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**Jeffrey Smith**

Director, Regulatory Initiatives, Compliance and Support

April 26, 2019

BY COURIER

Ms. Kirsten Walli  
Ontario Energy Board  
Suite 2700, 2300 Yonge Street  
P.O. Box 2319  
Toronto, ON, M4P 1E4

Dear Ms. Walli:

**EB-2018-0218 - Hydro One Sault Ste. Marie's Application for 2019 Revenue Cap and Other Related Matters – Reply Argument**

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In accordance with Procedural Order No. 5, please find enclosed the Reply Argument of Hydro One Sault Ste. Marie ("Hydro One SSM") in the above noted proceeding.

Sincerely,

ORIGINAL SIGNED BY JEFFREY SMITH

Jeffrey Smith

**ONTARIO ENERGY BOARD**

**EB-2018-0218**

**APPLICATION FOR TRANSMISSION REVENUE REQUIREMENT  
EFFECTIVE JANUARY 1, 2019**

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**REPLY ARGUMENT**

**HYDRO ONE SAULT STE. MARIE LP**

**APRIL 26, 2019**

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## **INTRODUCTION**

On July 26, 2018, Hydro One Sault Ste. Marie Limited Partnership (“Hydro One SSM” or the “Applicant”) applied to the Ontario Energy Board (“the OEB” or the “Board”) for an order or orders approving just and reasonable rates for the transmission of electricity. Pursuant to Procedural Order No. 5 dated March 14, 2019, the Applicant hereby submits its reply argument.

In its application, Hydro One SSM is seeking approval of the following:

- Approval of the proposed revenue cap index framework methodology put forth in the application to determine rates for the years 2019 to 2026 inclusive;
- Inclusion of the approved base revenue requirement adjusted by the proposed revenue cap index adjustment to be included in the 2019 Uniform Transmission Rates (“UTR”) for Ontario effective January 1, 2019.
- Approval of an accounting order to establish a sub-account within deferral account 1574 to record revenue deficiencies incurred from January 1, 2019 until HOSSM’s proposed 2019 rates are implemented; and,
- Approval to disburse, through the use of account 1595, the balances in various deferral and various accounts in 2019 as described more particularly in Exhibit E, Tab 1, Schedules 1 to 4 of the pre-filed evidence.

No other approvals are being sought by the Applicant.

On March 29, 2019, Hydro One SSM filed its Argument-in-Chief (“AIC”), which demonstrated that the Applicant has successfully addressed every issue on the approved list. On or about April 12, 2019, Board Staff (“Staff”) and Intervenors made submissions in response to the Applicant’s Argument-in-Chief. For the majority of issues, most of the submissions concurred with, or took no position to dispute Hydro One SSM’s submissions with respect to the relief being sought. For brevity, this Reply Argument will not seek to review every incident of concurrence with the various submissions. Instead,

for convenience and simplicity, this submission seeks simply to address the material comments filed in submissions from Staff and Intervenors who take issue with the sought-after relief.

**ISSUE # 2 - HAS THE 2019 REVENUE REQUIREMENT BEEN CALCULATED APPROPRIATELY, IN ACCORDANCE WITH OEB POLICIES AND PRACTICES?**

In Section 2.2 of its submission, Staff raised concerns related to Bill 2 and the February 21, 2019, Directive from the Government of Ontario. Staff was unclear whether any Hydro One executive compensation amounts are embedded in Hydro One SSM's 2016 base revenue requirement. However, further down in their submission on page 9, Staff noted that this issue should not be revisited in the current Hydro One SSM application; and then, on page 11, Staff stated that Hydro One SSM should “*describe and quantify in its reply submission whether any reductions (e.g. executive and director compensation) to its 2019 proposed revenue requirement are needed*”.

The approved base revenue for the Revenue Cap adjustment can be found in EB-2015-0337. That Application was an update of capital parameters to adjust the revenue requirement approved in EB-2014-0238. Both of these applications – the source of the base revenue included in this Application – were filed by Great Lakes Power prior to the completion of the transaction with Hydro One Limited to purchase the company. That revenue requirement, used as the base revenue requirement in this proceeding, does not include executive costs from Hydro One. Therefore, there are no Hydro One executive costs to remove and there is no reason for Hydro One SSM to “*describe and quantify in its reply submission whether any reductions ... are needed*”.

