EB-2013-0416

ONTARIO ENERGY BOARD

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

AND IN THE MATTER OF an Application by Hydro One Networks Inc. for an Order or Orders approving or fixing just and reasonable rates and other service charges for the distribution of electricity as of January 1, 2015.

FINAL ARGUMENT
OF THE
SCHOOL ENERGY COALITION

October 15, 2014

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1 OVERVIEW

1.1 *Introduction*

1.1.1 Hydro One Network's Inc. ("Hydro One") filed an application (the "Application") with the Ontario Energy Board ("the Board") for orders setting rates for each of five years, beginning January 1, 2015. The Application seeks $7,791M between 2015 and 2019[1], an increase in the revenue requirement of approximately 6.3% a year.[2] The Application also seeks significant changes to Hydro One's cost allocation and rate design. The proposed revenue requirement increases, combined with the proposed cost allocation and rate design changes, will lead to rate increases for Ontario's schools that would be manifestly unreasonable.

1.1.2 This is the Final Argument of the School Energy Coalition ("SEC").

1.1.3 The ratepayer groups who intervened in this proceeding have worked together throughout the hearing to avoid duplication at all stages, in some cases also exchanging partial drafts of their final arguments. We have been assisted in preparing this Final Argument by that co-operation amongst parties in this process.

1.1.4 While the application is made pursuant to the Board's *Renewed Regulatory framework for Electricity Distributors* (the "RRFE") under the custom incentive rate-making ("Custom IR") option[3], it does not conform to the requirements for one. To its credit, Hydro One does not seem to hide the fact that it is not a Custom IR application. It has been upfront that it considers it what it calls a "Custom Cost of Service Application". In SEC's view, the custom element provides greater protections for Hydro One than it previously sought in its past 2 year cost of service applications, without any incremental benefits to ratepayers.

1.1.5 The Hydro One's position is that while the Application does not have the same name as a Custom IR, it still fits within the Board's guidance for one as set out in the RRFE.[4] SEC disagrees. Hydro One's Application does not:

(a) provide a sharing of benefits with ratepayers,

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[1] A-3-1, p.5
[2] J3.3, Attachment 1, p.2
[3] Tr. 1, p.29
[4] Tr. 1, p.29

(b) indicate adequate continuous improvement in its performance, and

(c) most importantly, does not provide the Board with any evidence that its cost forecasts are reasonable.

1.1.6 The application does not provide value for customers, which is the basic paradigm at the heart of the Board's RRFE. Custom IR is not supposed to be synonymous with an application for high rates to underpin a lot of spending.

1.1.7 While Hydro One has once again relied on the uniqueness of its geography to explain why its rates are among the highest in the province[5] and its reliability the worst, it does not provide a rationale for why it is by far the least productive both in absolute terms, and also compared to its predicted costs. Hydro One conducted no benchmarking of its costs, nor provided any independent analysis of its capital plan, both important aspects of the RRFE. At the same time, Hydro One's reliability is also not expected to improve within the test period. While its costs are going up significantly both in terms of the annual increase in revenue requirement, and on the basis of rates that will be charged, ratepayers are not receiving any added value. Hydro One's own customer benchmarking survey shows that only 54% of its residential customers consider it to have good value for money, one of the lowest levels in the country.[6]

1.1.8 The rate increases as proposed, driven by both the revenue requirement, and the proposed changes to the cost allocation and rate design, are unreasonable. For an average school in Hydro One's UGd and GSd class, it will see an increase in distribution rates over the five year term of 74.30% and 76.96% respectively.[7] Rates that increase by that amount over five years cannot objectively be considered "just and reasonable", unless the starting point is already unreasonably low. Of course, in this case the opposite is true.

