

April 12, 2019

**Richard P. Stephenson**

T 416.646.4325 Asst 416.646.7419

F 416.646.4301

E richard.stephenson@paliareroland.com

[www.paliareroland.com](http://www.paliareroland.com)

---

File 95405

**VIA RESS FILING and COURIER**

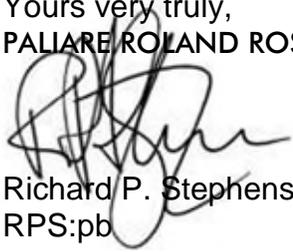
Registrar  
Ontario Energy Board  
P.O. Box 2319  
2300 Yonge Street, 27th Floor  
Toronto, Ontario M4P 1E4

Dear Registrar:

**Re: Hydro One Sault Ste. Marie LP - Application for electricity transmission  
revenue requirement beginning January 1, 2019 (EB-2018-0218)**

Attached please find the Power Workers' Union's Submissions in connection with the above-noted proceeding. An electronic copy has been filed through the Board's RESS filing system, and two paper copies will follow by courier delivery.

Yours very truly,  
**PALIARE ROLAND ROSENBERG ROTHSTEIN LLP**



Richard P. Stephenson  
RPS:pb

Attach.

c: Applicant (via email)  
Intervenors (via email)

Doc 2854470 v1

Chris G. Paliare  
Ian J. Roland  
Ken Rosenberg  
Linda R. Rothstein  
Richard P. Stephenson  
Nick Coleman  
Donald K. Eady  
Gordon D. Capern  
Lily I. Harmer  
Andrew Lokan  
John Monger  
Odette Soriano  
Andrew C. Lewis  
Megan E. Shortreed  
Massimo Starnino  
Karen Jones  
Robert A. Centa  
Nini Jones  
Jeffrey Larry  
Kristian Borg-Olivier  
Emily Lawrence  
Tina H. Lie  
Jean-Claude Killey  
Jodi Martin  
Michael Fenrick  
Ren Bucholz  
Jessica Latimer  
Lindsay Scott  
Alysha Shore  
Denise Cooney  
Paul J. Davis  
Lauren Pearce  
Elizabeth Rathbone  
Daniel Rosenbluth  
Glynnis Hawe  
Emily Home  
Hailey Bruckner  
Charlotté Calon

COUNSEL

Stephen Goudge, Q.C.

COUNSEL

Ian G. Scott, Q.C., O.C.  
(1934 - 2006)

**PALIARE ROLAND ROSENBERG ROTHSTEIN LLP**

155 WELLINGTON STREET WEST 35TH FLOOR TORONTO ONTARIO M5V 3H1 T 416.646.4300

**IN THE MATTER OF** the Ontario Energy Board Act, 1998;

**AND IN THE MATTER OF** an Application by Hydro One Sault Ste. Marie Inc. on behalf of Hydro One Sault Ste. Marie Limited Partnership for an Order or Orders pursuant to section 78 of the *Ontario Energy Board Act, 1998* for 2019 transmission rates are related matters.

## **Submissions of the Power Workers' Union**

1. The following are the Power Workers' Union's ("PWU") submissions on the issues reviewed in the matter of Hydro One Sault Ste. Marie's ("Hydro One SSM") 2019 transmission revenue requirement application.
2. These submissions do not specifically address all issues on the issues list. Where an issue has not specifically been addressed, the PWU supports the application as filed, and supports and adopts the submissions of Hydro One SSM in support of the application.

### **A. GENERAL**

#### **Issue 1: Has Hydro One SSM responded appropriately to all relevant OEB directions from previous proceedings?**

3. The application appropriately addresses OEB directions from Hydro One SSM's 2015 rates application decision (as Great Lakes Power Transmission), the MAADs decision, and the 2017 rate application. Most directions from Hydro One SSM's 2015 rates application decision are not applicable during a deferred rebasing period but the remaining directions are adequately addressed.<sup>1</sup> A previous rate application<sup>2</sup> was found to be deficient because it did not meet the guidance provided in the MAAD decision or the OEB's Transmission Filing Requirements.
4. In the Hydro One SSM MAADs decision, the Board concluded: <sup>3</sup>

