Stakeholder Consultation Notes

Distribution Custom IR Rate Application 2015-2019
Stakeholder Session #2

June 26, 2013
Hydro One, North Tower,
483 Bay Street, Toronto
10:30am – 4:30pm
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The presentation materials used in this Session and background materials can be found at this link:

[http://www.hydroone.com/RegulatoryAffairs/Pages/DxRates.aspx](http://www.hydroone.com/RegulatoryAffairs/Pages/DxRates.aspx)
Participants

Stakeholders
- Alfredo Bertolotti, Power Workers Union
- Bill Harper, Vulnerable Energy Consumers Coalition (VECC)
- Colleen Richmond, Powerstream Inc.
- David MacIntosh, Energy Probe Research Foundation
- Dmitry Balashov, Toronto Hydro-Electric System Limited
- Don H. Rogers, Rogers Partners LLP
- Harold Thiessen, Ontario Energy Board (OEB)
- Jack Gibbons, Environmental Defence
- Jamie Gibbon, Horizon Utilities Corporation
- Jane Scott, Hydro Ottawa Limited
- John McGee, Federation of Ontario Cottagers
- Julie Girvan, Consumers Council of Canada (CCC)
- Lisa Brickenden, Ontario Energy Board (OEB) (by phone)
- Jiya Shoaiib, Ontario Power Authority
- Marlo Spence Lair, Ontario Ministry of Energy
- Nicholas Copes, Balsam Lake Coalition
- Patrick McMahon, Union Gas (by phone)
- Peter Sykanda, Ontario Federation of Agriculture (by phone)
- Peter Thompson, Canadian Manufacturers & Exporters (CME)
- Robert Gordon, Ontario Ministry of Energy
- Roger Higgin, Energy Probe Research Foundation
- Shelley Grice, Association of Major Power Consumers of Ontario (AMPCO)
- Tom Barrett, Powerstream Inc.
- Tom Ladanyi, Ontario Power Generation (OPG)
- Vicki Power, Society of Energy Professionals

Hydro One Networks Inc.
- Susan Frank (Presenter) – Vice-President and Chief Regulatory Officer
- Henry Andre (Presenter) – Manager, Distribution Pricing
- Stan But (Presenter) – Manager Economics & Load Forecast
- Jim Malenfant (Presenter) – Senior Regulatory Advisor
- Allan Cowan – Director, Major Application (by phone)
- Ian Malpass – Director, Pricing
- Glen Scott – Director, Business Planning and Support
- Nicole Taylor – Regulatory Analyst
- Naiyu Zhang – Regulatory Analyst

Other Participants
- Bob Betts – Facilitator, OPTIMUS | SBR
- Carrie Anderson – Notetaker, OPTIMUS | SBR
- Tara Murphy – Notetaker, OPTIMUS | SBR
- Benjamin Grunfeld (Presenter), Navigant
- Kevin Groh, CitizenOptimum
1. **Welcome by Susan Frank, Vice-President & Chief Regulatory Officer, Hydro One**

10:37am

Susan Frank from Hydro One Networks Inc. (HONI or Hydro One), welcomed the Stakeholders and gave an overview of the Session. Susan explained that the purpose of the Stakeholder Session is to get input on the challenges Hydro One faces with its Custom IR (CIR) Filing and improve the quality of the application through Stakeholder input.

2. **Opening Remarks by Bob Betts, Facilitator, OPTIMUS | SBR**

10:40am

Bob Betts, the facilitator, began his presentation by reviewing the agenda for the Session. He outlined the agenda for the day and listed the topics that would be discussed. Bob stated that Hydro One is the first electricity utility attempting a Custom IR in Ontario so it is important for Stakeholders to ask questions and provide feedback.

He continued with several housekeeping items and pointed out the emergency procedures. Bob stated that notes will be taken during the meeting and that the meeting and discussions will be recorded. He mentioned that the recordings will be destroyed once the notes are approved and finalized. Any comments made will be attributed to the individual and the party they represent. Participants were instructed if they wanted comments to be off-the-record to advise beforehand.

Bob asked all attendees to introduce themselves, stating their name and the group they represent for the record. He stated that all comments are appreciated. He noted that the presentation materials were posted on the website before the Session and that the meeting notes will be available on Hydro One’s website a couple of weeks after the Session.

3. **Progress Update on Stakeholder Session #1, Bob Betts, Facilitator, OPTIMUS | SBR**

10:50am

Bob Betts provided a status update on the items raised in the first Custom IR Stakeholder Session held on April 29, 2013:

The update items were grouped under four headings: Custom IR, Customer Survey, Seasonal Customer Rates and Rate Class Review.
Custom IR

In regards to updating the compensation information for the Custom IR, Hydro One decided to do a new Compensation Study in preparation for the 5 year CIR application. Mercer was selected through an RFP process as the vendor for this Study.

With respect to off-ramps, annual adjustments, and scorecard/reporting requirements, Bob indicated that these topics would be discussed in the current Session.

Two other CIR topics including pursuing CDM for business planning and rate smoothing, which were recognized as requiring further discussion, will be discussed in a future session.

Customer Survey

Hydro One agreed with the need to discuss the Customer Survey further and indicated that it would be the subject of a future Session. They will need to assess what priorities are important to which customer groups, such as smaller business customers, self-generation and large customers.

At Stakeholder Session #1, it was suggested that Hydro One should focus on the poorest performing areas to ensure they have the right information to support the regional plan, and Hydro One noted that consideration of the poorest performing assets and feeders is already a part of their asset planning process, but that this will be established as a higher priority in the Regional Planning Process.

Seasonal Customer Rates

Bob identified that the topic of Seasonal Customer Rates was a topic in the current Session. Hydro One hoped to get more input from Stakeholders about options for addressing seasonal rate issues.

Rate Class Review

The remaining outstanding point from Stakeholder Session #1 was the rate class review, specifically how and when customers would be informed about rate class changes. Bob noted that this question would be considered further by Hydro One and discussed at a future Session.

Roger Higgin from Energy Probe Research Foundation asked a question about the Compensation Study. He wanted to ensure that the Study included total compensation (salary, pension and benefits). Susan Frank responded that the components of the Study are the same as the previous RFP minus the benchmarking, but she assured Stakeholders that this Study would cover total compensation. Roger further inquired if a copy of the current RFP scope could be provided. Susan noted that scope of the Study would be included in the Session notes (please refer to Appendix D).

There being no further questions about progress on outstanding items, Bob Betts welcomed Stan But to give his presentation on the Line Loss Study.
4. Update on Line Loss Study, Stan But, Manager Economics & Load Forecast, Hydro One

10:58am

Stan But began by stating that the Line Loss Study is an OEB directive contained in its Decision on EB-2009-0096, which states that Hydro One must track the dollar value of variance between the Board approved losses recovered in rates and actual line losses, commencing January 1, 2010. He noted that Hydro One plans to file the results of this line loss analysis in the upcoming cost of service application.

John McGee from Federation of Ontario Cottagers asked when the results would be filed with the Board. Stan replied that it would be the early part of next year and Susan Frank clarified that it will be included in the Custom IR Filing for 2015.

Stan then introduced Benjamin Grunfeld from Navigant, who Hydro One engaged to assist with the Line Loss Study analysis. Benjamin began his presentation by stating that Navigant is currently developing and implementing the methodology for the Line Loss Study.

Benjamin moved to his presentation and outlined Navigant’s proposed work plan, which consists of three phases:

- Phase 1: Finalize Design of, and Test, Proposed Methodology
- Phase 2: Implement Methodology
- Phase 3: Support and Participate in Regulatory Proceedings

Benjamin noted that he had been involved with the Density Study for the last rate application and they would be using a similar approach for this Study. He said that the proposed methodology consists of two components:

1. System-wide Variance: Difference between actual and approved losses for all of HONI
2. Class-specific Assessment: Allocation of actual losses to individual customer classes

The proposed approach for each component addresses two major questions:

1. What is the variance in terms of energy (kilowatt-hours) between the actual and approved losses?
2. What is the variance in terms of dollars between the revenue/cost of the approved losses and the revenue/cost associated with the actual losses?

Benjamin then went over the approach for determining the loss variance for HONI system-wide. He stated that it is the variance which is reported to the OEB and placed into the Variance Account. He stated that for a given time period, the actual losses will be compared to Board approved losses to determine the variance in terms of energy. It becomes more complicated to determine the variance in terms of dollars, because the approved losses must be compared with the cost of actual losses taking into account things like the time of day that the consumption occurred.

Benjamin identified that there are five major steps to determine system-wide losses, summarized below:

1. Select an analysis period
2. Calculate total electricity purchases (kWh) and actual electricity supply cost ($)
3. Determine total-end use consumption (i.e. metered) and approved losses (kWh)
4. Calculate cost of metered consumption and approved losses ($)
5. Calculate variance to report in RSVA 1588

Determining class-specific technical losses requires additional work, it is driven by the system configuration and usage profiles. The Residential, Commercial and Industrial usage profiles are different. Also, since individual feeders are shared by different rate classes, it is more difficult to isolate the losses attributable to individual classes.

Benjamin continued explaining the approach to determine the loss attributable to each rate class and hence the variance with approved loss factors. He said that to determine class-specific loss variance, the proposed approach is to use both metered data and engineering studies to allocate the losses that occur to the various rate classes at the primary and secondary voltage levels.

John McGee noted that Benjamin Grunfeld did not mention distributed generation and asked how it would impact the Study. Benjamin replied that from the system-wide perspective Hydro One knows how much it is buying and the magnitude of injections into the system, so it is taken into account at the system-wide level. Benjamin stated that distributed generation can be included in the modeling for classes, and that they are aware of it and know that it needs to be addressed.

Bill Harper from Vulnerable Energy Consumers Coalition (VECC) noted that there are effectively two sub-studies (system-wide and class specific loss studies). He asked if he was correct in thinking that the system-wide information would satisfy the directive of the OEB, but that the class specific loss data would be necessary to determine how variances should be addressed. Benjamin confirmed that the system-wide information should satisfy the directive of the OEB and that the class specific loss data would inform the primary sources of the variance. Bill then asked about different levels of loss at different time periods, specifically how many time periods they are planning on chunking the data into. Benjamin replied that it has not been determined at this stage and that it ranges from 2 to 24 time periods per day, noting that the analysis can get very data intensive, very quickly. The final determination would need to balance the desire for precision and the cost of achieving an appropriate level of precision.