1.1.9 Hydro One has the highest, or among the highest, rates for any utility in Ontario.[8] Its productivity as calculated by its actual cost compared to forecast costs is the second worst, by a significant margin.[9] In fact, Hydro One is such an outlier that it

[5] Tr.1, p.41-42
[6] I-2.6-11 EP 23-Attachment 1. K1.1, p.64.
[7] I-7.04-9 SEC 6. I-7.04-9 SEC 64.
[8] At the hearing Ms. Frank stated that she confirm this fact because she had not done the research (See Tr.1, p.41-42). SEC has reviewed all 2014 rates and prepared a table showing the base distribution rates for all utilities GS>50 customers. The information shows that Hydro One GSd customers are pay the highest rates in the province, and UGd pay the seventh highest. (**See Appendix A**).
[9] Pacific Economics Group, *Empirical Research in Support of Incentive Rate-Setting: 2013 Benchmarking Update –*

had to be removed from the calculation of the Board's industry productivity factor and the expectation of the Board is that it will remain so until it is no longer an outlier.[10]

1.1.10 Both striking and worrisome to SEC is that, throughout the evidence in this proceeding, it is clear that Hydro One does not even have a plan, not just within the test period, but even in the longer term, to get its costs or its reliability in line with what is accepted as reasonable for the rest of Ontario's distributors. There has been no indication from Hydro One that in 2019, when it comes in to set its rates for another five years, its proposal will be anything but another significant increase in rates.

1.1.11 When asked directly about where its long-term plan is, Hydro One simply provided its view as to why its costs will always be higher. Regarding reliability, its answer was even more direct; Ms. Frank was clear that "[t]here's certainly no plan to improve the reliability".[11]

1.1.12 SEC submits this attitude and approach is unacceptable. The Board should send a clear and uncompromising signal to Hydro One that it must get its costs under control. The Board should not approve a five year Application which is both non-compliant with the RRFE, and knowingly – as if it were OK - exacerbates the problem of high costs, high rates, and bad reliability.

1.2 ***Summary of Positions***

1.2.1 As described in detail throughout these submissions, this application does not conform to either the specific criteria of the RRFE for a Custom IR, or its broad goals. It does not provide value for money to customers, it does not provide the sharing of benefits, and it is not based on an objective and reasonable forecast of cost. It is in most important respects non-compliant with the RRFE.

1.2.2 ***Reject the Custom IR Application and Set 2015 Rates Only***. In SECs submission, the appropriate response of the Board is to reject the Application, while allowing Hydro One the right to file a new Application, in compliance with the RRFE. In SEC's view, if the utilities conclude that there are no consequences for ignoring the Board's expectations, they will continue to do so. Conversely, if the Board rejects

Report to the Ontario Energy Board, dated July 2014, Table 4.
[10] *Report of the Board: Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach*, dated October 18, 2012 ("RRFE"), p.14
[11] Tr.1, p.44-45

the current Application, every regulated entity in the province will understand that the Board is serious about delivering value for money to customers. The Board could set Hydro One's rates based on the evidence in this Application, and with necessary reductions, for a single test year, 2015. Hydro One can then either continue for 2016-2019 on 4th Generation Incentive Ratemaking ("4GIRM"), or it can bring an application at a later date for a Custom IR that is compliant with the RRFE**.**

1.2.3 ***Alternative Method: Approve rates over a 5 Year Term, but with significant modifications and revenue requirement reductions***. If the Board concludes that the Application should not be rejected, SEC recommends in the alternative that the Board ensure the rates are "just and reasonable" by accepting a 5 year term, with significant modifications to the parameters of the plan, as well as significant reductions in the proposed revenue requirements detailed within these submissions. The Board should ensure that by the end of the plan, Hydro One's costs are not so outside the norm with respect to Ontario distributors that they continue to be an outlier.

1.2.4 SEC has proposed specific modifications and reductions through these submissions.

2 RRFE AND PLAN STRUCTURE

2.1 *Introduction*

2.1.1 The Board sets rates using two general methods, the Forecast Method which is used primarily for cost of service applications, and the Empirical Method, used for most IRM applications. The Forecast Method relies on forecasts of future cost levels by the Applicant from a bottom up approach. The Empirical Method relies on forecasts of reasonable cost levels from past data and trends, i.e. a top down approach.

