

EXECUTIVE SUMMARY

This Exhibit describes the scope and key aspects of Hydro One’s application (“the Application”), including its proposed Custom Incentive Rate-Setting (“Custom IR”) approach to establishing transmission rates for the period 2020 to 2022 (the “test period”). A Blue Page update was filed on June 19, 2019 to reflect:

- (i) Hydro One’s final audited balances for 2018;
- (ii) The final results of the Kinetrics ESL Assessment of Specific Relays dated January 31, 2019 (see Chapters 1.4 “Benchmarking” and 3.2 “Capital Planning Drivers” of the Transmission System Plan);
- (iii) A Directive of the Ontario Government issued February 21, 2019 in respect of executive compensation (see Exhibit F, Tab 4, Schedule 1 “Corporate Staffing and Compensation”);
- (iv) The OEB’s decision in EB-2017-0049 dated March 7, 2019 in respect of Hydro One’s application for distribution rates for 2018 to 2022 (the “Distribution Decision”), insofar as the Distribution Decision addressed Hydro One’s ability to recover pension costs (see Exhibit F, Tab 5, Schedule 1 “Pension Costs”); and
- (v) The OEB’s rate order dated June 11, 2019 for the Distribution Decision insofar as the rate order accepted Hydro One’s calculation of the tax benefit that accrues to ratepayers (see Exhibit F, Tab 7, Schedule 1 “Taxes or Payment in Lieu of Corporate Income Taxes”).

A significant portion of Hydro One’s assets are reaching the end of their useful life and have deteriorated to the point where investment is required to maintain customer reliability and meet safety and environmental sustainability requirements. A safe and

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1 reliable transmission system is essential to supporting strong and successful communities
2 and essential to supporting business development and growth that provides job
3 opportunities and drives Ontario's economy.

4

5 Hydro One is also sensitive to the rate impact of its plan on both its transmission
6 customers and distribution-connected customers. In 2020, a typical Hydro One medium
7 density (R1) residential customer consuming 750 kWh/month will see an increase of
8 \$0.79/month or 0.6% on their total bill as a result of the Application. Almost half of this
9 increase is attributable to load decline due to government conservation initiatives and
10 lower consumption. While some of the drivers of the bill impact, such as a decline in
11 load, are out of Hydro One's control, Hydro One has made efforts to manage its costs
12 while meeting its asset needs. In its plan, Hydro One has identified \$370 million in
13 productivity savings over the period of the Application. Hydro One has reduced its 2020
14 OM&A expenses by 9% over 2018 OEB approved levels of spending which will be
15 achieved through sustained productivity gains, and revisions to its maintenance programs.
16 Hydro One's plan appropriately balances the needs of the system, the assets and the
17 customer preferences regarding outcomes and rates.

1 Hydro One Transmission’s customer base is made up of: (1) electricity generators who
2 deliver power to the transmission system, (2) distributors who deliver power to direct
3 customers, and (3) end-users such as mining and industrial enterprises that use the power
4 themselves at transmission level voltage. Hydro One’s transmission customers have told
5 Hydro One that safety and reliability are the outcomes that they care most about. Over the
6 Application period Hydro One will invest nearly \$3.9 billion in its assets to keep its
7 transmission system safe and reliable. Hydro One has implemented improvements to its
8 planning process to ensure that its spending is targeting to the assets that are the most
9 critical and where the funding will have the greatest impact. Hydro One’s plan will
10 address critical safety and environmental risks in its system. It will improve reliability
11 performance by 13% to return to the top quartile performance that Hydro One’s
12 transmission customers are expecting. In addition, Hydro One will spend \$552 million to
13 add capacity to the system to accommodate new customers and businesses, enabling
14 economic growth in Ontario in communities such as Leamington and delivering on the
15 requirements of Regional Planning processes and the government’s Long Term Energy
16 Plan.

17
18 **1. SCOPE OF THE APPLICATION**

19
20 On March 16, 2018 the Ontario Energy Board (“OEB”) issued a letter setting out its
21 expectations regarding future distribution rate and transmission revenue requirement
22 applications by Hydro One. The letter directed Hydro One to file a transmission revenue
23 requirement application for a four-year test period from 2019 to 2022. On April 4, 2018
24 Hydro One filed a letter with the OEB indicating that it was considering the potential
25 impact of the OEB’s new expectation on Hydro One’s then upcoming application, which
26 Hydro One had expected to be a Custom IR application with a 5 year test period.

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1 Subsequently, Hydro One experienced organizational changes in July and August, 2018,
2 which included the appointment of a new Board of Directors. As a result, Hydro One
3 took the opportunity to brief the new Board of Directors and re-evaluate its transmission
4 business plan to balance the needs of customers, system reliability and overall
5 stewardship of its assets with a particular focus on increasing productivity and
6 minimizing rate increases.

7
8 To permit this review to occur and adhere to the OEB's objective of a combined
9 transmission and distribution application in the future, Hydro One adopted a two-step
10 approach. First, Hydro One filed an application for a one-year mechanistic adjustment to
11 Hydro One's 2019 revenue requirement (EB-2018-0130). Second, Hydro One filed this
12 3-year Custom IR application with a 2020-2022 test period to allow alignment with the
13 OEB's expectation that Hydro One file a single application for distribution rates and
14 transmission revenue requirement for a test period commencing in 2023.

15
16 Consistent with Chapter 2 of the OEB's *Filing Requirements for Electricity Transmission*
17 *Applications* ("the Filing Requirements"), Hydro One's Transmission System Plan
18 ("TSP") has provided a summary of capital expenditures for five future years, 2020-2024,
19 which is referred to throughout the application as the "planning period" or "TSP planning
20 period". However, this Application seeks approval for a revenue requirement only in
21 respect of the 3-year test period of 2020-2022.

22
23 This Executive Summary provides an overview of Hydro One's transmission business
24 and explains how Hydro One developed the Transmission Business Plan that underpins
25 this Application, particularly with respect to its consideration for:

- 26
27 • asset related needs of the system arising from condition, performance, age,
28 environmental and regulatory compliance requirements;

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- 1 • identified customer needs and preferences for new transmission facilities,
2 connections, services and reliability performance;
- 3 • customer rate impacts;
- 4 • feedback from the OEB’s decision in Hydro One’s 2017 and 2018 transmission
5 rate proceeding (EB-2016-0160);
- 6 • feedback from the OEB’s decision in Hydro One’s 2019 transmission rate
7 proceeding (EB-2018-0130) respecting the discontinuance of certain variance
8 accounts;
- 9 • feedback from the OEB’s decision in respect of the deferred tax asset (EB-2018-
10 0269); and
- 11 • the OEB’s expectations under the Renewed Regulatory Framework (“RRF”) as
12 outlined in the October 18, 2012 Report of the Board, *Renewed Regulatory*
13 *Framework for Electricity Distributors: A Performance Based Approach*, and
14 further described in the OEB’s October 13, 2016 *Handbook for Utility Rate*
15 *Applications*.

16

17 In the Application, Hydro One is requesting the OEB’s approval for:

18

- 19 • A transmission revenue requirement of \$1,673.8 million for 2020, the underlying
20 calculation of which is outlined in Section of 6.1 of this Exhibit;
- 21 • The charge determinants and allocation of the rates revenue requirement, by rate
22 pool, to assist the OEB in developing Uniform Transmission Rates over the test
23 period;
- 24 • The proposed Custom IR mechanism to be used for the determination of the
25 revenue requirement for 2021 and 2022, as summarized in Section 4 of this
26 Exhibit and detailed in Exhibit A, Tab 4, Schedule 1 of the Application;

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- 1 • The evolved transmission performance scorecard proposed in this Application
2 (Section 1.5 of Exhibit B, Tab 1, Schedule 1);
- 3 • The continuation or creation of the various regulatory deferral and variance
4 accounts discussed in Section 6.10 of this Exhibit;
- 5 • The disposition of regulatory accounts with total net debit balances of \$20.5
6 million effective January 1, 2020, to be recovered over a three-year period
7 (Exhibit H, Tab 1, Schedule 3).

8

9 The proposed 2020 revenue requirement reflects a year-over-year increase of 4.9% versus
10 the 2019 revenue requirement proposed in Hydro One's 2019 Transmission Application
11 (EB-2018-0130). The average year-over-year increase in the revenue requirement over
12 the 3 year test period is expected to be 5.2% per year.

13

14 The estimated total bill impact for a typical Hydro One medium density (R1) residential
15 customer (750 kWh/month) is an increase of 0.6% (\$0.79/month) in 2020. The estimated
16 total bill impact for a typical Hydro One general service energy less than 50 kW customer
17 (2,000 kWh/month) is an increase of 0.5% (\$1.86/month) in 2020. The estimated total
18 bill impact of this Application for a typical transmission-connected customer is an
19 increase of 0.6% in 2020, assuming that transmission costs represent 7.4% of the average
20 transmission-connected customer's total bill.

21

22 The 2020 total bill impacts are predominantly driven by a reduction to the load forecast
23 underpinning rates driven by a government conservation policy change, detailed in
24 section 6.3 of this Exhibit, and increases to rate base from capital projects placed in
25 service that were largely completed prior to the test period of the Application. The
26 proposed reduction to Hydro One's OM&A budget serves to mitigate these increases.
27 Further details are provided in Section 6.11 of this Exhibit.

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1 **2. HYDRO ONE’S CONTINUED EVOLUTION**

2
3 In late May 2016, Hydro One filed its transmission rate application for 2017 and 2018
4 rates (EB-2016-0160) (“the Prior Proceeding”). The Prior Proceeding was Hydro One’s
5 first major filing following the transition from a solely government-owned company, to a
6 publicly-traded company. It was also Hydro One’s first transmission revenue
7 requirement application under the OEB’s RRF. In the Prior Proceeding, Hydro One
8 outlined the initial steps its new leadership had taken towards Hydro One’s aspirations of
9 becoming a best-in-class, customer-centric, commercial entity.

