submissions as to whether Hydro One has demonstrated
23 improvements in presenting its compensations costs.

24 Staff submits that Hydro One “does not yet have a consistent template” for presenting all the
25 information outlined by the OEB, and this “makes for an often confusing variety of tables”.⁵³⁷

26 Staff notes that some recently-filed tables include FTE information while others do not. Staff
27 notes that Hydro One has explained that in the future it expects to incorporate the FTE metric
28 into its business planning and performance management processes and states that Staff
29 considers it to be important for Hydro One to complete this process before it can be said that
30 Hydro One has demonstrated improvements in its presentation of compensation costs.⁵³⁸

⁵³⁷ Staff, p 133.

⁵³⁸ Staff, p 133.

1 In response, Hydro One notes that as stated at the oral hearing, Hydro One is aware that the
2 various compensation filings and tables have made it harder than usual for its compensation
3 evidence to be reviewed. Hydro One notes its evidence this application (attachment 6⁵³⁹) is the
4 most comprehensive compensation evidence and much of the confusion on the record arises
5 from requests to reconcile it and make it consistent with past presentations of compensation
6 evidence. Attachment 6 of C1-2-1 includes all compensation, distribution compensation,
7 transmission compensation and consolidated compensation numbers. Improved continuity
8 between distribution and transmission will occur in Hydro One's upcoming rates applications.

9

10

11 **Issue 42. Is the updated executive compensation information filed by Hydro One in**
12 **the distribution proceeding on December 21, 2017 consistent with the**
13 **OEB's findings on executive compensation in the EB-2016-0160**
14 **Transmission Decision?**

15

16 Pursuant to the Board's letter dated August 3, 2018, Hydro One is making no submissions on
17 this issue at this time.

18

19 **Issue 43. Are the methodologies used to allocate Common Corporate Costs and**
20 **Other OM&A costs to the distribution business for 2018 and further years**
21 **appropriate?**

22

23 Staff submits that Hydro One has justified that the methodologies used to allocate common
24 corporate costs and other OM&A costs to the distribution business for 2018 and further years
25 are appropriate⁵⁴⁰. Staff further notes that "a portion of common corporate costs related to
26 management of non-regulated activities has not been allocated to the regulated businesses;
27 which is in keeping with the decision in the transmission proceeding."⁵⁴¹

28

⁵³⁹ Of C1-2-1, provided October 11, 2017.

⁵⁴⁰ Staff, p 135.

⁵⁴¹ Staff, p 135.

- 1 BOMA agrees that the methodologies used to allocate Common Corporate Costs and Other
- 2 OM&A costs to the distribution business for 2018 and further years are appropriate.⁵⁴²

⁵⁴² BOMA, p 44.

1 **G. REVENUE REQUIREMENT**

2
3 **Issue 44. Is Hydro One’s proposed depreciation expense for 2018 and further years**
4 **appropriate?**

5
6 Staff submits Hydro One’s proposed depreciation expense for 2018 and further years is
7 appropriate as it is justified by the assessments undertaken and helps to mitigate rate
8 increases⁵⁴³. BOMA supports Hydro One’s proposed depreciation and amortization expense⁵⁴⁴.

9
10 **Issue 45. Are the proposed other revenues for 2018 – 2022 appropriate? and**
11 **Issue 54. Are the proposed specific service charges for miscellaneous services over**
12 **the 2018-2022 period reasonable?**

13
14 In EB 2013-0416/EB-2014-0247, the Board directed Hydro One to conduct “a study assessing
15 whether its service charges reflect Hydro One’s underlying costs and to propose changes
16 accordingly.”⁵⁴⁵ Hydro One did so and proposes to update its service charges to reflect those
17 costs.

18
19 Staff concluded that the level of the charges proposed by Hydro One appropriately reflect its
20 costs to provide services.⁵⁴⁶ In addition, no party seriously questioned the methodology by
21 which the quantum of service charges were calculated, or the fact that service charges should
22 reflect costs. Despite this, Staff, CCC and BOMA argued that the service charge increases that
23 Hydro One is requesting should not be approved at this time, submitting that Hydro One should
24 be directed to consult with customers on proposed increases.⁵⁴⁷

25
26 Further, Staff alone takes the remarkable position that, pending this consultation, the
27 incremental cost to customers receiving these services should be borne by the shareholder.
28 Provided that the costs to be charged for the services are substantiated – and again, no one

⁵⁴³ Staff, p 137.
⁵⁴⁴ BOMA, p 44.
⁵⁴⁵ 2013-0416/EB-2014-0247, p. 51
⁵⁴⁶ Staff p 140.
⁵⁴⁷ BOMA p 44, CCC p 24.,

1 has claimed that they are not substantiated – they should be borne by the customers causing
2 them. There is no reason why the shareholder, should be made responsible for these costs.
3 Apart from communicating these increases to customers – which has been done through this
4 proceeding over the last year and a half – it is not clear what further value this consultation
5 would have provided. Many of the charges are “one-off” and it is not possible to identify in
6 advance which customers may be affected by them. The Board’s policies, like good rate
7 making policies in general, are for these services to cover their costs. Where increases create a
8 burden, Hydro One advised during the oral hearing that instalment plans would be available.⁵⁴⁸
9

10 (a) Specific service charges – updates vis-à-vis original Application
11

12 Moreover, in regards to the charges which Hydro One determined should not be charged as a
13 specific service charge a proposition supported by VECC and CCC,⁵⁴⁹ and should instead be
14 considered part of its standard level of service,⁵⁵⁰ Hydro One submits that this approach is
15 exactly what is contemplated by the 2006 rate handbook.⁵⁵¹ \$0.3M of removed charges reflect
16 services that should be considered part of Hydro One’s standard level of service and \$1.3M in
17 reduced charges reflected updated work methods since the conclusion of the Time Study, as a
18 result of remote disconnect meter investments.⁵⁵²
19

20 Staff submitted that Hydro One should provide the OEB with a breakdown of its specific service
21 charge.⁵⁵³ VECC in its submission provided the breakdown of these charges, which have been
22 presented below.⁵⁵⁴ The only correction required to this table is that the 2018 proposed charge
23 for Pole Access for LDCs and Generators (Rate Codes 47 and 48) in the filing is \$85.33 (for 10
24 ft. of space), and this was corrected to \$85.25 (for 10 ft. of space) during the oral hearing.
25

⁵⁴⁸ Transcript Vol 9 June 25, p 168.

⁵⁴⁹ VECC p 68-69, CCC p 24,

⁵⁵⁰ Transcript Vol 11, June 11 p 5-7.

⁵⁵¹ 2006 Electricity Distribution Rate Handbook Ch 11, p 106.

⁵⁵² Transcript Vol 11, June 11 p 5-7.

⁵⁵³ Staff p 142.

⁵⁵⁴ VECC p 63-65.

		Initial Application				Oral Proceeding Update
Charge	Rate Code	Rate Status	2017 Rate	Proposed 2018 Rate	Basis for 2018-2022 Rate	
Statement of Account	2	Continued	\$15	\$13	Fixed – Set Below Cost	Discontinued
Pulling Post Dated Cheques	3	Discontinued	\$15 -currently not provided	N/A	N/A	
Duplicate Invoice	4	Continued	\$15	\$13	Fixed – Set Below Cost	Discontinued
Request for Other Billing Info	5	Continued	\$15	\$13	Fixed – Set Below Cost	Discontinued
Easement Letter - Written	6 a)	Continued	\$15	\$86.90	Annual Incr. – Cost Based	
Easement Letter - Web	6 b)	Continued	\$15	\$25	Fixed – Historic Value	
Income Tax Letter	7	Continued	\$15	\$13	Fixed – Set Below Cost	Discontinued
Notification Charge	8	Discontinued	\$15 -currently not provided	N/A	N/A	Discontinued
Account History	9	Continued	\$15	\$13	Fixed – Set Below Cost	Discontinued
Credit Reference/ Check	10	Continued	\$15 + Agency Cost	\$13	Fixed – Set Below Cost	Discontinued
Returned Cheque Charge	11	Continued	\$15	\$7	Fixed – Set at Cost	

1

Charge to Certify Cheque	12	Discontinued	\$15 -currently not provided	N/A	N/A	
Legal Letter Charge	13	Continued	\$15	Actual Incurred Costs	Charged at Actual Cost	Discontinued
Account Set Up/Change Occupancy	14	Continued	\$30	\$38	Fixed – Average Cost	
Special Meter Read	15	Continued	\$30	\$90	Fixed – Set at Cost	
Acct. Collection – No Discon.	16	Continued	\$30	\$100	Fixed – Average Cost	
Acct. Collect. – No Discon. – After Reg. Hrs	17	Discontinued	\$165 - currently not provided	N/A	N/A	
Discon./ Recon. At Meter	18 & 19	Continued	\$65	\$120	Fixed – Average Cost	Maintain Current Rate
Discon./ Recon. At Meter – After Reg. Hrs.	20 & 21	Continued	\$185	\$320	Fixed – Average Cost	Maintain Current Rate
Discon./ Recon. At Pole	22	Continued	\$185	\$430	Fixed – Average Cost	
Discon./ Recon. At Pole – After Reg. Hrs.	23	Continued	\$415	\$850	Fixed – Average Cost	
Meter Dispute Charge	24	Continued	\$30	\$290 + Meas. Can. Fees	Fixed – Average Cost	

2

Service Call – Cust Equip	25	Continued	\$30	\$210	Fixed – Average Cost	
Service Call – Cust Equip After Reg Hrs	26	Continued	\$165	\$775	Fixed – Average Cost	
Install/ Remove Temp Service	27-29	Continued	Various fixed rates	Actual Incurred Costs	N/A	
Pole Access - Telecom	30	N/A				
Vacant Premise – Move In with Recon. - Meter	31 a)	New	N/A	\$95	Fixed – Below Cost	Discontinued
Vacant Premise – Move In with Recon. - Pole	31 b)	New	N/A	\$300	Fixed – Average Cost	Discontinued

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(b) Concerns with specific charges

Energy Probe submits that the proposed increase to the Meter Dispute Charge is too large⁵⁵⁵. In response, Hydro One notes that this charge is based on principles of cost causality. Moreover, as explained by Mr. Merali at the oral hearing, Hydro One makes efforts to work with a customer prior to dispatching a truck and it is only if a meter is actually not faulty that a customer would incur this charge.⁵⁵⁶

ESC submits that the Board should require Hydro One to account for the system benefits of energy storage in calculating Connection Impact Assessment (“CIA”) rates.⁵⁵⁷ In response, Hydro One submits that the cost for the CIA is appropriately based on the costs Hydro One incurs to perform the work required in conducting a CIA i.e., the amount is based on principles of cost causality. The system benefits noted by ESC do not alter the cost associated with Hydro One undertaking the work required for a CIA.

VECC submits that HONI should also withdraw its proposed charges for Special Meter Reads-Retailer Requested (Rate Code 15) as these reads would not be necessary were it not for there being a communication challenge with the smart meter.⁵⁵⁸ Hydro One observes that this charge

⁵⁵⁵ EP p 36-37.
⁵⁵⁶ See Technical Conference Transcript Day 2, p 140-141.
⁵⁵⁷ ESC p 6.
⁵⁵⁸ VECC p 68.

- 1 is driven by a retailer-related request to expedite a meter reading off-cycle and this charge is
- 2 based on principles of cost causality.

1 **H. LOAD AND REVENUE FORECAST**

2
3 **Issue 46. Is the load forecast methodology including the forecast of CDM savings**
4 **appropriate?**

5
6 Staff had a few non-material concerns with the load forecast methodology, but concluded that
7 they did “not believe that these matters are of a sufficient level of concern to prevent the filed
8 results from providing a reasonable forecast of load.”⁵⁵⁹

9
10 Staff’s specific non-material concerns are addressed below.