---

<sup>1</sup> Exhibit A, Tab 2, Schedule 2, pages 1-3

<sup>2</sup> EB-2016-0356

<sup>3</sup> EB-2016-0050, Decision and Order, page 24

**The OEB is prepared to accept Hydro One’s proposal to defer the rebasing of rates for GLPT for a 10 year period as well as its proposed earning sharing mechanism, but does not accept the proposal that rates for GLPT must be reset at the beginning of this ten year period.**

**The OEB has determined that GLPT can continue with its existing revenue requirement and bring forward a separate rate application, proposing a revenue cap index for the deferral period, encompassing the components set out by the Transmission Filing Requirements, as described above.**

5. This application appropriately addresses the MAAD’s decision by establishing parameters for the revenue cap index mechanism required for the rate application. This application is for a mechanistic adjustment to Hydro One SSM’s 2016 revenue requirement and, as directed, does not seek to reset the revenue requirement. The application complies with the OEB’s Transmission Filing Requirements as it includes Transmission System Plan (“TSP”) and a revised scorecard.

**Issue 2: Has the 2019 revenue requirement been calculated appropriately, in accordance with OEB policies and practices?**

6. Hydro One SSM’s proposed 2019 revenue requirement is appropriately calculated based on its 2016 approved revenue requirement and proposed IR factors. The appropriate revenue requirement revised with the updated 1.4% inflation factor is provided in Hydro One SSM’s Argument-in-Chief.<sup>4</sup> The PWU notes this revenue requirement does not yet include the aggregate DVA adjustment.

**Issue 3: Are the associated 2019 total bill impacts reasonable?**

7. The Hydro One SSM revenue requirement is a small share (approximately 2.5%) of the total provincial transmission revenue requirements used to calculate the Uniform Transmission Rates (“UTR”) so the proposed 1.4% increase to the Hydro One SSM revenue requirement has only very minor impacts on transmission rates. The impact on total bills is negligible as it is less than one cent on a typical residential bill. These bill impacts follow two years of zero bill impacts since Hydro One SSM’s revenue requirement has not increased since 2016.

---

<sup>4</sup> Hydro One SSM AIC, page 8

## **B. REVENUE CAP PROPOSAL**

**Issue 4: Are the elements of Hydro One SSM's revenue cap framework proposal reasonable and in accordance with prior decisions and with OEB policy, including its proposed future earnings sharing mechanism, incremental capital funding options, Z-factors, and any other mechanisms?**

8. The elements of Hydro One SSM's revenue cap framework are consistent with the Electricity Distributor and Transmitter Consolidations Handbook. The Revenue Cap Index approach is consistent with the Revenue Cap Index recently approved in Hydro One's distribution rates proceeding<sup>5</sup>, aside from the exclusion of a custom capital factor that is not applicable during a deferred rebasing period, and with the framework proposed for Hydro One Transmission's ("Hydro One") 2019 revenue requirement application.<sup>6</sup>

9. The Earning Sharing Mechanism and availability of the Z-factor and Incremental Capital Module (ICM) were approved in the MAADs application<sup>7</sup> and no changes have been proposed as part of this proceeding. The PWU submits that Hydro One SSM's proposed revenue cap framework and associated mechanisms are appropriate.

**Issue 5: Are the parameters of Hydro One SSM's proposed revenue cap plan, and more specifically, the inflation factor with transmission sector-specific weightings, and the proposed base productivity and stretch factors, as supported by Power System Engineering's Total Cost Benchmarking and Total Factor Productivity Study reasonable?**

10. Power System Engineering ("PSE") and Pacific Economics Group ("PEG") both recommended a 0% x-factor (combined productivity factor and stretch factor) based on the results of their respective benchmarking studies. The studies relied on Hydro One transmission data and the parameters approved in this proceeding will be adopted in Hydro One's EB-2018-0130 application for its 2019 revenue requirement.