10
11 Since the Prior Proceeding, Hydro One has continued to increase its focus on customers,
12 establish greater corporate accountability for performance and drive continuous
13 company-wide improvements in efficiency and productivity. This has resulted in an
14 overall customer satisfaction score of 90% for 2018 – the company’s highest score ever
15 and a 12% increase over 2016. This Application reflects Hydro One’s continued efforts to
16 enhance the customer-centric, commercial orientation of the organization and further
17 align itself with the focus on outcomes that is articulated in the RRF.

18
19 Examples of this include:

- 20
- 21 • Hydro One’s evolved regulatory transmission scorecard, as outlined in Section 1.5
22 of the TSP, containing new and revised metrics that incorporate the OEB’s
23 feedback in the decision from the Prior Proceeding. In addition, Hydro One
24 developed and implemented a governance framework for the internal monitoring
25 and reporting of performance measures within Hydro One.
 - 26 • The implementation of a robust process for defining and measuring productivity
27 savings, as outlined in Section 1.6 of the TSP, along with a commitment from
28 Hydro One to deliver on \$704 million in productivity savings over the 5-year

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- 1 • planning term of the TSP, of which \$370 million will be achieved over the 3-year
2 test period. Hydro One Transmission achieved \$95.9 million in savings in 2016
3 through 2018.
- 4 • The implementation of improvements to Hydro One's investment planning
5 process, including use of a revised risk assessment framework to ensure
6 appropriate prioritization and optimization based on business and RRF outcomes
7 that are informed by Hydro One's customer engagement process. Hydro One also
8 increased the levels of enterprise engagement to ensure Hydro One's ability to
9 execute the plan.
- 10 • An evolved customer engagement process that sought feedback on both the
11 appropriate level and mix of investments through a determination of the outcomes
12 that customers value most.

13 14 **3. OVERVIEW OF THE TRANSMISSION BUSINESS**

15
16 Hydro One's transmission assets form the backbone of Ontario's electricity system. The
17 system serves approximately 98% of the Province by capacity and covers some of the
18 most challenging and diverse geographies in Canada. The company's transmission
19 system is comprised of approximately 290 transmission stations and approximately
20 29,000 circuit kilometers of high-voltage lines and towers operating at 500 kV, 230 kV or
21 115 kV. It represents approximately \$13 billion in transmission assets. Hydro One's
22 system transmits electricity from generation sources to load customers, including 42
23 transmission-connected local distribution companies (LDCs), Hydro One's own
24 distribution system, and 84 large industrial customers directly connected to the
25 transmission system. It is linked to five jurisdictions adjacent to Ontario through 26
26 high-voltage interconnections. A discussion of the unique considerations and constraints
27 on Hydro One's transmission business can be found in Section 1.1 of the TSP (Exhibit B,
28 Tab 1, Schedule 1).

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1 A detailed discussion of these components along with the benchmarking used to inform
2 the RCI is found in Exhibit A, Tab 4, Schedule 1. A summary of the RCI components is
3 provided in the Table 1 below. The productivity factor of 0% is based on the
4 recommendations of the Total Cost Benchmarking and Total Factor Productivity analyses
5 completed by Power Systems Engineering Inc. (“PSE”). The results of PSE’s analysis are
6 provided in Attachment 1 of Exhibit A, Tab 4, Schedule 1.

7
8 **Table 1: Revenue Cap Index Components**

9

Custom Revenue Cap Index by Component	2021	2022
Inflation Factor (I)	1.40	1.40
Productivity Factor (X)	0.00	0.00
Capital Factor (C)	4.09	3.59
Custom Revenue Cap Index Total	5.49	4.99

10
11 *Note: Inflation Factor to be updated annually. Exhibit Reference: A-4-1, Table 3.*

12
13 To align Hydro One’s business interests with those of its customers and provide an
14 additional element of protection for customers, Hydro One is also proposing the
15 following features:

- 16
- 17 • An earnings sharing mechanism (“ESM”) that will permit customers to share 50%
18 of earnings that exceed the regulatory ROE by more than 100 basis points in any
19 year of the Custom IR term;
 - 20 • A capital in-service variance account (“CISVA”) to track the cumulative
21 difference over the Custom IR term of any under spending between: (a) the
22 revenue requirement associated with actual in-service capital additions during a
23 rate year; and (b) the revenue requirement associated with the OEB-approved
24 forecast for in-service capital additions for that year, for any capital in-service
25 additions that are 98% or lower than the OEB- approved level; and

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- Z-factor and off-ramp mechanisms that apply OEB-approved criteria.

Hydro One's proposed Custom IR components, therefore, contain both OEB-approved components and other mechanisms that are designed to align the utility's needs with the interests of its customers.

5. HYDRO ONE'S TRANSMISSION BUSINESS PLAN

Hydro One's 2019-2024 Transmission Business Plan on which this Application is based will deliver the following outcomes:

- Optimizing the cost and performance of the existing assets through maintenance and renewal projects;
- Improving system and customer reliability to restore top quartile reliability performance as compared to the company's Canadian peers. In 2018, Hydro One's transmission reliability performance decreased from top quartile to 2nd quartile due to major storms and increased equipment-caused interruptions;
- Addressing customer needs and preferences through new customer connections, and regional development to enable growth and through system renewal to meet current requirements;
- Responding to customer power quality concerns by proactively monitoring power quality across the province and working with customers to resolve specific issues; and
- Incorporating productivity savings totalling approximately \$370 million over the test period to offset the customer rate impacts of the proposed Business Plan.

Based on Hydro One's assessment of its transmission system, a significant portion of the assets are reaching the end of their useful life and have deteriorated to the point where

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1 investment is required to maintain customer reliability and meet safety and environmental
2 sustainability requirements. A safe and reliable transmission system is essential to
3 supporting strong and successful communities and essential to supporting business
4 development and growth that provide job opportunities and drive Ontario's economy.

5
6 Hydro One is sensitive to the rate impacts of the investment plan on transmission
7 customers as well as distribution connected customers and has taken steps to ensure that
8 its approach to investment is aligned with principles of the RRF by:

- 9
- 10 • Ensuring that the Transmission System Plan ("TSP") reflects the consideration of
11 customer needs and preferences identified in the customer engagement survey and
12 is consistent with the feedback obtained from various other customer
13 consultations undertaken by the company including consultations with
14 distribution customers;
 - 15 • Optimizing asset lifecycle investments required to optimize costs and operational
16 risks to achieve business outcomes including identifying specific opportunities
17 where Hydro One can extend the useful life of its assets and mitigate higher
18 capital spending requirements for asset replacements in the future;
 - 19 • Working with customers, distributors and key stakeholders to ensure regional
20 infrastructure issues are integrated;
 - 21 • Actively driving cost reductions and improved productivity savings to help offset
22 customer rate impacts of the proposed investment plan; and
 - 23 • Implementing an improved performance management system to provide greater
24 accountability for performance outcomes.
- 25

26 Since the Prior Proceeding, Hydro One revised and implemented an improved eight-step
27 risk-based investment planning process. Key improvements to the investment planning
28 process include the use of:

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- 1 • Revised risk assessment framework to provide consistent risk assessment of
- 2 safety, reliability and environmental risks;
- 3 • Clear definitions of risk impacts to enable consistent assessments across
- 4 investments and calibration sessions to calibrate and align risk assessment
- 5 practices; and
- 6 • Challenge sessions to engage stakeholders across the organization to review the
- 7 investments and discuss potential trade-offs.

8

9 The improved eight-step risk-based investment planning process is summarized in
10 Section 6.4.2 of this Exhibit and described in greater detail in Section 2.1 of the TSP.

11

12 The development of the Transmission Business Plan was informed by three key inputs:

13

- 14 1. Hydro One's strategic priorities and the OEB's expectations under the RRF;
- 15 2. Input Hydro One has received from its customers; and
- 16 3. Benchmarking studies and other analyses outlined in Section 5.3 of this Exhibit
- 17 and detailed in Section 1.4 of the TSP.

18

19 These inputs provided key insights which helped shape Hydro One's 2019-2024
20 Transmission Business Plan. The sections that follow describe how each of these factors
21 impacted the Transmission Business Plan, summarize how the benchmarking studies
22 included in the Application support the investments contained within and the process
23 used to develop the Business Plan, as well as highlighting Hydro One's commitment to
24 continuous improvement through the productivity savings that are built into the
25 Transmission Business Plan.

26

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1 A full copy of Hydro One’s 2019-2024 Transmission Business Plan is provided as
2 Attachment 1 to this Exhibit.

3 **5.1 BUSINESS OBJECTIVES AND BUSINESS PLAN OUTCOMES**

4

5 Hydro One’s strategic priorities provided guidance and informed the objectives that were
6 used to develop the Transmission Business Plan. These strategic priorities are presented
7 in Figure 1 below.

8

Strategic Priorities

▪ **Employees**

- Maintain a safe and inclusive workplace for all employees
- Foster a high level of employee engagement throughout Hydro One through a new engagement approach focused on developing company –wide action plans (“Time for Action”)

▪ **Customer Experience**

- Deliver industry-leading customer service, in response to identified customer preferences
- Foster innovation in the business to adapt to changing customer requirements and market opportunities
- Advance reconciliation and work proactively to build relationships with Indigenous peoples and communities based on understanding, respect and mutual trust

▪ **Operational Effectiveness**

- Invest in grid infrastructure and grid modernization to deliver a high level of reliability and quality to our customers
- Focus on continuous improvement in productivity and operating efficiency to maintain lowest possible costs

▪ **Government and Regulatory Relationships**

- Maintain and build constructive, transparent relationships with governments and regulatory entities in all jurisdictions where we operate
- Deliver on obligations mandated by government through legislation and regulatory requirements

▪ **Financial Strength**

- Maintain a strong balance sheet to support continuing investment in our business
- Invest in assets to better serve customers

9



10

Figure 1: Hydro One’s Strategic Priorities

1 The close alignment between the RRF outcomes and the outcomes that Hydro One seeks
 2 to achieve is demonstrated in the company’s transmission business values and objectives,
 3 which are summarized in Figure 2, below.