Bill asked when looking at losses that go into the variance account, if they were evaluating losses based on actual costs or forecasted costs. He noted that the variance account also picks up the difference in the forecast rate that customers are charged versus the actual cost and wondered whether the loss amount would be total or a proportional amount. Benjamin asked if Bill was referring to the Regulated Price Plan (RPP) customers, and Bill confirmed. Benjamin replied that the variance between the cost to supply RPP customers and the revenue recovered through the RPP rates is carried by the IESO not Hydro One, so there is a monthly true-up to reflect the variance in the unit cost to serve. He said that it is something they have thought about and need to make sure it is captured accurately, but that it would be the total costs going into the variance account.
Jane Scott from Hydro Ottawa Limited asked about the amount that is going to be reported in the Retail Settlement Variance Account (RSVA), and she wondered if they would be going back for 2010, 2011, and 2012. Benjamin replied that the Study will provide individual values for each of those years. Jane asked if they would be restating the amounts. Susan Frank replied that they are not restating because up until this time they have not been able to track the actual costs, so they are using the Study to populate the variance accounts.

Jane asked if all Hydro One customers are interval metered. Benjamin replied that the majority of customers are interval metered, but that there will need to be an adjustment in the analysis for those few that are bulk metered or unmetered.

Jane asked if Hydro One was going to have specific loss factors. Benjamin replied that Hydro One currently has specific loss factors for individual rate classes, but Hydro One and the Board will need to choose how the class specific results of this Study will be applied to individual rate classes going forward.

Roger Higgin asked a question about the methodology, he wondered if the objective was to verify or amend the loss factors for each class. He asked since they were looking at time of day use were they also looking at temperature and normalization issues relative to the load. Benjamin said “no” that the Study will look only at actual losses. He said, in terms of applying values going forward, it is something that should be considered to the extent that the historical data is not normalized over multiple years.

Roger indicated that how the values would be applied going forward was his concern and wondered if they might look at regression analysis. Benjamin replied that at the current stage it is not part of the scope. Roger commented that this is a variable that should be somehow eliminated from the analysis.

Roger asked, from a rate point of view, if they are linking back to the working capital allowance and identifying how the cost of power component of working capital should be allocated to the classes. Benjamin confirmed that any change to loss factors will be picked up by the working capital calculation going forward, but that he fails to see how it would affect the variances which are the subject of the Study.

Roger asked about calculating the total system-wide losses on the Navigant slide 7, specifically about the Step 2 referring to calculating “the total electricity supply cost for a given period/area”. He wondered if there was going to be geographic area analysis. Benjamin replied that in the first phase as part of the designing and testing, they might focus on a particular area, but when it goes into implementation they will be looking at all of the Hydro One areas and therefore it is not the intent that it be geographic based.

Jack Gibbons from Environmental Defence stated his understanding that the maximum losses occur at system peaks. He also indicated that the Hydro One southern system peaks in the summer and the northern system peaks in the winter, and he asked if the Study would show the losses at the peaks.
Benjamin replied that the analysis will take into account losses that occur at different times of the year, and will be able to identify time of year, but the data in the North and South will be an aggregate and not evaluated separately. Jack asked why they couldn’t break this data out because it would be very helpful for system planning and clipping peaks. Benjamin said that they will take the comment under consideration.

Alfredo Bertolotti from Power Workers Union commented on Roger Higgins’ question about working capital allowance. He stated his opinion that it should not be necessary to evaluate the working capital allowance affected by line losses at the customer class level. Benjamin agreed.

Alfredo then asked if the Study covers losses associated with facilities or assets (transmission stations, feeders, etc.) or just losses associated with end use. Benjamin replied that while the Study is not aimed at determining losses of specific assets, if the metering data is available for those assets it will be captured. He said that the first part of the Study doesn’t look at where the losses are happening, but instead it looks at the macro system-wide perspective of what the losses are. To see where losses are happening, they may need to be considered in a class analysis and the review of engineering studies, to evaluate losses associated with specific types of feeders and assets.

Bill Harper asked about the engineering studies, he expressed his hope that at some stage of the process Hydro One will be able to tell stakeholders the difference between theories and reality, and asked how the difference between theory and reality (large or small) will be allocated.

Jack Gibbons posed a question for Hydro One. He asked if after they are done the Study, if they plan to look at how the OEB can create financial incentives to reduce losses. He noted that this is currently a pass-through item and wondered if they could have a stretch target for reducing losses and for beating the target. Jack continued that operational incentives like this could be a great option to reduce energy and could also be included in rate design, if losses are seen predominantly in peak times or different classes. Susan Frank replied that Hydro One looks at its investments, to see how they can reduce losses. She noted that asking the OEB to give incentives is an interesting concept that Hydro One has not put forward. Susan wondered if this topic could be incorporated into the discussion on performance measures, incentives and penalties later in the Session. Jack noted that he did not have a specific metric that could be objectively measured. Susan mentioned that this had been a challenging area, because in the past Hydro One was unable to capture actual losses. She noted that with Smart Meters they are able to identify actual losses and she is encouraged that they can continue to make progress in this area.

John McGee commented on this incentive concept by noting that currently the pricing system is set up to incent customers to move load to off-peak periods, but that Hydro One cannot control the outcome of those pricing incentives.

Bill Harper acknowledged that Hydro One’s goal in this Study is to respond to OEB Directives, but he asked if Navigant would be asked to provide Hydro One with the Study methodology to use going forward to evaluate future year variances, or if Hydro One was going to have to rehire a consulting firm year after year. Benjamin said that the new Hydro One customer information system (CIS), linked with
Smart Meter capabilities allows for more detailed reporting and will put them in a better position to accurately report line losses going forward.

LUNCH BREAK 11:44am

Bob welcomed everyone back from the break and introduced Henry Andre.

5. Update on Seasonal Rate Initiative, Henry Andre, Manager Distribution Pricing, Hydro One

12:32pm

Henry Andre from Hydro One introduced his presentation and provided an update on the Seasonal Customer Initiative discussed in Stakeholder Session #1. Henry’s presentation covered:

- Existing seasonal customer feedback
- Planned seasonal customer consultation
- Possible options for modifying seasonal rates

The existing seasonal customer survey knowledge came from two internal data sources: 1. the Corporate Customer Satisfaction Survey and 2. the customer complaints database.

Henry discussed the first internal data source, the Corporate Customer Satisfaction Survey. The Survey is done semi-annually by IPSOS on behalf of HONI. The Survey results showed that seasonal customers had the following seasonal customer feedback:

- Satisfaction with how Hydro One “calculates their bill” and “fairness of charges” is lower for Seasonal customers as compared to all respondents
- Overall satisfaction with rates and charges on the bill shows rate satisfaction goes down among customers with higher consumption (other rate classes show similar trends)
- The % of seasonal respondents indicating “Distribution Charge / Delivery Charges” as driver for low satisfaction were higher than other classes
- Two other common concerns from seasonal customers related to:
  - High bills for times they are not using the property
  - Estimated bills and meter reads not being done monthly

Hydro One indicated that there were no big surprises as the results confirmed what HONI had previously heard from seasonal customers. Henry noted that HONI has about 150,000 seasonal customers.

Henry discussed the second internal data source, Customer Call Centre escalated complaints. High consumption customers generated the majority of Seasonal Customer complaints (55%) and low consumption customers had more complaints (32%) than medium users (14%).

There are differences in type of rates/billing complaints based on the level of electricity consumption:

- Monthly Service Charge issues account for approximately 25% of complaints for low energy users but only approximately 2% for high energy users
Rate classification issues account for approximately 26% of complaints for high energy usage but only approximately 10% for low energy users.

Henry continued his presentation talking about the process planned to consult with Seasonal Customers. HONI engaged CitizenOptimum, one of their regular customer research vendors to conduct focus groups with seasonal customers. Kevin Groh, a representative from CitizenOptimum was present at the Session to answer questions about the consultations.

The approach for the Planned Seasonal Consultation is to hold two focus groups sessions in each of four regions in Ontario (North, South, East and West) where they will engage local cottagers’ associations to send one or two representatives to local focus groups of 6 to 10 participants. During the focus groups, CitizenOptimum will:

- Provide some information on cost allocation and rate design
- Get input on customer concerns
- Solicit feedback on possible options for rate class changes
- Complete their work by mid-August

Julie Girvan from Consumers Council of Canada (CCC) asked what exactly would be completed by mid-August as per Henry’s presentation slide #5. Henry answered that by mid-August 2013, the focus groups will be completed and feedback provided to HONI.

Jack Gibbons said that Hydro One should include energy conservation discussions as part of the focus group discussion. Jack said that looking at the two Seasonal Customer problems: 1. low volume customers who don’t like the fixed charge and 2. high volume customers that don’t like the total bill, must also include discussion about how bills to both Seasonal Customer groups could be generally reduced by focused conservation.

Shelly Grice representing the Association of Major Power Consumers of Ontario (AMPCO) asked if there were any general consultation Sessions on this topic before. Henry responded that there had not been consultation specifically for seasonal before, but they were included in general discussion for previous applications. Shelly also asked why focus groups were selected rather than surveys, etc. Henry responded that CitizenOptimum is on retainer for HONI and has done research for HONI before so engaging them allowed the work to be done quickly and efficiently since they were already educated on the business. The priority was to get information in time for HONI’s next application. Kevin Groh from CitizenOptimum commented that the focus groups were selected over other options, such as a survey, so that they could get more qualitative feedback (opinions rather than yes/no answers). They wanted to present tangible options to seasonal ratepayers that were derived from tangible feedback. Focus groups allow them to get input and solicit feedback from the seasonal customers directly. They have done a lot of work with customers and ratepayers and know what and how to ask.

Roger Higgin brought up the Seasonal Customer annoyances of estimated bills, forcing these customers to pay for electricity at times that the properties are not in use. This is because the bills are projected from year to year, rather than what the meter says monthly. Roger indicated his understanding that...
Seasonal Customers get little satisfaction from the billing department at HONI when they call to inquire or complain about the consumption estimates. Roger asked if this is something that would be part of the focus groups. Henry responded that while they are aware of this issue the focus for this initiative is on rate design rather than billing. Henry added that Customers need to appreciate that if HONI moves to monthly billing rather than periodic, customers will necessarily face higher billing cost allocations versus the current quarterly billing.

John McGee stated that because most customers now have Smart Meters there is little or no more estimated billing. He is on monthly billing and gets it electronically and knows exactly what he uses.

Henry continued the presentation by discussing the possible options for seasonal rates, and asked for feedback on each option. He wanted the Session attendees to look at the changes versus the status quo.

**Possible Option #1: Status Quo**

- The outcome today is due to the harmonization process that combined Seasonal rate classes (R3 and R4) into one class. These rates were harmonized starting in 2008 and have been amalgamated into a single class.
- The harmonization process adopted the lower R3 fixed charge as the “target” for the harmonized class:
  - The harmonization process shifted revenue to be collected from fixed charges to variable charges.
  - The revenue requirement increase since 2008 is largely absorbed by higher variable charges.