11
12 Staff submitted that one area of possible improvement is the use of weather data in econometric
13 forecasting models. Staff refers to an example of low t statistic of Heating Degree Days (“HDD”)
14 at Pearson Airport in the LDC equation, and argue that it may be better to use more locally
15 appropriate geographic weather station data.⁵⁶⁰

16
17 BOMA agrees with Staff regarding the use of data from Toronto’s Pearson airport.⁵⁶¹

18
19 In response, Hydro One notes that it already utilizes weather data from different geographic
20 areas in developing the delivery point forecasts (related to both retail and LDC customers) using
21 EPRI’s Hourly Electric Load Model (“HELM”) regression, as detailed in Exhibit E1-2-1, pages 18
22 and 19. Consequently, it is not just Pearson Airport weather data that is currently utilized in
23 developing the forecast in this Application. In any case, Hydro One maintains that for the
24 purpose of the econometric forecasting models, a single aggregate model is preferred as it
25 benefits from the regularities that exist at the aggregate level based on the law of large
26 numbers. In response to undertaking JT3-26, it was also demonstrated that the inclusion or
27 exclusion of logarithm of HDD in LDC econometric model would yield forecasts that are not
28 materially different. Consequently, its inclusion would have no negative impact on the forecast.

29

⁵⁵⁹ Staff, p 147.

⁵⁶⁰ Staff, p 146.

⁵⁶¹ BOMA, p 44.

1 Staff also submits that “while Hydro One has continued to use a proven methodology, it has
2 done so without sufficient consideration of the continued applicability of the inputs and
3 explanatory variables.” Hydro One disagrees. As an integral part of updating its forecast models
4 for all rate applications, Hydro One considers the continued applicability of the inputs and
5 explanatory variables to the models, and in the present Application, alternative models were
6 examined that included different explanatory variables and their lag structure⁵⁶².

7
8 Hydro One agrees with the majority of intervenors that that the current load forecast, updated in
9 the response to OEB interrogatory I-46-Staff 219, is appropriate. Moreover, as in the past,
10 Hydro One will continue to look for ways to improve its models and the applicability of best
11 available data in its future Applications. Hydro One’s concern with the Staff suggestion of using
12 weather data from multiple disperse stations in a single regression is that there will be strong
13 multicollinearity between different weather measures (e.g. HDD) across Ontario leading to
14 estimates with unreasonable signs and magnitudes that would negatively impact the load
15 forecasting accuracy.

16
17 OSEA suggests that Hydro One should increase its CDM/DSM programs but this is in the
18 context of increasing market penetration of existing CDM programs and improving future
19 programs, and it is not a criticism of the CDM assumptions in current load forecast⁵⁶³.

20
21 VECC’s submissions in relation to issues 46 and 47 are made together and therefore are
22 addressed under issue 47 below.

23
24 **Issue 47. Are the customer and load forecasts a reasonable reflection of the energy**
25 **and demand requirements for 2018-2022?**

26
27 (a) Staff submissions

28
29 Staff submits that Hydro One’s five year forecast of customers and load is reasonable. As noted
30 above, Hydro One agrees that the updated forecast submitted in response to OEB I-46-Staff

⁵⁶² For example, the retail econometric model in Exhibit E1-2-1, page 24 has a different lag structure compared to its counterpart in the previous application, Exhibit A-16-02, p 28.

⁵⁶³ OSEA, pp 3-4.

1 219, is appropriate. The proposed 2021 update of the load forecast is discussed under Issue
2 14.

3

4 (b) BOMA submissions

5

6 BOMA agrees that the customer and load forecasts are a reasonable reflection of the energy
7 and demand requirements for the plan period.⁵⁶⁴

8

9 (c) VECC submissions

10

11 *i. Residential customer count:*

12

13 VECC submits that the Board should direct Hydro One to revise its forecasts of residential
14 customer count for 2018-2022 to reflect a 4-year average value of 15.6% to drive the change in
15 the number of Hydro One residential customer relative to the change in Ontario residential
16 customers.

17

18 In response, Hydro One submits that this is not appropriate as it ignores the change in
19 economic conditions on which the updated load forecast provided in OEB I -46-Staff 219 is
20 based. In early 2018, when the forecast was updated, the economic situation had changed.
21 Interest and mortgage rates were on the rise and uncertainties regarding NAFTA negotiations
22 and possible border taxes had a negative impact on Ontario's economy. A ratio of 13.6%,
23 representing the change in the actual 2017 number of Hydro One residential customers relative
24 to the change in Ontario customers, was used by Hydro One as the basis for updating the
25 residential customer forecast as it represented the best available information consistent with the
26 new economic environment. Economic theory also suggests that rising interest rates would
27 reduce discretionary spending that requires large investments, such as buying a second
28 property in Hydro One service territory for seasonal use, while properties of lower value such as
29 condos in major cities, that are largely outside Hydro One's service territory, would become
30 more popular. These factors lead to a reduction in Hydro One's change in residential customer
31 count relative to its provincial counterpart.

32

⁵⁶⁴ BOMA, p 44.

1 Hydro One submits that the use of 15.9%, as suggested by VECC, is not reasonable. As
 2 illustrated in the table below, VECC's suggestion would result in a forecast of residential
 3 customer changes for 2018 to 2022 that is *higher* than the actual 2017 increase in number of
 4 residential customers of 8,465. This outcome is inconsistent with the fact that the consensus
 5 forecast GDP Growth and Housing Starts figures for 2018 to 2022, which are the basis for the
 6 customer forecast, are all lower than the actual 2017 figure, and therefore it is unreasonable to
 7 assume that the change in number of customers for 2018 to 2022 would be higher than the
 8 actual values observed in 2017 given that the drivers of customer growth are actually
 9 decreasing over the CIRM period.

10
 11 In addition, Hydro One notes that the difference between Hydro One's and VECC's proposed
 12 change in number of customers would be less than 1,400 customers in any given year, which
 13 represents a negligible difference of 0.1% in Hydro One's residential customer base.

14

Year	% GDP Growth (1)	Housing Starts in Thousands (1)	Change in Ontario Number of Residential Customers (2)	Change in Hydro One Customers based on 13.6%	Change in Hydro One Customers based on 15.9%
2017	2.9 (Actual)	79.2 (Actual)	62,308 (Actual)	8,465 (Actual)	9,906 (Estimate)
2018	2.2	72.6	60,982	8,294	9,696
2019	2.0	69.7	56,647	7,703	9,007
2020	2.1	70.9	55,750	7,582	8,864
2021	2.0	70.9	56,157	7,637	8,989
2022	2.1	69.9	55,615	7,564	8,842

(1) Source: Table E.2 in Exhibit I-46-Staff-219.

(2) Source: Exhibit I-46-Staff-219-01.

15

16

17 *ii. Residential customer class breakdown – impact of reclassification*

18

19 VECC states that Hydro One does not account for the likely reclassification of R2 customers to
 20 the higher density R1 customer class. This is incorrect – in fact, Hydro One does account for
 21 reclassification of residential customers from R2 to R1. As shown in the response to
 22 undertaking J10.5-Q3, for the purpose of load forecast the net amount of transfers was used

1 (i.e., after the reclassifications are accounted for including those from R2 to R1). In addition, as
2 indicated in the same undertaking response, the number of customers moving out of the R2
3 class over the CIRM period (3,933) is forecast to be higher than the number of R2 customers
4 (3,887) moved as a result of the 2017 customer classification review.

5
6 *iii. GS Customer count – excluding acquired utilities*

7
8 VECC states that Hydro One's general service customer count forecast does not appear to
9 have been updated to reflect the impact of Ontario's improving economic outlook. VECC does
10 not provide a recommendation as to what the general service customer forecast should be, but
11 requests that the Board direct Hydro One to address this issue in its next load forecast.

12
13 In response, Hydro One notes that its methodology for forecasting general service customer
14 count is tied to GDP growth, an approach which VECC and other intervenors expressed no
15 concerns with. Using its methodology, Hydro One had initially forecast a 2017 value of change
16 in the number of Hydro One General Service (GS) customers of -23, which was tied to the initial
17 GDP growth forecast of 2.3%. The 2017 actual change in the number of GS customers was
18 much lower (-485) even though actual GDP growth was higher at 2.9% compared to the initial
19 forecast of 2.3%, as shown in the table below. The lower customer count growth at a time of
20 higher GDP growth has the effect of reducing GDP elasticity of change in GS customers. Lower
21 elasticity leads to a lower forecast for change in the GS customer count going forward, although
22 Hydro One's forecast diminishes this impact over time such that by 2022, the increase in the
23 number of GS customers is the same in its updated load forecast as per its initial forecast.⁵⁶⁵

24

Year	Initial GDP Index (1)	Updated GDP Index (2)
2017	2.3	2.9
2018	2.1	2.2
2019	2.0	2.0
2020	1.9	2.1
2021	2.0	2.0
2022	1.9	2.1

⁵⁶⁵ Table E.4 in 1-46-Staff 219 and the Table for Forecasting Retail Total Number of General Service Customers provided in Attachment 1 to Exhibit I-43-VECC-071 both show an increase of 261 GS customers in 2022. As indicated in footnote 1 to the Table in Attachment 1, this rate of change is consistent with historic long-run trend in the change in GS customers.

(1) Source: Exhibit E1-2-1, Table E.2.

(2) Source Exhibit I46-Staff-219

1
2

3 In short, Hydro One's updated forecast for GS number of customers is lower compared to the
4 initial forecast for the following reasons.

5

- 6 1. The actual number of customers in 2017 is lower than in the initial forecast.
7 2. The GDP elasticity of GS customer count is lower in the updated forecast compared to
8 the initial forecast.

9 Hydro One submits that the updated customer count forecast is appropriate for the reasons
10 discussed above.

11

12 *iv. HONI's updated volumetric forecasts (prior to CDM adjustments)*

13

14 VECC submits that the updated retail load forecast and the updated embedded customer load
15 forecasts for 2018 are too low. In response, Hydro One advises that its updated forecast was
16 based on rerunning its forecasting models to account for the additional information available at
17 the time of the forecast update for all forecast components, including both retail and embedded
18 customers.

19

20 As presented in Exhibit I-46-Staff-219, Table 7, the 2017 actual load for retail and embedded
21 customers was lower compared to the initial forecast. This drop in actual load occurred despite
22 the fact that the actual 2017 economic indicators were improved compared to the initial forecast.
23 The impact of this was a lower estimate of elasticity linking growth in load to growth in economic
24 indicators. The lower projected load growth due to smaller elasticity in the updated models,
25 when applied to lower 2017 actual base-load, resulted in a forecast load over the CIRM period
26 that is lower compared to the initial forecast for both retail and embedded LDCs.

27

28 In short, the updated load forecast is lower compared to initial forecast for the following reasons

29 (1) The 2017 base-load to which load growth is applied is lower compared to initial load
30 forecast for that year.

31 (2) Elasticity of load growth is lower compared to the initial elasticity as a result of updating
32 the forecast model.

1 Thus, Hydro One submits that the updated forecast presented in Exhibit I-46-Staff-219 is based
2 on updated forecasting models that use the latest available information at the time of update
3 and, as such, is appropriate.

4
5 v. *Hydro One's CDM adjustments*

6
7 VECC raised a number of concerns with Hydro One's CDM assumptions and how CDM is used
8 in its load forecast.⁵⁶⁶

9
10 In response to VECC's concern with Hydro One's use of historic CDM data, Hydro One notes
11 that the CDM energy efficiency ("EE") programs (2005-2010) include both programs initiated by
12 the OPA, as well as CDM programs funded by Hydro One and other organizations such as
13 federal, provincial and municipal governments, natural gas companies, and other non-
14 government organizations. As such, if Hydro One only added back the OPA's programs for
15 2006-2010, as suggested by VECC, the gross load would have been lower, which could result
16 in a lower load forecast over the CIRM period than what has been proposed by Hydro One.
17 Hydro One has requested the estimated results from the OPA/IESO for all 2006-2010 EE
18 programs results and was told it was not available.

19
20 VECC also raised concerns that HONI does not have reports from the IESO/OPA that set out its
21 verified EE program result for the period 2011-2016. This is not correct, and in fact verified EE
22 results have been provided by Hydro One in the response to Undertaking JT 3.18-2 b). VECC
23 also noted that when actual CDM program results are compared with the historical values used
24 in HONI's load forecast, there are some anomalous results for the implied 2006-2010 EE
25 programs savings. However, VECC acknowledges that the inconsistencies are not large and
26 Hydro One additionally notes that the observed inconsistencies are in the values for individual
27 years but the total EE savings for the 2006-2010 period is not inconsistent.