4

Customer Focus	Customer Satisfaction	<ul style="list-style-type: none"> • Improve current levels of customer satisfaction
	Customer Focus	<ul style="list-style-type: none"> • Engage with our customers consistently and proactively • Ensure our investment plan reflects our customers’ needs and desired outcomes
Operational Effectiveness	Cost Control	<ul style="list-style-type: none"> • Actively control and lower costs through OM&A and capital efficiencies
	Safety	<ul style="list-style-type: none"> • Drive towards achieving an injury-free workplace
	Employee Engagement	<ul style="list-style-type: none"> • Achieve and maintain employee engagement
	System Reliability	<ul style="list-style-type: none"> • Provide top quartile reliability relative to transmission peers
Public Policy Responsiveness	Public Policy Responsiveness	<ul style="list-style-type: none"> • Ensure compliance with all codes, standards and regulations • Partner in the economic success of Ontario
	Environment	<ul style="list-style-type: none"> • Sustainably manage our environmental footprint
Financial Performance	Financial Performance	<ul style="list-style-type: none"> • Achieve the ROE allowed by the OEB

5

Figure 2: Transmission Business Values and Objectives

6

Exhibit Reference: B-1-1, Section 1.1, Figure 7.

7

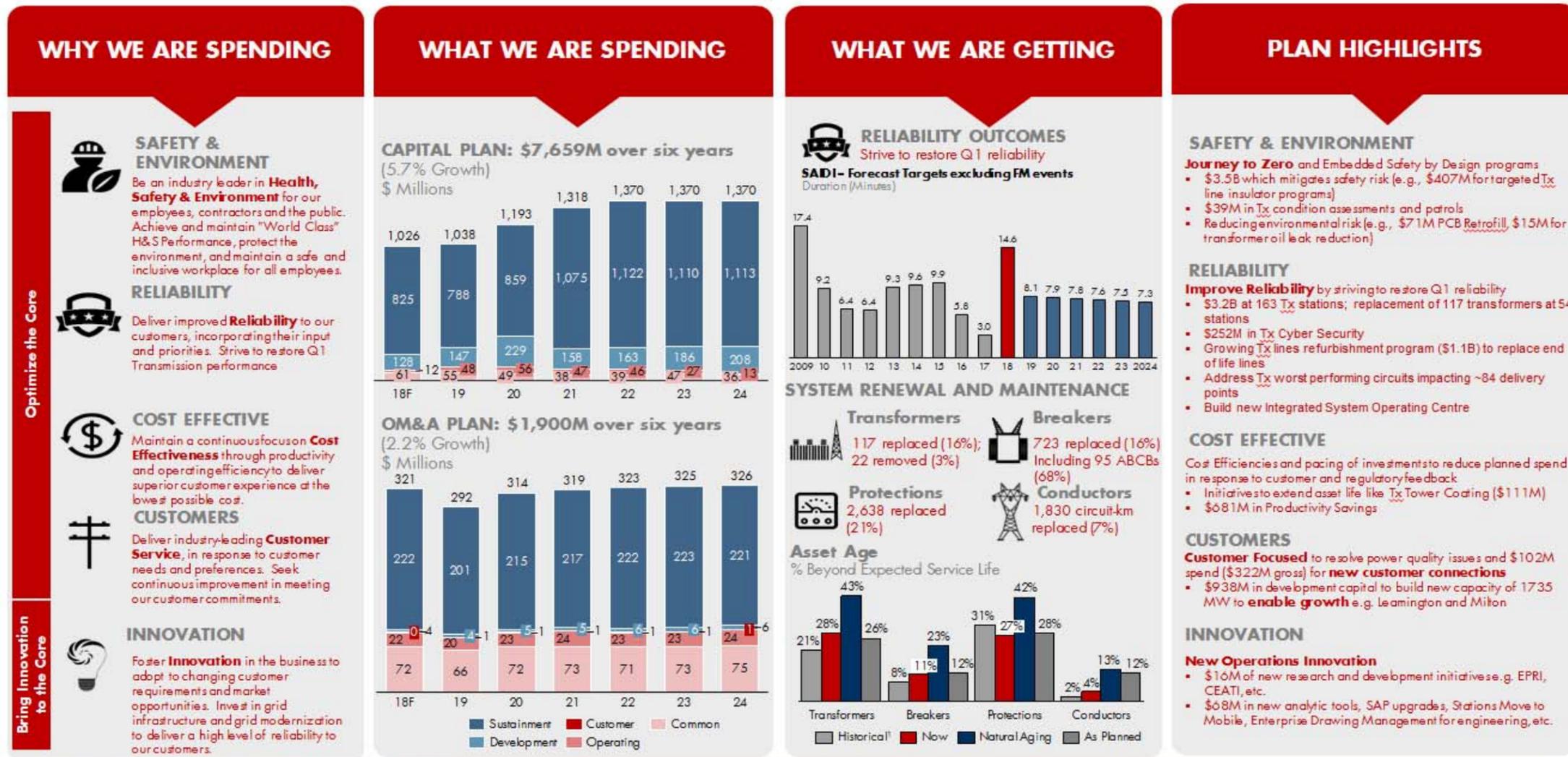
8 Along with the strategic priorities noted above, Hydro One relied upon the findings from
 9 its 2017 Customer Engagement Survey and its ongoing interactions with its customers to
 10 inform its understanding of customer needs and preferences and inform assumptions
 11 regarding the appropriate funding envelope.

12

Figure 3, below, summarizes how Hydro One’s Investment Plan aligns with the
 13 company’s strategic priorities and business objectives and summarizes the planned
 14 investments that deliver on those objectives through the planning term.

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Overview: 2019-2024 Tx Investment Plan



¹ Historical as per Transmission Rate Application EB-2012-00031 filed May 28, 2012



Figure 3: Alignment Between Strategic Objectives and Planned Investments

Exhibit Reference: B-1-1, Section 1.1, Figure 6

1
2
3

1 **5.2 CUSTOMER ENGAGEMENT**

2
3 Through its broad range of customer engagement activities, Hydro One has developed a
4 clear understanding of the needs and preferences of its customers. In 2017, Hydro One
5 undertook a formal customer engagement survey to obtain feedback on the needs and
6 preferences of its customers to inform the development of its Transmission System Plan.
7 This formal customer engagement exercise was the second such exercise undertaken by
8 Hydro One for its transmission business.¹ The 2017 engagement survey implemented
9 enhancements in consideration of the feedback that was received from OEB staff and
10 intervenors on Hydro One's first customer engagement exercise through the course of the
11 Prior Proceeding and through the Stakeholder Session held in March 2017.

12
13 Hydro One's 2017 Transmission Customer Engagement Survey sought customer
14 feedback to inform both the level and mix of investments in its Business Plan. Among
15 other things, the survey asked probative questions seeking to identify the outcomes that
16 customers valued most and asked customers to consider trade-offs between reliability and
17 cost through the use of illustrative scenarios.

18
19 The key messages received by Hydro One from the 2017 Transmission Customer
20 Engagement Survey, in respect of the needs and preferences of its transmission
21 customers, were as follows:

- 22
23
- Safety, reliability and outage restoration are customers' top prioritized outcomes;

¹ Hydro One's first customer engagement exercise for its transmission customers was undertaken in preparation for the Prior Proceeding.

- 1 • All customer segments prefer to see investments spread out over time versus
2 investing now with higher rates in the short term and lower future increases or
3 delaying investments with lower rates in the short term and higher future rates;
- 4 • Reducing the frequency of outages is more important than reducing the duration
5 of outages. However, the most important issue is to reduce the number of day-to-
6 day interruptions;
- 7 • When presented with several investment scenarios, the majority of customers
8 preferred investment levels in line with the investment plan that was before the
9 OEB in the Prior Proceeding by at least a three to one margin. It is seen as
10 reflective of the current approach which has served the system well, and a less
11 risky option; and
- 12 • About half of end-user participants (19 of 38) rate power quality as an “extremely
13 important” outcome.

14

15 The feedback provided through the customer engagement process informed the
16 enhancements made to the improved investment planning process as follows:

17

- 18 • The revised risk assessment process focuses on assessing operational risks related
19 to safety, reliability and environment. These outcomes are among the top
20 customer priorities identified and validated through Hydro One’s customer
21 engagement. As such, the risk assessments that evaluate candidate investments
22 for inclusion within the investment plan will reflect customers’ top priorities in
23 the assessment and prioritization of work.
- 24 • The probability factor as part of the risk assessment framework was also revised
25 to incorporate outage frequency to reflect customers’ preference and level of
26 importance attributed to reducing the frequency of outages.

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1 In addition to its customer engagement survey, Hydro One engages with its customers on
2 an ongoing basis through its dedicated account executives who act as a “single point of
3 contact” for transmission customers, large customer conferences, focused planning
4 meetings with customers and various oversight committees and working groups. The
5 feedback from these ongoing efforts aligns with the outcomes articulated in Hydro One’s
6 2017 Customer Engagement Survey.

7
8 Further details regarding Hydro One’s 2017 Transmission Customer Engagement Survey
9 as well as Hydro One’s ongoing customer engagement initiatives are provided in Section
10 1.3 of the TSP. A detailed discussion regarding how identified customer needs and
11 preferences are reflected in the Transmission Business Plan can be found in Section 3.2
12 of the TSP.

