



EB-2013-0416

IN THE MATTER OF the *Ontario Energy Board Act, 1998*,
S.O. 1998, c. 15, (Schedule B);

AND IN THE MATTER OF an application by Hydro One
Networks Inc. for an order approving just and reasonable
rates and other charges for electricity distribution to be
effective January 1, 2015, each year to December 31, 2019.

**ISSUES LIST DECISION
and
PROCEDURAL ORDER NO. 3
May 20, 2014**

Hydro One Networks Inc. ("Hydro One") filed a cost of service rate application with the Ontario Energy Board on December 19, 2013 under section 78 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, (Schedule B), seeking approval for changes to the rates that Hydro One charges for electricity distribution, to be effective January 1, 2015 and each year thereafter to December 31, 2019. Hydro One is applying through a Custom Incentive Regulation application for a full review of its distribution rates over each of the five years. The Board assigned the application file number EB-2013-0416.

The Board issued a Notice of Application and Hearing dated January 24, 2014. Hydro One supplemented its application with additional material filed January 31, 2014.

The Board issued Procedural Order No. 1 on March 14, 2014 in which the Board established a schedule setting the dates for a series of three technical conferences and a Presentation/Issues Day for this proceeding. On March 19, 2014, the Board issued Procedural Order No. 2, amending the dates for these events and issuing an updated list of parties.

Transcribed technical conferences were held on April 10th, April 23rd and April 30th and a transcribed presentation by Hydro One senior executives to the Board took place on May 12, 2014. Following the presentation, parties discussed a proposed issues list filed

by Hydro One on May 9, 2014. The parties then filed a draft issues list, designated as Exhibit PD 2, for the Board's consideration which contained issues agreed to by all parties and four disputed issues. The Board heard submissions on the disputed issues.

Findings

The Board accepts all of the agreed issues as shown in Exhibit PD 2, with the exception of issue 1.1. Issue 1.1 reads as follows in Exhibit PD 2:

1.1 Is the Custom Application consistent with the Renewed Regulatory Framework for Electricity? Are any modifications to the Custom Application required to make it compatible with the planning requirements and rate-setting methods described in the RRFE Report?

Parties agreed to the second sentence of this issue. The applicant objected to the first sentence arguing that this wording could be interpreted to mean that consistency with the Board's Report on a Renewed Regulatory Framework for Electricity ("RRFE") is a threshold issue, which may lead to rejection of the application before it is fully heard. Hydro One proposed removing the first sentence, submitting that the second sentence was adequate to address compliance with the RRFE.

In response to Hydro One's concern, no party argued that the first sentence should be interpreted as a threshold issue. Intervenors and Board staff agreed that the application should be heard. The Vulnerable Energy Consumers Coalition and The Canadian Manufacturers and Exporters argued that the first sentence of the issue needs to remain on the list. They submitted that an enquiry into the consistency of the application with the RRFE would help the Board decide whether the proposed five-year rate term should be approved and what ratepayer protections might be necessary.

The Board finds that issue 1.1 as proposed should be deleted and the following substituted:

1.1 To what extent does the application reflect the objectives and approaches described in the RRFE Report?

This wording removes the implication that 1.1 is a threshold issue, while allowing consideration of RRFE policy to inform the review of the application and the decision and order that the Board will make in this case. The Board did not agree with the

second sentence of the issue as this sentence could also be interpreted to suggest that modifications had to be made before the application was heard. Hydro One has described the application as being compliant with the RRFE. Issue 1.1 will allow parties to explore that claim without subjecting the applicant to the risk of dismissal without a full hearing.

The Board findings regarding the other disputed issues are outlined below.

Proposed issues 2.6 and 3.3 read as follows in Exhibit PD 2:

- 2.6 Are Hydro One's forecasts (revenue, costs, inflation and productivity) reasonable? Is it appropriate to benchmark Hydro One's forecasts?
- 3.3 Has Hydro One Networks proposed sufficient, sustainable productivity improvements for the 2015-2019 period, and have those proposals been adequately supported by benchmarking?