28
29 Hydro One notes that in order to develop a load forecast based on a consistent value for total
30 CDM impact (not only the target programs) over the full historical and forecast periods, Hydro
31 One uses a total CDM forecast based on its share of the total CDM savings in the OPO. This
32 methodology is described at a high level in its evidence at Exhibit E1-2-1, pages 8-9, and
33 calculation of the CDM amounts used in the load forecast are detailed in Exhibit I-43-VECC 75

⁵⁶⁶ VECC p 42-48.

1 parts f) and j).⁵⁶⁷ Hydro One continues to use the same approach to CDM as previously
2 approved by the Board for Hydro One and with which Staff and BOMA have no concerns. In
3 addition to Hydro One's previously stated need to capture all CDM impacts, not just the target
4 programs funded by the IESO/OPA, Hydro One notes that the IESO/OPA EE target program
5 information is provided only up to 2020. Given that Hydro One's load forecast for this rate filling
6 covers the period up to 2022, using the OPA/IESO's EE target program information would not
7 cover Hydro One's full load forecasting period.

8
9 *vi. Hydro One's forecast CDM results*

10
11 A final point that VECC makes with respect to CDM is that the CDM amounts assumed in Hydro
12 One's forecast are an estimate and not tied to specific CDM savings from Hydro One's EE
13 programs. Furthermore, VECC is concerned that Hydro One cannot breakdown the total EE
14 program impacts attributable to all LDCs by program year, although it acknowledges that this
15 level of detail is not required for the load forecast.

16
17 In response, Hydro One agrees with VECC that the level of detail of CDM impact by program
18 and by year is not required by the load forecast. Hydro One also acknowledges that its CDM
19 forecast is an estimate, however that estimate is based on OPO data that takes into account all
20 CDM programs (including OPA/IESO target programs) and by necessity covers the period from
21 2021-2022 for which OPA/IESO target program information is not available. Hydro One's
22 methodology for estimating CDM is the same approach it has used in previous applications,
23 which has been tested by intervenors and approved by the Board. Hydro One has evaluated
24 different methods of incorporating CDM in the load forecast based on the available CDM results
25 and forecasts. The method it uses for incorporating CDM is a technically sound and efficient
26 approach that effectively takes into account total CDM impacts during the historical and forecast
27 periods, and has been demonstrated to provide accurate load forecasts in the past.⁵⁶⁸

28
29
30

⁵⁶⁷ Per excel spreadsheets provided as Attachment 1 and Attachment 5 to the referenced interrogatory response.

⁵⁶⁸ Exhibit E1-2-1, p 3.

1 *vii. HONI's proposed LRAMVA*

2

3 VECC has a number of concerns regarding HONI's LRAMVA proposa.⁵⁶⁹

4

5 VECC's first concern is that the calculation performed by HONI captures both the assumed
6 impact of EE programs implemented after 2016 and the decline in persistence of 2015 and 2016
7 EE programs. In response, Hydro One notes that it has proposed an LRAMVA that this is
8 consistent with the methodology it uses to incorporate CDM into the load forecast. As described
9 in its pre-filed evidence, the historical CDM impacts are added back the actual load and then the
10 forecast CDM impacts are deducted to arrive at the load forecast net of CDM.⁵⁷⁰ As such, using
11 the incremental change in cumulative CDM savings, including persistence of historical
12 programs, is the appropriate way to establish the LRAMVA threshold for the target period of
13 2015-2020. Hydro One's proposal is also consistent with the Board's Chapter 2 Filing
14 Requirements direction on incorporating CDM into the load forecast which states "The
15 distributor should ensure that it has fully considered measured impacts persisting from prior
16 years, and the expected impacts from new programs on the 2018 load forecast."⁵⁷¹

17

18 VECC also expressed concern that the customer class breakdown provided by HONI did not
19 include kWh values for those classes that are demand billed. In response, Hydro One notes that
20 the kWh total included in the LRAMVA table provided in the response to VECC oral hearing
21 undertaking J10.5-Q22 is consistent with the CDM forecast by rate class and includes the kWh
22 amounts associated with the demand billed classes..

23

24 However, VECC's stated "larger concern" is that the 2015-2020 EE program impact assumption
25 HONI is proposing to use in order to calculate the LRAMVA threshold values are not the
26 assumptions actually used by HONI in its load forecast which were established on a totally
27 different basis. This is not correct.

28

29 Hydro One's proposed LRAMVA threshold meets the OEB's rate filing requirements that require
30 alignment with the EE program targets established for each Distributor by the IESO/OPA for the

⁵⁶⁹ VECC, p 49.

⁵⁷⁰ Exhibit E1-2-1, p 11.

⁵⁷¹ Filing Requirements For Electricity Distribution Rate Applications, Chapter 2, p 28.

1 2015-2020 period. The CDM EE program target specific to Hydro One has been established by
2 the IESO/OPA and includes a cumulative target over that period of 1,159,020,000 kWh, which is
3 the basis of the proposed LRAMVA threshold table. Per Hydro One's load forecasting
4 methodology, discussed earlier in this argument, Hydro One deducts its share of the OPO's
5 total forecast CDM (both EE program and Codes & Standards amounts) from its gross load
6 forecast to arrive at its net load forecast used for setting rates. While Hydro One's 2015 – 2020
7 EE program target amounts are not specifically delineated in OPO's total CDM forecast, these
8 amounts are part of the OPO's total CDM amount, and therefore, are implicitly included in Hydro
9 One's load forecast given our methodology. Hydro One notes that its proposed LRAMVA only
10 covers the period to 2020 because the IESO will provide trackable verified results only for this
11 time period.

12

13 **Issue 48. Has the load forecast appropriately accounted for the addition of the**
14 **Acquired Utilities' customers in 2021?**

15

16 Staff provides a summary of Hydro One methodology for accounting for the addition of the
17 Acquired Utilities' customers in 2021 and submits that the load forecast has appropriately
18 accounted for the addition of the Acquired Utilities' customers in 2021. Hydro One agrees that
19 the current forecast, including its update submitted in response to OEB I-46-Staff 219, is
20 appropriate. The proposed 2021 update of the load forecast is discussed under Issue 14.

21

22 BOMA agrees that the load forecast appropriately accounted for the addition of the Acquired
23 Utilities' customers in 2021.⁵⁷²

⁵⁷² BOMA, p 44.

1 **I. COST ALLOCATION AND RATE DESIGN**

2
3 **Issue 49. Are the inputs to the cost allocation model appropriate and are costs**
4 **appropriately allocated?**

5
6 (a) Staff submissions

7
8
9 Staff submits that Hydro One's inputs to the cost allocation model are appropriate and the costs
10 are appropriately allocated, subject to Staff's concern that Hydro One correct its implementation
11 of the street light adjustment factor (SLAF) as part of the preparation of the draft rate order
12 incorporating the OEB's Decision and Order in this proceeding.⁵⁷³

13
14 Staff's concern is that Hydro One has inadvertently applied the SLAF to the total number of
15 customers and the secondary customer base in its 2018 and 2021 cost allocation models.

16
17 In response to Staff's interrogatory on this matter⁵⁷⁴, Hydro One stated that since its SLAF value
18 of 8.48 is not significantly different than the derived value of 8 streetlights per connection,
19 correcting for the above error does not result in any material change in the revenue-to-cost
20 ratios for any of the rate classes. However, Hydro One will correct this error in the draft rate
21 order phase of this application.

22
23 (b) BOMA submissions

24
25 BOMA agrees that the inputs to the cost allocation model are appropriate and that costs are
26 appropriately allocated⁵⁷⁵, except for the Acquired Utilities as discussed under issue 56, below.

27
28
29
30

⁵⁷³ Staff, p 149.

⁵⁷⁴ I-49-Staff-237.

⁵⁷⁵ BOMA, p 45.

1 (c) VECC submissions

2
3 *i. Density*

4
5 VECC submits that Hydro One should review the density factors used in the cost allocation
6 model (“CAM”) prior to filing any future CAM.⁵⁷⁶

7
8 In response, Hydro One notes that the Density Study (filed in EB-2012-0136) was a thorough
9 and detailed assessment of the costs to serve a wide range of sample area groupings for each
10 density-based rate class. As detailed on pages 22 to 26 of the Density Study report, the key
11 drivers for allocating the majority of costs to the density sample areas were i) the relative
12 distance between assets (poles), and customers, within a sample area and the nearest
13 operating centre, recognizing that work crews have to travel some distance to get to both assets
14 and customers in order to carry out their work, and ii) the “asset intensity”, or relative amount of
15 fixed assets required to serve each sample area.⁵⁷⁷

16
17 As stated in Hydro One’s response in JT3.18-12, the basic design of the distribution system has
18 not changed, so “asset intensity” (i.e. relative asset costs) among the sample areas is not
19 expected to have changed. Moreover, given that the location of Hydro One’s service centres
20 has also remained largely stable, the key distance-based drivers of the costs in the Density
21 Study will also not have changed. This supports that it is reasonable to expect that there are no
22 material changes in the cost assignment used in the development of the density factors

23
24 Based on the above points, Hydro One submits that another Density Study is expected to yield
25 similar results which does not justify repeating the study, the costs of which would be borne by
26 customers.

27
28 *ii. Responsibility for investments to improve reliability*

29
30 VECC submits that the capital costs associated with maintaining a higher level of reliability

⁵⁷⁶ VECC, p 53.

⁵⁷⁷ EB-2012-0136, Exhibit D, Tab 1, Schedule 1, Attachment 1, pp 22-26.

1 should be allocated to the commercial and industrial customer classes for whom they are
2 undertaken, and without whom a lower level of reliability would be maintained.⁵⁷⁸

3
4 As noted in its response to OEB interrogatory I-23-Staff-75, Hydro One submits that these
5 capital/OMA programs will provide benefits to all customers and therefore it is appropriate that
6 all customers share the cost of these programs. This approach is consistent with the OEB's cost
7 allocation model methodology, which allocates these types of costs to all customer classes
8 based on allocators such as each rate class' peak demands and number of customers.

9
10 Incorporating VECC's suggestion into the CAM would represent a fundamental change to the
11 principles underlying the CAM, and it is unclear how it could practically be incorporated into the
12 design of the CAM. In any case, any changes to the CAM should be made in consultation with
13 all impacted stakeholders (customers, intervenor groups and utilities) and should be considered
14 in a broader industry context and with a detailed understanding of the impact on customers.

15
16 **Issue 50. Are the proposed billing determinants appropriate?**

17
18 Staff submits that the proposed billing determinants are appropriate.⁵⁷⁹ BOMA agrees with the
19 proposed billing determinants,⁵⁸⁰ and VECC notes that it has no specific submissions on this
20 topic.⁵⁸¹

21
22 **Issue 51. Are the revenue-to-cost ratios for all rate classes over the 2018 – 2022**
23 **period appropriate?**

24
25 (a) Staff submission

26
27 Staff submits that the Revenue-to-Cost ("R/C ratio") adjustments as proposed by Hydro One are
28 appropriate.⁵⁸²

⁵⁷⁸ VECC, p 57.

⁵⁷⁹ Staff, p 150.

⁵⁸⁰ BOMA, p 44.

⁵⁸¹ VECC, p 57. VECC states that any changes made to the load forecast would lead to changes in the proposed billing determinants but as set out by Hydro One in response to issues 46 and 47, Hydro One does not agree with VECC's proposed changes to the load forecast.

1 (b) Energy Probe submission

2
3 EP submits that the Board should consider tightening the R/C ratio for all rate classes and
4 imposing a R/C ratio of 1.0 for the residential classes (as a group).⁵⁸³

5
6 In response to EP's submissions, Hydro One notes that the *Report of the Board, Review of*
7 *Electricity Distribution Cost Allocation Policy*⁵⁸⁴ states as follows:

8
9 *"The Board's policy remains that distributors should endeavor to move their revenue-to-*
10 *cost ratios closer to one if this is supported by improved cost allocations"*

11
12 Given the additional complexity introduced into the cost allocation process as a result of the
13 creation of the 6 new acquired rate classes in 2021, there is no justification for tightening of
14 Hydro One's R/C ratios at this time. More importantly, Hydro One believes that the R/C ratio
15 ranges as currently defined by the Board provides distributors in Ontario with the needed
16 flexibility to mitigate customer bill impacts at a time when a large number of changes are
17 impacting the electricity industry.

18
19 Hydro One's application maintains all R/C ratios within the approved range⁵⁸⁵.