13
14 Hydro One serves eighty eight First Nation communities representing close to 22,000
15 distribution system customers. Hydro One has developed an Indigenous Relations
16 Strategy that focuses on investing in the development and maintenance of Hydro One’s
17 relationship with the Indigenous communities it serves which allows Hydro One to
18 execute its work program, establish and renew permits on First Nation lands and ensure
19 its transmission assets on reserve are properly maintained. Hydro One aims to become the
20 primary business partner to Indigenous communities by 2021.

21
22 Further details of Hydro One’s ongoing engagement with First Nations communities, the
23 issues identified and actions Hydro One is taking to address them can be found in Exhibit
24 A, Tab 7, Schedule 2.

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1 **5.3 BENCHMARKING**

2
3 In support of the Application, Hydro One engaged independent experts to undertake 17
4 benchmarking studies and asset condition analyses. The resulting reports are included in
5 this Application and are discussed in Section 1.4 of the TSP, in Exhibit A, Tab 4,
6 Schedule 1, and in Exhibit F, Tab 4, Schedule 1. The findings from these studies were
7 used by Hydro One to inform or assess: (i) the pacing of investments, and the condition
8 of Hydro One's key transmission assets, (ii) the quality of Hydro One's investment
9 planning and asset condition assessment processes, as ordered by the OEB in the Prior
10 Proceeding, (iii) total compensation costs, and (iv) total factor productivity and total cost
11 performance.

12
13 In the Prior Proceeding, the OEB expressed concerns with Hydro One's planning process
14 and ordered Hydro One to seek an independent expert review of its investment planning
15 and asset condition assessment processes. Hydro One engaged the Boston Consulting
16 Group (BCG) to review its improved investment planning process and Metsco Energy
17 Solutions Inc. to review its asset condition assessment process. The reports resulting
18 from these reviews are discussed and provided as Attachments to Section 1.4 of the TSP.
19 The review of Hydro One's investment planning process by BCG concluded that Hydro
20 One had implemented a consistent and thorough planning process that meets or exceeds
21 expectations for a typical utility planning process in all areas. The review of Hydro
22 One's asset condition assessment process concluded that Hydro One's asset management
23 process was comparable to other frameworks found elsewhere in the industry and is
24 sufficiently rigorous and robust.

25
26 Hydro One's proposed RCI is informed by an independent expert assessment of total
27 factor productivity ("TFP") and a total cost benchmarking study, each of which were
28 performed by Power Systems Engineering ("PSE"). PSE analyzed the TFP of the

1 transmission industry, as well as Hydro One's TFP performance relative to itself. PSE
2 determined that Hydro One's TFP has consistently been greater than that of the
3 transmission industry as a whole. This was further confirmed by PSE's findings from the
4 total cost benchmarking study, which showed that Hydro One's actual costs are well
5 below benchmarked costs. The results of PSE's analysis are provided in Attachment 1 of
6 Exhibit A, Tab 4, Schedule 1.

7 8 **5.4 PRODUCTIVITY SAVINGS**

9
10 To further its commitment to delivering outcomes that are valued by its customers, Hydro
11 One has developed a comprehensive and rigorous process for identifying, developing,
12 implementing, monitoring and measuring productivity initiatives that will reduce costs
13 while maintaining or improving service quality and work outputs. Within this framework,
14 quantifiable productivity improvements are included in the Business Plan and corporate
15 scorecards with clear accountabilities for delivering the anticipated savings. The
16 framework is outlined in detail in Section 1.6 of the TSP.

17
18 Hydro One has identified expected productivity savings in Capital and OM&A totaling
19 approximately \$704M over the TSP planning period, approximately \$370M of which is
20 expected during the test period. These savings have been directly embedded into the cost
21 forecasts underpinning the Business Plan and the TSP. A summary of Hydro One's
22 forecast productivity savings for the 2020-2024 planning period is provided in Table 2.

1 **Table 2: Productivity Savings Forecast Summary (\$Millions)**

\$mm	2020	2021	2022	2023	2024	Total
Operations	47	52	53	53	54	259
Operations Progressive (Defined)	6	12	12	10	10	49
Corporate	12	11	9	7	6	45
Capital Total	\$65	\$74	\$73	\$70	\$70	\$353
Operations	9	10	9	9	9	45
Information Technology	6	9	10	10	10	44
Corporate	7	6	5	4	3	25
OM&A Total	\$22	\$25	\$23	\$23	\$22	\$114
Total Defined	\$87	\$99	\$97	\$93	\$92	\$468
Operations Progressive (Undefined)	11	27	49	68	81	237
Grand Total	\$98	\$126	\$146	\$161	\$173	\$704
Progressive (Defined)	6	12	12	10	10	49
Progressive (Undefined)	11	27	49	68	81	237
Progressive Placeholder	17	39	61	78	91	286

2 *Exhibit Reference: B-1-1, Section 1.6*

3

4 The Operations, Information Technology and Corporate savings above reflect the
 5 expected quantifiable productivity savings for initiatives that have been identified by
 6 each group and verified through Hydro One's productivity governance framework. In
 7 addition, the Operations group has committed to identifying additional productivity
 8 savings over the planning period in the form of Progressive Productivity. Progressive
 9 Productivity is a further reduction in cost that Hydro One has included in the final
 10 Transmission Business Plan in response to concerns that were raised in the OEB's
 11 decision in the Prior Proceeding regarding the level of investment. It represents a
 12 commitment from Hydro One to find further efficiencies over the planning period when

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1 executing the necessary planned investments in its transmission system without reducing
2 work volumes.

3
4 Progressive Productivity savings total \$286 million over the planning period and are
5 included in the Transmission Business Plan in the form of:

- 6
7 1. \$49 million in Progressive (Defined) savings associated with initiatives that have
8 been identified but which have not yet been proven and verified through the
9 productivity governance framework; and
10 2. \$237 million in Progressive (Undefined) savings which are included as
11 placeholder in the Business Plan to be allocated to any future initiatives that have
12 not yet been identified.

13
14 Hydro One's commitment to these savings in this Application is to the benefit of
15 ratepayers because the capital expenses underpinning the proposed revenue requirements
16 are reduced by these amounts. Over the Planning Period, any proposed Progressive
17 Productivity measures will be reviewed against the governance framework and, if
18 approved, will be credited against the savings target.

19
20 **6. KEY ELEMENTS OF THE APPLICATION**

21
22 **6.1 REVENUE REQUIREMENT**

23
24 Hydro One's 2020 transmission revenue requirement is shown in Table 3. The revenue
25 requirement in subsequent years of the test period will be determined using the RCI,
26 which is described in Section 4 of this Exhibit and detailed in Exhibit A, Tab 4, Schedule

27 1.

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1

Table 3: Revenue Requirement (\$ Millions)

Components	2018¹	2019²	2020	Reference
OM&A	394.3	-	375.8	Exhibit F, Tab 1, Schedule 1
Depreciation and Amortization	468.6	-	474.6	Exhibit F, Tab 6, Schedule 1
Income Taxes	57.2	-	48.3	Exhibit F, Tab 7, Schedule 2, Attachment 1
Return on Capital	703.6	-	775.0	Exhibit G, Tab 1, Schedule 1
Total Revenue Requirement	1,623.8	1,644.4	1,673.8	
Deduct External Revenues and Other ³	(54.7)	(54.5)	(52.6)	
Rates Revenue Requirement	1,569.1	1,589.9	1,621.2	
Regulatory Deferral and Variance Accounts Disposition / Foregone Revenue	(58.4)	(37.6)	6.8	Exhibit H, Tab 1, Schedule 3
Rates Revenue Requirement (with Deferral and Variance Accounts)	1,510.7	1,552.3	1,628.0	
Year Over Year %		2.8%	4.9%	

Note 1: Represents OEB approved 2018 revenue requirement from Hydro One Transmission's 2017 to 2018 rate application in EB-2016-0160

Note 2: Represents OEB approved 2019 revenue requirement in EB-2018-0130.

Note 3: External Revenue and Other includes External Revenue, MSP Revenue, Export Tx Service Revenue and Low Voltage Switch Gear Credit

2 *Exhibit Reference: E-1-1, Table 1.*

3

4 The drivers of the increase in the 2020 revenue requirement compared the 2018 OEB
 5 approved revenue requirement are summarized by component in Table 4. The increase is
 6 predominantly driven by two years' worth of rate base growth and an increase in the
 7 regulatory deferral account balance being disposed of, which is partially offset by lower
 8 OM&A costs. The 2020 total revenue requirement is \$50.1 million greater than the 2018
 9 OEB amounts; however, the 2020 total revenue requirement is \$15.6 million lower than

1 what it would have been had the 2018 OEB approved revenue requirement been adjusted
 2 for inflation in 2019 and 2020².

3
 4 **Table 4: Changes to Individual Components of Rates Revenue Requirement**
 5 **Since Most Recent Rebasing**

Description	2020 vs. 2018 (\$ millions)	2020 vs. 2018 (%)
Increase in OM&A	-18.5	-1.2%
Rate Base Growth	82.0	5.4%
Lower cost of debt	-4.5	-0.3%
Tax	-8.9	-0.6%
Impact on Revenue Requirement	50.1	3.3%
External Revenue	2.1	0.1%
Regulatory Deferral and Variance Accounts Disposition	65.2	4.3%
Total Change	117.3	7.8%

6 *Exhibit Reference: E-1-1, Table 6*

7
 8 **6.2 BUDGETING ASSUMPTIONS**

9
 10 In developing its Investment Plan, Hydro One utilized the Ontario Consumer Price Index
 11 (“CPI”) for its assumptions about inflation. A CPI of 2% was assumed over the planning
 12 period. The Global Insight exchange rate forecast was used for other variables such as
 13 fleet vehicle related costs, which are typically obtained in US dollars. The exchange rate
 14 was forecast to range between 0.793 and 0.803 over the planning period. Further details

² The 2019 and 2020 total revenue requirements would be \$1,656.3 and \$1,689.4, respectively. This assumes that the 2018 OEB approved total revenue requirement is adjusted by an annual inflation rate of 2%.