The dispute with the wording of these issues centred on the words "benchmark" and "benchmarking". Hydro One argued that the wording of the issues should not assume that benchmarking of Hydro One's costs and forecasts is necessary or appropriate for the company, as it is unique. Board staff, supported by Energy Probe Research Foundation, argued that benchmarking was an important element of the rate-setting approach in the RRFE, and should be explicitly recognised on the issues list.

The Board understands the concerns of the applicant, but agrees that explicit recognition of benchmarking should be included in the issues list. The Board finds that the disputed issues should read:

- 2.6 Are Hydro One's forecasts (revenue, costs, inflation and productivity) reasonable? Should Hydro One be expected to provide benchmarking evidence as an indicator of reasonableness?
- 3.3 Has Hydro One proposed sufficient, sustainable productivity improvements for the 2015-2019 period, and have those proposals been adequately supported, for example, by benchmarking?

This wording will focus parties' attention on benchmarking as a recognized element of the RRFE approach to rate-setting, while providing the applicant with the flexibility to identify areas where external benchmarking may be problematic for Hydro One.

Issue 4.1 read:

- 4.1 Are the business planning processes, assumptions and policies used by Hydro One Networks to develop, allocate and disclose its distribution and transmission revenue requirements appropriate?

The Board believes that the focus of the dispute regarding this issue was the word "disclose". The Board did not have the benefit of a full explanation of what was intended by this word. The Board will remove the word "disclose" at this time and will deal with any disputes about the breadth of the issue during the discovery process if it becomes necessary. Issue 4.1 will now read:

- 4.1 Are the business planning processes, assumptions and policies used by Hydro One Networks to develop and allocate its distribution and transmission revenue requirements appropriate?

In Procedural Order No. 1, the Board indicated that the hearing dates for this Distribution application would not be finalized until the Transmission application was filed. The Board understands that Hydro One is unable at this time to provide a definite date for the filing of the Transmission application, and the Board will proceed with the Distribution case. The Board further understands that Hydro One will be filing an update to its evidence by May 30, 2014. The Board considers it necessary to make provision at this time for the following procedural matters:

THE BOARD ORDERS THAT:

1. The approved list of issues for this proceeding is attached as Appendix A.
2. Board staff shall request any relevant information and documentation from Hydro One that is in addition to the evidence already filed, by written interrogatories filed with the Board and served on all parties on or before **June 11, 2014**.

3. Intervenor shall request any relevant information and documentation from Hydro One that is in addition to the evidence already filed, by written interrogatories filed with the Board and served on all parties on or before **June 13, 2014**.
4. Hydro One shall file with the Board complete written responses to the interrogatories and serve them on all intervenors and Board staff on or before **July 4, 2014**.
5. Intervenor or Board staff that wish to file evidence in this proceeding shall do so no later than **July 10, 2014**.
6. Board staff, intervenor or the applicant shall request any relevant information and documentation regarding filed intervenor evidence by written interrogatories filed with the Board and served on all parties on or before **July 17, 2014**.
7. Intervenor that filed evidence shall file with the Board complete written responses to the interrogatories and serve them on the applicant, all intervenors and Board staff on or before **July 24, 2014**.
8. A transcribed Technical Conference shall be convened on **July 21, 2014**, starting at 9:30 a.m. If necessary, the Technical Conference will continue on **July 22, 2014**. The Technical Conference will be held at 2300 Yonge Street, 25th Floor, Toronto. Parties participating in the Technical Conference are requested to file with the Board and copy Hydro One and all other parties, by **July 17, 2014**, a list of issues, questions or matters on which they intend to seek clarification at the Technical Conference.
9. A pre-settlement conference for Board staff and intervenors will be convened on **July 23, 2014** at the Board's offices at 2300 Yonge Street at 9:30 am to discuss intervenor positions for the Settlement Conference.
10. A Settlement Conference among the parties will be convened on **July 28, 2014** starting at 9:30 a.m., at 2300 Yonge Street, 25th floor, Toronto. If necessary, the Settlement Conference will continue until **July 30, 2014**.
11. Any settlement proposal arising from the Settlement Conference shall be filed with the Board on or before **August 14, 2014**. In addition to outlining the terms of any settlement, the settlement proposal should contain a list of any unsettled issues, indicating with reasons whether the parties believe those issues

should be dealt with by way of oral or written hearing. As noted in Procedural Order No. 1, the Board intends to hear as part of the oral hearing issues related to the implementation of the Board's policy and framework for the Custom Incentive Rate-setting option.