20
21 EP has mischaracterized Mr. Andre's statement that a R/C ratio range is appropriate because
22 the cost allocation model is not a "perfect assessment of what it costs to serve each rate class"
23 as suggesting that the CAM is "broken" and therefore the Board should direct Hydro One to
24 have an outside consultant review the cost allocation model.⁵⁸⁶ This is completely
25 inappropriate. Hydro One's proposed cost allocation follows the principles underlying the
26 Board's CAM and like any cost allocation exercise, the results will never be an exact or perfect
27 indication of the cost to serve any particular class. This is well understood by the Board and is

⁵⁸² Staff, p 151.

⁵⁸³ EP, pp 33-36.

⁵⁸⁴ EB-2010-0219, Report of the Board, Review of Electricity Distribution Cost Allocation Policy, issued March 31, 2011, page iii.

⁵⁸⁵ In the case of the DGen rate class, Hydro One proposes to transition their R/C ratio to within the approved range over the 2018-2020 period.

⁵⁸⁶ EP, p 36.

1 precisely why it has established a range of acceptable R/C ratios⁵⁸⁷. As such, it is not
2 necessary to engage an outside consultant to review the CAM.

3

4 (c) VECC submission

5

6 VECC does not agree with Hydro One's approach for calculating the R/C ratios for 2019, 2020
7 and 2022 , or its approach for escalating the allocated costs for each rate class by a common
8 factor, and instead suggests that "these shortcomings" in Hydro One's approach can be
9 addressed by adopting VECC's methodology as outlined in I-48-VECC-97(e).⁵⁸⁸

10

11 As Hydro One previously stated in the response to I-48-VECC-97 (b), it is unclear as to how the
12 allocated costs for each class could be adjusted to take into account the load forecast by rate
13 class as suggested by VECC.

14

15 Hydro One also notes that as shown in its response to I-48-VECC-97 (f), except for the Sentinel
16 Light rate class, there is virtually no difference in the test year revenue calculated using Hydro
17 One's approach and that recommended by VECC. Further, VECC's approach requires Hydro
18 One to use proposed R/C ratios for 2019/2020/2022 for each rate class, which are derived using
19 the exact approach VECC is arguing against⁵⁸⁹. As such, Hydro One submits that it is unclear
20 how to address VECC's concern in this area, if there remains a concern.

21

22 BOMA agrees with Hydro One's proposed R/C ratios (except for the acquired utilities, as
23 discussed under issue 56 below).⁵⁹⁰

24

25

26

⁵⁸⁷ EB-2007-0667, Board Staff Discussion Paper on the implications arising from a review of the Electricity Distributors CA filings, p 9-10.

⁵⁸⁸ VECC, pp 58-60.

⁵⁸⁹ See Column C in Table 4 and Table 5 in I-48-VECC-97 (e).

⁵⁹⁰ BOMA, p 45.

1 **Issue 52. Are the proposed fixed and variable charges for all rate classes over the**
2 **2018 – 2022 period, appropriate, including implementation of the OEB’s**
3 **residential rate design?**

4
5 (a) Staff Submissions
6

7 Staff submits that the objective of a smoother transition to all-fixed rates would be better
8 achieved with the method included in the RRWF, and typically used by electricity distributors.⁵⁹¹
9 VECC⁵⁹² and BOMA⁵⁹³ make the same submission.
10

11 In response, Hydro One re-emphasizes for the Board the observations it made in response to
12 Staff interrogatories/undertakings⁵⁹⁴, which is that while the RRWF methodology results in a
13 smoother transition in terms of absolute dollar amount, the bill impacts in percentage terms are
14 smoother under Hydro One’s suggested approach. This is particularly important given that the
15 RRWF methodology will result in higher fixed charges for all residential rate classes in 2018⁵⁹⁵,
16 which is the year already experiencing the highest bill increases as a result of the rebasing of
17 the load forecast.
18

19 However, as Hydro One has previously stated, it will accept using the RRWF methodology, if
20 deemed appropriate by the Board.
21

22 (b) Balsam Lake submissions
23

24 The below is Hydro One’s response to BLC’s submissions from a rates perspective.
25

26 Balsam Lake Coalition (BLC) requests that the Board:
27

- 28
 - Implement the “Hybrid Solution” set out by BLC in its submissions;

⁵⁹¹ Staff, p 154.

⁵⁹² VECC, p 61.

⁵⁹³ BOMA, p 45.

⁵⁹⁴ I-49-Staff-245 and JT 3.26-4, part b).

⁵⁹⁵ As shown in the table on p 153 of Staff argument. Hydro One also notes that the increase in the 2018 UR fixed charge shown in Staff’s table for the proposed methodology incorrectly calculates the value as \$3.93, when it is in fact \$2.93.

- 1
- 2 • Direct Hydro One to “fully inform” seasonal customers about Hydro One’s submissions
- 3 as part of an Ontario government working group providing input on the Fair Hydro Plan,
- 4 which input BLC takes issue with because Hydro One informed the government that the
- 5 seasonal class was being eliminated and therefore seasonal customers would become
- 6 part of the R1 and R2 classes, and because Hydro One, in advocating for a subsidy for
- 7 its rural customers, provided the amount that the subsidy would cost the government for
- 8 rural non-seasonal customers; and
- 9
- 10 • Direct Hydro One to amend its residential rate classifications to reflect the legislative
- 11 requirements that establish the relevant criteria for RRRP and DRP related funding.
- 12

13 In response, Hydro One notes that the implementation of the elimination of the Seasonal class

14 is a complex issue, which is why the Board directed Hydro One to file a detailed report on this

15 issue and initiated a separate proceeding under EB-2016-0315 to examine the findings from

16 Hydro One’s Report on the Elimination of the Seasonal Class⁵⁹⁶. The elimination of the

17 Seasonal class has arguably been made even more complex as a result of the distribution rate

18 protection under the Fair Hydro Plan, and further reinforces the need for a full examination of

19 the issues under the separate proceeding initiated by the Board.

20

21 In its Notice and Procedural Order 1 issued November 3, 2016 under EB-2016-0315 the Board

22 recognized the importance of ensuring proper consultation among all customers impacted by

23 the elimination of the Seasonal class and stated that:

24

25 “Although this Notice starts the proceeding, further notice to customers will be

26 necessary. The OEB will require Hydro One to propose a specific notice that will inform

27 its seasonal class customers of this proceeding and the estimated effect on their rates of

28 the elimination of the seasonal class.”

29

30 Hydro One submits that it was not the Board’s intent, nor the understanding of other intervenors

31 in this proceeding, that seasonal class matters would be an issue in this proceeding. Indeed,

32 this important matter is not on the issues list and BLC did not indicate under which issues it was

⁵⁹⁶ Hydro One’s report was originally filed with the Board on August 4, 2015 and was updated and re-filed on December 1, 2016.

1 making its submission. Given the detailed nature of the issues list in this proceeding, Hydro
2 One submits that if the Board had wanted to address seasonal rate matters, this would have
3 been made explicit in the issues list for this Application.

4
5 In light of what Hydro One states in the above paragraphs, there has not been a fulsome
6 discussion among all impacted customers of the many implementation issues raised in Hydro
7 One's report on seasonal matters, or of the new issues raised under BLCs "Hybrid Solution",
8 and therefore adopting any of BLC's suggestions at this time would pre-judge the outcome of
9 the separate proceeding and is therefore not appropriate.

10
11 As a result of the above-noted considerations, Hydro One will not make submissions on the
12 merits of BLC's requests, except to raise two concerns which strike Hydro One as problematic
13 from the outset.

14
15 One, BLC's proposal will result in a notable increase in rates for all other rate classes as a result
16 of the reduction in charges for seasonal customers moving to the R1 class and the significant
17 reduction in the R/C ratio for the customers remaining in the Seasonal class.⁵⁹⁷ Two, Hydro One
18 sees tremendous potential for customer complaints and confusion associated with a "Hybrid
19 Solution" that will effectively result in having seasonal customers in multiple rate classes, each
20 paying different rates.

21
22 Moreover, Hydro One would like to correct the facts on some of BLC's allegations. In regards to
23 BLC's allegation that "Hydro One was careful to explain to government staff that the Seasonal
24 Class was to be eliminated in order to ensure that the legislation did not unintentionally extend
25 funding to Seasonal Customers once included in the R1 and R2 class"⁵⁹⁸, this statement by BLC
26 is a misrepresentation of the interrogatory BLC quotes to support it, which states:

27
28 Hydro One was part of the Ministry of Energy working group that provided input to the
29 ministry staff that developed the Distribution Rate Protection component of the
30 Fair Hydro Plan. Hydro One informed ministry staff of the OEB's decisions with
31 respect to the

⁵⁹⁷ JT 3.23 Attachment 1.

⁵⁹⁸ BLC, p 13.

1 elimination of the Seasonal class and potential for seasonal customers being
2 included in Hydro One's R1 and R2 year round residential rate classes.⁵⁹⁹

3
4 As Hydro One's witness stated on the stand, it was his recollection (having been on the working
5 group that implemented the FHP) that the direction to extend the rate protection to just year-
6 round residential customers who had affordability issues came from the government.⁶⁰⁰

7
8 For more details, regarding Hydro One's input with regards to the governments introduction of
9 the Fair Hydro Plan please see issue 23, above.

10
11 Finally, with regards to service classifications and Hydro One's additional "criteria" in regards to
12 distribution rate protection/RRRP protection, Hydro One's criteria is intended to allow for a
13 practical implementation of the requirement for "continuous residence" that is included in the
14 legislation definition. Hydro One notes that a discussion and review of the year-round residential
15 criteria was included in Hydro One's Report on the elimination of the Seasonal class and would
16 be among the issues discussed as part of the Board's separate proceeding under EB-2016-
17 0315.

18
19 (c) City of Hamilton submissions

20
21 The City of Hamilton ("**COH**") submits that it does not get the full benefit of its LED conversion
22 program and as a result, the rates it pays cannot be said to be either just or reasonable.⁶⁰¹ COH
23 further submits that it is entitled to receive in its rate not just the benefit of reduced consumption
24 but also by way of changes to the mechanism by which street light rates are set.⁶⁰²

25
26 In response, Hydro One notes that as confirmed in interrogatory I-46-COFH 1 and at the oral
27 hearing⁶⁰³, the impact of LED conversion has been included in the forecast kWh of the
28 streetlight forecast used in this application and as such, the proposed rates for the streetlight
29 class do in fact reflect the impact of forecast LED conversion during the 5 year custom IR

⁵⁹⁹ See I-05-BLC-004.

⁶⁰⁰ Transcript Vol 11, p 88.

⁶⁰¹ COH p 4.

⁶⁰² COH p 4.

⁶⁰³ Transcript Vol 11 pg. 151

1 period. However, to receive the benefit of lower bills as a result of their LED conversions, COH,
2 like all other unmetered load customers must provide updated and accurate data to Hydro One
3 to ensure they are billed using the latest billing information that reflects the LED conversion.⁶⁰⁴
4

5 COH's argument references the fact that other members of the street light class either do not
6 have CDM programs or those programs are less effective than the COH's LED conversion
7 program, and their concern with effectively cross-subsidizing the rates which other members of
8 the street light class are paying.⁶⁰⁵ Hydro One notes that COH's claim regarding the
9 effectiveness of their LED conversion program in relation to other members of the streetlight
10 class are not substantiated in evidence, and the only way to address COH's concern with cross-
11 subsidization would be to create a separate rate class for just COH streetlights.
12

13 In response, Hydro One notes that it is not appropriate to create a separate streetlight rate class
14 with just one customer, COH. COH's suggestion would effectively require all LDCs to create
15 separate rate classes to differentiate between customers who participate in CDM programs and
16 customers that do not participate in CDM programs. At best, such an approach would have to
17 be considered in a generic proceeding but Hydro One submits that due to the number of rate
18 classes that would be created, such an approach is not practical or manageable. Further,
19 COH's argument fails to recognize that some amount of cross-subsidization within a rate class
20 is a normal outcome of the cost allocation and rate design process.
21

22 (d) ESC Submissions
23

24 ESC submits that that current rate design discriminates against energy storage customers when
25 compared with renewable generation customers, is not consistent with good rate design
26 principles and that a separate rate class for energy storage is required⁶⁰⁶.
27

⁶⁰⁴ See Hydro One's Conditions of Service Document:
"Section 3.8.2.2 Existing Unmetered Connected Load Services
Throughout the lifecycle of the unmetered connected service, unmetered Customers are required to submit
updated and accurate data to Hydro One when it becomes known by the unmetered Customer, or is requested
by Hydro One. The unmetered Customer shall make an annual declaration confirming data accuracy."