Henry showed a table (reproduced below) outlining a 2013 typical monthly bill for low (100 kWh), medium (500 kWh) and high (1000 kWh) energy consumption and had a breakdown of the fixed charge, variable charge, total delivery cost and total bill amount for the varying consumption levels in order to show how the different bills vary accordingly. The table provided new information from Stakeholder Session #1. It was noted that for low volume customers the fixed charge represents approximately 50% of total bill versus for high volume customers the fixed charge only represents roughly 10% of bill.

### 2013 Typical Monthly Bill:

<table>
<thead>
<tr>
<th>Consumption (kWh)</th>
<th>Fixed Charge ($)</th>
<th>Variable Charge ($)</th>
<th>Total Delivery Cost ($)</th>
<th>Total Bill ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>100</td>
<td>23.42</td>
<td>8.12</td>
<td>31.54</td>
<td>43.20</td>
</tr>
<tr>
<td>500</td>
<td>23.42</td>
<td>40.59</td>
<td>64.01</td>
<td>119.73</td>
</tr>
<tr>
<td>1000</td>
<td>23.42</td>
<td>81.17</td>
<td>104.59</td>
<td>221.88</td>
</tr>
</tbody>
</table>

Bill Harper asked if it was a greater concern or a new concern pre-classification that low volume customers have a high bill. Henry said that pre-harmonization the R3 fixed charge was $19.50 and the R4 was $36, so a lot of revenue was collected through fixed charges. After amalgamation, HONI then bumped up the variable charge for customers, which has led to the issues they are seeing now.
Henry continued the presentation to discuss the second possible option for seasonal rates. Henry acknowledged Seasonal Customers’ concerns with the Status Quo (Possible Option #1) and as such, HONI was seeking Stakeholder feedback (e.g. anticipated impacts, etc.) on three options.

Possible Option #2: Revise revenue collected via fixed and variable rates

- This option entails increasing fixed charges from the current $19.50
  - R2 Fixed charge ($57), R1 ($20), OEB Minimum System ($24) [CORRECTION NOTE: Hydro One has confirmed that the OEB Minimum System value should have been shown as $30]
- Current Seasonal rates recover 38% of revenue via fixed charges and 62% via variable charges
  - Prior to harmonization, the revenue split was approximately 70% fixed and approximately 30% variable
- It is important to note that changes to the fixed charge will have significantly different impacts depending on consumption level
  - For example, increasing the fixed charge to $30/month will increase the Total Bill by 8% for a 200 kWh customer and decrease the Total Bill by 8% for a 1,000 kWh customer

Henry stated that HONI uses the OEB cost allocation model and that $95 million is the total collected from seasonal customers, based on the 2010 cost allocation model. This option looks at how much should be collected via fixed charges versus variable charges. He said there is some basis for suggesting that HONI should increase the fixed charge, but they need to look at how much to increase it by because it results in significant differences depending on the energy usage for different customers in the class. For this option, he is trying to determine and get feedback on how much to increase the fixed charge by recognizing customers’ tolerances to rate impacts.

Jack Gibbons asked if HONI would evaluate lowering the fixed charge. This was a follow-up to his previous comments stated during the Status Quo (Possible Option #1) discussion where he thought the solution would be to reduce the fixed charge and increase the variable charge to incent people to save energy. High energy users would not be happy, but there is a CDM program targeted at large users and LDCs (e.g. PowerStream) have gotten approval for their own CDM programs.

John McGee stated that HONI is constrained because of the OEB guideline of $24 for the fixed charge so they can’t talk about having $30 as an option. Henry responded that the $24 was pulled from HONI’s last OEB filing and that they would re-run the numbers. John stated that there would be no support from Federation of Ontario Cottagers’ Associations (FOCA) on increasing the fixed charge.

Jack Gibbons said that the OEB has a range for the fixed charge and asked what the low end number is for the fixed charge. Henry responded that based on the model run for 2010, it was $7. Jack said that HONI is on the high end and asked for analysis to be done on the low end too. He thought it was important to do a full analysis on both.

Nicholas Copes from Balsam Lake Coalition said to keep Options as simple as possible. For example, he suggested just eliminating the Seasonal Customer classification, integrating them into the residential
class. He went on to say that the Density Study proved that rates should be based on density and the seasonal customers are already located in three separate residential classes. This way HONI can deal with low volume customers like other residential customers and then they can consider adjusting the fixed rate for everyone’s benefit where all residential customers would pay a fair rate. Henry agreed that the Density Study proved that density is a key allocation factor and that density does drives costs. However, OEB’s cost allocation model goes beyond consumption and looks at things like coincident and non-coincident peaks which are very different for seasonal and non-seasonal customers. Each customer has different consumption patterns and load profiles, which is particularly apparent in the low energy consumption of Seasonal customers in the winter months.

Tom Ladanyi from Ontario Power Generation (OPG) stated that traditional regulatory rate structure philosophy aims at having all fixed costs in the fixed charge and variable costs in the variable charge, he then asked what percentage of HONI’s fixed costs are recovered in its fixed charge. Henry responded by saying that for a utility, the majority of its costs are fixed costs (e.g. transformers, etc.), so in reality HONI’s fixed costs are close to 100% of its total costs, but the current rate structure recovers only roughly 40% from the fixed charge component.

Jack Gibbons said that Tom Ladanyi’s approach was too simple failing to recognize the Provincial policy and societal need to conserve energy, the importance of charging customers by the amount of energy they consume.

Bill Harper asked about rural rate assistance and what charges and/or subsidies the customer sees. He continued to say that issues are based on the customer’s perception of their bill and what they pay. If you increase the fixed charge then you aggravate one customer group’s concerns and if you decrease the fixed charge you aggravate another customer group’s concerns. Henry said rural customers see a fixed charge of something less than $30 per month and that includes a subsidy of roughly $28. He added, however that this discussion is focused on how that true cost should change when costs are allocated appropriately to each rate class.

Alfredo Bertolotti asked if there was a possibility to see the cost allocated to the seasonal customer class to look at the cost per customer per month and compare what portion of that cost is recovered in the case of the three options because the case of low usage he would expect that the utility would recover just a small portion of the average cost. Henry responded that the information is available as an output of the cost allocation model so it is something that can be looked at. With reference to the table included in Possible Option 1 – Status Quo, Henry Andre commented that the 500 kWh consumption is the typical consumption for a seasonal customer so the $119.73 total bill is the typical revenue that is collected from that class. For a low consuming customer the revenues collected will be lower than the average class cost and for a high consuming customer the revenues collected will be higher than the average class cost. Directionally that’s what you would see. Henry added that the revenue to cost ratio isn’t exactly one. Alfredo would talk to Henry after the presentation for any additional clarity he wanted regarding this Class cost analysis.
Julie Girvan tried to sum up the problem and the challenge in satisfying concerns of Seasonal Customers with competing interests and different load profiles. The problem is particularly apparent in a case where a consumer with the same consumption profile as his or her neighbor pays twice as much simply because they are classified as Seasonal. She said that any change in the cost allocation or rate structure will result in winners and losers; that cannot be avoided. She also responded to Environmental Defence’s idea of using energy conservation as a solution to this challenge saying that potential energy savings for these users will not be significant enough to resolve the problem.

Julie wants to look at what is fair and what makes the most sense from a cost allocation standpoint. She also thinks that the other thing that feeds into this problem is rural rate assistance. She said that when CitizenOptimum does the focus groups on behalf of HONI, they will get all of these topics, especially that some people pay twice as much as their neighbor.

Julie closed by saying that she thinks that people far off the grid with long lines to their places should pay more for the electrical service they receive.

Henry indicated Hydro One understands the issues Julie raised and continued the presentation to discuss the third possible option for seasonal rates.

**Possible Option #3: Revise seasonal rate class criteria**

- Exclude Seasonal customers with greater than 1,000 kWh average monthly consumption over the prior year
- High consuming seasonal customers would move to the respective residential classes
- Seasonal customers moving to the R2 rate class would not be eligible for RRRP
- For this option, HONI anticipates that:
  - There would be a small impact to residential classes
  - Seasonal customers moving to the R1 rate class would see a significant decrease, but a smaller decrease would be seen for those moving to the R2 rate class
  - Customers remaining in the Seasonal class would see an increase in rates

### 2013 Typical Monthly Bill per rate class for this option:

<table>
<thead>
<tr>
<th></th>
<th>Seasonal</th>
<th>R2</th>
<th>R1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dx Delivery Charge</td>
<td>104.59</td>
<td>97.73</td>
<td>57.38</td>
</tr>
<tr>
<td>Total Bill</td>
<td>221.58</td>
<td>215.44</td>
<td>174.17</td>
</tr>
</tbody>
</table>

With reference to the table in slide 8 of his presentation, recreated above, Henry said that there are currently some seasonal customers who have consumption patterns like full time residential customers (e.g. 1000 kWh) and in this option they would be moved to the full time residential appropriate rate class. When the rural rate assistance is removed, since Seasonal customers would not be eligible for this subsidy, then there is not much difference between Seasonal and R2 rates. This option will affect R1 much more.
Bill Harper said the principle is to know whether or not the seasonal customers look like residential. He said that HONI has Smart Meter data to show what seasonal customers look like so they should use that to establish which seasonal customers look like residential customers. He thinks HONI needs to determine and define its definition of high versus low.

John McGee said this option is similar to what has been discussed before and he doesn’t think time should be spent on it because it gives no benefit to large energy users and small energy users will get hit hard. Bob Betts asked John if FOCA members feel the same way as he does. John said FOCA members represent the entire seasonal class and others that fall into seasonal, R2 and R1 who are residential on water and that they are not unhappy with the status quo. He said they don’t want winners and losers and they don’t have a big problem with the status quo. On the other hand, Nicholas Copes said that many seasonal residents are very unhappy with the status quo.

Henry continued the presentation discussing the fourth possible option for seasonal rates.

Possible Option #4: Split seasonal rate class into High and Low volume classes:

<table>
<thead>
<tr>
<th>Monthly kWh</th>
<th>Monthly Energy Consumption (kWh)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Up to 50</td>
</tr>
<tr>
<td># of seasonal customers</td>
<td>26,198</td>
</tr>
<tr>
<td>Percentage %</td>
<td>16%</td>
</tr>
</tbody>
</table>

For this option, HONI anticipates that:
- The challenge will be where to draw the dividing line between classes
- There would be little to no impact on other residential rate classes. HONI would take the pot of money dedicated to seasonal and split it between residential
- Rates would drop for High consuming customers given the higher revenues currently collected
- Rates would climb for low consuming customers given lower revenues are currently being collected

Henry said this option is intended to address concerns from high volume seasonal customers, focussing on the concern of bills being too high and not fair across all seasonal customers. Henry commented that Bill Harper raised a valid point about the need to draw the line between high volume and low volume customers and to do this HONI could look at Smart Meter data to determine where the dividing line could be based on changes in consumption levels.