12. If there is no settlement proposal arising from the Settlement Conference, Hydro One shall file a statement to that effect with the Board by **August 1, 2014**. In that event, parties shall file and serve on the other parties by **August 13, 2014** any submissions on which issues shall be heard in writing, and for which issues the Board should hold an oral hearing.
13. Any submission from Board staff on a settlement proposal shall be filed with the Board and served on all parties within 7 days from the date any settlement proposal is filed.
14. The oral hearing for this proceeding will begin on **September 8, 2014** at the Board's hearing at 2300 Yonge Street, 25th floor at 9:30 am.

All filings to the Board must quote the file number, EB-2013-0416, and be made electronically through the Board's web portal at <https://www.pes.ontarioenergyboard.ca/eservice/>, in searchable / unrestricted PDF format. Two paper copies must also be filed at the Board's address provided below. Filings must clearly state the sender's name, postal address, telephone number, fax number and e-mail address. Parties must use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at <http://www.ontarioenergyboard.ca/OEB/Industry>. If the web portal is not available parties may email their documents to the address below. Those who do not have internet access are required to submit all filings on a CD in PDF format, along with two paper copies. Those who do not have computer access are required to file 7 paper copies.

All communications should be directed to the attention of the Board Secretary at the address below, and be received no later than 4:45 p.m. on the required date.

Parties should also send all communications and materials for this proceeding to Board staff's Case Manager, Harold Thiessen, at harold.thiessen@ontarioenergyboard.ca and Board counsel, Jennifer Lea, at jennifer.lea@ontarioenergyboard.ca.

ADDRESS

Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4
Attention: Board Secretary

E-mail: boardsec@ontarioenergyboard.ca
Tel: 1-888-632-6273 (Toll free)
Fax: 416-440-7656

DATED at Toronto, May 20, 2014

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary

Appendix A

To Issues List Decision Procedural Order No. 3

Hydro One Networks Inc.

Board File No: EB-2013-0416

May 20, 2014

APPROVED ISSUES LIST

EB-2013-0416

1.0 CUSTOM APPLICATION

- 1.1 To what extent does the application reflect the objectives and approaches described in the RRFE Report?
- 1.2 Has Hydro One Distribution responded appropriately to all relevant Board directions from previous proceedings, including commitments from prior settlement agreements?
- 1.3 What actions should the Board require Hydro One Distribution take at or near the end of the 5-year rate term (e.g. rebasing, plan assessment, measurement of customer satisfaction)?
- 1.4 Is the proposed rate-smoothing mechanism appropriate? Given Hydro One's rate smoothing proposal, should the application include any other ratepayer protection measures such as an earnings sharing mechanism?

2.0 OUTCOMES AND INCENTIVES

- 2.1 Does Hydro One Distribution's Custom Application adequately consider customer feedback and preferences? Have customer feedback and preferences been adequately reflected in the OM&A and capital spending plans?
- 2.2 Does Hydro One Distribution's Custom Application promote and incent acceptable outcomes for existing and future customers (including, for example, cost control, system reliability, service quality, bill impacts)?
- 2.3 Does the Custom Application adequately incorporate and reflect the four outcomes identified in the RRFE Report: customer focus, operational effectiveness, public policy responsiveness and financial performance?
- 2.4 Is the monitoring and reporting of performance proposed by Hydro One Distribution adequate to demonstrate whether the planned outcomes are achieved?
- 2.5 Are Hydro One Distributions' proposed off-ramps, annual adjustments and annual adjustments outside the normal course of business appropriate?

- 2.6 Are Hydro One's forecasts (revenue, costs, inflation and productivity) reasonable? Should Hydro One be expected to provide benchmarking evidence as an indicator of reasonableness?
- 2.7 Is Hydro One's proposed annual reporting and stakeholder engagement process appropriate?
- 2.8 Should the application provide appropriate incentives for line loss reduction?