⁶⁰⁵ COH p 5.

⁶⁰⁶ ESC, p 2.

1 As discussed at the oral hearing⁶⁰⁷, Hydro One believes the appropriate manner to address
2 energy storage issues is via an industry-wide forum. This way, addressing energy storage
3 issues would be addressed with guidance and direction from the Board.

4
5 Hydro One notes that creating an “Energy Storage” rate class would require defined rate
6 design/cost allocation principles, which do not exist currently (such as how to address potential
7 system benefits provided by energy storage). Some of these issues had been identified in EB-
8 2013-0294 (Smart Grid Advisory Committee) and documented in the Smart Grid Advisory
9 Committee (SGAC) report, issued on August 5, 2014. In any event, without defined rate
10 design/cost allocation principles and guidance from the OEB, creating a separate “Energy
11 Storage” rate class at this time would be premature.

12
13 **Issue 53. Are the proposed Retail Transmission Service Rates appropriate?**

14
15 Staff, VECC and BOMA all submit that the Retail Transmission Service Rates are
16 appropriate⁶⁰⁸⁶⁰⁹⁶¹⁰

17
18 **Issue 54. Are the proposed specific service charges for miscellaneous services over**
19 **the 2018-2022 period reasonable? (Addressed in response to Issue 45).**

20
21 This issue is addressed along with issue 45, above.

22
23 **Issue 55. Are the proposed line losses over the 2018-2022 period appropriate?**

24
25 Staff and VECC both submit that the proposed line loss factors are appropriate.⁶¹¹ SEC's
26 submission regarding loss factors in relation to customers of the Acquired Utilities is considered
27 under issue 56, below.

28

⁶⁰⁷ Hearing Transcripts Vol 11, pp 102-103

⁶⁰⁸ Staff, p 1554.

⁶⁰⁹ VECC, p 61.

⁶¹⁰ BOMA, p 45.

⁶¹¹ Staff, p 154; VECC, p 70.

1 **Issue 56. Do the costs allocated to acquired utilities appropriately reflect the OEB's**
2 **decisions in related Hydro One acquisition proceedings?**

3
4 (a) Staff submissions

5
6 As noted in response to issue 14 above, Staff submits that should the OEB approve the
7 integration of the Acquired Utilities customers in 2021 as proposed by Hydro One, Staff
8 considers that the methodology proposed by Hydro One to integrate the Acquired Utilities is
9 reasonable.⁶¹²

10
11 Staff also submits that Hydro One's proposal to use the adjustment factors for capital and the
12 allocation of OM&A costs based on the CAM is a reasonable proxy for reflecting the cost to
13 serve.⁶¹³

14
15 (b) VECC submissions

16
17 VECC states that Norfolk and Haldimand's costs are not similar and disagrees with having them
18 in the same rate class.⁶¹⁴ In response, Hydro One submits that it is not necessary for costs to be
19 perfectly aligned between customers to put them into the same rate class. Some level of cross-
20 subsidization within a rate class is a natural outcome of the process of establishing a limited
21 number of rate classes and using an allocation methodology to assign costs to those rate
22 classes.

23
24 Hydro One's existing density based class structure illustrates that when there are significant
25 cost differences between rate classes, separate classes are warranted.⁶¹⁵

26
27 In the case of Norfolk and Haldimand, Hydro One believes that a difference of 5% in OM&A per
28 customer and a 25% difference in fixed assets per customer⁶¹⁶ is not sufficiently material to

⁶¹² Subject to two caveats which relate to (i) cost of capital update and (ii) load forecast and cost allocation matters, and are addressed under issue 13 above. See Staff, p 37.

⁶¹³ Staff, p 156.

⁶¹⁴ VECC, p 72.

⁶¹⁵ In the case of Hydro One's residential classes, the density factors of 1.0:1.9:4.8 for the UR, R1 and R2 classes, respectively, illustrates the significantly large differences between the cost-to-serve these classes.

1 warrant separate rate classes. In addition, as shown in the bill impact table provided in
2 evidence⁶¹⁷, the total bill impacts for both Norfolk and Haldimand customers moving to the new
3 acquired classes are all well below the 10% bill impact criteria set out in the filing requirements.
4 Had the total bill impacts been outside the limits prescribed by the Board for either of those
5 acquired utility's customers Hydro One would have considered creating additional new rate
6 classes. Hydro One also notes that with the addition of the new acquired rate classes Hydro
7 One will have 19 rate classes applicable to its harmonized customer base, which is already well
8 beyond the typical number of rate classes for other distributors.

9
10 VECC also suggests that the acquired adjustment factors should be determined for each USofA
11 (from 1815 to 1860) rather than using a single adjustment factor for each rate class.⁶¹⁸ In
12 response, Hydro One submits that under its proposed approach it is not possible to directly
13 establish Depreciation and NFA adjustment factors within the CAM on a USofA-specific basis.
14 With respect to the GFA (fixed asset) adjustment factor, as stated in evidence⁶¹⁹, Hydro One's
15 approach of establishing adjustment factors to reflect the actual assets used to serve the new
16 acquired utility rate classes was intended to accurately reflect the cost to serve in a manner that
17 would be relatively simple to implement within the CAM and readily understandable to the Board
18 and intervenors. Given that determining the costs to serve a specific rate class is an allocation
19 process and recognizing that the Board has established a relatively wide range of acceptable
20 revenue-to-cost ratios, Hydro One believes its proposed approach is reasonable.

21
22 In addition, Hydro One's proposed approach of a single adjustment factor per acquired rate
23 class for all gross fixed assets in USofA 1815 to 1860 also eliminates the potential for errors that
24 could be introduced by differences in how individual utilities report the amounts by specific
25 USofA account.

26
27 At page 73-74 of its submissions, VECC submits that HONI should be required to update the
28 acquired adjustment factors for each future cost allocation. In response, Hydro One submits that
29 given the long depreciation life of the distribution fixed assets to which the adjustment factors

⁶¹⁶ VECC, p 72.

⁶¹⁷ I-53-CCC 68.

⁶¹⁸ VECC, p 73.

⁶¹⁹ JT3.18-13 b).

1 apply, it will take some time before a material amount of existing assets are replaced such that
2 there would be a significant impact on the calculated adjustment factors. As such, Hydro One
3 believes the proposed adjustment factors are still appropriate for the period that is covered by
4 the next IR application (i.e. 2023-2027). It is anticipated that for the 2028 to 2032 IR period,
5 there will be a number of new factors to consider (e.g. potential integration of other acquired
6 utilities) and given that about 10 years will have elapsed from when the adjustment factors were
7 initially set, Hydro One will assess what changes are required to the CAM, including the
8 adjustment factors, before filing the 2028-2032 rate application.

9
10 At page 74-76 of its submissions, VECC sets out concerns regarding how Hydro One estimated
11 the average escalation factor for cost of service (CoS) years. VECC notes that there are a wide
12 range of figures among LDCs but does not propose a “better” approach. In response, Hydro
13 One acknowledges that its approach only provides an estimate of what the potential change in
14 rates would be in the future. However, in the absence of a better approach being proposed,
15 Hydro One believes its approach is reasonable and leverages the best available information.
16 As indicated in evidence, a similar approach is used by the OEB to assess average rate
17 changes across distributors as part of the process for setting the revenue requirement for Hydro
18 One Remotes and Algoma Power.⁶²⁰

19
20 VECC’s submissions regarding costs relating to the Acquired Utilities are considered in section
21 (d) below.

22
23 (c) BOMA, CCC and SEC submissions

24
25 SEC (and to a much lesser extent BOMA and CCC) claim that Hydro One has not followed the
26 Board’s cost allocation and rate design principles. Hydro One takes these allegations seriously
27 and, in its responses below, will show how its proposals to integrate the Acquired Utilities do in
28 fact follow the Board cost allocation and rate design principles, as well as its directions in
29 relation to the customers of the Acquired Utilities.

30
31

⁶²⁰ Exhibit Q-1-1, p 21.

1 *i. Creation of 6 new rate classes*

2

3 BOMA, CCC and SEC do not agree with the creation of six new rate classes.⁶²¹

4

5 While the creation of new rate classes is not prescribed by the Board's specific directions or
6 cost allocation models, what is relevant in this proceeding is the Board's specific direction that
7 customers of the Acquired Utilities be charged the costs incurred by Hydro One to serve
8 them.⁶²² In order to satisfy the Board direction it was not possible to simply merge the Acquired
9 Utilities customers into Hydro One's existing rate classes, as recognized by SEC⁶²³. To the
10 extent possible Hydro One has limited the number of new rate classes that are created, by
11 merging the Norfolk and Haldimand customers. This still satisfies the Board direction since each
12 utility's cost to serve are captured in the combined rate class, while adhering to good cost
13 allocation and ratemaking principles as previously discussed above under VECC's similar issue.

14

15 Similarly, arguments relating to the rate harmonization of Hydro One's past acquisitions , and
16 comparisons of Hydro One legacy rates and the rate of other selected Ontario utilities are also
17 not relevant to whether the rates that Hydro One proposes in the current application for the
18 Acquired Utilities are just and reasonable and reflect the Board's directions.

19

20 *ii. New allocation rules*

21

22 SEC alleges that Hydro One has "jury rigged" the cost allocation model.⁶²⁴ CCC also suggest
23 that Hydro One's cost allocation differs significantly from the way rates are established for all
24 other Hydro One customers,⁶²⁵ and BOMA states that Hydro One did not allocate costs to the
25 acquired customers on the basis of Hydro One's existing cost allocation model.⁶²⁶

26

27 None of these assertions are remotely accurate or fair. In fact, whether intentionally or through
28 misunderstanding, SEC's allegations in this area in particular are misleading. As demonstrated

⁶²¹ BOMA, p 36; CCC, p 22; SEC s 6.3.4.

⁶²² Decision and Order in EB-2013-0196/EB-2013-0187/EB-2013-0198; EB-2014-0244; and EB-2014-0213.

⁶²³ SEC s 6.3.5, p 95.

⁶²⁴ SEC s 6.3.16.

⁶²⁵ CCC, p 22.

⁶²⁶ BOMA, p 35.

1 in its evidence, and recognized by Board Staff⁶²⁷, Hydro One is using well-established and
2 accepted principles implicit in the Board's CAM to determine the costs allocated to the acquired
3 classes and any attempt to suggest otherwise is entirely misguided.

4
5 The key driver of cost allocation in the Board's CAM is the amount of fixed assets required to
6 serve a particular rate class. Typically, a utility's assets are jointly installed to serve all of its
7 customers and therefore the assets associated with serving a specific rate class cannot be
8 directly determined. Consequently, the CAM uses the well-established measure of class peak
9 demand to allocate a share of total assets to the rate classes. However, in the case of the
10 Acquired Utilities, Hydro One does know the specific local assets (poles, transformers, wires,
11 distribution stations) that are being used to serve the Acquired Utilities because the amount of
12 these fixed assets at the time of acquisition – and the capital additions related to these assets
13 since the acquisition and forecast to 2021 – are discretely identifiable.⁶²⁸

14
15 Given this knowledge about the Acquired Utilities it is not necessary to rely on the CAM's peak
16 load methodology to allocate assets to the acquired classes, but rather – as correctly
17 characterized by Staff – HONI can effectively directly allocate these local assets to the acquired
18 classes by way of its proposed adjustment factors within the CAM.

19
20 SEC's suggestion is effectively that HONI should ignore the best available information about
21 actual fixed assets used to serve the acquired customers, and ignore the Board's direction with
22 respect to the allocation of cost to the acquired customers.

23
24 The direct allocation of local assets (via the adjustment factors) drives the allocation of the
25 majority of asset-related costs (net income, debt, depreciation) and the OM&A costs associated
26 with servicing those assets. However, the costs associated with common assets (i.e. upstream
27 Dx assets and common general plant) and common OM&A costs (e.g. shared services,
28 customer care, etc) still remain to be allocated within the CAM. With respect to these common
29 shared costs, Hydro One's approach is to treat all customers (both legacy and new acquired
30 classes) in a consistent and fair manner by using the CAM's underlying cost allocation principles
31 – without any adjustments – to allocate those costs. SEC does not appear to grasp this

⁶²⁷ Staff, p 156.

