

March 14, 2019

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

Dear Ms. Walli:

RE: EB-2018-0130 – Hydro One Networks Inc. – 2019 Transmission Revenue Requirement Adjustment

Please find, attached, the Final Argument of the Consumers Council of Canada regarding the above-referenced proceeding.

Yours truly,

Julie E. Girvan

Julie E. Girvan

CC: Hydro One, Regulatory Affairs
C. Keizer, Torys
All parties

FINAL SUBMISSIONS OF THE CONSUMERS COUNCIL OF CANADA

RE: HYDRO ONE NETWORKS INC. – TRANSMISSION RATES 2019

EB-2018-0130

INTRODUCTION:

On October 26, 2018, Hydro One Networks Inc. (“HON”) applied to the Ontario Energy Board (“OEB”) for approval of a Revenue Cap Index (“RCI”) to determine its transmission revenue requirement for 2019. In its Application HON set out its request for the following:

1. Approval of a RCI to set the transmission revenue requirement effective January 1, 2019 and to amend the Uniform Transmission Rates to allow for the recovery of the proposed revenue requirement for 2019;
2. Approval to dispose of regulatory assets with a credit balance of \$37.6 million over a one-year period commencing January 1, 2019;
3. Approval of an Accounting Order to establish a variance account to track the revenue requirement impact of changes to HON’s proposed Inflation Factor and Productivity Factor in the current Application and the Inflation Factor and the Productivity Factor established by the OEB in EB-2018-0218¹ to the extent there is a difference.
4. Approval of such other items that may be requested by the Applicant in the course of this proceeding and as may be granted by the OEB;
5. Approval of an effective date of January 1, 2019 an Interim order making the Applicant’s current transmission revenue requirement and the resulting charges effective on an interim basis as of January 1, 2018.

The Application will result in an average impact on transmission rates of 2.6%.

These are the submissions of the Consumers Council of Canada regarding HON’s Application. We will address each of the issues set out above.

SUBMISSIONS:

Revenue Cap Index:

HON’s proposal is to inflate its 2018 OEB-approved revenue requirement, adjusted for the impacts of Bill 2 (which excluded amounts related to the compensation of the

¹ Hydro One Sault St. Marie LP Transmission Application

CEO and executives of HOL from the revenue requirement) using a RCI. The RCI is based on an inflation minus productivity formula (I-X). HON engaged Power System Engineering to conduct various benchmarking analyses to derive the inflation and productivity values (total factor productivity and a custom stretch factor) to be used in the formula.² That evidence is currently being tested in the EB-2018-0218 proceeding (Hydro One Sault Ste. Marie – HON SSM).

It is HON's proposal that these matters not be re-tested in this proceeding, but instead be approved as filed on a preliminary basis and establish a variance account to track any revenue requirement difference between the proposed RCI parameters and the final values that are approved by the OEB in the EB-2018-0218 proceeding.

In its Procedural Order dated January 24, 2019, the OEB determined that it would not further test the benchmarking and total factor productivity evidence filed in the other proceeding in this proceeding. The OEB also asked parties to address the following questions in their final submissions:

- *Is it appropriate to use the rate setting parameters proposed for HON SSM on a preliminary basis, or should another approach be adopted?*
- *What should be the nature of the proposed variance account? Should it true up to the approved parameters for HON SSM, true up to parameters determined in HON's Custom IR proceeding, or some other option?*
- *What additional evidence should HON be required to file in its next Custom IR application with respect to the RCI parameters?³*

The Council supports the use of the RCI for determining the 2019 revenue requirement. The Council submits, however, that the RCI should apply not only to the base revenue requirement, but also to the revenue offsets. The Council submits that consistent with how Price Cap Indexes are applied. HON's decision to apply the RCI to the low voltage switchgear credit is unfair, as it is the only component of the offsets and credits chosen for an adjustment.

With respect to HON's proposal to use the values approved in the HON SSM proceeding the Council does have concerns. Not all intervenors in this proceeding have intervened in the HON SSM proceeding. The Council is one such intervenor. Under HON's approach we are effectively precluded from testing the evidence or making submissions regarding the elements of the formula to be used in deriving the revenue requirement. That would be unfair. In the Notices of Application for both proceedings the OEB did not indicate that the RCI parameters determined in the HON SSM proceeding would be used to determine the revenue requirement in this proceeding for HON Transmission.

² Ex. A/T3/S1/pp. 4-5

³ Procedural Order No. 1, dated January 24, 2019, p. 2

From the Council's perspective the most appropriate approach would be the following:

- Set the inflation and productivity numbers using the proposed parameters from the HON SSM proceeding on a preliminary basis;
- Establish a variance account to allow for a true-up pending a final determination by the OEB of the parameters in HON's Custom IR proceeding.
- Import the evidence from the HON SSM proceeding as the basis for determining the final parameters for 2019;
- Allow intervenors that were not participants in the HON proceeding further discovery regarding that evidence;
- Allow those same parties to make submissions regarding the final parameters for 2019;
- With respect to the Custom IR application HON would be required to file whatever evidence it felt was required to support its proposals going forward for the period 2020-2022. This may include updated evidence from Power System Engineering.

Deferral and Variance Accounts:

HON is requesting disposition of a \$37.6 million credit balance in 10 deferral and variance accounts over a one-year period. The Council supports this approach.

Effective Date:

HON has proposed an effective date of January 1, 2019. HON filed its Application on October 28, 2018. In March 2018, the OEB indicated that it expected HON to file a transmission revenue requirement application for a 4-year test period (2019-2022) in order to align the applications and test periods for both transmission and distribution. On April 4, 2018, HON indicated that it was considering the potential impact of this request on its upcoming 5-year Custom IR Application. In its evidence HON cited "organizational changes" in July and August 2018 as a rationale for filing an Application for 2019 rates in late October 2018.

The Council does not support an effective date of January 1, 2019. HON had complete control over the timing of its Application. The OEB requires that distribution utilities filing a Price Cap IR Application for a January 1 effective date file in August. That is approximately 4.5 months before the effective date. HON should not be afforded any special treatment in this case. The Council is of the view that only if the delays for filing a rate application were entirely out of the control of the utility should the OEB consider a retroactive adjustment to January 1. That was not the case for HON. The timing of this Application was fully within the control of HON's management. The Council submits that the effective date should be one month following the final rate order. Retroactive adjustments to rates should, from

the Council's perspective, be avoided to the extent possible. HON has not justified an effective date of January 1, 2019.

Costs:

The Council respectfully requests that it be allowed to recover its reasonably incurred costs associated with its participation in this proceeding.

All of which is respectfully submitted.