Hydro One SSM has stated on the record that it will clear the credit balance of \$94,909 in the In-service Addition Net Cumulative Asymmetrical Variance Account through a one-time reduction to the 2019 Revenue Requirement and that the account will be closed

thereafter. AMPCO submitted that revenue requirement impact of the credit balance *“should be deducted from the 2016 Board-approved revenue requirement to be used as the base revenue adjusted by the price cap index to set 2019 revenue requirement”*.

Similarly, SEC noted that the OEB approved the in-service addition net cumulative asymmetrical variance account in the Settlement Proposal in Hydro One SSM’s 2015-2016 cost of service application (EB-2014-0238). The account tracked the revenue requirement impact of any under spending between OEB-approved and actual in-service additions during 2015 and 2016. Hydro One SSM underspent in 2015 and 2016 and is proposing to clear the balance in the account and then close the account, as it is no longer required.

Though Hydro One SSM is clearing the balance in the account, SEC states that Hydro One SSM will not be keeping customers whole for their under spending in 2015 and 2016. SEC submitted that the OEB could either reduce the 2016 approved revenue requirement by the amount added to the account in 2016 or could deny the proposal to close the account and continue it throughout the deferred rebasing period. If continued, the account would track the 2016 revenue requirement impact adjusted by the applicable RCI amount each year.

Hydro One SSM submits that SEC and AMPCO’s submissions should be rejected. The purpose of the account is to record differences in actual in-service capital additions relative to forecast in-service capital additions. The account was established in the context of a two-year cost of service application in which Hydro One SSM provided forecasts of its in-service capital additions for each year. To the extent actual in-service additions for those years differed from forecast, amounts were recorded in the account. In contrast, the present Application is under an incentive-based framework and does not include any forecasts of in-service capital additions. Under this framework, costs are decoupled from rates, which are instead adjusted only by the RCI parameters. As such,

SEC is effectively trying to adjust the RCI by a factor other than the Inflation Factor and the Productivity Factor. This is neither typical nor appropriate.

Staff asked for confirmation of the amount of OM&A included in the Base Revenue Requirement. The amount is \$11,121,876<sup>1</sup>, which is the amount after a reduction of \$210,000 from an original filed OM&A amount of \$11,331,876.

**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?**

In its AIC , Hydro One SSM stated that its proposed Revenue Cap Index approach is consistent with the requirements outlined on page 5 of Chapter 2 of the Filing Requirements, namely: (i) the inclusion of an inflation measure; and (ii) the inclusion of both a productivity and stretch factor informed by benchmarking.

Consistent with the OEB's Handbook to Electricity Distributor and Transmitter Consolidations, dated January 16, 2016, Hydro One SSM also proposed that its RCI framework over the OEB-approved deferred rebasing period will also include a Z-factor, availability of additional capital funding through an Incremental Capital Module (ICM), if required, and an Earnings Sharing Mechanism (ESM). Hydro ONE SSM noted that the proposed ESM described in Exhibit A, Tab 2, Schedule 1 of the Application was approved as part of EB-2016-0050.

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<sup>1</sup> See Section 2 on Page 6 of "GLPT\_APPL\_2016 Rev Req\_Acct Balances\_Disposition\_20151120.pdf" as part of EB-2015-0337

OEB staff submitted that Hydro One SSM's revenue cap proposal is consistent with OEB policy and is appropriate given the OEB's established approach for setting and recovering the cost of electricity transmitters. SEC, Energy Probe and PWU submitted that the elements of Hydro One SSM's Revenue Cap Index approach were consistent with the OEB's policies and expectations. VECC and AMPCO submitted that Hydro One SSM's proposed Earnings Sharing Mechanism (ESM) is consistent with the OEB's decision in Hydro One SSM's MAADs proceeding.<sup>2</sup>

Hydro One SSM notes that no parties have objected to the elements of its Revenue Cap Index proposal. Hydro One SSM submits that that the elements of its revenue cap framework proposal are reasonable and in accordance with OEB policy.

**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?**

Hydro One SSM is proposing to adopt the recommendations of the study conducted by Power System Engineering Inc. ("PSE") for HONI<sup>3</sup>. The study recommended an X factor of 0% and a custom-weighted inflation factor with a 14%/86% labour/non-labour cost weighting<sup>4</sup>. The X-factor was based on the sum of an industry productivity factor based on an industry total factor productivity (TFP) trend and a stretch factor.

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<sup>2</sup> EB-2016-0050, pg. 12.

<sup>3</sup> The study is provided as Attachment 1, to Exhibit D, Tab 1, Schedule 1.

<sup>4</sup> Exhibit D, Tab 1, Schedule 1, Attachment 1, pages 11 and 12.