⁶²⁸ Exhibit B1-1-1, Appendix A, pp 7-11.

1 distinction in Hydro One's proposed treatment of directly attributable fixed asset costs versus
2 common costs when it suggests that Hydro One's proposal treats customers inequitably.⁶²⁹

3
4 SEC also claims that Hydro One has been "less than clear" in describing the adjustment factors
5 it proposes.⁶³⁰ Yet Staff and VECC arguments on this issue, referenced earlier in the argument,
6 indicate that they have understood what Hydro One is proposing. Moreover, a large amount of
7 pre-filed evidence and IRs were dedicated to this issue.⁶³¹ For SEC to argue at this stage that
8 the evidence on adjustments factors was unclear is inappropriate given that SEC did not avail
9 itself of the many opportunities provided during the course of the proceeding to ask Hydro One
10 for additional information.

11
12 *iii. Loss factors for the new rate classes*

13
14 SEC alleges that Hydro One has proposed loss factors that are not based on actual loss factors
15 for those customer classes, without substantiating this assertion.⁶³² Hydro One's approach is to
16 start with the existing approved loss factors for Norfolk, Haldimand and Woodstock as the base
17 loss factor for the new acquired classes and then adjust the existing loss factors for the fact that
18 "bulk system" losses should now take into account the losses associated with Hydro One's
19 system used to supply electricity to these formerly embedded distributors. Hydro One believes
20 it is fair and appropriate that the loss factors for the acquired classes take into account upstream
21 losses associated with serving those classes. This process is well detailed in the evidence⁶³³
22 and was not significantly challenged during the hearing.

23
24 *iv. Revenue to cost ratios for the acquired classes*

25
26 SEC also takes issue with the R/C ratios proposed for the acquired customers⁶³⁴. The R/C ratios
27 for the acquired classes are an outcome of the cost allocation model and rate design process.
28 Hydro One has not at any point intentionally reduced the R/C ratio for the acquired classes. In

⁶²⁹ SEC s 6.4.1-6.4.12, pp 103-106.

⁶³⁰ SEC s. 6.3.24.

⁶³¹ G1-3-1 p 5-8, Q-1-1 p 16, I-49-Staff 242, I-46-VECC 90, I-46-VECC 93.

⁶³² SEC s 6.3.1(c). SEC does not substantiate this allegation elsewhere in its submissions.

⁶³³ H1-5-1 p 1-2 and I-56-SEC 98.

⁶³⁴ SEC s 6.4.13-6.4.18.

1 fact, in the case of some acquired classes Hydro One has increased the R/C ratio in order to
2 bring the class within the Board-approved range. As such, there is no “deliberate attempt”, as
3 alleged by SEC, to “reduce rates of one group of customers at the expense of another⁶³⁵”.

4
5 v. *Allegation that Hydro One’s December 2017 change to cost allocation was due to Orillia*
6 *proceeding*

7
8 SEC make this allegation despite the fact that this proposition was made to Hydro One’s
9 witness at the technical conference and it was refuted very directly.⁶³⁶ SEC appears unwilling to
10 accept the clear evidence and have not submitted anything on the record of this proceeding to
11 substantiate their claim.

12
13 vi. *Costs related to the Acquired Utilities*

14
15 A few parties have made submissions that appear to question or seek to re-open the Board’s
16 decision in regards to the acquisition of the Acquired Utilities. In response, Hydro One notes that
17 the Board has reviewed and has approved the acquisitions of the Acquired Utilities⁶³⁷ and the
18 purpose of the current proceeding is not to re-open those Board approvals. Further, SEC has
19 incorrectly stated the estimated amount that customers of the acquired utilities would have been
20 paying if they had not been acquired.⁶³⁸

21

⁶³⁵ SEC, pp 94, 107.

⁶³⁶ Technical Conference Transcript Day 3, p 181-182. Specifically (emphasis added):

MR. ANDRE: Right. So you pointed me to D, but what you're actually referring to, it's part E that asks:
*"Please provide all memos, presentations, e-mails, reports that refer to any relationship or potential relationship
between changes to cost allocation and the EB case, which the Orillia case."*

And to that one I think the answer is very clear: No such documentation exists. And there were -- I am the
director of the rates group. I can assure you there was no discussion about making changes to allocation because of
what was going on in Orillia.

MR. SHEPHERD: The reason we asked it in two steps is because we expected that you would -- that if you
were responding tactically, then you wouldn't say, well, let's write a memo saying we have to reduce these costs
because otherwise we are going to lose this case. Nobody in their right mind does that.

But what you might say is we have to relook at our allocation of costs to the acquired classes because it's
going to hurt us in the long term in our acquisition strategy. And that's what I am looking for in D.

MR. ANDRE: Right.

MR. SHEPHERD: If you just tell me there is no such discussion, I'm great.

MR. ANDRE: Yes, there was no such discussion.

MR. SHEPHERD: Awesome, thank you.

⁶³⁷ Decision and Order in EB-2013-0196/EB-2013-0187/EB-2013-0198; EB-2014-0244; and EB-2014-0213.

⁶³⁸ At p 100 of its submissions, SEC incorrectly cites this amount as \$36.9M. It is \$39.9M.

1 Some parties also suggest that Hydro One's proposal for integrating the Acquired Utilities in
2 2021 should be denied as it effectively results in a bad outcome for both Hydro One's legacy
3 customers and the Acquired utility customers.⁶³⁹
4

5 In light of this, Hydro One would like to provide the Board with accurate information from the
6 record with respect to the revenues and rates paid by customers of the Acquired Utilities and
7 other Hydro One customers:
8

- 9 1. The incremental revenue requirement to serve the Acquired Utility customers is
10 \$25.6M⁶⁴⁰ compared to the status quo revenue requirement of \$39.9M⁶⁴¹. This clearly
11 shows a benefit of almost \$14.3M in the combined cost-to-serve all customers that has
12 been eliminated as a result of Hydro One's acquisition of these three utilities.
13
- 14 2. The revenue to be collected from the Acquired customers through the proposed rates is
15 \$34.9M.⁶⁴² As such, \$9.3M (\$34.9M - \$25.6M) in costs related to Hydro One's common
16 costs and upstream shared distribution assets will now be collected from the new
17 acquired class customers instead of legacy Hydro One customers. This shows that
18 legacy customers benefit from an average 0.6% reduction in their rates (\$9.3M/Total
19 2021 Revenue Requirement of \$1,680M).
20
- 21 3. The revenue that would have been collected from the Acquired Utility customers had
22 they not been acquired is \$39.9M. As such, \$5.0M (\$39.9 - \$34.9M) less in costs is
23 proposed to be collected from the new acquired classes as compared to what they
24 would otherwise have been paying had they not been acquired. This shows that
25 acquired customers benefit from an average 13% (\$5/\$39.9) reduction in what their rates
26 would otherwise have been.
27

⁶³⁹ SEC s 6.1.4, p 84-85 and CCC p 21-22.

⁶⁴⁰ I-56-SEC-96 e) ii).

⁶⁴¹ This includes the \$36.9M in status quo costs shown in undertaking JT 3.18-19 plus \$2.1M in depreciation costs and \$0.9M in upstream low voltage costs, as discussed by Mr. Andre during the hearing at Transcript Day 10, June 26 p. 170.

⁶⁴² This amount can be determined from Exhibit Q-1-1, Attachment 4, p 1 and was referenced in I-56-SEC 96 e) iii).

1 As these figures demonstrate that, in aggregate, both Hydro One's acquired customers and its
2 legacy customers benefit as a result of the acquisitions.

3
4 *vii. SEC and CCC suggestion re external consultant review of Hydro One's cost allocation*

5
6 As detailed in the arguments above, the cost allocation and rate design approach used by
7 Hydro One to harmonize the Acquired Utilities into Hydro One's rate structure uses the model
8 which was developed by the Board, consistent with its cost allocation principles, and the Board's
9 rate design requirements with respect to approved R/C ratio ranges. As a result, Hydro One
10 sees no reason to have someone independent from the Board review the Board's cost
11 allocation and rate design models and be charged with developing a new approach. If the Board
12 intends to develop a new cost allocation model and review the appropriateness of its R/C ratio
13 ranges, Hydro One submits that a generic proceeding would be appropriate as this would have
14 implications for all Ontario utilities.

15
16 *viii. SEC submission regarding "ring fencing"*

17
18 SEC's submissions briefly address the notion of "ring fencing" the Acquired Utilities such that
19 they would be treated as a separate rate zone.⁶⁴³ Hydro One submits that this would be a
20 departure from the Board's directions in s. 86 decisions and policies, which are intended to
21 integrate acquired utilities with acquiring utilities. Moreover, "ring fencing" does not avoid the
22 issues of allocating common costs or the fact that in the case of Hydro One, it no longer charges
23 Hydro One's upstream distribution rates (i.e. Sub-transmission rates applicable to embedded
24 distributors) to acquired utilities (as the acquired utilities are now within the distribution
25 franchise).

26
27 *ix. SEC and CCC suggestions regarding third party reports and consultation proceedings*

28
29 SEC and CCC submit that the Board should direct Hydro One to undertake external studies of
30 Hydro One's acquisition policies.⁶⁴⁴ In response, Hydro One submits that it is an independent,
31 *Ontario Business Corporation Act* company that is not managed by the Board or overseen by

⁶⁴³ SEC p 110-111.

⁶⁴⁴ SEC, p 112; CCC, p 22.

1 intervenors. The Board regulates rates, and it reviews applications regarding mergers under
2 section 86 of the OEB Act. The Board does not regulate Hydro One's management of its
3 business strategies. As a result, it would not be appropriate for the Board to order a third-party
4 review of Hydro One's acquisition policies.

5

6 CCC also submits that the Board should initiate a consultation process regarding OEB policies
7 around mergers and acquisitions because there has been confusion in relation to these
8 policies.⁶⁴⁵ This is a Board policy issue and beyond the scope of this proceeding. Needless to
9 say, if the Board does initiate such a review, Hydro One will participate.

⁶⁴⁵ CCC, p 22.

1 **J. DEFERRAL/VARIANCE ACCOUNTS**

2
3 **Issue 57. Are the proposed amounts, disposition and continuance of Hydro One’s**
4 **existing deferral and variance accounts appropriate?**

5
6 Staff raises the following specific matter under this issue (emphasis added):

7
8 As noted in the July 20, 2018 letter from the OEB to all rate-regulated licensed electricity
9 distributors, the OEB will not be approving Group 1 rate riders on a final basis pending
10 the development of further accounting guidance to commence the standardization of
11 accounting procedures relating to RPP wholesale settlements. Therefore any
12 adjustments made subsequent to the disposition of Group 1 account balances can be
13 addressed as part of the Hydro One’s next Group 1 account disposition.

14
15 OEB staff submits that in light of the pending OEB audit of Hydro One’s RPP settlement
16 process, there is greater potential for material adjustments to the balances of the 2015
17 and 2016 Group 1 Deferral and Variance accounts. **Therefore, OEB staff has no**
18 **concerns with Hydro One’s decision to only seek disposition of the Group 1**
19 **account balances as of December 31, 2014.** However, pursuant to the July 20th
20 direction from the OEB, this disposition should not be on a final basis.⁶⁴⁶

21
22 Staff therefore agrees with Hydro One that since results of the audit (the “**Board Audit**”) could
23 potentially impact the 2015 and 2016 Group 1 account balances originally proposed for
24 disposition, Hydro One’s proposal to clear principal balances of Group 1 accounts as of
25 December 31, 2014 and Group 2 balances as of December 31, 2016 (with interest calculated to
26 December 31, 2017) is reasonable.

27
28 Staff then correctly notes that in its pre-filed evidence, Hydro One explained that in regards to
29 account 1589 – Power-Sub-Account-Global Adjustment, Hydro One received a refund (from
30 April 2017 to November 2017) from the IESO of \$121.8 million “due to a clarification of
31 embedded generation submissions used in the calculation for the global adjustment that is
32 applicable to Hydro One Distribution from January 2005 through to August 2016”⁶⁴⁷ (the “**IESO**
33 **Credit**”).

34

⁶⁴⁶ Staff, p 159.

⁶⁴⁷ Ex F1-1-1, p 5.