3.0 PROGRAM AND PROJECT EXPENDITURES

- 3.1 Are the levels of planned operation, maintenance and administration expenditures for 2015-2019 appropriate, and is the rationale for the planning choices appropriate and adequately explained?
- 3.2 Is the level of planned capital expenditures appropriate for the period 2015-2019 and is the rationale for the planning and pacing choices appropriate and adequately explained?
- 3.3 Has Hydro One proposed sufficient, sustainable productivity improvements for the 2015-2019 period, and have those proposals been adequately supported, for example, by benchmarking?
- 3.4 Is the company's effort to reduce line losses appropriate?

4.0 COMMON COSTS AND PROCESSES SHARED BY HYDRO ONE NETWORKS' TRANSMISSION AND DISTRIBUTION BUSINESSES

- 4.1 Are the business planning processes, assumptions and policies used by Hydro One Networks to develop and allocate its distribution and transmission revenue requirements appropriate?
- 4.2 Is the proposed level of 2015-2019 common corporate costs spending appropriate with an adequate demonstration of efficiencies over the 5-year period?
- 4.3 Are the methodologies used to allocate common corporate costs to the distribution and transmission businesses and to determine the overhead capitalization rate for 2015-2019 appropriate?
- 4.4 Is the compensation strategy for 2015-2019 appropriate and does it result in reasonable compensation costs?

5.0 DEFERRAL AND VARIANCE ACCOUNTS

- 5.1 Are the proposed amounts, disposition, discontinuance and continuance of Hydro One Distribution's existing deferral and variance accounts, as set out in the Custom Application, appropriate?
- 5.2 Is it appropriate to include in rate base, effective January 1, 2015, the following in-service assets which are presently recorded as regulatory assets:
 - a) smart meter assets as of December 31, 2013, the costs for which are recorded in variance accounts 1555 and 1556;
 - b) smart grid assets as of December 31, 2013, the costs for which are recorded in account 1536; and
 - c) assets to facilitate distributed generation as of December 31, 2013, the costs for which are recorded in account 1533.

6.0 REVENUE REQUIREMENT

- 6.1 Is the rate base component of the revenue requirement for 2015 as set out in the Custom Application appropriate?
- 6.2 Is the capital structure and cost of capital component of the revenue requirement for 2015 as set out in the Custom Application appropriate?
- 6.3 Is the depreciation component of the revenue requirement for 2015 as set out in the Custom Application appropriate?
- 6.4 Is the taxes / PILs component of the revenue requirement for 2015 as set out in the Custom Application appropriate?
- 6.5 Is the OM&A component of the revenue requirement for 2015 as set out in the Custom Application appropriate?
- 6.6 Is the load forecast a reasonable reflection of the energy and demand requirements of the applicant? Is the forecast of other rates and charges appropriate? Is the forecast of other revenues appropriate?

7.0 COST ALLOCATION AND RATE DESIGN

- 7.1 Are the rate classes and their definitions proposed by Hydro One appropriate?
- 7.2 Is the proposed definition of “seasonal” customer class appropriate? Particularly, is residency an appropriate criterion in defining a class? Has this criterion been applied consistently?
- 7.3 Is the reclassification of customers to reflect findings of the company’s review of existing customer rate classifications appropriate?
- 7.4 Is moving revenue-to-cost ratios for all rate classes to within 98% to 102% over the 2015-2019 period appropriate?
- 7.5 Is the addition of a new “Unmetered Scattered Load” rate class appropriate?
- 7.6 Are Hydro One’s proposed charges for street lighting appropriate?
- 7.7 Is an increase to the fixed charges revenue appropriate?
- 7.8 Are the proposed charges for miscellaneous services over the 2015-2019 period reasonable?
- 7.9 Are the adjustments to reflect the Board-directed line loss study appropriate?
- 7.10 Are the proposed rate mitigation plans appropriate for some customers moving between rate classes in accordance with the results of the rate class review?