As indicated in response to Exhibit I, Tab 1, Schedule 58, PSE's parameter recommendations for the inflation factor and transmission industry TFP are external measurements which should apply equally to Hydro One SSM. PSE also recommended that the stretch factor recommendation of 0% should also apply to Hydro One SSM, given that the industry TFP already forms a large implicit stretch factor and that it would be unlikely that the benchmarking results would change significantly if Hydro One SSM's costs were added to those of HONI.

Staff's consultant, Pacific Economics Group (PEG), submitted a report containing an alternative analysis. The report calculated an industry TFP measure of -0.34% and a stretch factor of 0.3%. PEG proposed a rounded X-factor of 0% based on the offsetting results of the TFP measure and stretch factor. PEG's report did not make any comments regarding Hydro One SSM's proposed Inflation Factor.

### **Inflation Factor**

Hydro One SSM proposed an inflation factor based on a weighted two-factor input price index comprising:

- 86% of the annual percentage change in Canada's Gross Domestic Product-Implicit Price Index, Final Domestic Demand ("GDP-IPI FDD") for Canada as reported by Statistics Canada; and
- 14% of the annual percentage change in the Average Weekly Earnings ("AWE") for workers in Ontario, as reported by Statistics Canada.

The proposed weightings were based on an analysis of costs of the transmission industry conducted by PSE in its report<sup>5</sup>.

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<sup>5</sup> The methodology employed by PSE is described on page 49 of PSE's report which is provided as Attachment 1 to Exhibit D, Tab 1, Exhibit 1.

PWU, AMPCO and VECC submitted that the proposed Inflation Factor was reasonable. SEC made no submission regarding the proposed inflation factor.

In response to an undertaking, Hydro One SSM provided average labour and non-labour weights, weighted by the sizes of the utilities in the sample which shifted the proposed weights to 15% labour and 85% non-labour. OEB staff submitted that the weighted average labour and non-labour weights are more representative of the transmission sector as a whole. Staff also noted its view that a single-factor input based solely on the GDP-IPI may be simpler. Staff also noted that adoption of any of the proposals would have no material impact.

Hydro One SSM agrees that the impact of Staff's proposals regarding changes to the proposed weightings are immaterial and therefore submits that its proposed inflation factor be approved by the OEB as filed. The proposal is consistent with approaches established for other regulated entities in the electricity sector, i.e. distributors and Ontario Power Generation Inc.'s hydroelectric generation facilities. Hydro One SSM does not see the need or benefit from departing from established OEB policy to rely solely on the GDP-IPI solely for the purposes of simplicity. Hydro One SSM suggests that such a change would be more appropriately considered in the form of a generic hearing where the relative merits of each approach may be fully tested and considered.

### **X-Factor**

PWU submitted that the OEB should accept PSE and PEG's recommended X-factor of 0%.

AMPCO and SEC submitted that they agreed with the concerns about PSE's work documented in the PEG report and submitted that the PEG analysis be adopted by the OEB with one adjustment. AMPCO and SEC submitted that the OEB should approve a stretch factor of 0.3% on the basis that prior OEB decisions have not allowed negative productivity factors to be included in rate adjustment mechanisms. As a result, AMPCO

and SEC submitted that the industry TFP should be set to zero and the proposed stretch factor of 0.3% be maintained which results in an X-factor of 0.3%. VECC submitted that a stretch factor between 0.3 to 0.1% would be reasonable for the deferred rebasing period. Staff submissions are discussed in more detail below. Energy Probe's submissions are discussed under Issue #6.

Hydro One SSM submits that the X-factor should be 0% consistent with the recommendation of both consultants. With the exception of PWU, the submissions of all parties rely primarily on the results outlined in PEG's original report but ignore the material errors that were identified, and were then corrected by PEG on the record, in PEG's interrogatory responses.

Firstly, PEG's evidentiary record in this proceeding does not support a stretch of 0.3% as stated by intervenors in their submissions. The plant additions data utilized in PEG's benchmarking analysis was inconsistent with the data used in its productivity work, which led to flawed data in the benchmarking calculations<sup>6</sup>. PEG provided revised total cost benchmarking results<sup>7</sup> which corrected for this error, revealing a significant improvement in cost performance for HONI. The change showed that HONI's 2014-2016 average cost performance improved from 9.43% to 22.87% below benchmark which indicates, at minimum, a 0.15% stretch factor. The 2019 to 2022 corrected results from PEG show that HONI is 12.35% below benchmark, which indicates, again, a 0.15% stretch factor.