11. PSE's benchmarking study found a negative industry productivity factor of -1.71%, rounded to 0% based on prior Board decisions that do not allow for a negative productivity factor. PSE found Hydro One Transmission's costs to be 31.8% below its benchmark

---

<sup>5</sup> EB-2017-0049 – Decision and Order, Page 20

<sup>6</sup> EB-2018-0130

<sup>7</sup> EB-2016-0050 – Decision and Order

costs, which translates to a 0% stretch factor since costs are more than 25% below benchmark costs.<sup>8</sup>

12. PEG's initial results determined a productivity factor of -0.34% and, recognizing Hydro One Transmission as an average cost performer, a stretch factor of 0.3%. Taken together, PEG recommended a 0% x-factor.<sup>9</sup> An error in PEG's benchmarking results is responsible for most of the differences between the PSE and PEG results. PEG's modelling incorrectly used different plant addition data for Hydro One and the benchmark group.<sup>10</sup> The corrected results have a small impact on the industry trends but have a material impact on Hydro One's relative cost performance. The correction changes the average difference between Hydro One's actual and predicted costs from -17.62% to -34.43% in the 2004-2016 timeframe and from -1.23% to -11.48% in the 2019-2022 period.<sup>11</sup>

13. PEG's corrected productivity factor is -0.36%<sup>12</sup> and Hydro One's corrected relative cost performance implies a 0.15% stretch factor.<sup>13</sup> The correction lowers the combined productivity and stretch factors and the x-factor is still rounded to 0%.

14. PEG confirmed it continues to recommend a 0% x-factor in an interrogatory response filed at the same time as the correction.<sup>14</sup> The PWU submits that the Board should accept PSE and PEG's recommended 0% productivity factor and 0% stretch factor.

15. The inflation factor is calculated based on recommended labour and non-labour weightings of 14% and 86%, respectively.<sup>15</sup> These weightings are close to Hydro One's actual 14.8% labour and 85.2% non-labour shares.<sup>16</sup> The revised inflation factor calculated in EB-2018-0130 is 1.448%, rounded to 1.4%.<sup>17</sup>

---

<sup>8</sup> Exhibit D, Tab 1, Schedule 1, page 51

<sup>9</sup> Exhibit M1, page 27

<sup>10</sup> Exhibit L1, Tab 1, Schedule 6, part i.

<sup>11</sup> Original: Exhibit M1, page 26 - Corrected: Exhibit L,1, Tab 1, Schedule 6, part k, Attachment b.

<sup>12</sup> Exhibit L1, Tab 1, Schedule 6, part i, Appendix c

<sup>13</sup> Hydro One Transmission's costs are -11.48% below benchmark. Relative cost performance between -25% and -10% puts Hydro One Transmission in cohort 2 (0.15%).

<sup>14</sup> Exhibit L1, Tab 3, Schedule 1

<sup>15</sup> Exhibit D, Tab 1, Schedule 1, page 3

<sup>16</sup> Technical Conference Transcript 1, page 58

<sup>17</sup> EB-2018-0130, Exhibit I, Tab 3, Schedule 7

16. This figure is sufficiently close to the rounding threshold that a recalculation with actual weights has an impact on the inflation factor. The inflation factor calculated with the actual 14.8%/85.2% weights increases the figure to 1.453%, rounded to 1.5%.

Year	Non-Labour							Labour			Annual Growth for 2-factor IPI
	GDP-IPI (FDD) - National							AWE - All Employees - Ontario			
	Q1	Q2	Q3	Q4	Annual	Annual Change	Weight	Annual	Annual Change	Weight	Annual % Change
2016	116.5	116.4	116.9	117.5	116.825			973.75			
2017	118.0	118.5	118.2	119.0	118.425	1.4%	85.2%	992.55	1.9%	14.8%	1.453%

All figures are consistent with EB-2018-0130, Exhibit I, Tab 3, Schedule 7 except revised weightings

17. The PWU notes that a 1.5% inflation factor may be more appropriate but submits that the 1.4% inflation factor as calculated with PSE’s recommended weightings is reasonable.

**Issue 6: Is the Power System Engineering’s sample of comparator utilities for Total Cost Benchmarking and Total Factor Productivity appropriate for Hydro One SSM?**

18. Power System Engineering’s benchmarking study used 57 utilities<sup>18</sup>, including Hydro One, to provide a sufficient sample of comparable transmitters. The sample is large enough to provide a robust dataset required for econometric benchmarking and provide results that are representative of the transmission industry. Additionally, the econometric methodology allows the trends of transmitters that are materially different from Hydro One in operating scale to be included in the study.

19. Canadian transmission utilities are not required to publicly file all the data required for the benchmarking study. PSE reached out to nine Canadian transmission utilities to participate in the study, but each transmitter declined.<sup>19</sup> The utility data required for the study is available from U.S. utilities that are required to file FERC Form 1 following the Uniform System of Accounts. The PWU submits that the sample of comparators used by

<sup>18</sup> Exhibit D, Tab 1, Schedule 1, Attachment 1, page 21

<sup>19</sup> Exhibit D, Tab 1, Schedule 1, Attachment 1, page 20

PSE is appropriate because it provides the most robust dataset of North American transmitters available.

