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Ontario Energy Board
2300 Yonge Street
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March 14, 2019
Our File: EB20180130

Attn: Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: EB-2018-0130 – Hydro One Networks Inc. Transmission 2019 – SEC Submissions

We are counsel to the School Energy Coalition ("SEC"). Pursuant to Procedural Order No. 1, these are SEC's submissions on the various aspects of the application by Hydro One Networks Inc. ("Hydro One") for approval of transmission revenue requirement for 2019.

Revenue Cap Index Adjustment. Hydro One proposes a revenue cap index ("RCI") adjustment to set the 2019 approved revenue requirement. The RCI adjustment would inflate the 2018 revenue requirement, adjusted for Bill 2, by an inflation factor, minus a productivity and stretch factor.[1] The inflation, productivity and stretch factor would be set at 1.2%, which is based on the evidence filed in Hydro One's on-going application for approval of the 2019 revenue requirement for Hydro One SSM (EB-2018-0218). Hydro One proposes that a variance account would be created to adjust any approved inflation, productivity and stretch factor parameters, approved in this application and the approved appropriate parameters of the Hydro One SSM, where the specific numbers are being considered on the merits.

SEC does not object to the revenue cap index approach to setting rates for 2019. With respect to the appropriate parameters and the process for updating them, the Board has requested submissions on specific questions:

- ***Is it appropriate to use the rate setting parameters proposed by Hydro One SSM on a preliminary basis, or should another approach be adopted?***

  There is inherent unfairness in having the RCI parameters for this application determined in an entirely different proceeding regarding a different utility entity, albeit an affiliate. Not all ratepayer groups who have intervened in this proceeding, are also participating in the Hydro One SSM proceeding. The notice distributed by the Board for the Hydro One SSM did not make reference to the proposed RCI parameters in that proceeding being

[1] Exhibit A, Tab 4-1

applied to Hydro One's 2019 transmission rate framework, nor did the notice in this proceeding refer readers to the Hydro One SSM proceeding for a key aspect of the case. The unfairness increases if Hydro One plans to apply the Board's determination of appropriateness of the proposed RCI parameters from the Hydro One SSM proceeding to its up-coming 3-year Custom IR application. While we raise this as an issue, SEC is an intervenor in both proceedings, and so is not directly impacted by this unfairness.

At the same time, SEC also understands the Board's reluctance to test the same evidence in multiple proceedings, especially when the evidence filed in support of the Hydro One SSM RCI parameters is identical to what it would have filed in this proceeding.

This leaves the Board in a difficult position. SEC submits that it is appropriate to use the RCI parameters proposed by Hydro One SSM on a preliminary basis, but as discussed below it may be best not to use the Board's decision in the proceeding as the final numbers.

- ***What should be the nature of the proposed variance account? Should it true up to the approved parameters for Hydro One SSM, true up to parameters determined in Hydro One's Custom IR proceeding, or some other option?***

The proposed variance account should true-up the revenue requirement difference between the preliminary RCI parameters approved in this proceeding, and the final parameters approved. Based on the issue identified above, the Board may wish to set the final parameters in Hydro One's upcoming three-year Custom IR application, as opposed to the Hydro One SSM application. This would allow parties who are not participants in the Hydro One SSM proceeding to have an opportunity to test the RCI evidence.

- ***What additional evidence should Hydro One be required to file in its next Custom IR application with respect to the RCI parameters?***

Hydro One should be required to file whatever evidence is feels it needs to defend any RCI proposal it makes in the application. It is not going to be sufficient to simply rely on the Board's findings in the Hydro One SSM proceeding in any event.

While the evidence filed in the Hydro One SSM proceeding, from both Hydro One and OEB Staff experts, is on a Hydro One company-wide basis, what is being tested and considered, in the context of that application, is a simple annual RCI adjustment during a post-MAADs deferral period. There is no request by Hydro One SSM for any incremental capital funding above and beyond RCI adjustment.[2]

SEC assumes Hydro One will be seeking a substantial level of capital funding that would require a capital factor (or similar mechanism) in its upcoming three-year transmission Custom IR. How the RCI parameters should account for that will be an important aspect of that proceeding.

[2] For example, see EB-2018-0218, Exhibit I, Tab 4, Schedule 1, p.1 (Interrogatory Response AMPCO-1)

The Board itself has directed that the consideration of the RCI parameters in the Hydro One SSM proceeding is limited to that application, and not any other Hydro One transmission application:

> Further, the OEB reminds parties that submissions should pertain directly to Hydro One SSM's application under consideration. In particular, submissions regarding the expert evidence should be limited to the appropriateness of such evidence to Hydro One SSM. The submissions are not to include any recommendations on the applicability of the expert evidence to Hydro One Transmission, as these will be addressed in a separate proceeding. The OEB made that clear when it revised issue #B6 in the approved Issues List: "Is the Power Systems Engineering's sample of comparator utilities for Total Cost Benchmarking and Total Factor Productivity appropriate for **Hydro One SSM**?" [Emphasis in the original][3]

If Hydro One's 3-year Custom IR transmission application includes an RCI using the same parameters as proposed or approved (depending on the timing it is filed) in the Hydro One SSM application, SEC understands the likely reticence of the Board having a duplicate process to test all aspect of the evidence. While ultimately it will be up to the panel hearing that application to determine the appropriate process, the duplication can be minimized by importing the evidentiary record on these issues into that proceeding, and limiting further discovery to either new issues or considerations (i.e. impact of the proposed capital plan, elements that may not be appropriate for the Hydro One transmission, the construction of the capital factor etc), or new intervenors who did not participate in the Hydro One SSM proceeding. This is similar to what the Board did with certain common aspects of the most recent Hydro One transmission and distribution applications.[4].