This improvement in benchmarking results does not take into account Hydro One SSM's second concern, namely that PEG applied inconsistent cost definitions between HONI and the U.S. utilities in the sample. In other words, PEG removed certain types of

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<sup>6</sup> See PEG's response to Exhibit L1, Tab 1, Schedule 6.i).

<sup>7</sup> Attachments a) through d) to Exhibit L1, Tab 1, Schedule 6.

OM&A costs<sup>8</sup> from all utilities in the sample, except for HONI, when conducting its total cost benchmarking analysis. Hydro One SSM submits that PEG's approach introduces a structural bias against HONI which should call into question PEG's results. PEG itself acknowledged that this was a valid concern with its cost benchmarking work<sup>9</sup>.

Combined, these errors would suggest that the true result of PEG's analysis would support a stretch factor between 0.15% and 0%. In Hydro One SSM interrogatory #5 part g)<sup>10</sup>, Hydro One SSM requested for an analysis from PEG which would isolate the impact of the inconsistent cost definitions however, PEG declined to provide that analysis and the exact value arising from PEG's analysis cannot be determined based on the responses on record. Given these concerns, Hydro One SSM submits that the OEB should rely on the results of PSE's TCB analysis for its determination of Hydro One SSM's stretch factor.

The submissions of Staff, SEC and AMPCO focus on the concerns outlined by PEG in their report as their rationale for supporting the PEG analysis. Hydro One SSM notes that there are far more similarities than differences in the work undertaken by both consultants. Key similarities include:

1. Both consultants have calculated a negative TFP trend for the transmission sector. In both analyses, the TFP is significantly negative in recent years (-1.8% for PEG and -1.7% for PSE from 2004-2016).
2. HONI's total cost benchmarking results show that actual costs are significantly below predicted costs in both studies, which indicates that HONI's cost performance is materially better than that of an average utility<sup>11</sup>. This result is despite the fact that PEG's study utilizes a different cost definition for Hydro One relative to the other utilities in the sample, which has the effect of biasing the PEG results against HONI.

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<sup>8</sup> EB-2018-0218, M1, page 13.

<sup>9</sup> Exhibit L1, Tab 1, Schedule 5, response to 5.m).

<sup>10</sup> Exhibit L1, Tab 1, Schedule 5.

<sup>11</sup> PSE results on pg. 43 of PSE report. Corrected PEG results found in attachment to PEG-HOSSM-6i.

3. Both consultants used the same variables in their analyses, including PSE's proposed loading variable, indicating that both experts agree that the variables are appropriate for the transmission business.
4. Both consultants agree that the growth of outputs is growing at a slower pace in more recent years.
5. Both consultants recommend an X-factor of 0%.

Hydro One SSM submits that the evidence on record supports an X-factor of 0%, which should be approved by the OEB.

### **OEB Staff Submission**

Staff submitted that the OEB should apply a stretch factor of 0.3% for Hydro One SSM's revenue cap proposal. The submission was based on Staff's concerns with the PSE report, concerns that there are few precedents in the transmission sector and that Ontario transmitters have historically been under cost-of-service rate-setting frameworks.

#### (i) Concerns with PSE Report

Staff noted two perceived concerns with PSE's cost benchmarking analysis: (i) the absence of Canadian utilities from the sample; and (ii) the way in which the loading variable was estimated for HONI.

Regarding the concern about the absence of Canadian utilities in the PSE sample, Hydro One SSM notes that efforts were made by PSE to contact nine Canadian utilities for inclusion in the report filed in this proceeding<sup>12</sup>. As noted in PSE's report, none of the utilities wished to participate. Neither Hydro One SSM nor PSE has the ability to compel utilities to provide information if they do not wish to. Hydro One SSM submits that reasonable efforts were made to incorporate Canadian utilities in the sample. Hydro One

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<sup>12</sup> As documented on page 20 of PSE's report provided as Attachment 1 to Exhibit D, Tab 1, Schedule 1.

SSM notes that Staff's own consultant, PEG, did not articulate the lack of Canadian transmission utility data as a concern in their own research.