### **C. TRANSMISSION SYSTEM PLAN**

**Issue 8: Does the Transmission System Plan adequately address the OEB's Renewed Regulatory Framework objectives?**

**Issue 9: Is the level of planned 2019 to 2026 expenditures appropriate and is the rationale for planning and pacing choices appropriate and adequately explained in the Transmission System Plan? Is Hydro One SSM's asset management process reasonable and has it been adequately supported by its Transmission System Plan?**

**Issue 11: Has Hydro One SSM adequately addressed operational synergies and savings in the Transmission System Plan, including with respect to its operational integration with Hydro One Networks Inc.? Is Hydro One SSM's continuous improvement adequate?**

20. Hydro One SSM's 2018-2026 Transmission System Plan adequately addresses the RRF objectives: customer focus, operational effectiveness, public policy responsiveness and financial performance. These objectives are closely mirrored in the proposed scorecard discussed under Issue 13.

21. The capital expenditures described in the TSP are sufficient to meet RRF and Hydro One SSM objectives. Capital projects were selected with a well-developed Investment Planning Process based on robust assessments of customer needs and asset condition. Capital expenditures will increase from an average of \$7.94M from 2013 to 2017 to an average of \$9.52M from 2018 to 2026.<sup>20</sup> This represents a 20% increase in capital spending throughout the TSP period over the historic average despite no increase to the revenue requirement beyond the revenue cap adjustment until 2026.

22. Integrating the Hydro One SSM with Hydro One allows Hydro One SSM to reduce its General Plant expenditures going forward by leveraging Hydro One's resources. Historically General Plant was responsible for 21% of Hydro One SSM's expenditures. The share of general plant expenditures in the TSP period is only 4%.<sup>21</sup>

---

<sup>20</sup> Exhibit B1, Tab 1, Schedule 1, page 110

<sup>21</sup> Exhibit B1, Tab 1, Schedule 1, page 111

23. Reduced general plant expenditures allows Hydro One SSM to direct more capital spending toward System Renewal and System Service capital. For example, METSCO's report identified power transformers as an asset group in relatively poor condition.<sup>22</sup> Expenditures on power transformers, which had historically comprised 3% of total expenditures, will make up 30% of expenditures in the TSP period.<sup>23</sup>

24. As Hydro One SSM continues to integrate into Hydro One, Hydro One SSM's transmission planning activities will be included in Hydro One's future TSPs.

25. The PWU submits that the level of capital spending described in the TSP is appropriate and the Board should approve Hydro One SSM's TSP. The PWU notes that this application is for a mechanistic adjustment to the 2016 revenue requirement and does not seek a revenue requirement associated with the level of capital spending.

**Issue 10: Do the proposed expenditures include the consideration of factors such as customer preferences, system reliability and asset condition?**

**Issue 12: Were Hydro One SSM's customer engagement activities adequate to enable customer needs and preferences to be considered in the formulation of its proposed spending?**

26. Customer engagement was a central component of Hydro One SSM's asset needs evaluation. Hydro One SSM conducts regular customer engagement meetings with its transmission-connected customers. These meetings include discussions of Hydro One SSM's performance, causes of outages and potential mitigation and capital and maintenance plans.<sup>24</sup>

27. Hydro One SSM has developed a strong understanding of its customers by conducting meetings on a regular basis. The ongoing relationship allows Hydro One to adequately consider the needs and preferences of its customers in its maintenance and investment planning activities. The PWU submits Hydro One SSM's customer engagement activities adequately consider customer's needs and preferences in its proposed capital and operations spending.