2.1.2 The Board's Custom IR approach set out in the RRFE is a combination of both of these methods. It envisions aspects to be determined using the Forecast method, but annual adjustments through the plan based on the Empirical Method, such as a productivity factor and, on a case-by-case basis, a stretch factor. The RRFE explicitly requires external benchmarking to determine the reasonableness of the forecast elements of the proposed application.

2.1.3 The Hydro One application is entirely based on the Forecast Method, as a multi-year cost of service application. As discussed below, there was no benchmarking to determine from a top-down perspective what the appropriate level of costs should be. Nor was there any proposal for an externally driven productivity or stretch factor mechanism.

2.1.4 The structure of the plan does not properly reflect a fair sharing of risks and benefits between ratepayers and Hydro One. While there are a host of adjustments, either annually or driven by external factors, there are no meaningful "checks" on the forecasting of costs through external benchmarking of costs, or any protection of ratepayers by way of earnings sharing or variance accounts to capture forecast error. Even Hydro One's proposed outcome measures, which it says are for the purpose of monitoring progress of its proposed plan, provide no actual incentives or disincentives, and, as described further in these submissions, do not actually measure the metrics that truly matter to customers.

2.2 *Sharing of Benefits*

2.2.1 The RRFE contemplates that a Custom IR plan will include sharing of benefits by way of a productivity factor and, on a case-by-case basis, a stretch factor.[12] Hydro

[12] RRFE, p.13

One has proposed neither a productivity nor a stretch factor.[13] In its view, it has provided benefit sharing by building into its forecasts appropriate productivity savings.[14] SEC submits that the Hydro One approach is not consistent with the RRFE, and in any case the amount of productivity savings (if any) built into rates is wholly inadequate. In effect, Hydro One sets up a straw man budget, then reduces it to a still quite unreasonable level, and says they are being productive.[15]

2.2.2 The goal of all three of the RRFE rate-setting options is to encourage a utility to be more efficient, which benefits ratepayers by keeping costs down, while providing the utility with the financial incentive to do so. The Board could have included a rate-setting option which was a strict multi-year cost of service, but it did not. A method of sharing benefits through either an explicit or an implicit productivity or stretch factor, or both, is at the heart of the Board's RRFE under all three rate-setting approaches. While it's most recognizable in the 4th Generation IR and Annual IR Index methods, it's still fundamental to the Custom IR approach. The Applicant is still required to include it in its application.

2.2.3 In addition, even if the forecast productivity savings were real, simply forecasting productivity savings that can be identified at the time of the application, is an inadequate incentive. It does not create an incentive for a utility to seek out further productivity gains that it did not or could not forecast. These would include new technologies and processes that are simply not available or may not be feasible at this time but will be during the 5 year term of the plan. It also does not encourage continuous improvement.

2.2.4 Hydro One's proposal to reinvest any additional productivity savings it can achieve (that are not built into its forecasts), into its capital and O&M program, instead of returning it to ratepayers, has the effect of acting as disincentive to find (or invest in) further savings. [16] If taken at its word[17], reinvesting savings not forecast, back into Hydro One's work program, while on the surface may seem like a benefit to Hydro One's ratepayer – it is not. Hydro One, while a publically regulated utility, is

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[13] Tr.1, p.45
[14] Tr.1, p.46
[15] This is not our read of the meaning of the RRFE.
[16] Tr.2, p.93
[17] While it might be Hydro One's intention to do this, it would seem to be in conflict with the intention of its shareholder the Province. The Premier's Advisory Council on Government Assets (see K4.3) is examining how to get the most out of key government assets to generate better returns and revenues for Ontario." For a regulated distributor like Hydro One, it is only able to generate better returns and revenues for Ontario's (taxpayers) by either, a) over-earning during a test period by spending less than it forecast, and/or b) increasing its capital spend so that it can earn a return on a larger rate base.

still required to act as a commercial enterprise.[18] The ability to earn a return on equity above the Board's annual targeted ROE by becoming more efficient and productive is what provides regulated enterprises with the incentive to do so. Seeking out efficiencies and becoming more productive are rarely cost-free upfront. They often require an upfront financial cost (e.g. a new capital or IT investment), and will always have a small cost in terms of labour time to seek them out, and a disruption from how things were done before. If there is no financial gain for Hydro One, then there is no benefit to them seeking out these efficiencies.