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1 regarding the economic assumptions underpinning the Investment Plan can be found in
2 Section 2.1 of the TSP.

3 4 **6.3 LOAD FORECAST SUMMARY**

5
6 Hydro One uses econometric (top-down) and end-use (bottom-up) models to forecast the
7 transmission system load. For the top-down approach, both monthly and annual
8 econometric models are used. For the bottom-up approach, end-use models are used to
9 analyse the transmission system load by sector (i.e. residential, commercial and industrial
10 customers). Key information used in the analysis includes economic data, demographics,
11 industrial production and commercial floor space forecast provided in the economic
12 forecast. The purpose of using both the econometric and end-use forecast models is to
13 arrive at a balanced forecast that represents a consistent set when looked at from macro
14 (econometric) and micro (end-use) perspectives. This forecasting methodology was
15 reviewed and approved by the OEB in previous Hydro One transmission rate cases and is
16 detailed in Exhibit E, Tab 3, Schedule 1.

17
18 The proposed test period billing determinants arising from Hydro One's load forecast are
19 summarized in Table 5.

20
21 **Table 5: Hydro One's 2020-2022 Load Forecast (12-Month Average Peak in MW)**

	Ontario Demand	Hydro One Rate Categories (Charge Determinants)		
		Network Connection	Line Connection	Transformation Connection
2020	19,586	19,604	19,071	16,252
2021	19,451	19,469	18,941	16,142
2022	19,304	19,322	18,800	16,021

22
23 *Exhibit Reference: E-3-1, Table 1*

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1 Table 6 summarizes the change in billing determinants as compared to 2018 OEB-
 2 approved amounts from the Prior Proceeding.

3
 4

Table 6: 2018 vs. 2020 Changes in Billing Determinants

Year	Hydro One Rate Categories (Charge Determinants) (MW)			
	Ontario Demand	Network	Line Connection	Transformation Connection
2018 (OEB-approved)	20,378	20,410	19,746	16,876
2020	19,586	19,604	19,071	16,252
% Change	(3.9)%	(3.9)%	(3.4)%	(3.7)%

5
 6

7 The proposed decrease in the 2020 charge determinant load forecast relative to the
 8 currently approved 2018 load forecast (per EB-2016-0160) results in an estimated 3.8%
 9 impact on rates due to load. The key drivers of the reduction in the 2020 load forecast are
 10 (i) the actual Ontario demand in 2018 was 3.5% lower than the forecast approved in the
 11 Prior Proceeding for the year 2018, and (ii) the Ontario demand is expected to further
 12 decline by 0.4% between 2018 and 2020 due to a combination of slow economic growth
 13 and conservation initiatives during this period.

14

15 The reduction in the actual load relative to the previously approved load forecast is
 16 primarily driven by the impact from the expanded Industrial Conservation Initiative (ICI)
 17 program on Ontario demand. In September 2016, the Government of Ontario expanded
 18 the ICI program to include more than one thousand newly eligible Class A customers
 19 with monthly peak demand greater than one megawatt, down from the previous eligibility
 20 threshold of three megawatts. Sector restrictions were also removed so that institutional

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1 and commercial businesses became eligible to participate. In April 2017, the Government
2 of Ontario further reduced the ICI threshold from 1 MW to 500 kW to make Ontario
3 consumers/market participants in targeted manufacturing and industrial sectors eligible to
4 opt-in to the ICI. The reduction in peak demand driven by the new Class A customers
5 participating in the ICI program was not reflected in Hydro One's approved load forecast
6 for 2017 and 2018 in the Prior Proceeding.

7 8 **6.4 TRANSMISSION SYSTEM PLAN**

9
10 This section summarizes the major drivers and elements of Hydro One's 5-year TSP
11 (Exhibit B, Tab 1, Schedule 1). It summarizes Hydro One's capital planning process and
12 details the proposed capital spending over the planning period of the TSP. Hydro One
13 has aligned the presentation of the capital expenditures in its TSP with the standard
14 categories outlined in the OEB's *Consolidated Distribution System Plan Filing*
15 *Requirements*³ which are: System Renewal, System Access, System Service and General
16 Plant.

17
18 Hydro One's Capital Planning Process consists of two interrelated functions. First is a
19 thorough and ongoing asset management process that involves monitoring and reviewing
20 transmission assets and assessing their condition, as well as identifying and scoping
21 investment candidates ("Asset Management"). This is followed by a risk-based
22 investment planning process through which investment candidates are reviewed,
23 prioritized and optimized, and narrowed into an achievable set of planned investments

³ Chapter 5 of the OEB's *Filing Requirements for Electricity Transmission and Distribution Applications: Consolidated Distribution System Plan Filing Requirements*, dated July 12, 2018.

1 that help drive Hydro One towards achieving its intended outcomes (“Investment
2 Planning”).

3 4 **6.4.1 ASSET MANAGEMENT**

5
6 The Asset Management process encompasses the initial stages of Hydro One’s Capital
7 Planning Process. During this process, Hydro One undertakes extensive and detailed
8 technical reviews of its assets to identify a set of investment candidates. Investment
9 candidates are potential programs and projects that are put forth for further consideration
10 during the Investment Planning process, which is discussed in the next section.

11
12 Hydro One’s Asset Management process starts with a thorough and systematic review of
13 its transmission investment needs. The needs assessment identifies and evaluates
14 individual asset needs that drive the development of candidate investments and includes a
15 risk assessment of the operational risks using the revised risk assessment framework. The
16 needs assessment considers (i) asset needs, (ii) customer needs and preferences, (iii)
17 system needs (including as identified through participation in regional planning), and (iv)
18 other external influences. The needs assessment also identifies potential hazards,
19 vulnerabilities, threats and other risk sources that could present obstacles to achieving
20 Hydro One’s business objectives.

21
22 Hydro One carries out an Asset Risk Assessment (“ARA”) process to determine
23 individual asset needs which rely on asset condition data, engineering analysis and other
24 information, including the input of experienced planning professionals. The asset
25 analytics system enables Hydro One planners to review aggregated information from
26 various enterprise reporting systems. This drives efficiencies and effective planning
27 decisions by ensuring a consistent view of asset information for all planners. The
28 information contained within the asset analytics system includes condition information

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1 driven by deficiency and preventative maintenance reports, demographic information
2 (including make, model, type and criticality to the transmission system), performance
3 data based on equipment outages, utilization information, and economics. In essence,
4 the quantitative asset analytics system combines information from various Hydro One
5 databases to provide a common understanding of asset health to aid Hydro One planners
6 in identifying asset risks and making asset lifecycle investment decisions to optimize
7 risks and costs. Hydro One's planners also take into account additional factors such as
8 load forecasts, equipment ratings, operating restrictions, security incidents, environmental
9 risks and requirements, compliance obligations, equipment defects, obsolescence, and
10 health and safety considerations to ensure capital expenditures target the most appropriate
11 mix of assets.

12
13 The ARA process is primarily concerned with the major equipment groups that directly
14 affect system reliability, namely transformers, conductors, breakers, and protection and
15 control systems, and evaluates them on the following six risk factors:

- 16
- 17 • Condition – Risk related to the increased probability of failure that assets
18 experience when their condition degrades over time.
 - 19 • Demographics – Risk related to the increased probability of failure exhibited by
20 assets of a particular make, manufacturer, and/or vintage.
 - 21 • Criticality – Represents the impact that the failure of a specific asset would have
22 on the transmission system.
 - 23 • Performance - Risk that reflects the historical performance of an asset, derived
24 from the frequency and duration of outages.
 - 25 • Utilization - Risk that reflects the increased rate of deterioration exhibited by an
26 asset that is highly utilized.
 - 27 • Economics - Risk based on the economic evaluation of the ongoing costs
28 associated with the operation of an asset.

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1 When assessing individual asset needs, Hydro One’s planners engage in a process of
2 grouping identified needs into logical, functional and geographic groups. For example, a
3 customer need for increased capacity and an asset need to replace transmission station
4 equipment, such as a transformer or switchgear, might be grouped together if the same
5 transmission station is involved. Through this process, diverse individual needs are
6 brought together to form potential projects or programs that may be brought forward as
7 candidate investments. These groupings of potential candidate investments are then
8 scoped and defined based on identified asset needs, customer feedback and other inputs.

9
10 As part of the process of developing candidate investments, on-site assessments are
11 conducted to ensure factors such as the physical design/clearances/constructability and
12 safety options requiring geographic flexibility, etc. are considered. During these on-site
13 assessments, planners and field personnel validate and confirm asset condition and
14 related information identified through enterprise reporting systems and asset analytics.
15 Planners will speak directly with Hydro One personnel who are involved in the day-to-
16 day management and maintenance of the equipment in order to get additional insights
17 into deficiencies and asset needs.

18
19 For high-value assets, such as transformers, Hydro One’s subject matter experts perform
20 a thorough analysis, advise on issues such as equipment obsolescence and manufacturer
21 support, and conduct “repair vs. replace” evaluations. All transformer replacements
22 require review by subject matter experts who prepare Transformer Assessment Reports
23 that are used to validate investment decisions.

24
25 The result of the aforementioned ARA process is that a portfolio of specific candidate
26 investments is submitted for further consideration through the Investment Planning
27 process. In that process, specific investments are prioritized to align with intended

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1 outcomes based on corporate priorities and strategic objectives, regulatory requirements,
2 investment risks and identified constraints.

3
4 Hydro One's Asset Management and ARA process is described in greater detail in the
5 TSP.