Staff submitted that its belief is that the methodology used by PSE to estimate the loading variable for HONI results in overstatement of the estimated costs for HONI. PSE used a third-party source, Platts, to construct the loading variable for each utility in the sample. The loading variable is based on the NESC/CSA standard that applies for the weather zone covered by a utility's service area. Where a utility serves multiple weather areas, the surface area of the service territory in each weather zone is used for weighting the zonal engineering standards. S describes its concern as follows:

The CSA standards are highest in Northern Ontario, where [HONI] has few transmission assets and in **Southern Ontario, where most assets are**. The location of the assets has no correspondence with the size of the zones on a square kilometer basis, which is the weighting variable used. OEB staff has little confidence that the value of the "hardening" variable for [HONI] represents the real value. With weighting by area for significant portions of northern Ontario where there are few assets, OEB staff suspects that the loading variable may be overstated. [emphasis added]

Hydro One SSM submits that Staff's conclusion is incorrect. The articulated concern is that the loading variable is weighted by the amount of service area in each weather zone rather than by the proportion of assets in each weather zone. If weighted on the basis of where assets are located rather than on service area, one would expect the loading variable to be driven largely by the standards in the area that has the most assets. As correctly indicated by Staff, the majority of HONI assets are located in Southern Ontario, where the CSA standards are highest. That would imply that the weighted average by asset location would be closer to the higher, Southern CSA standards. Hydro One SSM therefore submits that Staff's conclusion is false and that it is likelier that PSE's approach has understated the loading variable. Hydro One SSM notes that Staff has observed that

the PSE's approach regarding the loading variable is "reasonable from a conceptual basis."<sup>13</sup>

(ii) Lack of Precedent

Staff claims that TFP and TCB analyses are new to electricity transmission in Ontario that there is little precedential evidence elsewhere and that these approaches are not fully tested over time. While Hydro One SSM acknowledges that there are few transmission-specific studies, Hydro One SSM disagrees with Staff's claims regarding the lack precedential evidence.

The process used by PSE to arrive at the recommended productivity parameters (i.e. stretch factor and TFP trend) follows methodologies similar to those approved by the OEB to set rates for electricity distributors under the 4th Generation IRM framework adapted to the circumstances of the transmission industry. TCB is well developed in Ontario. PSE followed established methods, using transmission-specific variables. Hydro One SSM notes that Staff's consultant, PEG, largely adopted the same variables proposed by PSE, indicating that they were appropriate for the circumstances.

(iii) Historical Rate-Setting Frameworks

Finally, Staff submitted that the transition to IR for the proposed multi-year revenue cap plan also supports the use of a higher stretch factor than the "0" proposed by Hydro One SSM and supported by PSE. Staff stated that Hydro One SSM is transitioning to a more flexible form of regulation, where it will have opportunities and incentives to improve its performance and that this transition supports a higher stretch factor.

In its submission, Staff states:

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<sup>13</sup> OEB staff submission, page 28.

The OEB has found, for electricity distribution, natural gas distribution, and OPG's regulated hydro-electric generation, that 0.3% is a reasonable stretch factor for "normal" performance under incentive rate-setting plans in Ontario.

This statement is a misrepresentation of the OEB's findings. The OEB has assigned stretch factors of 0.3% to utilities based on their benchmarking performance, not based on some "normal" level of performance. For example, the OEB approved Ontario Power Generation Inc.'s (OPG) stretch factor of 0.3% for its hydroelectric generation facilities, based on the results of a benchmarking analysis undertaken by OPG's consultant Navigant, which showed second quartile performance<sup>14</sup>. That application (EB-2016-0152) marked the first time OPG's hydroelectric payment amounts were established. The transition to incentive rate setting was not a factor in the OEB's findings. Similarly, electricity distributors under IRM are assigned stretch factors every year based on their benchmarked performance in a TCB study.

Hydro One SSM disagrees with Staff's position and submits that it is inconsistent with established OEB policy. The OEB has not arbitrarily assigned stretch factors based on transitions between rate-setting frameworks. The stretch factor has been assigned based on a utility's cost performance. As discussed above, the evidence on record in this proceeding, from both PSE and PEG, shows that HONI's cost performance is that of a well-above-average utility. Therefore, Hydro One SSM submits that the OEB should approve the X-factor of 0% recommended by both PSE and PEG.

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<sup>14</sup> EB-2016-0152, Decision and Order, page 129.

**ISSUE #6: IS POWER SYSTEM ENGINEERING’S SAMPLE OF COMPARATOR UTILITIES FOR TOTAL COST BENCHMARKING AND TOTAL FACTOR PRODUCTIVITY APPROPRIATE FOR HYDRO ONE SSM?**

As noted in the AIC and summarized in the issue above, PSE’s parameter recommendations for the inflation factor and transmission industry TFP are external measurements which should apply equally to Hydro One SSM. PSE also recommended that the stretch factor recommendation of 0% should also apply to Hydro One SSM, given that the industry TFP already forms a large implicit stretch factor and that it would be unlikely that the benchmarking results would change significantly if Hydro One SSM’s costs were added to those of HONI. Hydro One SSM also noted that the sample period used by PSE was two years longer than the sample period that supported the TFP analysis adopted by the OEB for electricity distributors in the 4th Generation IRM framework.