---

<sup>22</sup> Exhibit B1, Tab 1, Schedule 1, Appendix B, page 16

<sup>23</sup> Exhibit B1, Tab 1, Schedule 1, page 111

<sup>24</sup> Exhibit B1, Tab 1, Schedule 1, page 54

## **D. PERFORMANCE SCORECARD**

**Issue 13: Are Hydro One SSM's proposed key performance indicators and scorecard complete, including adequate performance measure metrics, each with specific performance outcomes and implementation timelines? Do the outcomes adequately reflect customer expectations? Does Hydro One SSM's proposed scorecard reflect the OEB's requirements?**

28. Hydro One SSM's scorecard<sup>25</sup> addresses the Board's direction in the MAADs decision. The scorecard is consistent with the OEB's expectations described in the Handbook for Utility Rate Applications. The proposed Hydro One SSM scorecard addressed gaps in previous scorecard by closely mirroring Hydro One's transmission scorecard, aside from certain measures not applicable to Hydro One SSM.<sup>26</sup> Consistent scorecards will be beneficial as Hydro One SSM and Hydro One integrate.

29. Aligning the Hydro One SSM scorecard with Hydro One's transmission scorecard also allowed Hydro One to leverage its previous scorecard development work. The development of Hydro One's transmission scorecard was informed by customer consultations to ensure the outcomes adequately reflect customer expectations.<sup>27</sup> By extension, that stakeholder feedback informed the Hydro One SSM scorecard. Hydro One's scorecard produced appropriate performance metrics that reflect the objectives of the RRF and was approved in EB-2016-0160. The PWU submits the proposed Hydro One SSM key performance indicators and scorecard are appropriate as it meets the Board's expectations and is consistent with Hydro One's scorecard that has been approved by the Board.

## **E. ACCOUNTING**

---

<sup>25</sup> Exhibit I, Tab 5, Schedule 12

<sup>26</sup> Technical Conference Transcript 2, pages 171-172

<sup>27</sup> Technical Conference Transcript 2, page 163

**Issue 15: Are Hydro One SSM's proposals for deferral and variance accounts, including the balances in the existing accounts and their disposition, and the continuation of existing accounts appropriate?**

30. Hydro One proposes to dispose of an aggregate \$94,909 credit from five 1508 sub-accounts.<sup>28</sup> Regulatory account disposals are treated as a component of the revenue requirement for transmission utilities. This disposal reduces the revenue requirement by approximately 0.2%. The regulatory account disposal will clear all Hydro One SSM's deferral and variance accounts except the IFRS Gains and Losses account and the prior Aggregate Regulatory Account.

31. Hydro One SSM's 2015-2017 revenue requirements included the debit disposition of the transmitter's aggregate regulatory account balances.<sup>29</sup> One-third of the Aggregate Regulatory Account balance was intended to be recovered in each year from 2015 to 2017 and the account would be cleared at the end of 2017. Its 2018 revenue requirement was unchanged from 2017 so the utility continued to recover funds for an account that had already been fully recovered.

32. Hydro One SSM proposes to dispose this balance, including carrying charges, in a future application once the final amount to be refunded as been determined.<sup>30</sup> This method ensures ratepayers are fully refunded for any overpayments in 2018 related to the Aggregate Regulatory Account. The PWU submits that Hydro One SSM's existing regulatory account balances and proposed disposition balances are appropriate.

**Issue 16: Is the proposed new deferral account to capture revenue deficiencies appropriate?**

33. For the reasons discussed under Issue 18, the appropriate effective date for Hydro One SSM's 2019 revenue requirement is January 1, 2019. The PWU submits that the proposed new deferral account is appropriate and necessary in order to allow Hydro One SSM to recover its prudently incurred costs.

**G. EFFECTIVE DATE**

---

<sup>28</sup> Exhibit E, Tab 1, Schedule 1

<sup>29</sup> Exhibit E, Tab 1, Schedule 1, page 2

<sup>30</sup> Exhibit E, Tab 1, Schedule 3, pages 1-2

**Issue 18: Is the proposed effective date of January 1, 2019 for Hydro One SSM's 2019 revenue requirement appropriate?**

34. Hydro One SSM applied for a mechanistic adjustment to its 2018 revenue requirement on July 26, 2018. The PWU submits that this should have been enough time to complete the proceeding by January 1, 2019 and delays past this date were not caused by Hydro One SSM. The first procedural order was not issued until October 5, 2018 and Board Staff's expert evidence from PEG was not produced until February 4, 2019. This extended timeline was not driven by Hydro One SSM. Additionally, the time required to issue a decision for this mechanistic application is expected to be relatively short. The PWU submits that January 1, 2019 is the appropriate effective date and a decision that does not allow Hydro One SSM to recover its prudently incurred costs as of January 1st will not result in just and reasonable rates.

**All of which is respectfully submitted.**