6 7 **6.4.2 INVESTMENT PLANNING**

8
9 Since the Prior Proceeding, Hydro One revised and implemented an improved eight-step
10 risk-based investment planning process. Key improvements to the investment planning
11 process include the use of:

- 12
- 13 • Revised risk assessment framework to provide consistent risk assessment of
14 safety, reliability and environmental risks;
 - 15 • Clear definitions of risk impacts to enable consistent assessments across
16 investments and calibration sessions to calibrate and align risk assessment
17 practices; and
 - 18 • Challenge sessions to engage stakeholders across the organization to review the
19 investments and discuss potential trade-offs.
- 20

21 The improved eight-step risk-based investment planning process is designed to provide a
22 prioritized, consistent and common understanding of risk so as to enable Hydro One to
23 cost effectively deliver the highest value investments and service for its customers. This
24 allows candidate investments to be consistently assessed and prioritized based on the
25 level of risk mitigated and the cost and value delivered toward achieving business
26 objectives.

1 The Investment Planning process generates an annual budget for the Operations,
2 Maintenance and Administration (“OM&A”) work program and capital investments, and
3 a six-year planning forecast that allows Hydro One to meet the OEB’s filing requirements
4 for a consolidated five-year capital plan.

5
6 The Investment Planning process consists of the following steps:

- 7
- 8 1. Investment Planning Context: Hydro One draws on multiple sources of input in
9 developing and prioritizing the investment plan consistent with Hydro One
10 strategic priorities and the OEB’s RRF. The investment plan is guided by: (i)
11 strategic vision, (ii) planning and other relevant economic assumptions, (iii)
12 customer engagement feedback, (iv) delivery of key outcomes, and (v) overall
13 assessment of the needs of Hydro One’s assets, customers and other stakeholders;
 - 14 2. Candidate Investment Development: Through the Asset Management process
15 described above, candidate investments are identified, developed and submitted
16 for possible inclusion in the investment plan;
 - 17 3. Investment Assessment and Calibration: Investments are assessed for safety,
18 reliability and environmental risk mitigation using clear and consistent risk
19 taxonomies. Special non-risk considerations are also flagged (e.g. strategic,
20 compliance). Once candidate investments have been assessed and flagged, the
21 assessments are reviewed in facilitated discussions with investment owners in
22 calibration sessions;
 - 23 4. Prioritization and Optimization: The results of the risk assessment are translated
24 into risk scores, which are used to generate an initial prioritization and
25 optimization of investments. Following the initial prioritization and optimization,
26 facilitated challenge sessions are held with a broad set of stakeholders to (i)
27 review the prioritized portfolio, (ii) confirm non-risk considerations including
28 productivity, (iii) discuss investments on the margin, and (iv) make trade-offs;

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- 1 5. Enterprise Engagement: Executing lines of business review the investment plan
2 for operational/execution feasibility, strategic alignment and to challenge
3 investment needs and assumptions;
- 4 6. Develop Final Plan: Final decisions are made to arrive at a final version of the
5 investment plan and its outcomes against strategic, customer, and risk
6 considerations;
- 7 7. Review and Approval: The investment plan and associated outcomes are reviewed
8 and approved by VPs, the Executive Leadership Team and the Hydro One Board
9 of Directors; and
- 10 8. Execution and Performance Monitoring: The execution of the plan is monitored to
11 ensure it is delivered as efficiently as possible.

12

13 The Investment Planning process is described in greater detail in Section 2.1 of the TSP.

14

15 **6.4.3 CAPITAL EXPENDITURES**

16

17 Table 7 below summarizes Hydro One's planned capital expenditures by category over
18 the TSP planning period along with the Progressive Productivity savings for each year.
19 The 2020 capital expenditures, net of Progressive Productivity savings, represent a \$192
20 million (or 19%) increase over 2018 OEB-approved levels.

1 **Table 7: Bridge Year and Planning Year Capital Expenditure Summary**

OEB Category	Historical			Bridge	Forecast				
	2018			2019	2020	2021	2022	2023	2024
	OEB Approved	Actual	Var	F/Cast	Test	Test	Test	Plan	Plan
	\$M	\$M	%	\$M	\$M	\$M	\$M	\$M	\$M
System Access	24.3	33.7	39%	45.1	24.8	11.3	11.7	12.7	4.1
System Renewal	780.4	776.2	-1%	773.3	865.2	1,103.1	1,172.8	1,177.4	1,193.8
System Service	75.6	73.9	-2%	103.8	204.1	148.2	151.8	174.3	204.2
General Plant	119.7	83.6	-30%	116.3	115.4	94.4	94.7	83.6	58.9
Progressive Productivity	0.0	0.0	0%	0.0	-17.0	-39.0	-61.0	-78.0	-91.0
Directive ⁴				-0.3	-0.3	-0.3	-0.4	-0.4	-0.4
Total	1,000.0	967.3		1,038.2	1,192.2	1,317.7	1,369.6	1,369.6	1,369.6
System OM&A ^{*, 5}	394.3	419.2	6%	356.5	375.8	*	*	N/A	N/A

2 * System OM&A includes Operations, Maintenance and Administration expenses. System OM&A for 2021 to 2022 is
 3 determined based on the RCI described in Section 4 of this Exhibit.

4 Exhibit Reference – B-1-1, Section 3.3, Table 1 and Table 2.

5

6 Over the TSP planning period, Hydro One plans to spend approximately \$6.6 billion in
 7 capital, representing an annual growth rate of 5.4% from 2018 OEB approved levels to
 8 restore transmission reliability performance to top quartile as compared to its Canadian
 9 peers⁶, address customer needs and preferences and mitigate asset and operational risks.
 10 The proposed investments are targeted at the highest risk assets and will eliminate all
 11 critical safety and environmental risks.

⁴ The Directive adjustment reflects the impact of the directive issued by Ontario's Management Board of Cabinet on February 21, 2019 and the associated framework they approved on March 7, 2019. Refer to Exhibit F, Tab 4, Schedule 1 for further details

⁵ Includes the Directive adjustment. Refer to Exhibit F, Tab 1, Schedule 1 for further details

⁶ As detailed in Exhibit D, Tab 2, Schedule 1, Hydro One's reliability performance is benchmarked with its Canadian peers with the Canadian Electricity Association.

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1 The majority of the forecast spending in the TSP is in the System Renewal category and
2 is for investments that are required to address the condition of critical assets and prevent
3 further degradation of the overall fleet of assets as a result of demographic pressure that
4 Hydro One is experiencing for key asset classes - primarily stations and lines.

5
6 Hydro One's TSP reflects the need for continued station renewal investments at a cost of
7 \$3.5 billion, or approximately 53%, of the total planned capital expenditures over the
8 planning period, \$1.9 billion of which is required over the test period to address
9 deteriorated station assets including transformers, circuit breakers, protection, control and
10 telecom equipment. Over the TSP planning period, these replacements are expected to
11 approximately maintain the proportion of transformers on the system that are beyond
12 their expected service life at 26%, approximately maintain the proportion of protection
13 systems operating beyond their expected service life at 28% and maintain the number of
14 breakers that are beyond their expected service life at 12%. This includes the replacement
15 of 72% of the air-blast circuit breakers (ABCBs) at a cost of \$594M. ABCBs are about
16 10 times more expensive to maintain and about 4 times less reliable than their equivalent
17 SF6 circuit breakers.

18
19 The TSP also delivers an increased emphasis on line renewal investments at a cost of
20 approximately \$2.0 billion over the planning period, \$1.2 billion of which is required
21 over the test period, to refurbish and replace end of life transmission lines, underground
22 cables, insulators and wood poles, while continuing with tower coating of steel structures
23 to extend their useful life, but at a reduced pacing consistent with direction from the OEB
24 in the Prior Proceeding. Detailed condition assessments are being conducted for lines
25 exceeding 50 years of age to inform the line refurbishment program. While the planned
26 rate of refurbishment does not keep up with lines demographics, the risk is managed by
27 prioritizing line refurbishment investments based on detailed asset condition assessments.

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1 The pace at which a transmission line deteriorates varies depending on location and
2 environmental and system conditions.

3 The TSP includes \$947 million in proposed System Access and System Service capital
4 that is required over the TSP planning period, \$552 million of which is required over the
5 test period, to provide transmission access and additional capacity for new customer
6 connections and to implement regional development plans that were developed jointly
7 with customers, transmitters, distributors and the IESO. These investments will result in
8 the addition of seven new transformer stations, ten customer-owned stations and 272
9 circuit km of new or upgraded transmission lines. Major projects include the
10 development work for the North-West Bulk transmission expansion, new transmission
11 switching and lines facilities to support load growth in the Leamington area,
12 transformation and lines at Milton Switching station, and upgrades/expansion in Barrie
13 and Toronto areas.

14
15 The TSP also includes \$447 million of general plant capital that is required over the
16 planning period, \$304 million of which is required over the test period, to support day-to-
17 day business and operations activities such as buildings, tools, equipment, rolling stock,
18 as well as information technology hardware and software. This includes investing \$189
19 million in operating infrastructure and control facilities. This amount includes the new
20 Integrated System Operating Centre (“ISOC”), which represents an investment of \$45
21 million over the planning period, as well as an upgrade to Hydro One’s Network
22 Management System – used for grid control, and a refresh of Hydro One’s integrated
23 voice communication telephony system.

24
25 Further details regarding the demographics of Hydro One’s transmission assets and the
26 drivers of capital spending can be found in Chapters 2 and 3 of the TSP, respectively.

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1 **6.5 RATE BASE**

2
 3 The requested rate base over the test period is provided in Table 8 below. Details are
 4 provided in Exhibit C, Tab 1, Schedule 1. The 2020 rate base represents a \$1,226.5
 5 million (11%) increase over 2018 OEB-approved levels.