1 Staff's submissions then go on to state that Hydro One proposed, in its original application, to
2 offset this credit from the IESO against its December 31, 2016 balance in account 1589 of
3 \$116.6 million. To be clear, what Hydro One stated was that given the December 31, 2016
4 audited amount in account 1589 of \$116.6 million, it proposed not to recover the \$116.6 million
5 as of December 31, 2016 as it would apply the IESO Credit to the amount in account 1589.⁶⁴⁸
6

7 As explained above, Hydro One is now only seeking disposition of Group 1 accounts to
8 December 31, 2014 (as opposed to December 31, 2016) due to the Board Audit. Staff agrees
9 with this.

10
11 (a) The Staff Proposal in relation the IESO Credit
12

13 The balance in account 1589 to December 31, 2014 is \$9.6 million.⁶⁴⁹ Hydro One has not
14 applied the IESO Credit to this balance as it is to be applied as of 2017. Hydro One submits that
15 this is the appropriate regulatory and accounting treatment of the IESO Credit.
16

17 Staff, it seems, may agree that the above proposal is the appropriate regulatory and accounting
18 treatment of the IESO Credit⁶⁵⁰. However, Staff writes that “[i]t would be unreasonable to ask the
19 ratepayers to wait until Hydro One’s next Group 1 account disposition to receive these amounts,
20 especially given that Hydro One has already collected the full balance from the IESO.”⁶⁵¹ As a
21 result, Staff submits “that Hydro One should prorate the IESO credit and apply only the portion
22 of that credit relating to 2014 and prior to the balance in Account 1589 at December 31, 2014”
23 (the “**Staff Proposal**”).

⁶⁴⁸ The following is Hydro One’s statement in its pre-filed evidence on this point (see text under Table 3 at Ex F1-1-1, p 5):

Due to a clarification of embedded generation submissions used in the calculation for the global adjustment that is applicable to Hydro One Distribution from January 2005 through to August 2016, the IESO will refund \$121.8 million that will be applied to the monthly IESO settlement for Hydro One Distribution from April through November 2017. The issue arose due to the wholesale meter injection channels’ readings not being netted with the energy withdrawn in the submission of embedded generation used in the calculation of the Global Adjustment for the period noted. As the refund exceeds the 2016 audited balance of the account, Hydro One Distribution is no longer requesting to recover this balance from customers. The IESO is funding this credit through a monthly charge during the same period in which the refund is being applied. Only a portion is applicable to Hydro One Distribution. While an estimate can be made of Hydro One Distribution’s allocation of the total charge, the exact net impact is unknown at this time.

⁶⁴⁹ See Hydro One’s argument-in-chief, p 153.

⁶⁵⁰ It seems that Staff may agree since as discussed herein, Staff states that Staff’s proposal to prorate the IESO credit and apply the portion of that credit relating to 2014 and prior may be retroactive ratemaking.

⁶⁵¹ Staff, p 162.

1 Staff then observes that “[t]his is a significant correction that raises concerns as to Hydro One’s
2 ability to settle accurately with the IESO. Staff anticipates that the drivers for the discrepancies
3 that led to the credit will be addressed as part of the ongoing audit of the RPP settlement
4 process.”

5
6 Hydro One is at a loss to understand on what basis Staff can observe that this matter raises
7 concerns as to Hydro One’s ability to settle accurately with the IESO. There is no evidence on
8 the record of this. Below, Hydro One clarifies what led to the IESO Credit. As will be
9 demonstrated, there is no error on Hydro One’s part.

10

11 The fact that there is no error on Hydro One’s part is important, because Staff notes that while
12 the Staff Proposal may be retroactive ratemaking, this is acceptable because the Board has
13 stated that an out-of-period adjustment can be justified if it ensures a utility does not profit on
14 account of its own errors.⁶⁵²

15

16 (b) The IESO Credit – no error on Hydro One’s part

17

18 The amount credited to Hydro One by the IESO arose from Hydro One indicating to the IESO
19 that the IESO had overcharged Hydro One by approximately \$121 million because the IESO did
20 not consider the wholesale meter injection channels’ readings into the calculation of the Global
21 Adjustment (“GA”).

22

23 The GA charge base consumption was supposed to be calculated by netting the energy
24 withdrawals with energy injections on all wholesale meters. The energy injection channels
25 measure the energy flow from the Hydro One distribution system back to the IESO grid as a
26 result of generation from distribution-connected (embedded) generators that is not consumed at
27 the distribution system level.

28

29 GA dollars are driven by the GA rate and amount of energy withdrawn and injected back to the
30 IESO grid. GA adjustment dollars are significantly higher in recent years due to green energy
31 generation facilities connected to the Hydro One distribution system.

⁶⁵² Staff, p 160, including footnote 317 on p 160.

1 Hydro One met with the IESO in December 2016 regarding reaching agreement on the
2 interpretation of the settlement rules as the current version of the rules. Based on the argument
3 that Hydro One put forward, the IESO agreed in principle that the settlement rules need to be
4 enhanced to address this issue and that the IESO sees the validity of the Hydro One argument
5 for retroactive adjustments to refund Hydro One the IESO Credit.⁶⁵³

6
7 Given these facts, Hydro One does not see how Hydro One's ability to settle with the IESO can
8 be questioned. Hydro One's view is that it is due to the diligence of Hydro One and the oversight
9 and controls Hydro One has in place that this overcharge was identified and corrected.

10
11 Furthermore, based on the facts Hydro One does not see any evidence of an error in
12 recognition, measurement, presentation or disclosure in the financial statements resulting from:

- 13
14 i. Mathematical mistakes;
15 ii. Mistakes in the application of GAAP;
16 iii. An oversight or misuse of facts that existed at the time the financial statements
17 were prepared; or
18 iv. A change from an accounting principle that is not generally accepted to one that
19 is generally accepted

20
21 In Hydro One's conversations with the IESO, the IESO agreed in principle that the settlement
22 rules need to be enhanced which may lead to a clarification of the rules. This is an important
23 fact. Given that the rules are being enhanced and clarified, this supports the position that this is
24 a change in IESO rules that is giving rise to the IESO Credit. As a change in rules is the cause
25 of this refund, the appropriate accounting treatment would be a change in estimate and
26 prospective application which should be the basis for regulatory treatment as well.

27
28 As a result, it is clear that it is not an error on the part of Hydro One that led to the IESO Credit.
29 Hydro One believes it has proposed the appropriate regulatory and accounting treatment for the
30 application of IESO Credit.

31

⁶⁵³ This matter was not raised at the hearing and therefore Hydro One provides this information for the benefit of the Board.

1 **Issue 58. Are the proposed new deferral and variance accounts appropriate?**

2
3 Staff submits that it has no concerns with Hydro One's proposed new deferral and variance
4 accounts, with the exception of the proposed new OPEB Cost Deferral Account. Staff also
5 makes an argument about an issue that Hydro One does not understand to be at issue in this
6 proceeding, and for which there is almost no evidence on the record in this proceeding: that
7 "there is merit" in having utilities that follow US GAAP for regulatory reporting purposes, such as
8 Hydro One, to adopt the OEB's MIFRS capitalization policy. Hydro One notes that Staff has
9 made this same argument in recent Hydro One proceedings despite that Board decisions find
10 each time that this matter should be considered as part of a generic proceeding.⁶⁵⁴

11
12 (a) Background

13
14 As set out by Staff:

15
16 In March 2017, the Financial Accounting Standards Board (FASB) issued Accounting
17 Standard Update (ASU) No. 2017-07 that amends the US GAAP accounting standard for
18 pension and other post-employment benefit (OPEB) costs effective January 1, 2018.
19 The amendments allow only the service cost component of the net periodic pension cost
20 and the net periodic OPEB cost to be eligible for capitalization.

21
22 As explained by Hydro One in its updated pre-filed evidence⁶⁵⁵, for rate-setting purposes, Hydro
23 One Distribution accounts for its pension costs on a cash basis and therefore this amendment is
24 not anticipated to affect regulatory accounting of pension costs. However, the amendment will
25 affect Hydro One's accounting in relation to OPEB costs as Hydro One accounts for OPEBs on
26 an accrual basis for rate-setting purposes. As explained by Staff⁶⁵⁶:

27
28 [P]rior to the issuance of ASU No. 2017-07, an entity following US GAAP
29 was eligible to capitalize all components of net periodic benefit cost provided that the
30 costs met the specific capitalization criteria under US GAAP. However, ASU No. 2017-
31 07 now only permits the capitalization of the service cost component of net periodic
32 benefit cost.
33

⁶⁵⁴ For example, see Decision and Order in EB-2016-0160 p 82.

⁶⁵⁵ F1-3-1, p 6.

⁶⁵⁶ Staff, p 161.

1 Without a dedicated deferral account as initially requested by Hydro One or a direction from the
2 Board that Hydro One may continue to account for OPEB costs as it does now, Hydro One will
3 have to re-classify as OM&A all components of net periodic benefit cost that meet capitalization
4 criteria under US GAAP, except for the service cost component of net periodic benefit cost. This
5 is what Staff submits the Board should order.

6

7 The impact of Staff's submission, if accepted by the Board, will be an immediate increase in
8 OM&A of \$13 million in the 2018 test year.

9

10 Staff submits that the Board should not grant Hydro One the approval to continue to capitalize
11 these costs because "Hydro One's capitalization policies already appear to be far more
12 aggressive than other US GAAP regulated utilities in Ontario."⁶⁵⁷ This statement appears to
13 suggest that there is something wrong or problematic in relation to Hydro One's level of
14 capitalization of costs that have been eligible to be capitalized under US GAAP. Staff provides
15 no basis for this proposition, which Hydro One will revisit below as this proposition appears to
16 also be the basis for Staff's suggestion that the Board should suddenly order Hydro One to
17 switch entirely to MIFRS.

18

19 As a second reason that the Board should not grant Hydro One the approval to continue to
20 capitalize these costs, Staff states that because OPG, Union Gas and Enbridge – Ontario
21 utilities that use US GAAP – have not made the same request as Hydro One, the Board should
22 reject Hydro One's request. Staff makes this submission despite indicating that Staff agrees with
23 the evidence on the record of this proceeding that utilities like Union Gas and Enbridge
24 outsource its capital projects and as a result, are far less affected by the US GAAP change.

25

26 Hydro One submits that the Board should allow it to continue to capitalize these costs, as FERC
27 has allowed US utilities to do.⁶⁵⁸ Hydro One's continued capitalization of the costs in question
28 will mean that Hydro One does not need to increase its 2018 revenue requirement by \$13
29 million⁶⁵⁹, and most importantly Hydro One's continued capitalization of the costs in question is

⁶⁵⁷ Staff, p 165.

⁶⁵⁸ JT 1.16.

⁶⁵⁹ Such an increase in 2018 revenue requirement by \$13 million would have a partial offset of approximately \$1 million in capital related revenue requirement.

1 consistent with the submissions it makes below against Staff's submission that Hydro One
2 switch entirely to MIFRS.

3
4 (b) Staff's suggestion that the Board require Hydro One to switch to MIFRS

5
6 As stated at the oral hearing, Hydro One submits that the proposition of switching Hydro One to
7 MIFRS is not an issue in this proceeding and that there is almost no evidence on the record
8 upon which the Board could make an informed decision on this matter. Indeed, Chair Quesnelle
9 appeared to agree that this matter is not at issue in this proceeding as the Chair asked Staff as
10 to whether Staff was intending to make arguments on this matter.⁶⁶⁰ As a result, Hydro One will
11 limit its submissions here to a small number of key points:

- 12
13 • First of all, the practical impact of Staff's suggestion to switch Hydro One to MIFRS is
14 that \$300-320 million per year will be added to OM&A for Hydro One Distribution and
15 Transmission as a whole (for Hydro One Distribution only, the increase in OM&A per
16 year would be approximately \$135-160M annually, depending on the amount of capital
17 work in a given year). This will result in higher rates for ratepayers.
18
19 • Secondly and as noted above, Staff appears to suggest that there is something wrong or
20 problematic in relation to level of capitalization of costs that have, up to now, been
21 eligible to be capitalized under US GAAP.