2.2.5 Even if Hydro One overcomes this lack of internal incentive, its proposed reinvestment proposal will create greater costs for ratepayers in the longer term. First, if OM&A savings are reinvested into capital programs, then ratepayers will not only not get the benefit of the savings during the test period, they will have to, 1) pay the full cost of the incremental asset through depreciation expense over the life of the asset, and 2) pay the return on equity on the undepreciated cost of the asset. Since Hydro One has confirmed that any OM&A savings will be reinvested in capital, not on a dollar for dollar but on a revenue requirement impact basis[19], over the life of the capital asset, ratepayers will be paying more than 10x the cost of the savings. Second, if OM&A savings are invested in other O&M work programs, then the costs going into Hydro One's next application will be artificially higher than what they actually would have been.

2.2.6 The most galling thing about the promise to reinvest savings is the assumption implicit in the statement: "We will spend as much as we have available, with no regard at all for the long term impacts on our customers' bills". This tells the Board that Hydro One is not interested in reducing costs. It is only interested in spending what is in its budget. If the Board gives them more, they will spend more, and presumably the converse is also true. SEC therefore believes that, consistent with that principle, the Board should give them less.

2.2.7 As the second least productive utility in Ontario, Hydro One has been assigned to stretch factor Group V (-0.6%).[20] Yet when reviewed on an apples-to-apples basis, Hydro One's own analysis of its imbedded stretch factor is less than half of what would be expected for a Group V utility. While Hydro One claims that it's

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[18] I-1.1-10 CCC 3- Attachment 2, Memorandum of Agreement, Section B2.
[19] See J5.11
[20] PEG Group: *Empirical Research in Support of Incentive Rate-Setting: 2013 Benchmarking Update: Report to the Ontario Energy Board, July 2014*

imbedded productivity savings yields an implicit X-Factor of 0.85%[21], their calculation is fundamentally flawed.

2.2.8 First, their calculation assumes that $1 in capital savings equals $1 in revenue requirement savings. This is incorrect and when corrected, yields an X-Factor of 0.79%.[22]

2.2.9 Second, and more importantly, Hydro One uses a base year of 2014 to calculate the implicit X-Factor over the life of the test period. This method is inconsistent with the method the Board would use under 4GIRM. In 4GIRM, the Board sets rates through a cost of service application to determine what reasonable base rates are for the term of the plan (thus the term "rebasing"). For Hydro One, 2014 was not a cost of service year, and so is not an appropriate base year for the calculation of any implicit X-Factor. When corrected by using the 2015 proposed costs as the base, and calculating the proposed incremental productivity savings from 2016-2019, Hydro One's implicit X-Factor drops to 0.29%.[23] While Hydro One claims that such an adjustment to the calculation does not provide a fair assessment of productivity savings throughout the term of the plan[24], it is important to recognize that even under 4GIRM, a utility is expected to have productivity savings in its rebasing year. Hydro One is not unique.

2.2.10 Through the evidence and the oral hearing, Hydro One has relied on what it claims are significant productivity savings embedded in the application. SEC submits that the charts and calculations are misleading. Only *incremental* productivity savings in the test period are relevant. Continuing to count total savings from initiatives undertaken, in some cases since 2010, provides no insight in Hydro One's actual test period productivity initiatives. The further back in time one goes, the greater the level of total productivity savings it could claim to have achieved.[25]

Productivity Savings

	2015	**2016**	**2017**	**2018**	**2019**
Total Savings	$118,433,612	$126,505,900	$130,342,603	$131,341,646	$131,507,642
Incremental Savings	$27,739,324	$8,072,288	$3,836,703	$999,043	$165,996

source: A-19-1-Table 1

[21] J2.3
[22] J4.2, Part 1
[23] J4.2, Part 2
[24] J4.2, Part 2
[25] Go back to 1950, so that all the benefits of the information technology age can be counted, and cumulative productivity to date will be astronomical.