6
 7 **Table 8: Transmission Rate Base (\$ Millions)**

Description	OEB- approved	Bridge	Test		
	2018	2019	2020	2021	2022
Mid-Year Gross Plant	17,537.1	18,591.6	19,489.3	20,598.5	21,829.8
Mid-Year Accumulated Depreciation	(6,416.3)	(6,810.4)	(7,151.2)	(7,544.0)	(7,953.3)
Mid-Year Net Plant	11,120.8	11,781.2	12,338.1	13,054.5	13,876.5
Cash Working Capital	15.0	22.1	24.4	26.6	27.8
Materials and Supply Inventory	12.2	11.7	12.0	12.2	12.4
Transmission Rate Base	11,148.0	11,815.0	12,374.5	13,093.3	13,916.7

8 *Exhibit Reference: C-1-1, tables 1 and 2*

9
 10 **6.6 PERFORMANCE AND REPORTING**

11
 12 Consistent with the OEB's findings in the Prior Proceeding, Hydro One has included in
 13 the Application an improved Transmission Scorecard for approval by the OEB. The
 14 revised measures reflected in the scorecard are aligned with the OEB's performance
 15 outcomes under the RRF and have been influenced by internal and external factors,
 16 including Hydro One's past performance management measures, benchmarking studies,
 17 and scorecards and measures of other utilities in the public domain. In addition, Hydro
 18 One has set performance targets for the TSP planning period that reflect the expected
 19 outcomes of Hydro One's planned investments and show Hydro One's commitment to
 20 continuous improvement. The scorecard measures, along with their associated RRF
 21 performance outcomes, are shown in Figure 4. Further details regarding the proposed

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1 measures, along with Hydro One’s historical performance and performance targets, are
 2 detailed in Section 1.5 of the TSP.

3

Performance Outcomes	Performance Categories	Measures
Customer Focus	Customer Satisfaction	Satisfaction with Outage Planning Procedures (% Satisfied) Overall Customer Satisfaction (% Satisfied)
	Service Quality	Customer Delivery Point (DP) Performance Standard Outliers as % of Total DPs
Operational Effectiveness	Safety	Recordable Incidents (# of recordable injuries/illnesses per 200,000 hours worked)
	System Reliability	T-SAIFI-S (Ave. # Sustained interruptions per Delivery Point)
		T-SAIFI-M (Ave. # of Momentary interruptions per Delivery Point)
		T-SAIDI (Ave minutes of interruptions per Deliver Point)
		System Unavailability (%)
		Unsupplied energy (minutes)
	Asset & Project Management	Transmission System Plan Implementation Progress (%)
		CapEx as % of Budget
		OM&A Program Accomplishment (composite index)
		Capital Program Accomplishment (composite index)
	Cost Control	Total OM&A and Capital per Gross Fixed Asset Value (%)
		OM&A per Gross Fixed Asset Value (%)
Line Clearing Cost per kilometer (\$/km)		
Brush Control Cost per Hectare (\$/Ha)		
Public Policy Responsiveness	Connection of Renewable Generation	% on-time completion of renewables customer impact assessments
	Regional Infrastructure Planning (RIP) & Long-Term Energy Plan (LTEP) Right-Sizing	Regional Infrastructure Planning progress - Deliverables met, %
		End-of-Life Right-Sizing Assessment Expectation
Financial Performance	Financial Ratios	Liquidity: Current Ratio (Current Assets/Current Liabilities)
		Leverage: Total Debt (includes short-term and long-term debt) to Equity Ratio
		Profitability: Regulatory Return on Equity

4

5

Figure 4: Evolved Electricity Transmitter Scorecard Measures

1 **6.7 OPERATIONS, MAINTENANCE AND ADMINISTRATION (OM&A)**
2 **EXPENSE**

3
4 A summary of forecast OM&A expenses for the 2020 test year is provided in Exhibit F,
5 Tab 1, Schedule 1. These amounts have been reduced by the OM&A productivity savings
6 outlined in Table 2 of this Exhibit. As shown in Table 9, 2020 OM&A expenses are
7 expected to be \$18.5 million lower (4.7%) than the 2018 OEB-approved (plan) funding
8 envelope and are \$34 million lower than what they would be if 2018 OEB-approved
9 funding levels were increased at a 2% rate of inflation in 2019 and 2020.⁷ OM&A
10 reductions will be achieved through operating efficiencies, particularly the management
11 of maintenance cycles, and a company-wide exercise undertaken by Hydro One to review
12 and reduce corporate common costs. The review resulted in a significant commitment by
13 business units to reduce corporate costs across the organization. These reductions were
14 achieved primarily through a reduction in vacancies and by limiting consulting and
15 contract engagements to critical functions, which also assist in strengthening and building
16 internal capabilities. Hydro One's TSP is designed to utilize approved funding, in both
17 capital and OM&A, to improve reliability and maintain asset condition over the planning
18 period. In this manner, the plan appropriately balances customer rate impacts with the
19 requirements of the system.

20
21 2019 OM&A expenditures are lower than the proposed test year OM&A as a result of the
22 need to align to the funding envelope afforded in Hydro One's 2019 transmission revenue
23 cap adjustment application (EB-2018-0130). This maintenance reduction has included
24 reductions in activities including a one year extension of planned maintenance and asset

⁷ 2018 OEB-approved OM&A inflated by 2% would have resulted in OM&A of \$402.2 million in 2019 and \$410.2 million in 2020

1 condition assessments and represents a managed increase in asset risk that may manifest
 2 in terms of increased corrective/demand failures and/or reduced asset useful life but can
 3 be contained with a one year reduction in work and will be managed and mitigated in
 4 future years. Hydro One expects safety and reliability performance to be maintained over
 5 the TSP planning period at the proposed funding levels. Further details regarding Hydro
 6 One's OM&A expenses can be found in Exhibit F.

7
 8

Table 9: Summary of Transmission OM&A Expenditures (\$ Million)

	Historical								Bridge	Test
	2015		2016		2017		2018		2019	2020
	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Forecast	Forecast
Category Level										
Sustainment	233.6	238.7	215.1	241.1	218.1	241.2	229.4	238.5	200.6	214.2
Development	6.1	12.9	4.6	13.4	5.1	4.8	5.2	5.0	6.0	6.9
Operations	59.0	58.5	62.5	59.1	61.1	61.3	53.4	62.1	46.1	48.9
Customer Care	5.1	5.5	4.5	5.5	8.5	4.0	11.0	3.9	7.3	7.5
Common Corporate Costs and Other Costs ⁸	73.9	70.2	60.1	71.3	41.5	49.9	54.9	47.5	29.4	30.3
Property Taxes & Rights Payments	63.9	66.3	61.3	67.0	50.7	63.6	65.3	64.3	67.2	68.1
Adjustments										
EB-2014-0140 Settlement Reduction		-20.0		-20.0						
EB-2016-0160 Decision Reduction						-15.0		-15.0		
Removal of B2M Expense		-0.9		-0.7		-0.8		-2.1		
Pension Adjustment						-11.4		-9.9		
Directive *									-0.1	-0.1

⁸ Common Corporate Costs and Other Costs includes Planning, (exhibit F-02-03), CCF&S (exhibit F-02-02), Information Technology (exhibit F-02-04), Cost of External Revenue (exhibit F-02-05), and Other OM&A (exhibit F-02-01).

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Envelope Level										
Total Transmission OM&A	441.6	431.2	408.1	436.8	385.0	397.7	419.2	394.3	356.5	375.8
% Change Year over Year			-7.6%		-5.6%		8.9%		-9.6%	5.4%
Variance to Plan	10.4		-28.7		-12.7		24.9			

1 *Exhibit Reference: F-1-1, Table 1.*

2 **Directive refers to the Government Directive as detailed and defined in Exhibit F, Tab 4, Schedule 1.*

3

4 The “Plan” values shown in Table 9 at an individual investment category level for the
 5 historical and bridge years reflect the funding levels previously proposed by Hydro One
 6 in applications to the OEB for the applicable years. Values at the category level have not
 7 been adjusted in response to reductions to the overall OM&A expenditure levels
 8 approved in the applicable OEB decisions as the OEB’s findings were at an envelope
 9 level. As such, OEB-reductions are included as a separate line item under “Adjustments”
 10 and are reflected in the total transmission OM&A “Plan” values at envelope level for the
 11 historical and bridge years. For further details, please see Exhibit F, Tab 1, Schedule 1.

12

13 Hydro One will manage its OM&A budget over the test period to 2020 levels as adjusted
 14 by the RCI discussed in Section 4 above.

15

16 Hydro One’s 2019 and 2020 total transmission-allocated compensation costs are
 17 summarized in Table 10. The 2020 transmission-allocated costs represent an 8.0%
 18 increase over 2019 levels. Increases are driven by negotiated wage increases in
 19 compensation for Hydro One’s represented staff and due to additional resourcing
 20 requirements necessary to execute Hydro One’s work programs which are increasing
 21 over the test period. These increases are offset by the reduction in vacancies for common
 22 corporate functions, noted above. Hydro One has revised the presentation of its

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1 compensation costs in consideration of the OEB’s findings in the Prior Proceeding.
 2 Further details are provided in Exhibit F, Tab 4, Schedule 1, Attachment 1.

3 **Table 10: Summary of Total Transmission-Allocated Compensation Costs (\$)**

	2019	2020	Change
Total Capital Transmission Comp	456,985,537	505,243,466	48,257,929
Total OM&A Transmission Comp	176,094,700	178,968,609	2,873,909
Total Transmission Compensation	633,080,237	684,212,075	51,131,837

4 Hydro One re-engaged Mercer (Canada) Ltd. to prepare an updated total compensation
 5 cost benchmarking study, a copy of which is provided as Attachment 2 to Exhibit F, Tab
 6 4, Schedule 1. The study showed an improvement in Hydro One’s benchmarked
 7 compensation costs relative to peers, as compared to the study that had been filed in the
 8 Prior Proceeding.