AMPCO, VECC and SEC made no specific submissions regarding this issue.

PWU submitted that the sample of comparators used by PSE is appropriate because it provides the most robust dataset of North American transmitters available.

OEB staff submitted that it is reasonable to accept the results of PSE’s study as being applicable to Hydro One SSM, as:

- i. TFP is the trend of a sector not for the individual firm.
- ii. HONI represents 95% of all transmission assets and operations. For practical purposes, "the productivity of HONI Transmission is the productivity of the Ontario transmission sector.
- iii. The post-merger relationship between HONI and Hydro One SSM is pertinent. As integration continues, “there is little to distinguish between Hydro One Networks Transmission and Hydro One SSM.”

Hydro One SSM submits that the results of the PSE study are appropriate for Hydro One SSM.

### **Energy Probe Submission**

Energy Probe submitted that both PSE and PEG had not met the OEB's requirement for a long-term historical TFP growth rate. Energy Probe submitted that the reported negative annual industry TFP growth rate is a result of an overlapping of the study period with the "Great Recession" in the U.S. Energy Probe submitted that the TFP results of both studies should be rejected. Energy Probe submitted that the OEB should adopt Statistics Canada's MFP-growth estimate of 0.556% for the period 1961-2016 as the long-term productivity growth rate for transmission. Energy Probe made no recommendation regarding the stretch factor.

Energy Probe's submission would have the OEB utilize information spanning back to 1961 for the purposes of determining the appropriate productivity trends for this proceeding. Hydro One SSM notes that much has changed in the transmission sector since the 1990s and even more so since the 1960s. The state of the utility sector in the 1960s following recovery from World War II is very different from the current context.

When looking at the transmission sector, it is important to consider the recent context. As documented throughout the evidence, recent years have seen significant changes for electricity transmitters in the form of:

- an increased level distributed energy resources, which means that a greater amount of load is served at the local distributor level rather than through the transmission system, thereby reducing the peak in the transmission system;
- the imposition and enforcement of reliability standards by NERC, which incent infrastructure investment to ensure that regulated performance standards are met; and

- a reduction in output growth due to various factors such as changing population dynamics, conservation initiatives and greater efficiency standards for electrically powered devices.

Contrary to the claims in Energy Probe's submission, the OEB's objective in this proceeding is to approve an incentive rate-setting framework that will result in just and reasonable rates over the deferred rebasing period. The appropriate expectation for productivity by Hydro One SSM over the deferred rebasing period is more aligned with the more recent trends, which are influenced by the context noted above. Despite Energy Probe's assertions, the items noted above are not cyclical in nature and do not appear to be driven by a recession.

Hydro One SSM notes that the X-factor in the 4th Generation IRM framework for electricity distributors was based on a 10-year study period. The PSE study utilizes 12 years. Hydro One SSM therefore submits that the proposed X-factor of 0% represents reasonable productivity expectations over the deferred rebasing period as supported by robust empirical evidence.

**ISSUE #7: IS HYDRO ONE SSM'S PROPOSAL TO MAINTAIN THE CURRENT APPROVED LOAD FORECAST AND RESULTING CHARGE DETERMINANTS FOR THE PURPOSES OF SETTING UNIFORM TRANSMISSION RATES OVER THE ENTIRETY OF THE DEFERRED REBASING PERIOD APPROPRIATE?**

In the AIC, Hydro One SSM submitted that, based on its understanding of the OEB's policies regarding applications seeking mechanistic adjustments, an update to its charge determinants would not be permissible in a mechanistic application over the deferred rebasing period.

Energy Probe, PWU, SEC, AMPCO made no submissions on this issue.

VECC submitted that there was little value in updating the current approved load forecast. Staff submitted that not updating the load forecast is unlikely to have any material impact, and thus Staff was not opposed to Hydro One SSM's proposal.

Hydro One SSM notes that no parties objected to its proposal to maintain the current charge determinants and submits that its proposal is reasonable for the reasons articulated in its AIC.

Hydro One SSM notes that Staff has stated that forecast information should continue to be filed in cases such as this Application, where a system plan is being assessed. Hydro One SSM disagrees. Staff has provided no basis for its claim that the review of a load forecast is helpful in assessing the appropriateness of a transmitter's operating and capital plans. Hydro One SSM cannot find an instance in any of the submissions of intervenors, including Staff, that would indicate that the load forecast information is useful in assessing the TSP in any way.