2.2.11 A review of the incremental savings on a year-over-year basis shows that, even if there are significant productivity savings in 2015, there is a considerable drop in 2016, and the savings are essentially non-existent by 2018-2019. One would expect the opposite to occur, especially as Hydro One is proposing to spend significant capital during the test period. Ultimately, it does not appear that Hydro One's capital plan or operational improvements will provide for much, if any, incremental productivity savings. This is of significant concern to SEC and should be to the Board as well.

2.3 *Outcome Measures*

2.3.1 Hydro One has put specific emphasis in its application on its outcome measures. These eight measures which would be reported on annually are, in its view, an attempt to focus on its planned investment.[26] SEC submits the outcome measures are fundamentally flawed for the following reasons:

2.3.2 ***Many do not actually measure outcomes.*** A number of the "outcome" measures proposed by Hydro One do not actually measure outcomes. An outcome must be about more than measuring an activity; it should be about measuring the intended aim of undertaking a certain activity. As the Board correctly stated in the RRFE:

> The Board believes that emphasizing results rather than activities, will better respond to customer preferences, enhance distributor productivity and promote innovation.[27]

2.3.3 Many of Hydro One's outcome measures are about only measurement of an activity. As an example, Hydro One proposes to measure the number of poles it will replace in any given year. A utility does not replace poles for the sake of replacing poles. It does so because it improves or at the very least, maintains reliability or safety. More importantly, customers do not care that Hydro One replaces poles in and of itself. Customers care because it will improve or maintain their current level of service. That is the actual outcome that should be measured. Measuring poles is actually an input. Hydro One itself recognizes this in certain instances, and has some of its outcome measures based on the number of interruptions caused by a given activity. Activities such as pole replacements and PCB line equipment are not outcome measures.

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[26] A-4-4, p.5
[27] RRFE, p.2

2.3.4 ***Outcomes Can Easily Be Gamed.*** One of the major concerns is that almost all of the outcomes can easily be gamed to ensure that Hydro One meets its target in any given year. For targets that are simply based on inputs (e.g. number of pole replacements), Hydro One can ensure that it meets the targets by either spending more than it had originally planned in that area (and conversely less somewhere else) or doing the "easy" ones.

2.3.5 Hydro One admits that it has done this before. Mr. Brown testified that in 2013, after having to divert some funding from its poles budget due to force majeure events, it undertook to do the easy poles because it had made a promise to the Board to do a certain amount in its 2012 ICM application:

> MR. BROWN: ...
> At the same time, we had made a commitment to the Board to get our pole replacement program done, and we had promised to get 11,000 poles replaced, and so in 2013, we actually chose to do much more rock or much more earth-set poles that were smaller in nature and had less equipment on them (a) to save money to balance the overall budget, but (b) to also demonstrate that we can get the work done. And so when you look at what a year of doing, I will call it, the easy poles does is that it pushes the more difficult and more expensive poles into the future.[28]

2.3.6 When asked how the Board can have comfort that this would not happen again, Mr. Brown said that it likely would happen again, but "our intention, though, is to have a balanced pole program that considers all of the poles requiring replacements that are in our program".[29] SEC des not dispute that it is Hydro One's *intention* to do that. What is of concern to SEC is that due to other factors that may be occur, Hydro One won't be able to complete its program. The problem is that because of the way the activity is measured, the Board and intervenors would have no visibility about what is really going on in regards to this capital program. This would not allow the Board and the public to monitor the actual progress of the capital program in its entirety.