9

10 **6.8 COST OF CAPITAL**

11

12 Table 11 below summarizes the return of capital for the 2020 rebasing year.

13

14

Table 11: 2020 Cost of Capital

Amount of Deemed	(\$M)	%	Cost Rate (%)	Return (\$M)
Long-term debt	6,806.2	55.0	4.57	311.0
Short-term debt	495.0	4.0	2.82	14.0
Deemed Long-Term debt	123.5	1.0	4.57	5.6
Common equity	4,949.8	40.0	8.98	444.5
Total	12,374.5	100.0	6.26	775.0

15

Exhibit Reference: G-1-3

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1 Hydro One's deemed capital structure for rate-making purposes is 60% debt and 40%
2 common equity of utility rate base. The 60% debt component is comprised of 4% deemed
3 short-term debt and 56% long-term debt. Hydro One proposes to adopt the final 2020
4 return on equity and short-term debt rates as determined by the OEB for the purposes of
5 determining its return on capital. The long-term debt rate is calculated as the weighted
6 average rate on embedded debt, new debt and forecast debt to be issued. Further details
7 regarding the cost of capital can be found in Exhibit G, Tab 1, Schedule 1.

9 **6.9 COST ALLOCATION AND RATE DESIGN**

11 Hydro One continues to follow the OEB-approved methodology from the Prior
12 Proceeding to allocate the transmission rates revenue requirement into three rate pools:
13 Network, Line Connection and Transformation Connection. The methodology is outlined
14 in detail throughout Exhibit I1.

16 The rate pools are based on functional categories of assets and their associated costs. The
17 allocation of the rates revenue requirement by rate pool is summarized in Table 12.

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

Year	Network	Line Connection	Transformation Connection	Total
2020	977.6	186.3	464.1	1,628.0
2021	1,033.2	196.6	489.6	1,719.4
2022	1,087.2	206.6	514.5	1,808.4

20 *Exhibit Reference: 11-1-1, Table 2.*

6.10 DEFERRAL AND VARIANCE ACCOUNTS

Hydro One requests disposition of a \$20.5 million debit balance in the regulatory accounts detailed in Table 13. Hydro One Transmission is requesting disposition of the forecast Regulatory Account values as at December 31, 2018 plus forecast interest accrued in 2019, on the principal balances as at December 31, 2018 less any amounts approved for disposition in 2019 by the OEB in Hydro One’s 2019 Transmission Rate Application (EB-2018-0130). Hydro One proposes to dispose of this balance as an adjustment to its revenue requirement over a three-year period, effective January 1, 2020.

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

Description	Forecast Balance as at Dec 31, 2019
Excess Export Service Revenue	4.8
External Secondary Land Use Revenue	(10.4)
External Stations Maintenance, E&CS & Other External Revenue	4.5
Tax Rate Changes	0.0
Rights Payments	2.4
Pension Cost Differential	(4.5)
Long-Term Transmission Future Corridor Acquisition and Development	0.0
LDC CDM and Demand Response Variance Account	23.6
External Revenue – Partnership Transmission Projects Account	(0.0)
OEB Cost Differential Account	(0.1)
Waasigan Transmission Line Deferral (Formerly NWBTL)	0.9
In-Service Capital Additions Variance	(0.6)
Total Regulatory Accounts for Approval	20.5

Exhibit Reference: H-1-3, Table 1.

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1 Hydro One is requesting approval to continue all existing accounts and to establish the
2 following accounts, as detailed in Exhibit H, Tab 1, Schedule 2:

- 3
4 1. Earnings Sharing Mechanism (ESM) Deferral Account which proposes to record
5 and share with customers 50% of any over-earnings that exceed the OEB-allowed
6 regulatory ROE by more than 100 basis points realized during any year of the
7 four-year test period; and
- 8 2. CCRA True-Up Deferral Account which proposes to track the differences
9 between components of revenue requirement and actual results related to load
10 true-ups performed in accordance with Transmission System Code section 6.5.3.

11 12 **6.11 BILL IMPACTS**

13
14 Exhibit I2, Tab 5, Schedule 1 provides the bill impacts that would result from approval of
15 the Application along with illustrative bill impacts for 2021 and 2022. Table 14 shows
16 the average 2020 bill impacts of the proposed changes in transmission rates revenue
17 requirement and load forecast.

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

	2019*	2020
Rates Revenue Requirement (\$ millions)	\$1,552.3	\$1,628.0
% Increase in Rates RR over prior year		4.9%
% Impact of load forecast change		3.8%
Net Impact on Average Transmission Rates		8.7%
Transmission as a % of Tx-connected customer's Total Bill		7.4%
<i>Estimated Average Bill impact</i>		0.6%
Transmission as a % of Dx-connected customer's Total Bill		6.2%
<i>Estimated Average Bill Impact</i>		0.5%

* 2019 rates revenue requirement as per Table 2 in the OEB's Decision and Order for Hydro One's 2019 Transmission Revenue Requirement application (EB-2018-0130), issued on April 25, 2019. Exhibit Reference: I2-5-1, Table 2.

Approximately 3.8% of the average increase to transmission rates in 2020 resulting from the Application is driven by a reduction to Hydro One's load forecast relative the forecast currently underpinning rates, which is driven by factors that are beyond Hydro One's control as explained in Section 6.3 of this Exhibit. Of the remaining 4.9% of the average increase to transmission rates resulting from the Application, only 1.2% is due to proposed capital spending in 2020 that is placed in service that year. The remainder of the impact is predominantly driven by an increase in rate base from capital projects placed in service that were largely completed prior to the test period of the Application. The regulatory account balances credit position from the EB-2018-0130 proceeding is no longer being applied to offset the revenue requirement causing an increase which is mostly offset by the proposed decrease in OM&A spending levels.

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1 The 2020 total bill impact for a typical Hydro One medium density residential (R1)
 2 customer consuming 400 kWh, 750 kWh and 1,800 kWh monthly is determined based on
 3 the forecast increase in the customer’s Retail Transmission Service Rates (“RTSR”) as
 4 detailed below in Table 15.

5
 6

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

	Typical R1 Residential Customer		
	400 kWh	750 kWh	1800 kWh
Total Bill as of May 1, 2018 ¹	\$83.40	\$121.75	\$236.81
RTSR included in 2017 R1 Customer's Bill (based on 2016 UTR)	\$4.78	\$8.96	\$21.50
<i>Estimated 2019 Monthly RTSR²</i>	\$5.10	\$9.56	\$22.95
2019 increase in Monthly Bill	\$0.13	\$0.24	\$0.58
<i>2019 increase as a % of total bill</i>	<i>0.2%</i>	<i>0.2%</i>	<i>0.2%</i>
<i>Estimated 2020 Monthly RTSR³</i>	\$5.52	\$10.35	\$24.83
2020 increase in Monthly Bill	\$0.42	\$0.79	\$1.89
<i>2020 increase as a % of total bill</i>	<i>0.5%</i>	<i>0.6%</i>	<i>0.8%</i>

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¹Total bill including HST, based on time-of-use commodity pricing effective May 1, 2018 and 2017 distribution rates approved per Distribution Rate Order EB-2016-0081 (includes impacts of all components of the Fair Hydro Plan).

²2019 Monthly RTSR is an estimated value that incorporates the impacts of changes in UTR in 2017 and 2018 and Hydro One’s 2019 rates revenue requirement as shown in Table 14.

³The impact on RTSR is assumed to be the net impact on average Transmission rates, as per Table 14, adjusted for Hydro One’s revenue disbursement allocator per 2019 Interim UTR Order (EB-2018-0326).

Exhibit Reference: I2-5-1, Table 3.

The 2020 total bill impact for a typical Hydro One General Service Energy less than 50 kW (“GSe < 50 kW”) customer consuming 1,000 kWh, 2,000 kWh and 15,000 kWh monthly is determined based on the forecast increase in the customer’s Retail Transmission Service Rates (“RTSR”) as detailed below in Table 16.

**Table 16: Typical General Service Energy Less Than 50 kW
 (GSe < 50 kW) Customer Bill Impacts**

	GSe Customer Monthly Bill		
	1,000 kWh	2,000 kWh	15,000 kWh
Total Bill as of May 1, 2018 ¹	\$198.93	\$367.73	\$2,562.20
RTSR included in 2017 R1 Customer's Bill (based on 2016 UTR)	\$10.63	\$21.26	\$159.47
<i>Estimated 2019 Monthly RTSR²</i>	\$11.35	\$22.69	\$170.21
2019 increase in Monthly Bill	\$0.29	\$0.58	\$4.33
<i>2019 increase as a % of total bill</i>	<i>0.1%</i>	<i>0.2%</i>	<i>0.2%</i>
<i>Estimated 2020 Monthly RTSR³</i>	\$12.28	\$24.56	\$184.20
2020 increase in Monthly Bill	\$0.93	\$1.86	\$13.99
<i>2020 increase as a % of total bill</i>	<i>0.5%</i>	<i>0.5%</i>	<i>0.5%</i>

¹Total bill including HST, based on time-of-use commodity pricing effective May 1, 2018 and 2017 distribution rates approved per Distribution Rate Order EB-2016-0081 (includes impacts of all components of the Fair Hydro Plan).

²2019 Monthly RTSR is an estimated value that incorporates the impacts of changes in UTR in 2017 and 2018 and Hydro One’s 2019 rates revenue requirement as shown in Table 14.

³The impact on RTSR is assumed to be the net impact on average Transmission rates, as per Table 14, adjusted for Hydro One’s revenue disbursement allocator per 2019 Interim UTR Order (EB-2018-0326).

Exhibit Reference: I2-5-1, Table 4.

7. CONCLUSION

Hydro One’s Application balances the needs of its system, assets and customer preferences regarding outcomes and rates. Hydro One has aligned its Application with the OEB’s expectations under the RRF and the feedback provided in the Prior

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1 Proceeding. The Application reflects Hydro One's continued evolution towards becoming
2 a best-in-class, customer-centric, commercial entity.

3

4 Hydro One's TSP will deliver outcomes that customers value in the form of
5 improvements to reliability performance, the elimination of critical safety and
6 environment risks and enabling the connection of customers and businesses in the
7 growing communities in Ontario while balancing customer concerns over rate impacts.