Bill 2 Adjustment. Hydro One proposes that the revenue requirement that would be inflated by the proposed RCI be the 2018 base revenue requirement, adjusted for the recruitments of Bill 2, the *Hydro One Accountability Act*, *2018*.[5] The proposed Bill 2 adjustment would be to remove from the 2018 base revenue requirement the included costs of its executive leadership team. This proposal and interpretation of Bill 2 are consistent with the Board's findings on the issue in Hydro One's recent distribution proceeding.[6]

Revenue Offsets. Hydro One proposes that the RCI adjustment be made to the adjusted base revenue requirement and not on the rates revenue requirement.[7] The difference between the two is that the rates revenue requirement includes 'other revenue' offsets and credits. Hydro One does not propose to make a similar RCI adjustment to any of the offsetting revenue it collects. It only proposes to make the RCI adjustment to the low voltage switchgear credit, which *increases* the rates revenue requirement. SEC submits that this is inappropriate.

All aspects of the revenue requirement (base or rates) should be equally adjusted by the RCI, not just the components which will increase the total to be collected from ratepayers. The point of using

[3] EB-2018-0218, *Procedural Order No.5*, March 14 2019, p.2
[4] EB-2017-0049, *Compensation Issues List Decision and Procedural Order No. 3*, January 20 2019, p.2-3; EB-2017-0049, Hydro One Response to Procedural Order No. 3, January 18 2018
[5] Exhibit A, Tab 5, Schedule 1
[6] EB-2017-0049, *Decision and Order*, March 7 2019, p.116-117
[7] Exhibit A, Tab 7, Schedule 1, p.2

an RCI is that it captures all of the mechanistic factors that go into setting prices. Some will go up more, and some will go up less, or even go down, but the overall portfolio has a relatively predictable impact on price. Cherry-picking the components that are escalated negates that portfolio effect. Thus, the amount that Hydro One should receive from revenue offsets should equally increase by inflation, minus a productivity and stretch factor.

The Board can best do this by inflating not the base revenue requirement, adjusted for Bill 2, but the rates revenue requirement, adjusted for Bill 2, by the proposed PCI adjustment. This would align the proposed RCI with the Board's Price Cap Index methodology which adjusts the entire previous rate, not just a component of it.

Hydro One's rationale for not proposing an RCI adjustment to the various revenue offsets is that either a) the specific revenue source is captured by a variance account, or b) Hydro One does not forecast any increases in 2019.[8] Insofar, as the revenue source is captured by a variance account to true-up to actuals, then there is no harm to Hydro One to applying the RCI adjustment, as it will be held whole. With respect to the 2019 forecast of these sources of revenue offsets, Hydro One should not be allowed to pick and choose which elements of its revenue requirement to apply the RCI adjustment, and which parts it should not. There are plenty of aspects of the 2018 revenue requirement that may not be forecast to increase, but the entire base revenue requirement is proposed to increase by the proposed RCI.

Effective Date. Hydro One proposes a January 1, 2019 effective date even though it filed its application approximately two months earlier on October 26, 2018. Hydro One's rationale for its late filing is that it "experienced organizational changes including the appointment of a new Board of Directors in August 2018", and that these changes "represent an exceptional circumstance out of the utility's control". [9] These changes and the resulting filing delay were entirely within control of the company, its Board of Directors, and its shareholders. Ratepayers should not bear the costs of the disagreements between Hydro One and its shareholders.

Even though the application is more mechanistic in nature than previous Hydro One transmission rate requests, it still requires far more than two months for the Board to adjudicate. By way of example, the Board requires that for a standard distribution Price Cap IR application with an effective date of January 1, a utility must have filed by mid-August, 2018 (4.5 months before the effective date).[10] As a company that is also involved in the distribution business, Hydro One should have been fully aware of the Board's expectations. SEC submits the Board should set an effective date of no earlier than mid-March 2019, which represents 4.5 months after the filling of this application.

In-Service Capital Additions Variance Account. Hydro One received approval as part of its 2017-2018 transmission application for the creation of the In-Service Capital Additions Variance Account. The account tracks the revenue requirement difference between actual in-service additions and those embedded in the 2017 and 2018 rates.[11] SEC submits that the account must be extended to 2019.

[8] Exhibit I, Tab 5, Schedule 13 (Interrogatory Response VECC-13)

[9] Exhibit I, Tab 7, Schedule 1(a)(c) (Interrogatory Response SEC-1)

[10] For January 1 2019 effective date, the Board required applications to be filed on August 13 2018. See <https://www.oeb.ca/sites/default/files/CoverLetter-Filing-Requirements-20180712.pdf>

[11] Exhibit A, Tab 6, Schedule 1, p.15-16

The need for the extension of the account is not to record any variances in 2019 in-service additions, but to ensure that the impact *in 2019* of any variance in 2017 and 2018 is captured and returned to ratepayers. For example, if there is a balance in the account at the end of 2018 due to Hydro One bringing into service less capital then approved, then the base revenue requirement used for the RCI adjustment will have been overstated. The extension of the account is needed to record the difference.

While Hydro One forecasts a zero balance at the end of 2018[12], it was unable to provide year-end information in response to interrogatories as it had not completed its audited financials at the time.[13] Regardless, since the balance has not been tested, the account should be extended to allow parties to test any submitted balance in a future proceeding.

Yours very truly,
Shepherd Rubenstein P.C.

Original signed by

Mark Rubenstein

cc: Wayne McNally, SEC (by email)
Applicant and interested parties (by email)

[12] Exhibit A, Tab 6, Schedule 1, p.12, Table 12
[13] Exhibit I, Tab 7, Schedule 6(a)(c) (Interrogatory Response SEC-6)