2.3.7 The other way in which the metrics can be gamed is that Hydro One may simply spend more than planned to achieve the target outcome. As an example, Hydro One plans to measure the success of its vegetation management program by measuring the number of vegetation-caused interruptions. If Hydro One is behind on its vegetation management program, it can simply spend more money than forecast,

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[28] Tr.4, p.183
[29] Tr.5, p.157

(and less in another area that it said was important in the Application), so that it can meet its target. Ratepayers in the case may not be better off.

2.3.8 Again, Hydro One has recognized that this incentive may exist. In its Argument-in-Chief, it argued against imposing penalties or rewards for its measures, because "[t]he unintended impact of inappropriate targets might result in a redirection of spending to get that reward".[30] SEC submits that, even without a potential penalty or reward, the same reduction of spending to meet the target may very well occur. That is why per unit measures are more appropriate, because they measure a unit of output against a unit of input.

2.3.9 ***None of the outcomes measure costs.*** Hydro One's own customer surveys say its customers are concerned about two things, price and reliability.[31] Yet, while some of its proposed "outcomes" involve elements of reliability, none involve price. Where is the outcome measure - that would be meaningful to the customers and the Board - that measures how cost-effectively Hydro One is achieving its goals?

2.3.10 This is especially important considering the significant capital program for which Hydro One is seeking approval. Using unit cost measures for its major capital programs should have been an integral component, as it truly provides an outcome measure for customers. This is especially important given Hydro One's abysmal level of productivity, and it would be consistent with the Oliver Wyman Study, which Hydro One itself commissioned.[32]

2.3.11 Outcomes must be about achieving results. The RRFE discusses outcomes, not in the context of a simple distribution activity, but ones that ensure that "Ontario's electricity system provides <u>value for money</u> for customers".[33] [emphasis added]

2.3.12 ***Targets Are Two Low.*** SEC submits that the outcome measure targets are simply too low. While it is important that the goals be realistic, they should not be so easy to achieve that they are essentially meaningless. Many of Hydro One's targets are at or below historic actuals. As an example, Hydro One's targeted number of vegetation caused interruptions for the test period is, on average, above the number of interruptions over the last 5 years.[34] Considering Hydro One is planning to spend

[30] Tr.8, p.16. A fair translation of this surprising comment is We are prepared to measure and report on certain results, but we don't want to be incented to achieve those results in any way."
[31] This is true of almost every customer surveys by every Ontario regulated utility
[32] Tr.1, p.77
[33] See I-3.3-0 SEC-30-Attachement 1, p.2.
[34] A-4-4, p.6

almost $200M more over the test period than it had in the previous 5 years, the target is hopelessly low. The target should be increasing reliability.. A similar issue is evident for the targets regarding the number of distribution line equipment interruptions, and the number of substation caused interruptions.[35]

2.3.13 ***No Consequences.*** Hydro One has been quite clear that while these outcome measures are important to the Application, there are no consequences or rewards for Hydro One to achieve them.[36] This does not just refer to financial rewards or penalties. There are not even any regulatory consequences being proposed. This provides no incentive for Hydro One to strive to achieve the outcomes, no visibility for parties, and no way to re-open the term of the plan if there is material deviation.

2.3.14 Whether or not it is preferable at this time to set financial consequences for not meeting appropriate outcome measures (which SEC does not believe the proposed ones are), they should at the very least be tied to some sort of regulatory consequences such as a review by the Board of Hydro One's progress of the plan.

2.4 Benchmarking

2.4.1 ***Hydro One Did No Cost Benchmarking.*** The RRFE requires benchmarking to ensure that a distributor's forecast costs are reasonable and appropriate. In the Board's Decision in EB-2012-0459 ("*Enbridge*") it commented on the rationale for this requirement:

> In its RRFE Report, the Board indicated that a distributor applying for Custom IR would need to file robust evidence and external benchmarking to support the reasonableness of its forecasts, especially given the recognized incentive to over-forecast, the uncertainties with long-term forecasting, and the level of rate increases projected (higher than under traditional IR).[37]