Incentive rate-setting (IR) applications, such as this, are intended to be mechanistic in nature and are intentionally limited in scope. The OEB's own policies for IR applications do not allow for updates to the load forecast underpinning rates during the IR term. To introduce additional requirements for information would serve no purpose other than to increase the regulatory burden (both in terms of time and cost) associated with preparation and testing of the evidence and would ultimately result in discovery which is not relevant to the Panel's determinations regarding the relief sought in the proceeding.

**ISSUE # 8 - DOES THE TRANSMISSION SYSTEM PLAN ADEQUATELY ADDRESS THE OEB'S RENEWED REGULATORY FRAMEWORK OBJECTIVES?**

Despite the fact that it did not support any funding requests, Hydro One SSM filed an updated TSP to provide the public with details as to its capital spending program over the period of the Application.

Generally, intervenors and Staff seemed satisfied that the contents incorporated the objectives of the RRF and that the filing was appropriate.

Energy Probe took a different stance. Instead of making helpful comments as to the contents of the TSP and specifically how its contents might impact customers, Energy Probe made disparaging comments about the METSCO report and about even the employees of the firm itself. The comments included, "*METSCO report uses colourful graphics but produces no meaningful conclusions*" and "*METSCO staff who prepared the ACA do not appear to have much experience*".

METSCO is a highly qualified firm of experienced professional engineers that has been engaged successfully by HONI on multiple occasions. For Energy Probe to cast aspersions as to their capabilities is unfortunate and unnecessary in this public forum.

**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?**

VECC and AMPCO both referred to the HATCH report. The Hatch report was included as Attachment 1 to Exhibit 1, Tab 4, Schedule 8 (AMPCO IR #8).

The Hatch report and the "high-level"<sup>15</sup> health indices it produced were based exclusively on visual assessments conducted over a three-day engagement, as well as a "*high-level*" review of GLPT's inspection reports. In contrast, the METSCO ACA incorporates a variety of quantitative information pertaining to the observed and measured degradation processes collected through third-party and internal testing activities. METSCO was able to leverage this data by way of an extensive data digitization exercise that preceded the asset condition analysis, whereby thousands of discrete PDF documents and other files were converted into Excel and subjected to METSCO's algorithms. The algorithms themselves were established prior to commencement of data analysis and calibrated to give higher weighting to objective quantitative data, such as transformer oil moisture content and dissolved gas analysis, insulation power factor measurement, load history, and many others (as applicable and available for each asset class). This data-driven approach to the ACA work is more conducive to objective ranking and prioritization of individual assets across the system by their current operating condition.

METSCO's ACA is also more detailed in terms of its asset coverage - delivering quantitative asset health indices in 15 discrete asset classes - unlike the Hatch methodology, which effectively looked at only the composite line and station indices. While some commentary is given to other station assets, the level of asset class-specific analysis in the Hatch Report is far less comprehensive. METSCO's report is also more transparent, with quantitative Data Availability Indices clearly stated to inform the reader of the proportion of Hydro One SSM's assets for which a given type of data was available.

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<sup>15</sup> "High level" is the characterization provided by Hatch themselves at 8 distinct locations in the report.

Finally, unlike the Hatch Report, METSCO's ACA includes a number of additional analytical insights that assisted Hydro One SSM in the preparation of its system plan. These include a suggested criticality ranking of all lines and stations (along with restatement of the ACA health index findings along the criticality categories) and the dollar-weighted system health index to help Hydro One SSM quantify the financial implications of the impending capital work over the plan period and beyond.

Regardless, Hydro One SSM is very satisfied with the METSCO report, found it very helpful in preparing the submitted capital plan, and submits that the OEB should give it great credence.

**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?**

Several intervenors and Staff asked about future reporting. Hydro One SSM acknowledges that it is reasonable that the success of the proposals included in this Application be tested in a future proceeding. Staff also raised a concern that Hydro One SSM’s targets may not have been stringent enough because it has achieved improvements in performance in most measures. Staff also felt that Hydro One SSM should demonstrate that its targets represent sufficiently challenging targets relative to past performance and other benchmarks in the spirit of continuous improvement.

As stated throughout this proceeding, Hydro One SSM is being integrated into HONI Transmission. The investments will be included and reported on at great depth and detail in future HONI Transmission filings. Moreover, Hydro One SSM reiterates that it is

prepared to submit an updated scorecard with the anticipated HONI Transmission filing for 2023 rates.