Julie Girvan asked Henry what drives the cost, the volume or the density? She commented that it costs less to serve customers in a denser area. Henry responded by saying that density is a factor in cost allocation. When looking at the OEB cost allocation model kWh are not a significant driver of cost, but instead it is the peak usage or load profile. He also agreed that it could be density, but they don’t want to split these load classes again after having spent four years merging the density based classes into one class.
Dmitry Balashov from Toronto Hydro-Electric System Limited asked if it would be cost prohibitive to administratively review consumption and move people to a new class when consumption changed. Henry stated that yes the administrative costs would increase if classification was based on consumption, since it would need to be assessed annually. Henry agreed that administrative costs would be an issue to consider.

Henry continued by stating the criteria that would be used for evaluating and investigating all of the possible options for seasonal rates. The criteria are as follows:

- Delivery charge impacts
- Total bill impacts
- Number of customers with positive and negative impacts
- Consistency with rate making principles
- Additional comments raised by Stakeholders in this Session

Henry stated that HONI would put forward this evaluated information as part of their pre-filing evidence and asked Stakeholders at this Session for additional evaluation suggestions.

Julie Girvan asked if HONI would look at and evaluate getting rid of Seasonal rates altogether, which is what Nicholas Copes had mentioned earlier. Henry said that at this point HONI would not completely remove seasonal rates. The closest to this would be looking at Possible Option #3. Julie said that HONI should do the math to demonstrate why it is not appropriate to get rid of seasonal rates.

Jim Malenfant from Hydro One took Julie Girvan’s point further and asked if the seasonal class was eliminated, would the majority of customers move to the R2 class? Henry responded that he didn’t know if it would be the majority since he doesn’t have the data, but it could be 50/50. Jim said that he appreciates where Nicholas Copes is coming from but the issue is that people’s fixed charge would go up to $57 a month because they wouldn’t get the RRRP and that’s where customers would be upset. Julie responded that she hadn’t considered that, if the seasonal rate was eliminated altogether then the fixed charge would increase for some.

Bill Harper said that Henry made it clear that those that get RRRP now will continue to get it and those that don’t, will not. He said it’s a flag in the customer billing system to get it or not.

Bob Betts asked Henry if it’s a problem to evaluate the effect (“do the math”) of eliminating the seasonal customer class to provide Intervenors with the all the information they feel they will need to sort this question out. HONI agreed to do the math associated with eliminating the Seasonal Customer Class.

John McGee said that the math is self-evident by what is in the table on slide 6. If you take a seasonal customer that’s using 100 kWh per month and bring them in the R2 class their fixed charge is going up by 250% (going up from $23.42 to $57) which is significant. In addition, the OEB doesn’t allow you to go more than 10% per year and that’s 25 years to phase that in. This option will be bad for the small seasonal customer. Julie Girvan wanted the math shown and John agreed, but said the answer was already known.
Bob Betts finished this section of the Session and welcomed Susan Frank to begin her presentation on an overview of CIR Annual Adjustments.

6. Overview of CIR Annual Adjustments, Susan Frank, Vice-President & Chief Regulatory Officer, Hydro One

1:43pm

Susan Frank gave an overview of the Custom IR and outlined what topics would be discussed in her presentation.

1. Annual Adjustments
2. Off-Ramps/Re-Openers
3. Annual Reporting & Performance Metrics

Susan discussed the timeline for Custom IR Stakeholdering where the following topics have been or will be discussed with Stakeholders. She noted that the dates in italics are tentative.

Process (with tentative dates):
- Economic Outlook *(September)*
- Business Planning *(September)*
- Studies (April, June, September)
- Strategy *(September)*
- Knowledge of Assets - Asset Analytics *(September)*
- Customer Information (April, *November*)

The Cost of Service Plan:
- Annual Revenue Requirement *(November)*
- Smoothed Annual Requirement *(November)*
- Rate Schedules and Impacts *(November)*

Susan commented that November was selected because that is when the Hydro One Board would approve the plan.

Adjusting/Monitoring of the Plan (over 5 year period):
- Annual adjustments, off-ramps/re-openers (June)
- Annual reporting and performance metrics (June)

Susan continued the presentation by discussing the Custom IR Framework where she outlined the OEB Model and the Hydro One customized features. She commented that HONI tried to line up its customized features with the three categories outlined in the OEB model.

OEB Model:
- 5 year approved plan
- Off-Ramps
- Annual monitoring

**Hydro One Customized Features:**
- Annual adjustments
  - Externally driven
  - Ongoing
  - Formula based
  - No hearings
  - January 1st annual implementation

- Re-openers
  - Externally driven
  - Shock/surprise
  - Very material
  - Basic plan unchanged
  - Hearings (riders and variance accounts)
  - As required

- Annual reporting
  - Metrics
  - Cumulative
  - OEB response

Susan continued the presentation by discussing Hydro One’s research for Custom IR design where they looked at different approaches to multi-year filings. They looked at other jurisdictions to understand what performance-based or incentive regulation is elsewhere. Other areas don’t have a plan in place where Hydro One can import their method as a Custom IR framework hence Hydro One is proposing its own customized initiatives.

**UK**
- Introduced a new RIIO (Revenue using Incentives to deliver Innovation and Outputs) model in March 2013
- This is an outcome focused model, where distributors are required to develop plans and define performance measures and outputs for an 8 year period
- The model includes an Annual Iteration Process, Uncertainty Mechanisms (i.e. Off-Ramps/Re-Openers), and Incentives (i.e. rewards/penalties) based on performance
- The new model is intended to mitigate concerns with the prior incentive framework; including:
  - Lack of ownership of the distributor plans due to regulator driven templates
  - Higher long-term costs based on uneven incentives between operating and capital costs
  - Lack of customer engagement

Susan commented that the new RIIO is still in early days and she is not sure on it yet, so it may not be the answer for HONI.
Australia
- Currently in the midst of major review of its regulatory policy (“Better Regulation program”)
- The Better Regulation program is to deliver an improved regulatory framework focused on promoting the long term interests of electricity consumers
- The improved framework is intended to address concerns with the prior incentive framework; related to high capital spending

Susan commented that she is not completely confident that Australia’s model is correct for HONI.

Alberta
- ENMAX initiated a Formula Based Ratemaking model in Alberta which was approved in 2009
- The regulator expanded this concept to all Alberta utilities (gas & electric) in 2012 with the issuance of its Performance Based Regulation framework
- The model is based on a productivity-inflation rate setting mechanism for a 5 year term (including Annual Adjustment, Re-Openers, and Capital Trackers)

Susan commented that ENMAX proposed a multi-year 7 year plan and got partly there in transmission (stopped transmission now) and ENMAX now wants distribution to end because it is not working well for them.

1. Annual Adjustments

Susan continued the presentation and discussed Hydro One’s Options for Annual Adjustments.

Criteria:

Susan commented that the basic concept of a 5 year plan is that the utility puts filings in and doesn’t make any annual adjustments, but that is in a stable environment. She hasn’t seen a 5 year period that has been stable and today there is a lot of uncertainty with government policy direction and equipment options coming available. As such, HONI wanted annual adjustments that are:
- Externally driven beyond the utility’s control
- Ongoing /recurring/routine changes either upward or downward
- Formula based

Annual Adjustments Options:

Following are the options that HONI thought would meet the criteria specified above.
- Cost of Capital
  - Based on OEB issued Return On Equity and deemed Short Term debt rate in November of each year
  - Based on Hydro One’s actual long term debt issued
This has been around for a while. HONI has had this before with its 2 year COS filing and the second year of the filing HONI updates its ROE and deemed short term debt rate with the latest OEB issued Cost of Capital Parameters for rates effective in January 1 of the following year. The OEB issues the Cost of Capital Parameters around October/November and then HONI files a draft rate order with the updated ROE and cost of debt. Everything else stays the same, it’s just mechanically layered in and the OEB approves the new rates. It doesn’t go out to a hearing; it goes to the intervenors to check that the math was done correctly.

- Working Capital
  - Based on change in Commodity Prices (including global adjustment)
    Susan commented that when looking at a 5 year period, commodity prices may change quite considerably and so the working capital requirement may change considerably. This is being looked at mechanically. With all of these they would have to be tested at the hearing for the filing in Q1 2014. The formula, methodology, and process would be provided in the filing. This allows that later on in year 2 or 3, if there was a commodity price change then they would look back at the formula and the approach that came out of the decision and apply it. This way the decision is mechanical and straightforward.

- 3rd party flow-through costs
  - Based on change in RTSRs, WMSC, SME charge, RRRP, OEB charges
    Susan commented that what typically happens is that they can only change them at a hearing, but if they are not going to have a hearing for 5 years then they do not want to sit on them, but rather would like an opportunity to flow them through on an annual basis. It is like other costs that come in and the utility passes them on.

- Tax Rate Change
  Susan stated that HONI has been monitoring this in its variance accounts and the idea is it sits in variance accounts and you pass it through to customer’s rates.

- CDM based on change in cost or change in load
  Susan questioned that either if it’s a cost factor or new CDM programs and new targets are set then is this something that can be dealt with mechanically? She thought maybe, but maybe not and put it on this list so it could be discussed.

- Clearing of Variance Accounts based on prior year-end audited financials (e.g. RSVAs, pension)
  Susan stated that this looks at how to clear variance accounts. RSVAs are relatively straightforward and she is not convinced that pension is as straightforward, but it may be.

Questions:

Susan suggested that the group consider the following questions before putting something on the annual list.

- Should there be materiality thresholds?
Are there things that are on the list and are externally driven, but they are small enough that you just find ways to live with it since neither the customers nor the utility would get the benefit.

- **Should the annual adjustments be based on forecasts or actuals?**
  Do you wait for something that happened and it is in the audited statements or you do something on the basis of forecasts.

- **How to address prudency review during the annual adjustment process?**
  If you are going to do these things, then what do you do in terms of the review. Susan sees the majority of reviews happening when you’re putting a formula in place and she wants to come up with things that just need mechanical updates where only the math is checked so you don’t need a hearing during the 5 year period.

Susan opened the floor for questions and discussion.

Peter Thompson from Canadian Manufacturers & Exporters (CME) stated that in terms of the annual adjustment options, he didn’t see anything about earnings sharing. Given the experience in gas with five years plans, it is absolutely mandatory that there is an asymmetric earnings sharing mechanism as an annual adjustment feature.

Also, Peter stated that the theory about incentive regulation is that there should be some upfront benefit (productivity expectation or stretch) built into the plans for ratepayers. He asked that the Hydro One plan include consideration of both earning sharing and an inter-connected built-in ratepayer benefit expectation, like productivity and stretch. This is beyond off-ramps, but about having the plan work mechanically without the need for interim debates.