2.4.2 Not only has Hydro One not conducted a total cost benchmarking study[38], which the Board said, in *Enbridge*, is required or any analysis would be inadequate[39], it did not undertake any cost benchmarking whatsoever to support its application. The only benchmarking information that was provided involved information on a few specific costs areas, and none that were recent, and were only produced after being requested to do so during the interrogatory phase. Hydro One undertook no overall

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[35] A-4-4, p.10-12.
[36] Tr.1, p.69-70.
[37] *Decision with Reasons (*EB-2012-0459), July 17 2014, p.6
[38] Tr.1, p.32
[39] *Decision with Reasons (*EB-2012-0459), p.7

cost benchmarking on its forecasted capital, or OM&A costs. [40] Unlike in *Enbridge*, which the Board found had a flawed benchmarking analysis, Hydro One has not even attempted to do any meaningful external cost comparisons.

2.4.3 Hydro One did no benchmarking against other members of the EDA[41], and voluntarily stopped participating in the First Quartile Benchmarking Community.[42] In its rationalization for doing so, Mr. Struthers could only point to some vague understanding that Hydro One was under some resource constraints.[43]

2.4.4 Benchmarking is not just a requirement under the RRFE, but it is also mandated by Hydro One's shareholder. Hydro One's Memorandum of Agreement with the Provinces requires benchmarking its performance metrics against other utilities, including international utilities.[44]

2.4.5 Hydro One's view is that the main reason for not undertaking benchmarking is that other utilities involved in many of the studies are not comparable to it because of the geography of its distribution territory. It considers its real comparators, not other Ontario distributors, but distributors like BC Hydro, New Brunswick Power, and Manitoba Hydro.[45] Yet, Hydro One did not undertake a benchmarking study to compare itself with these organizations. Further, it has no plans to undertake any benchmarking during the test period[46], or productivity study to create a baseline to measure the performance of its plan.[47]

2.4.6 While Hydro One may complain about the lack of comparable utilities, or broader benchmarking initiatives, the truth is, it has simply determined that it will not partake in any of these studies. SEC submits this is likely because it knows that it will fair extremely poorly and the Board, correctly, will draw negative conclusions about its performance and costs. Benchmarking is an important component to the Board's rate-setting processes, especially under the RRFE, and Hydro One should not avoid the consequences of poor performance relative to its peers by not conducting or participating in any studies.

[40] Tr.1, p.32
[41] Tr.2, p.70
[42] Tr. 4, p.34
[43] Tr. 4, p.34
[44] I-1.1-10 CCC 3-Attachment 2, G2
[45] Tr. 3, p.187. I-2.06-11 EP 23
[46] Tr.1, p.90-91
[47] Tr.1, p.85

2.4.7 ***Confidentiality.*** Hydro One has commented that industry benchmarking studies are being cancelled and curtailed due to "potential misuse of confidential data", and "mishandling of comparisons (e.g. costs but not reliability)."[48] The issue of the confidentiality of benchmarking information was also of interest to the Board panel members during their questions of Panel 2.[49]

2.4.8 SEC cautions the Board to be anything but very skeptical about the comments made by Hydro One regarding the reluctance of parties to undertake benchmarking activities. Hydro One's lone example is that of the Canadian Electricity Association ("CEA") decision to end their benchmarking activities. It should be noted that the issue with the CEA was not public dissemination of individual participants' benchmarking information, but any dissemination of the information, even on a confidential basis. In EB-2012-0031, on a motion brought by SEC, the Board ordered Hydro One to produce CEA benchmarking information that it had relied upon in its application.[50] Even though the Board granted Hydro One confidential treatment of that information pursuant to *the Practice Direction on Confidential Filing*, the CEA filed an application to review, and threatened an appeal to the Divisional Court to block production.[51] Ultimately, the dispute was resolved among the parties, but it was clear that the issue for the CEA was never about public disclosure of the information.

2.4.9 It is SEC's view that what is happening is that distributors are increasingly seeing that the Board, and other regulators, are utilizing benchmarking information in determining just and reasonable rates. Distributors that do not benchmark well do not want to be compared to others because of the obvious inferences that will be drawn.