22
23 The above is simply incorrect. In fact, the difference between US GAAP and IFRS vis-à-
24 vis capitalization is that IFRS takes the view that only directly attributable costs (direct
25 costs only) should be eligible for capitalization, whereas under US GAAP an entity is
26 allowed to capitalize all costs that are incurred to get an asset to its intended location
27 and for its intended purpose.⁶⁶¹

28
29 The US GAAP approach recognizes that there are other costs such as overhead
30 (organizations that are capital intensive and/or build long lived assets have a certain
31 amount of infrastructure that is required to support the capital program and as such it

⁶⁶⁰ Transcript Day 4, p 64-65.

⁶⁶¹ Provided that other sections of the codification does not prohibit the capitalization of that specific cost.

1 makes sense to capitalize a portion of these costs) that are incurred in the building of
2 capital assets and by capitalizing these costs and amortizing them over the life of the
3 asset, an entity is matching the costs over the useful life of the asset.
4

5 IFRS or MIFRS does not match costs over the useful life of the asset in the above-
6 described manner and therefore results in more costs being treated as OM&A which
7 would increase rates in that first year of adoption and then keep this OM&A base, which
8 has a direct effect on rates, high on a go-forward basis.
9

10 In other words, US GAAP is arguably more consistent with cost causality and charging
11 ratepayers the costs to serve them (given that an asset is used over a large number of
12 years, not only the year it is put into service)
13

- 14 • Finally, Staff's comparison of Hydro One to Ontario's natural gas utilities is not a like for
15 like comparison, as these gas utilities outsource much of their capital work to third party
16 contractors who in turn provide them with a bill (which includes overhead costs and
17 perhaps even some costs that US GAAP may prohibit from capitalization) which is then
18 duly capitalized by the utility.
19

20 As Hydro One noted in its argument-in-chief, the Board indicated in Hydro One's most recent
21 transmission decision that it will consider whether it should initiate a policy review regarding
22 USGAAP and capitalization of overhead amounts.⁶⁶² Hydro One submits that such a policy
23 review is the appropriate forum for Staff to make its arguments regarding switching Ontario
24 utilities to MIFRS. Hydro One as well as other utilities would, as part of a policy review, have the
25 opportunity to make more fulsome argument than the limited points that Hydro One has made
26 above. In sum, Hydro One submits that not only should the Board not follow Staff's suggestion
27 regarding any switch to MIFRS at this time, but also that the Board has almost no evidence on
28 this matter and therefore it would not be appropriate for the Board to make a decision on this at
29 this time.
30
31

⁶⁶² Transmission Decision, p 82.

1 (c) Capital In-Service Variance Account

2
3 CME agrees with the Capital In-Service Variance Account (“CISVA”) proposed by Hydro One
4 with the exception that it does not agree with the 98% threshold which Hydro One proposes.⁶⁶³
5 AMPCO submits that if capital in-service additions are more than 2% over the OEB approved in-
6 service additions, Hydro One should be required to notify the OEB of the overspend and the
7 reason for the variance.⁶⁶⁴

8
9 Only SEC does not agree with the creation of the account, stating that while it has supported
10 capital in-service variance accounts in past proceedings where there is a question about the
11 ability of the utility to execute on the plan, it does not support the creation of this account for
12 Hydro One because, it submits, Hydro One “does not appear to suffer from this problem” as
13 Hydro One has “consistently brought more capital into service” in relation to the Board-approved
14 level.⁶⁶⁵

15
16 In response to SEC submissions, Hydro One notes that it believes the CISVA (as currently
17 proposed with the 98% threshold) strikes an appropriate balance between providing protection
18 to ratepayers and incenting appropriate behaviours in its capital program. However, should the
19 Board agree with SEC that the account is not required, Hydro One does not have an issue with
20 withdrawing its request for the CISVA.

21
22 **Issue 59. Is the proposal to discontinue several deferral and variance accounts**
23 **appropriate?**

24
25 Staff states that it has no concerns with the discontinuance of the above noted accounts but that
26 in light of the on-going parallel proceeding on the pole attachment charge, the Revenue Offset
27 Difference Account – Pole Attachment Charge; and Revenue Difference Account – Pole
28 Attachment Charge may again be required pending the outcome of that parallel proceeding.

29

⁶⁶³ CME, pp 10-11.

⁶⁶⁴ AMPCO, p 6.

⁶⁶⁵ SEC, s 2.3.8.

- 1 Hydro One agrees with Staff's suggestion to keep these two accounts open pending the
- 2 outcome of the parallel proceeding.

1 **Additional Issue: Effective Date**

2

3 The Application was filed with the Board on March 31, 2017 seeking an effective date of
4 January 1, 2018 (the “Proposed Date”). The nine months between the application being filed
5 and the Proposed Date is well within the terms of the Board’s performance standard for Custom
6 IR applications (235 days).⁶⁶⁶ It is also within the Board’s expectation of 7-8 months from
7 application to implementation which was described in Hydro One’s transmission rates
8 application as follows:

9

10 The above examples seem to suggest that a duration of approximately 7 to 8
11 months between the application date and the proposed effective date is
12 reasonable for cases similar to the current Hydro One application. In the current
13 case, the application was filed on May 31, 2016 with a proposed effective date of
14 January 1, 2017; a duration of 7 months. The OEB finds this to be within the
15 range of reasonable durations of similar cases.⁶⁶⁷

16 If anything, the transmission case was more involved than this application because some
17 contentious issues were addressed there and the results were incorporated into this case (in
18 particular executive compensation).⁶⁶⁸

19

20 By contrast, in the OPG decision, the applicant filed an application seven months before the
21 proposed implementation date for a much more complex application. As the Board described it:

22

23 It is unrealistic of OPG to expect that a final decision would be rendered and a
24 payment amounts order processed in time for January 1, 2017 payment
25 amounts. OPG filed a complicated application which was comprised of a Custom
26 IR application for its nuclear facilities, an IRM application for its regulated
27 hydroelectric facilities, a review of DRP [Darlington Refurbishment Project] and
28 consideration of PEO [Pickering Extended Operations]. OPG should have known
29 that it would take more than seven months for the OEB to consider the
30 application, render a decision and finalize a payment amounts order.⁶⁶⁹

⁶⁶⁶ <https://www.oeb.ca/industry/applications-oeb/performance-standards-processing-applications>

⁶⁶⁷ Decision and Order in Hydro One’s Transmission Rates Application (EB-2016-0160).

⁶⁶⁸ Procedural Order No. 3.

⁶⁶⁹ Decision and Order setting OPG Payment Amounts (EB-2016-0152), p. 158.

1 Comparing that to this application, Hydro One filed a Custom IR that was based on OEB
2 precedent: PEG described the Custom IR plan as “uncontroversial. The design is similar to
3 that of the Custom IR which the Board approved for Toronto Hydro in EB-2014-0116.”⁶⁷⁰
4

5 Although there were, of course, issues respecting the rebasing and integration of the Acquired
6 Utilities that had to be addressed, but the former are typical in any IR, and the latter
7 implemented requirements that were already determined by the Board, i.e. that the Acquired
8 Utilities should pay the cost required to serve them.
9

10 The time frame of 7 to 8 months from the time of an application to an effective date of the order
11 is consistent with previous Board decisions.
12

13 Thus, for example, in Oshawa PUC Networks Inc. (EB-2014-0101), the OEB stated:
14

15 The OEB allows for an eight month regulatory process, between the date an
16 application is filed and the date rates are proposed to be effective. This eight
17 month period has been referenced in many OEB communications, in particular in
18 its February 20, 2014 letter provided to distributors regarding suggested filing
19 dates for setting new 2015 rates. As Oshawa PUC filed its application on January
20 29, 2015, its effective date will be October 1, 2015 [i.e., the date applied for].⁶⁷¹

21
22 Similarly, in Canadian Niagara Power (EB-2016-0061):
23

24 The OEB finds that the effective date of Canadian Niagara Power’s rate order will
25 be January 1, 2017. Canadian Niagara Power originally filed its application on
26 April 29, 2016. While the process was not completed by January 1, 2017,
27 Canadian Niagara Power appears to have made every effort to complete its parts
28 of the process in a timely manner. Delays can mainly be attributed to the fact that
29 it took the OEB two full months to complete the initial review of the application,
30 there were two community meetings in different locations, and the hearing was
31 delayed from the dates originally scheduled in December 2016 to January 2017
32 at the request of the intervenors. None of these were caused by Canadian
33 Niagara Power.⁶⁷²

⁶⁷⁰ PEG Report, 3.

⁶⁷¹ Decision and Order in Oshawa PUC Networks Inc. (EB-2014-0101), at p. 40.

⁶⁷² Decision and Order in Canadian Niagara Power (EB-2016-0061), at p. 6.

1 In Grimsby Hydro, the Board held that an effective date could be delayed because the
2 application was filed late for reasons under the applicant's control.⁶⁷³ In that case, Board
3 staff's submissions, which were accepted by the Board, noted that, "Under normal
4 circumstances, the effective date of a utility's rates is set to occur at the requested date
5 assuming the application is filed by the deadline."⁶⁷⁴

6
7 Here there is no indication that the filing was late. In fact, Hydro One filed its application two
8 months prior to the only explicit filing deadline that was communicated to electricity distributors
9 for rebasing applications by the OEB.⁶⁷⁵

10
11 While this proceeding was not completed by the Proposed Date, Hydro One was not the source
12 of any delay. The Board issued its first procedural order on August 30, 2017 (5 months after the
13 filing date). Hydro One did not cause this delay.

14
15 Hydro One did not request any extensions from the Board's schedule and did not fail to meet
16 any Board imposed timeline. Hydro One also provided timely answers to interrogatories,
17 technical conference undertakings, and hearing undertakings. Indeed, Hydro One proposed
18 methods to expedite the proceeding by proposing a settlement conference and to avoid the
19 consequences of delay on rate payers by proposing an interim rate adjustment for the Proposed
20 Date. The Board rejected both of those proposals.⁶⁷⁶

21
22 Some parties, namely CCC and SEC, propose to punish Hydro One by proposing an effective
23 date for new rates to January 1, 2019 and May 1, 2018, respectively. In other words, they are
24 both proposing an effective disallowance on the grounds of regulatory delay. However, as the
25 Board has noted, setting an effective date is part of the Board's statutory responsibility in setting
26 just and reasonable rates.⁶⁷⁷ It should therefore not exercise that authority for the purpose of
27 imposing financial punishment on an applicant.

⁶⁷³ Decision and Order setting Distribution Rates for Grimsby Power (EB-2015-0072), p. 12.

⁶⁷⁴ Board staff submissions in EB-2015-0072, p. 20.

⁶⁷⁵ In a letter dated January 13, 2017, the OEB indicated that all cost of service filers seeking an effective date of January 1st, 2018 should file their applications by May 1, 2018.

⁶⁷⁶ Procedural Order No. 2, page 8.

⁶⁷⁷ Decision and Order setting OPG Payment Amounts (EB-2016-0152), p. 159

1 To do so would not provide confidence in the regulatory system and there is no principled basis
2 for it. Hydro One therefore repeats its request – first made in March, 2017 -- for an effective date
3 of January 1, 2018.

1 **CONCLUSION**

2

3 In summary, Hydro One submits that its application meets the Board's and its customers'
4 expectations for a rate plan over the five year term. Hydro One has sought to incorporate
5 values such as productivity, continuous improvement and customer focus, which has animated
6 the Board's goals as reflected in the RRFE, the Handbook and the Board's previous decisions.
7 As can be expected, participants have taken issue with some portions of the Application. But,
8 as this reply submission demonstrates, Hydro One has carefully prepared its Application to
9 address the concerns raised in a thoughtful and thorough way.

10

11 Hydro One also recognizes that some participants may be looking for ways to reduce rates on
12 the basis that such a reduction will benefit customers. Hydro One has demonstrated that any
13 reduction would, in fact, be to the detriment of customers as it would result in an unsustainable
14 system, with degrading assets, and would also not be consistent with Hydro One's reasonable
15 expectation that its Application – which is designed to meet the Board's and customers'
16 expectations – should be determined on its merits and according to Board endorsed criteria.

17

18 Hydro One thanks the Board for its guidance in developing a regulatory model that benefits
19 customers in a way that also ensures support for investment in the system that serves them.
20 Hydro One also thanks Staff and intervenors for their role in scrutinizing Hydro One's proposals
21 to ensure that they meet the public interest.

22

23 All of which is respectfully submitted this 31st day of August, 2018.

24

25

Signed in the original

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