Susan responded by saying that there will be built in productivity to the revenue requirement ask. It’s a major focus for HONI more so than others because of who HONI’s major shareholder is. She stated you will be able to transparently see the focus on productivity. In terms of earnings sharing, she asked Peter Thompson two questions: 1) if they put productivity in and test it through the hearing, then why does any earning sharing have to be asymmetrical, why can’t it be symmetrical; and 2) how would earning sharing be determined, is it year by year or cumulative over a period?

Peter responded by saying that he is pleased to hear that there will be transparent productivity built in. He said the reason for asymmetric is that HONI has the “black box” and he thinks the chances of HONI underestimating over the 5 years is zero, so the concern that ratepayers wish to address is that the prospect of forecasting risk generally falls on their shoulders, not on HONI. He said that if HONI can make a better case for symmetric then do so, but his experience is that the Board has been leaning towards asymmetric on the gas side and he favours that.

In regards to the other question, he prefers annually rather than cumulative. Susan asked for clarification using an example, so if you over-earn in one year and under-earn in the next then over the
two years, does the utility share the over earnings in year one with ratepayers and absorb the entire under earning in year two?

Peter Thompson responded that on the gas side they come in with their earnings sharing calculation between Q1 and Q2 and clear it year by year, there is no cumulative consideration over the 5 years. Julie Girvan commented that on the gas side it has always been over-earning. Susan said utilities on electricity side often earn less than their allowed return, so if you pay up on the upside then what happens on the downside, do you just ignore it? Peter responded by saying that under asymmetric, yes you share on the upside and ignore it on the downside. Based on this exchange, Susan indicated her concern with an asymmetric earning sharing mechanism adjusted on an annual basis.

Bill Harper addressed the concept of annual adjustments for debt costs particularly focusing on the distinction between using the forecast debt issue and actual rates paid versus using the actual debt issue and actual rates paid. If there was a material difference between the forecast debt and actual debt, he wondered if it could be indicating a fundamental change in the business, perhaps due to HONI’s capital plan, etc. which might justify a detailed review rather than a mechanical adjustment.

Susan responded by saying that she was trying to make sure these were external and mechanical so they didn’t have to have hearings. Bill and Susan agreed that it was best to focus on items that are wholly out of HONI’s control.

Roger Higgin suggested that Hydro One review a request of the Régie made to Hydro Quebec to file an IRM application for transmission and distribution split, where one is asymmetric and one is not.

Roger then asked how HONI would deal with the major revenue requirement drivers of aging infrastructure and service additions within the Custom IR plan.

Susan responded that this item was not in the category of Annual Adjustments and it could be discussed later in the off-ramps section of the presentation. Generally speaking she believed this item is in the company’s control (spend on capital, etc.) and as such falls outside of her criteria for Annual Adjustments.

Julie Girvan asked if the HONI model is proposing to have 5 calculated annual revenue requirements when they file.

Susan said that yes, they will have 5 revenue requirements as would be associated with a full cost of service application and that they would look at rate smoothing options through the period. HONI has done this for two year applications in the past, but the OEB says five is required for this application.

Julie added her support for earnings sharing because it gives comfort to rate paying protection groups and it helps when looking forward 5 years since there’s a lot of uncertainty. With respect to avoiding annual hearings, Julie indicated that on the gas side there is an annual review process for earnings sharing, dealing with variance accounts, applying for a z-factor, etc. The gas sector has learned that even
those annual hearings should be kept as simple as possible, largely mechanistic. This process is for the most part kept simple, but it is still a hearing because rates are involved.

Susan responded by saying that when they proposed this, they looked at the 2 year filing for distribution and transmission in the past and the cost of capital did change in year two so new rates were pushed forward and that is an OEB decision although it was mechanical. She understands that the more you move away from mechanical then the more you open the door to a hearing.

Shelly Grice wanted to better understand what would happen with the potential adjustments that are outside of HONI’s control. She asked if on an annual basis HONI would file a monitoring report to the OEB (checklist format, etc.) and then make annual mechanical adjustments and not have to go to a hearing. Susan responded with an example from the history with the two applications from the past. If the Board announced new capital factors, such as debt rates, in the 2 year plan, and where HONI has issued debt in that period, HONI makes a filing based upon the approved capital structure and comes up with revised rates. Board can bring in intervenors, but it is all very mechanical.

Shelly also asked if HONI would try to identify these things ahead of time. Susan confirmed yes that was the idea.

Tom Ladanyi said apart from these annual adjustments, would everything be locked-in for 5 years? He asked if HONI would be at risk for volume changes forecasted for 5 years. Susan responded that yes, they would be at risk for any volume changes. It was like that in the two year and would be like that in the five year.

Dmitry Balashov asked that given the regional planning process, if something is recommended by regional planning that is not captured in HONI’s capital plan, would HONI consider it for another factor for some sort of adjustment? Susan responded yes, but not as an annual. The idea is that these things are routine and go up and down, they aren’t a policy change. She specified that yes these changes need to be dealt with, but would be discussed further later in the Session.

Alfredo Bertolotti asked if everything is mechanically adjusted then what is the need to have a materiality threshold? Susan responded that you could adjust for every change, but you need to weigh off the effort and the cost of the application versus the materiality change to the customer or company benefit. They can live with small things because she wants to avoid significant administrative costs.

Alfredo then asked if the threshold would be different for each of the components. Susan said it was a good question and that she would have to look at it.

Susan took this opportunity to advise Stakeholders that David Poch could not attend but sent an email asking if HONI was going to move to a decoupling of revenues, which he said was the Board’s approach. He did not think increasing the fixed charges was the way to go for revenue decoupling. He suggested a basis like QRAM (gas) and over a relatively short period, so when talking about annual adjustments there could be a possibility where twice a year you would true-up the forecast and actual for volume
impact. Susan said copies of the email were available in the room if others wanted to read it. She said HONI was thinking not to follow this approach.

Bill Harper said his understanding of QRAM applies to the volumetric commodities portion which would be separate from the distribution rates.

Susan thought that David was trying to apply the QRAM approach to the distribution charge. She invited people to read David’s email for clarity for later discussion if necessary.

Tom Ladanyi asked if HONI had considered having an account to keep track of its annual under or over recovery, similar to a process used by TransCanada? He explained that in that case it isn’t for paying back or recovery, but just for keeping track. Susan agreed that HONI would keep track of both over and under recovery if an Earning Sharing Mechanism was required to allow for a 5 year adjustment rather than annual adjustments.

Julie Girvan asked for an explanation for the 5th bullet point describing Annual Adjustment Options on slide 8 “CDM based on change in cost or change in load”. Susan said that for change in load, it would be determined by assessing if the CDM program was successfully implemented. If the plan was not achieved, a calculation would determine the effect on forecast load values. Julie said that is an LRAM (Lost Revenue Adjustment Mechanism). She also said it is not so automatic depending on the programs, and can be controversial.

Susan said that she is hesitating on this option since she wants adjustments to be mechanical.

In terms of the CDM “change in cost”, it refers to the current policy in Ontario of allowing the OEB to approve CDM programs and program costs. If this occurred during the 5 year term it should involve an adjustment.

Julie also asked if variance accounts would be trued up to actuals and Susan responded yes they would.

Peter Thompson discussed the proposal to flow through or annually adjust for debt rate change saying that this would reduce the potential for over-earning as was seen with the gas plans and would probably reduce some of the need for earning sharing. Peter then wanted to follow up on Tom Ladanyi’s question about volume forecast risk saying that since HONI is proposing an adjustment for changes in load that are CDM driven, it may want to adjust for volumetric or load changes (up or down) compared to forecast. This would also relieve some of the pressure for an earnings sharing mechanism and if it’s not adjusted for, then it’s a rationale to have an earnings sharing mechanism. Susan responded that load can go either way, which Peter agreed with supporting the argument for a volumetric adjustment.

Julie commented on this discussion saying that this is decoupling.

Susan responded that HONI has been responsible for volumetric variances in the past and feels that you just live with the load. However, she said they will give the suggestion consideration.
Bill Harper said revenue decoupling with respect to load or volume can lead to reviews of business risk and as such is a slippery slope.

**BREAK 2:32pm**

**7. Overview of CIR Off-Ramps/Re-Openers, Susan Frank, Vice-President & Chief Regulatory Officer, Hydro One**

**2:47pm**

Susan resumed the presentation referring first to a discussion that took place over the coffee break, principally with Roger Higgin and Bill Harper. The discussion was regarding the Board’s perspective on mechanical annual adjustments. One Stakeholder suggested that Hydro One may want to look at what the Board provides “Intervenor Funding” for. The implication being that if the OEB does not feel that the issue is worthy of Stakeholder involvement, that it must therefore be mechanical in nature. Alternatively an issue could be of interest to or reviewed by only one Intervenor “one party funding”.

Susan stated that these are good ways to determine what items could be established as annual adjustments.

Susan outlined what would be discussed next in regards to the criteria and options for off-ramps and re-openers.

**Criteria:**
- Externally driven beyond utility’s control
- Unexpected (shocks that weren’t in the plan because they were unanticipated)
- Very material/significant impact
- Off-ramps result in whole Custom IR plan to be examined and possibly terminated; whereas with Re-Openers only a particular component of the plan is adjusted

**Off-Ramp Options:**
- Return on Equity (+/- 300 basis point thresholds) as per OEB’s RRFE (Renewed Regulatory Framework for Electricity Distributors)
- Performance erodes to unacceptable levels as per OEB’s RRFE
- Restructuring of the industry

Susan commented that she hopes there will be no off-ramps in the 5 year period.

**Re-Opener Options:** Susan commented that re-openers are unknowns so they are not included in the plan. She provided a few examples:
- New Government Mandates (e.g. Smart Meters were a large undertaking for the utilities so the OEB agreed to a rate rider and variance account)
- Market Rules/Code changes
- Environmental law changes (e.g. if some class of poles suddenly were determined to need replacement due to environmental dangers, that additional cost could justify a re-opener)
- Technical standard changes
- New investments resulting from the newly developed Regional Plans
- Material unforeseen weather events (e.g. ice storm)
- Accounting Framework changes (e.g. pension regulation changes)

Questions:

Susan posed the following questions to the group for them to consider when providing feedback on the options.
- What is the level of materiality to trigger a re-opener? Different levels for Capital and OM&A?
- How to incorporate re-openers into the plan: track in variance accounts and seek recovery in next cost of service filing period or require immediate funding thru use of rate riders?
- Should re-openers be combined to trigger materiality?

Julie Girvan indicated that she thinks of these as z-factors rather than “re-openers” and suggested that Hydro One needed to propose the z-factor type criteria that would be applied to a request for such processing. She stated that the examples presented were just a laundry list of things that could happen, so criteria would need to be developed, against which these or any others would be evaluated for eligibility.