**ISSUE # 17 – IS THE TRANSMISSION COST ALLOCATION PROPOSED BY HYDRO ONE SSM APPROPRIATE?**

Staff questioned the cost allocation parameters used in the current funding. Hydro One SSM agrees with Staff's comments that the revised revenue requirement allocation by rate pool will be determined in HONI Transmission's 2019 transmission revenue requirement decision (EB-2018-0130) which was issued by the OEB on April 25, 2019. The final parameters can be calculated at the time of the draft rate order process for this proceeding.

**ISSUE # 18 – IS THE PROPOSED EFFECTIVE DATE OF JANUARY 1, 2019, FOR HYDRO ONE SSM'S 2019 REVENUE REQUIREMENT APPROPRIATE?**

Staff stated that transmission rate changes have been approved by the OEB on dates other than January 1. While this is true, changes for small amounts are highly undesirable. In fact, in EB-2017-0380, when B2M LP was faced with an over-collection of \$1.6 million, the Decision, supported by B2M LP, was to defer the repayment of this amount to the following year since Staff felt that "*the amount is immaterial in the network rate pool*"<sup>16</sup>. Therefore, any changes arising from this decision should be collected in the proposed deferral account and included in a future rate year.

A change of approximately \$550,000 to the total transmission revenue requirement, as proposed in this application, is unlikely to change the actual UTR rates and therefore the money collected from customers is not likely to be affected. Therefore, any allocation

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<sup>16</sup> EB-2017-0380, "Decision and Order", May 3, 2018, Page 5

change that does not change the revenue collected will likely serve only to reduce the percentage allocated to another transmitter. That is certainly not the intent of this Application.

Most intervenors felt that the January 1 date was reasonable, with VECC and AMPCO both pointing out that the July 26, 2018, filing date met the established Board criteria. SEC felt that a February 1 date was reasonable, suggesting that Hydro One SSM somehow should have known, prior to filing, that Staff would ultimately be filing evidence of their own in response to the PSE study. Of note is the fact that the evidence filed by PEG on Staff's behalf in response to the TFP was not received until February 2019, well after the requested effective date.

Staff suggested March 1, 2019, as a fair effective date on the basis that this Application included the first TFP study received by the OEB. While technically true, the OEB, and its consultant PEG, have previously participated in proceedings that included this type of study from the same author. Therefore, the study is not new or novel to Staff.

Hydro One SSM did recognize that the TFP was a key piece of evidence. In the past, the Working Papers from the study have been requested via Interrogatory. To assist Staff and Intervenors in completing a timely review, the Applicant took the unprecedented step of proactively filing the Working Papers in confidence, for intervenors and Staff to review before any procedural order had even been filed. This submission was completed on August 29, 2018. Interrogatory responses were ultimately not filed until December 7, 2018. Proactive provision of these working papers by the Applicant therefore provided Intervenors, Staff and PEG with an additional 100 days of time to review the fundamentals of the study.

Hydro One SSM maintains that July 26 was a reasonable date to file this application with an expectation of a rate decision by January 1. Moreover, Hydro One SSM took steps to

support the other parties in a timely review of the material piece of the application – the TFP study. Therefore, Hydro One SSM should not be punished monetarily.

## CONCLUSION

Hydro One SSM filed this revenue cap adjustment Application to secure modest, incremental revenue on an annual basis to address the inherent inflationary cost pressures associated with operating and maintaining the Hydro One SSM system.

The revenue cap increase proposed in this Application is forecast to increase UTR by approximately \$550,000, which would impact the total revenue requirement of the UTR by less than 0.04%, equating to a change of less than 1 cent on a typical monthly customer bill. A change this small is not expected to have any impact on the UTR in 2019.

In past proceedings, Hydro One SSM was ordered to file supplementary information along with the revenue cap index, including a full TSP and a more robust scorecard and performance management methodology. These requirements have been met.

Hydro One SSM has made a clear and accurate submission defending the deferral and variance accounts that it currently administers. These accounts cause a revenue requirement reduction of approximately \$95,000.

Hydro One SSM filed its Application in observance of Board guidelines for the timing required for a comparable Revenue Cap application. This allowed reasonably sufficient time for review and adjudication by the requested effective date.

Hydro One SSM therefore submits that this Application meets the requirements for a revenue cap index increase as outlined in Chapter 2 of the OEB's *Filing Requirements for Electricity Transmission Applications* and respectfully requests that the Board approve the Application as submitted.