Susan said that she is hoping none of the options happen in the 5 years, but there are many questions that need discussing before criteria could be established. Things like how material the event must be, if it should be based on revenue requirement or capital spend, whether Hydro One should just be given permission to track the amounts in a variance account for later consideration, etc. Susan added that all re-openers would have to have a hearing which would happen at the time it became known versus the annual adjustments considered to be mechanical. She noted that with these HONI would file when an event and its impact became known. Susan summed up by saying that some mechanism is required to allow Hydro One to apply for events such as these based upon certain material thresholds and that the hearing would lead to a ruling on how the costs of such occurrences would be handled, i.e. variance or deferral accounts, rate riders, etc.

Susan restated a previous question about whether these re-openers would be handled as one-off events or whether they would be considered in combination thus affecting the materiality threshold.

Julie replied that it could be cumulative over each year. She said that they do this with z-factors on the gas side and have done it in the last 2 plans. Susan said this would be similar in the approach. Julie commented that she has an issue with the term ‘re-opener’ as it sounds like it is potentially re-opening all the parameters put in place in the plan, but what you are actually saying is that it is just one area. Susan said the term ‘re-opener’ was taken from the UK. She said it’s not a z-factor, but they can look for a new word instead of ‘re-opener’.
Tom Ladanyi suggested that the off-ramp not be a simple 300 basis points trigger and cited the example of when Union Gas hit an off-ramp, but wanted to apply to the OEB for a different option rather than applying for a new plan. He said that HONI needs an option where if they hit the off ramp they could apply to the OEB to deal with it versus stopping the current plan. Tom and several others agreed that the 300 basis points band should trigger a “review” leading to some different handling rather than triggering a new application. Susan agreed.

Regarding alternative terms for re-openers, Roger Higgin commented on recent discussions with gas companies. He said that ratepayers like the phrase “outside of the normal course of business”. Susan liked this term “adjustment of items out of the normal course of business”. Bob Betts said that another option is “not otherwise recoverable in the escalation plan”.

Bill Harper asked if the utility needs financing for the problem or if it is about getting fair recovery of costs? He continued that usually it’s about talking to the OEB after they know the bill for the expenditure versus before.

Susan indicated that it is certainly the need for assurance of cost recovery but it often also includes consideration of the size of the expenditure, and how and when it is paid for by ratepayers. She used the example of the Smart Meter expenditure where the issue had to do with the size of the expenditure, how long it would take to pay for and a need to get ratepayers today to pay, so the future generations aren’t paying for today’s costs (an intergenerational fairness issue).

Shelly Grice asked if there was a case where the capital expenditures exceeded the forecast level, she wondered if that would be in the off ramp category. Susan said no because it is not out of the utility’s control. She said the final Session topic would deal with this. She also said that this might be in the annual monitoring where you’re looking at “are you delivering the plan we gave you approval to execute?”

Bob Betts referred to an earlier point made by Roger Higgin, that it is not just about monitoring, but Intervenors are also concerned that if the actual capital spending begins to diverge from the forecast or approved spending, how do rates get adjusted or do they get adjusted?

Susan said it should be covered under the monitoring topic, adding that the question remains “what is the action”? She added that this is beyond rewards and penalties, but reaction to a material divergence from plan. She said that the steps should be 1) identify the monitoring issue, “are you off plan?”, then 2) evaluate whether the variance is material, 3) determine if a modification is necessary and what the modification should look like?

Roger referred to a situation when Toronto Hydro went off the plan. He said they used a deferral account to record the variation for an adjustment that could happen later. He explained that rates are not immediately affected, but are adjusted in the next rate application.

Susan said she liked this approach because with a 5 year plan, things don’t have to happen in year one. She commented that this is one of the benefits of a five year CIR plan; explaining that if a utility is going
to be efficient in its planning, execution, etc. then it can’t do it a year at a time, the utility needs to use all five years to spread things out. You need to look forward to manage the work and resources, and the impact on the customers.

Roger added that a smoothing mechanism could take the form of a deferral account. Susan responded that smoothing mechanisms would be discussed at a later date.

Bob Betts wanted to follow-up on the point made by Susan about managing the CIR over the full five year period rather than year by year. He directed a question to Roger asking if the concern of the intervenors regarding actual spending of the forecast capital plan was focused on 1) the details of whether the capital plan was delivered as proposed in each year of the plan (micro analysis), or 2) whether the total forecast capital budget was spent (macro analysis), in a) every year or b) over the 5 year term? As an example, Bob said if one project can’t be done as planned for reasons such as timing, etc. would the intervenor be concerned if another project replaced it in a given year, still staying within the forecast budget.

Roger replied that ratepayers should not have to pay for assets that are not in service.

Bob went a little further asking that if some other asset was put into service in the year of that delayed project, thus maintaining the total capital spend, would that be acceptable to intervenors?

Roger replied saying that would be fine and ratepayers should focus on the total capital spent, not which projects got completed; again emphasizing that ratepayers should only have to pay for assets that are in service.

Julie Girvan agreed with the principle expressed by Roger saying that if you have a long-term forecast, then the ratepayer could end up paying for items that are not placed in service, when the revenue requirement had anticipated that they would be in service, which is a concern for ratepayers.

Susan commented that the UK had this issue and recognized that plans had to be monitored to verify that they were delivered as planned. She indicated that the OEB has also recognized this issue and is dealing with it through monitoring; there is still some work required in the question of what action should occur when the monitoring identifies some divergence from plan.

Susan said Jim Malenfant would be discussing monitoring in the next presentation.

Tom Ladanyi commented that for TransCanada pipelines the NEB said this is your rate for 5 years and manage the business accordingly. Susan said she doubts we would get that from the OEB.
8. Overview of CIR Annual Reporting & Performance Metrics, Jim Malenfant, Senior Regulatory Advisor, Hydro One

3:16pm

Jim Malenfant gave an overview of what would be discussed in regards to the reporting and performance metrics for the Custom IR.

Criteria:

Jim stated that in this discussion Hydro One is looking at the things HONI can control. Items that are subject to this monitoring need to have the following characteristics:

- Outputs to allow Board and Intervenors to monitor key outcomes committed to in the plan
- Metrics need to be measurable, controllable, and transparent. (All stakeholders and the Board need to have a common understanding of the meaning of these three words)
- Manageable number of metrics (Need to avoid problems with micro-management)

Metrics for Delivery of Plan:

Jim opened the discussion about the metrics to be considered in monitoring the delivery of the plan by HONI.

- Level of Spend (Capital In-Service and OM&A)
  Jim commented that this puts the focus on capital “in-service” spending rather than CAPEX spending, as this is what gets reflected in rates.

- Productivity/Cost Effectiveness
  Jim described four potential metrics, saying that they are only examples of the kind of metric that could be used to monitor productivity and cost effectiveness:
  - Forestry Brush Control & Line Clearing ($/km)
  - Planned End of Life Wood Pole Replacements ($/pole)
  - Cable Locates ($/locate)
  - New Connections ($/connection)

  Jim commented that these metrics are “cost per unit” measures which are output based measures in areas where there could be significant change to the business.

  Julie Girvan said that a commonly used performance metric is “OM&A cost per customer” and Jim said that was a metric they could consider.

- Customer Satisfaction
  Jim commented that HONI does qualitative customer surveying, which Daffyd Roderick, HONI, Director, Corporate Communications talked about in Session #1. On the quantitative side, there are many things reported on in the OEB “Triple RRR” (Reporting & Record
Keeping Requirement) reporting looking at things like telephone response time and other customer satisfaction measures.

- Metrics associated with significant change in performance/reliability (e.g. Innovation–Smart Grid)

Jim offered Cornerstone and Smart Grid as examples of the type of projects that would fall into this category; where you’re asking for a significant amount of money that would lead to productivity savings.

Questions:

Jim posed the following questions to the group for them to consider when providing feedback on the reporting and performance metric options.

- Should there be incentives (i.e. rewards/penalties) related to metrics?
- How to develop the targets for each metric? Should the targets be annual or cumulative?
- How to validate the accuracy of the metric’s reporting?
- How far off target can a utility go before the OEB intervenes?

Roger Higgin asked if the Ontario Energy Board had advanced any positions with respect to performance metrics, but no one had any information about that.

Julie Girvan commented that there had been some work by a task force on Scorecards; Jim expressed HONI’s view that the Custom IR approach allows the utility to propose its own Scorecard.

Jane Scott said that there was a reliability group headed up by Paul Gasparatto of the OEB that was looking at this, and they thought their output would feed into the Scorecard development.

Roger said it would be helpful to see the reliability group’s recommendations, since it focused on customer related performance measures versus systems related performance measures. Roger said that Hydro One should continue with the system wide metrics, but new ones should be customer oriented (e.g. OM&A per cost, worst performing feeder, momentary interruptions, etc.).

Susan said that they are trying to figure out how the Custom IR reporting differs from the Scorecard or the RRR, saying that there should be a difference. The Custom IR 5 year plan should ask “did you do what you promised you would do?” Susan went on to say: the measures have to come out of the details of the CIR plan, and since HONI does not have a plan yet it is difficult to talk precisely about what needs to be measured and monitored. If the plan is promising or changing productivity, level of reliability, etc. then they would have to be measured. It is always helpful to know what the customer metrics are to see if they are changing. We can talk now about criteria, but we may not be able to come up with metrics until we have a plan in place. Scorecard is too high level at this time.

Bill Harper agreed with Susan. Metrics can be established once the plan is agreed upon. If productivity is part of the overall plan, then look at areas where productivity will have the most impact and concentrate on measuring those. Also think about are there emerging issues to look at in the plan? HONI
should look at this plan versus previous plans to see where they can effectively get productivity even on these new emerging opportunities.

Jim responded that they are doing this in the business planning right now, trying to identify the areas where Hydro One will be able to commit to productivity improvements.

Susan supported Bill’s comments, saying that HONI brought this item to the meeting because they are uncertain about what kind of metric it should be: does it need to be an audited number, will it need a 3rd party review, what is the comfort level that parties will need with the metric, etc. Then considering incentives, rewards and penalties, do we know that the metrics are in the right place? Sometimes more money is spent on assessing compliance, which costs more than the penalty or reward itself.

Tom Ladanyi noted that exceeding productivity is already financially self-rewarding in IR, but the customer metrics are not self-rewarding. He noted that Fortis BC had an interesting approach to a customer satisfaction metric, if they met the customer satisfaction metric targets they would keep any over earnings; however, if they didn’t they would have to credit over earnings back to the ratepayers in rate reductions.

Alfredo Bertolotti asked about connecting to small generation and how reliability is measured with the introduction of the smart grid. He said the utility needs the ability to keep historical trends in order to evaluate things going forward.

In response, Jim mentioned the example of vegetation management where reliability would improve, but costs would go up, so is that what the customers want? The answer would vary by geographic region so it’s hard to determine what the right level of investment is in an area.

Bob Betts directed the attendees back to the questions.

*Question: Should there be incentives (i.e. rewards/penalties) related to metrics?*

Vicki Power from Society of Energy Professionals asked for reward and penalty examples. Julie Girvan replied that she sees the rewards as the potential for increased earnings. She has never understood the logic of providing rewards for just meeting targets. As for penalties, she said she has never seen an example of a penalty for not achieving certain objectives. She went on to say that most customers want to maintain a certain level of service, and they are not looking to pay more for enhanced levels of service.

Roger Higgin gave an example of penalties in Tasmania. He said that people who are supplied by poor performing feeders with interruptions get paid money. Julie asked who pays the money and Roger replied that in that case, the customers would, it comes from the rates, not the shareholders.

Bob summarized his assessment of the discussion saying that it seemed that no one could identify any specific rewards or penalties for performance, beyond the traditional reward that is associated with the opportunity to over earn, built into the CIR plan.
Roger felt that it was difficult to assess whether rewards or penalties would be useful without real examples that would be apparent once a plan was filed and understood.

Bob agreed and said it would be open to further consideration in a later session. With that, the group moved on to the next question.

**Question: How to develop the targets for each metric? Should the targets be annual or cumulative?**

Roger noted that it is always difficult to identify the baseline for targets. He said what if one of your objectives is to minimize interruptions, then you start with baseline performance value, invest the capital and measure. He said that for some measures they do have baselines, like customer satisfaction. He wanted to stress that it is important to focus on customer values such as system performance and quality of service.

Bob Betts posed a question about annual programs such as pole replacement and tree clearing, asking whether HONI could be rewarded for completing the program for less money than the planned spending.

Julie Girvan expressed a concern that this could lead to a utility “gaming” their budget.

Susan responded by saying this also involves the question of cumulative measurement versus annual. She once again expressed her concern about being measured annually for performance, rather than cumulative measurement over the five-year term. You can’t maintain for each year so cumulative would be better. You can probably gain in one year, but you can’t gain in every year. For example, with vegetation clearing it is easiest in year one when you cut the easy areas, but will be harder in other years when you cut difficult areas, so the targets shouldn’t be annual. HONI should be allowed to be up or down in any year of the plan, as long as they achieve their targets over the term of the plan.

Bill Harper stated that it depends on what metric is being considered in order to decide if cumulative is appropriate. For example, pole programs or tree clearing may very well best be measured over a longer period but in the case of customer response, if you had bad service in year one and better in year two, it was still bad in year one which is not fair to the customer. Therefore, this doesn’t work cumulatively.

Bob summarized saying that there appeared to be agreement that there was a place for both annual and cumulative incentives depending upon the metric being considered. There was general agreement and the discussion moved to the next question.

**Question: How to validate the accuracy of the metric’s reporting?**

Julie indicated that her preference would be that reporting should not need 3rd party audit or validation. The utility should report the results to the Board with the same level of integrity as with the RRR reporting, and there should be some process that would allow the Board and stakeholders to challenge any items that seem to lack credibility or comprehension.
Roger Higgin basically agreed that the utility should report, the report should be reviewed, and then there should be mechanisms to deal with concerns which might arise.

Bill agreed that Stakeholders should give deference to the utility’s integrity in performing its regulatory responsibilities and not expect any 3rd party validation which could be costly and intrusive to the utility.

*Question: How far off target can a utility go before the OEB intervenes?*

Shelly Grice stated that it depends on the Board’s targets and the metric; she noted that capital spending could be treated differently than other metrics.

Bill said that he does not think there is a good analogy between 300 basis points and when the Board intervenes. He said that 300 basis points is deciding if they are going to throw the entire plan out, the “off-ramp concept”. He said he felt that the Board deciding to intervene on these metrics should be viewed more as a “re-opener”.

Jim asked if anyone had more to add to this discussion and since there were no more comments, Susan was invited to make closing remarks.

### 9. Closing Remarks/Next Steps, Susan Frank, Vice-President & Chief Regulatory Officer, Hydro One

**4:04pm**

Susan Frank closed the Session by thanking everyone for attending and for their valuable feedback. HONI wants to get the most information possible from Stakeholders so they can make a filing that provides for a good decision. It is about the customer so it is important to look at measures that reflect the customer’s value.

Roger Higgin asked about Susan’s slide 2, Timeline for Custom IR Stakeholdering, showing that the Annual Adjustments, Reporting and Performance metrics was shown to be completed in June. Based on the discussion during this session, there needs to be another opportunity to discuss these items.

Susan agreed and suggested maybe in November, once they know what the plan is.

Susan noted that the plan will be changed based on what the Stakeholders said in the Session and they may be in touch to clarify some comments as required. Susan reminded everyone that they are not done yet, and they will hold more of these Sessions. She believes that a Custom IR filing is custom to each, but also HONI is the first to do this so they are creating a framework for all so that there will be less surprises. She concluded by inviting people to complete evaluation forms.

**BOB BETTS ADJOURNED THE MEETING AT 4:09pm**
10. Appendices

A. Summary of Stakeholder Session

The Stakeholder Session was conducted to present information to Stakeholders and gather feedback on items related to Hydro One’s Distribution Custom IR Rate Application. The 6 topics discussed in the Session were:

1. Progress Update on Stakeholder Session #1
2. Update on Line Loss Study
3. Update on Seasonal Rate Initiative
4. Overview of CIR Annual Adjustments
5. Overview of CIR Off-Ramps/Re-Openers
6. Overview of CIR Annual Reporting & Performance Metrics

Throughout the Session, there was open two-way discussion with Stakeholders, covering questions, issues of concern, additional information for consideration, requests for detail or explanation, and requests for further input and consultation.

Hydro One’s internal specialists explained the rationale, approach and results, and indicated where further details and explanations would be provided in the filing.
B. Key Actions and Considerations

Progress Update on Stakeholder Session #1

- Hydro One advised that Mercer was selected through an RFP process as the vendor for a Compensation Study
- Topics to be discussed in a future Session include: pursuing CDM for business planning and rate smoothing, Customer Survey, rate class review
- Consideration of the poorest performing areas is included in the regional planning process
- Topics to be discussed in today’s session include: off-ramps, annual adjustments, scorecard/reporting requirements, and seasonal rates

Update on Line Loss Study

- Hydro One plans to file the results from the Line Loss Study in its Custom IR Filing for 2015
- Hydro One engaged Navigant to assist with the Line Loss Study analysis
- Stakeholders suggested looking at different levels of loss at different time periods; Navigant to take under consideration
- Stakeholders suggested breaking out southern system and northern system peak data in the Line Loss Study; Navigant to take under consideration

Update on Seasonal Rate Initiative

- CitizenOptimum to conduct focus groups with seasonal customers to provide information on cost allocation and rate design and present feedback to Hydro One by mid-August 2013
- Stakeholders suggested that Hydro One determine what Seasonal rate option(s) they would like to pursue and survey customers in the focus group on the determined option(s)
- Hydro One wanted to determine and get feedback on how much of an increase to the fixed charge would be considered acceptable
- Stakeholders suggested that lowering the fixed charge should also be considered
- Hydro One will be re-running the minimum fixed charge as per the OEB’s cost allocation model to be submitted as part of the pre-filed evidence for the next application
- Stakeholders asked for analysis to be completed on the low end and high end fixed charge options
- Stakeholder suggested for Option #3 and #4, that Hydro One draw the line between high volume and low volume customers based on which seasonal customers look like residential customers
- Stakeholders suggested for Hydro One to evaluate the effect of eliminating the Seasonal customer class and including them as part of the full-time residential class
Overview of CIR Annual Adjustments

- Stakeholders suggested earnings sharing as an annual adjustment feature.
- Stakeholders and Hydro One agreed that annual adjustments should only focus on items wholly out of Hydro One’s control.
- Stakeholders suggested that Hydro One look into having a different materiality threshold for each adjustment.
- Hydro One explained it has been responsible for volumetric variances in the past and clarified it would be at risk for volume changes over the five years. Stakeholders suggested Hydro One to reconsider the need for an annual volume or load adjustment.
- Stakeholders suggested to review what the OEB views as mechanical based on when the OEB does or does not provide funding for intervenor involvement.

Overview of CIR Off-Ramps/Re-Openers

- Stakeholders suggested that Hydro One needs to clearly define the criteria and mechanism to apply for recovery for re-openers, including size and if it is based on a revenue requirement or spend.
- Stakeholders noted that the term “re-opener” may be misleading. Hydro One stated that they will look for other words to replace the term “re-opener”.
- A Stakeholder noted that a known mechanism for recovering from going off plan is using a deferral account, where money is collected in the deferral account instead of in the rates.

Overview of CIR Annual Reporting & Performance Metrics

- Hydro One said that they would look into the “OM&A cost per customer” as a potential productivity/cost effectiveness metric.
- Hydro One noted that the metrics will come from the plan, and because the plan has not been created it is difficult to define the metrics at this time.
- All parties agreed that there is a place for both annual and cumulative metrics depending on what is being measured.
- A Stakeholder noted that deciding how far off target a utility can go before the OEB intervenes also depends on the metric.
- Stakeholders agreed that deference must be given to the utility to provide accurate and truthful reporting rather than involving costly and intrusive 3rd party validation.
- Hydro One agreed to a future discussion on metrics at another stakeholder session; once Hydro One had developed its plan.
### Meeting Agenda

<table>
<thead>
<tr>
<th>Time</th>
<th>Session</th>
<th>Presenter/Role</th>
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<tbody>
<tr>
<td>10:30 a.m.</td>
<td>Registration</td>
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<tr>
<td>10:35 a.m.</td>
<td>Welcome</td>
<td>Susan Frank, Vice-President &amp; Chief Regulatory Officer</td>
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<tr>
<td>10:40 a.m.</td>
<td>Introductions and Agenda</td>
<td>Bob Betts, Facilitator, OPTIMUS</td>
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<tr>
<td>10:50 a.m.</td>
<td>Progress Update on Stakeholder Session #1</td>
<td>Bob Betts, Facilitator, OPTIMUS</td>
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<td>11:20 a.m.</td>
<td>Update on Line Loss Study and Facilitated Discussion</td>
<td>Stan But, Manager Economics &amp; Load Forecast</td>
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<td>12:00 p.m.</td>
<td>Lunch</td>
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<tr>
<td>12:45 p.m.</td>
<td>Update on Seasonal Rate Initiative and Facilitated Discussion</td>
<td>Henry Andre, Manager Distribution Pricing</td>
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<tr>
<td>1:30 p.m.</td>
<td>Overview of CIR Annual Adjustments and Facilitated Discussion</td>
<td>Susan Frank, Vice-President &amp; Chief Regulatory Officer</td>
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<td>2:30 p.m.</td>
<td>Break</td>
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<tr>
<td>2:40 p.m.</td>
<td>Overview of CIR Off-Ramps/Re-Openers and Facilitated Discussion</td>
<td>Susan Frank, Vice-President &amp; Chief Regulatory Officer</td>
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<tr>
<td>3:25 p.m.</td>
<td>Overview of CIR Annual Reporting &amp; Performance Metrics and Facilitated Discussion</td>
<td>Jim Malenfant, Senior Regulatory Advisor</td>
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<tr>
<td>4:25 p.m.</td>
<td>Closing Remarks/Next Steps</td>
<td>Susan Frank, Vice-President &amp; Chief Regulatory Officer</td>
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<td>4:30 p.m.</td>
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D. Compensation Study Scope of Work

PART 3: TERMS OF REFERENCE

1.0 BACKGROUND

1.1 Hydro One Networks Inc.

Hydro One Networks is an integrated Transmission and Distribution Utility which owns, operates and maintains high voltage and low voltage electricity delivery assets in the Province of Ontario and is responsible for delivering services to its customers, including supply reliability, power quality, responses to customer inquiries and billing services. Hydro One Networks is wholly owned by the Province of Ontario and is the leading electricity transmitter and distributor in Ontario. The Transmission and Distribution Businesses are operated in an integrated manner, utilizing the same workforce and many of the same business processes, systems and facilities. In December 2013 Hydro One Inc. employed 5,762 regular employees.

The Hydro One Networks mission is to be an efficient and dynamic transmission and distribution utility maintaining a constant attention to the development and retention of our employees, and creating shareholder value.

Nearly all of Ontario’s electricity transmission system is owned and operated by Hydro One Networks. About 40% of Ontario’s electricity distribution system property, plant and equipment is owned and operated by Hydro One Networks. Further information regarding Hydro One Networks Inc. can be found at http://www.hydroone.com/InvestorRelations/Documents/Quarterly_Reports/HydroOne_2010_Year-End_MDA_and_FS.pdf

1.2 Electricity Regulation Framework

The Transmission and Distribution Businesses are separately regulated by the Ontario Energy Board (OEB); and cost allocation approaches are used within the company to appropriately assign costs to the Businesses. The OEB sets rates in proceedings through oral or written public hearings based on the level of revenue required to operate our regulated Businesses and to earn our approved rate of return on investment capital.

2.0 Hydro One Compensation Costs Study

2.1 Compensation Costs Study Framework

In its August 16, 2007 Decision approving Transmission Revenue Requirements for 2007 and 2008, the Ontario Energy Board directed Hydro One to prepare a total compensation cost benchmarking study which would gather and compare data from other regulated transmission and/or distribution utilities in
North America. As part of this study, Hydro One was also directed to (i) consult with stakeholders about the type of information to be gathered and the types of utilities and other companies that should be used for comparison purposes; and (ii) provide empirical evidence which reveals the relative productivity of its workforce in comparison to other utilities. Following this direction, Hydro One engaged Mercer to prepare a “Compensation Cost Benchmarking Study” (“the Mercer study”) which was submitted by Hydro One in September 2008 to the OEB as part of its application for 2009 and 2010 Transmission Revenue Requirement. The Mercer study can be downloaded here http://www.hydroone.com/RegulatoryAffairs/Documents/EB-2010-0002/EB-2008-0272%20Mercer%20Compensation%20Benchmarking%20Study.pdf

In its December 23, 2010 Decision approving Transmission Revenue Requirements for 2011 and 2012, the Ontario Energy Board provided direction and other expectations for further information on compensation and efficiency comparisons.

The Board directed “Hydro One to revisit its compensation cost benchmarking study [the Mercer study] in an effort to more appropriately compare compensation costs to those of other regulated transmission and/or distribution utilities in North America.”

Toward that end, the Board directed “Hydro One to consult with stakeholders about how the Mercer study should be updated and expanded to produce such analyses”.

The Board went on to describe its expectation that Hydro One “be in a position to provide more robust evidence on initiatives to achieve a level of cost per employee closer to market value at its next transmission rate case. The Board will expect compensation increase to be matched with demonstrated productivity gains”.

Hydro One is currently preparing a two year Cost of Service application for Transmission rates (2015-2016) and a five year Custom Incentive Rate setting application for Distribution (2015-2019). The Compensation Cost Benchmarking study will be filed as evidence for both rate setting applications.

2.2 Deliverables

Hydro One is undertaking this Compensation Cost Benchmarking project with the expectations that the project will:

- Review, expand upon and improve the previous Mercer (benchmarking) studies completed for Hydro One in 2008 and 2011;
- Select, with justifications, after reviewing previously used comparators, an appropriate group of businesses to use as comparators to Hydro One for compensation cost benchmarking. The comparator group should comprise the previous Mercer comparators as a starting point supplemented with other comparators where possible, such as other Ontario utilities, other like North American electric utilities including integrated utilities, and other non-utility businesses competing in the same labour market;
- After reviewing previously used compensation metrics, determine the most appropriate compensation metrics that each of the chosen comparators can readily measure;
• Quantify Hydro One’s Total Compensation Costs\(^1\) in comparison to the appropriate peer group.
• Evaluate the compensation costs of the benchmark group relative to the cost drivers, to assess how reasonable Hydro One’s compensation costs are compared to the benchmark group;
• To the degree possible, identify internal productivity benchmarks used within the comparator group that have been approved by their regulators and if not, what internal measures may be used and how or whether either measures could be used by Hydro One with readily available internal data;
• Be readily repeatable to permit periodic examination of Hydro One compensation cost trends; and
• Provide a comparison, if appropriate, to the results of the previous compensation cost benchmarking studies [the Mercer study] completed for Hydro One.
• Provide a reasonable forecast for future years including Hydro One’s Total Compensation Costs and a comparison to the appropriate peer group.

3.0 SCOPE OF WORK

3.1 Project Requirements*

Part A
1. Design a benchmarking study to deliver the Hydro One expectations outlined in section 2.2, giving due regard to intent of the Ontario Energy Board decisions referenced in section 2.1.

2. Present the proposed study design and proposed criteria for cohort selection to a stakeholder consultative for their understanding and input.

3. Meet with Hydro One to review suggested changes resulting from the consultative process, and then commence the study based upon the Hydro One approved study plan.

4. Provide an interim progress report to a Hydro One steering committee if requested by Hydro One.

5. Prepare a draft of the study report for presentation to the Hydro One steering committee.

6. Present the draft report to the stakeholder consultative, subject to any requirements for confidentiality, to gain the feedback and comment from intervenors.

7. Present a Final Report to Hydro One for filing to the Ontario Energy Board.

8. The successful consultant will be expected to defend the study plan, findings and conclusions within at least one and potentially two regulatory proceedings. This would include all normal phases of a full hearing including a written interrogatory phase, and other discovery processes defined by the regulator, and a full, formal regulatory hearing, either oral or in writing, before the OEB. This would also include the preparation of other related evidence, as necessary to support the methodology and measures applied related assumptions on economic parameters, comparable companies, etc.

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\(^1\) For the purposes of this benchmarking analysis “Total Compensation Costs” shall include the costs of all employee benefits including pension, monetary compensation and other performance rewards that are paid to, or on behalf of the employee.
9. Using the Mercer study as the starting point, include in the study:

- The selection criteria for establishing a set of businesses used as comparators to Hydro One, and the justification for their choice as suitable cohorts in the benchmarking study. Where specific jobs are considered to be comparable to enterprises outside of the energy utility sector, the benchmarking study should be expanded to include the wider group for that specific job comparison.

- Review compensation at Hydro One Networks relative to a “broader employment sector” in addition to above, if possible.

- Utilize the same compensation metric as applied in the Mercer study i.e. base pay, total cash and total remuneration [i.e. including benefits and pension]. Consider separate reporting of pension metric and consider whether cost of living comparisons can be utilized within the study.

- Findings and conclusions regarding the reasonableness of Hydro One’s Total Compensation costs relative to other electric utilities, taking into consideration the effects of the compensation metric both at the median and average compensation of the peer groups.

- A summary of specific modifications from the Mercer study and an assessment of the impact of such in using the Mercer study results for comparative purposes. If appropriate, use the Mercer study results for comparative purposes.

- A summary report on internal productivity measures used within the peer group and how or whether such measures could be utilized by Hydro One with readily available internal data.

10. Design the benchmarking study to be readily repeatable to permit a comparison trend analysis for future reviews.

11. Prepare for and participate in a stakeholder consultative process relating to the benchmarking study. This consultative process could involve as many as two (2) meetings, commencing with input to the study design and the cohorts selection, and presentation of the study draft. Hydro One wishes to fully inform the consultative about the study, to the extent that “confidentiality” issues permit, with the objective of gaining their endorsement of the process and the results. Hydro One will retain the right to unilaterally decide any question related to the study.

12. Prepare a draft report for review by Hydro One on or before September 1, 2013 and a final report on or before October 31, 2013.

Part B

13. Participate fully, in cooperation with Hydro One, in the filing, discovery, hearing and argument phases of the Ontario Energy Board review of the compensation cost benchmarking study. Provide written responses to interrogatories on the study.
14. Defend the benchmarking study report and associated issues as an expert witness for Hydro One as and when required (likely up to two days on the witness stand), before the Ontario Energy Board at future Regulatory Hearings. This includes preparing expert witness testimony.

* Note: Preparation of the study and report outlined in Part A above should be costed and a single lump sum price is to be provided. For Part B above, individual per diem rates, as appropriate, with an estimated total hour allocation for this work should be provided; expected reimbursable expenses must also be detailed.

3.2 Consultant Requirements
The consultant required for this assignment must:
- Be able to provide all of the services outlined in Section 3.0
- Have expertise and proven experience in preparing and providing a compensation benchmarking study and recommendations in a regulatory environment
- Have in-depth knowledge and experience in applying general regulatory principles as they apply to the project scope
- Have knowledge of specific practices and precedents within the regulated utility industry;
- Have significant experience in acting as an expert witness at rate hearings in the subject areas covered by this work scope
- Be able to demonstrate that they have successfully completed similar work for other large clients, on time and on budget
- Comply with Hydro One’s Code of Business Conduct
- Comply to Hydro One Commercial Terms & Conditions; Insurance and WSIB

3.3 Schedule
The schedule for carrying out the activities in Section 4.0 is driven by Regulatory requirements for a new rate order application to be submitted in the fourth quarter of 2011. The consultant shall base their response to this RFP on meeting the following schedule of major milestones:

1. Participate in up to two, one-day stakeholder sessions: September and November/ December 2013
4. Fully participate in the defense of the Benchmarking Report in up to two OEB proceedings expected to occur in 2014.

3.4 Pricing
Hydro One is looking to have a fixed price submitted for the delivery of the Final Report & hourly rates provided for the individuals need to fully participate in the defense of the Benchmarking Report in up to two OEB proceedings expected to occur in 2014.