2.4.10 The information contained in these benchmarking studies is not commercially sensitive and thus should not require confidentiality for the usual reasons. Distributors are monopoly service providers, whose rates are regulated by this Board, or another provincial or state regulatory body. The information that would be the basis of those studies would in any individual rate proceeding be publically disclosed. SEC does not agree that on an aggregate basis, distributors would have a legitimate fear of disclosure, even on a confidential basis. From time to time, benchmarking specialists with unique, proprietary algorithms do studies that would

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[48] I-2.06-11 EP 23
[49] See Tr.4, p.84-85
[50] Motion Hearing, Transcript, p.27
[51] CEA Letter to the Board, dated October 25th 2012 (EB-2012-0031).

be of interest to the Board. In those rare cases, it might be appropriate for the Board to consider maintaining the secrecy of those algorithms, which the specialists have developed at considerable cost (while still maximizing transparency). General total cost or reliability benchmarking does not fall into that category.

2.4.11 While on the surface it may seem like an appropriate compromise to simply redact the name of the non-applicant participants in a benchmarking study, SEC urges the Board to still allow parties to review a fully un-redacted version of the benchmarking study on a confidential basis. Disclosure of only the names of participants of a given study, without showing their individual data, would be inadequate. It would not allow parties to properly test the appropriateness of the study by determining how a given utility ranks against a particular subset of participants which would be more appropriate. In effect, the Board and the parties would become hostage to the study author's methodological judgments (such as selection of appropriate peer groups), which would not be transparent. Each study would become a kind of "black box", and would not have any evidentiary value because it would be incapable of being tested.

2.5 ***Earning Sharing Mechanisms***

2.5.1 As recognized by the Board in the *Enbridge* Decision, there is an incentive for a utility to over-forecast when applying to Custom IR, as compared to traditional IR.[52] Since Hydro One has provided no benchmarking to help the Board determine the reasonable of its forecast costs, an earning sharing mechanism ("ESM") is a must to ensure ratepayers are protected. While Hydro One has opposed the inclusion of an ESM, the Board should require one to be included on the same basis as was ordered in *Enbridge*[53] and agreed to by parties in Horizon's recent Custom IR application[54], that of a 50-50 split on over-earnings without a deadband. While Hydro One has stated that establishing an ESM would be difficult because of the complexity associated with smoothing proposal[55], it has recognized that it is possible and put forward a description of how it could be done in Undertaking J2.4.

2.5.2 Hydro One has also rejected an ESM on the basis that it does not have a history of over-earning.[56] While that is correct with respect to this distribution business, it is not with respect to its transmission business which has consistently and

[52] *Decision with Reasons (*EB-2012-0459),, p.6
[53] *Ibid.*, p.14-15
[54] EB-2014-0002, Settlement Proposal, dated September 22nd 2014, at p.29-30
[55] Tr.2, p.94
[56] Tr.2, p.90-91

significantly over-earned.[57] More importantly, Hydro One has never had its distribution costs set for a five year term.

2.5.3 SEC accepts that the main problem with Hydro One is not over-earning, but cost control, and that is the focus of these Submissions. However, providing the ratepayers with protection in the event that Hydro One's costs do turn out to be overstated is also valuable[58].

2.6 ***In-Service Additions Forecast and Ratepayer Protection***

2.6.1 One area of significant concern is Hydro One's ability to bring into service, in any given year, its forecast level of capital. The large size of the capital budget, the length of the plan period, and the level of risk that Hydro One will not be able to meet its in-service additions plan is significant. One of the large drivers of the uncertainty is the simple capability of Hydro One to execute such a large capital work project.

2.6.2 This is highlighted by Hydro One's own corporate goals, which do not even require it to bring into service its entire capital plan. Hydro One's 2014 scorecard in-service capital target is only 87% of plan.[59] Further, the plan amount does not mean a Board approved amount. As was shown during the hearing, in 2014 the plan amount for transmission was significantly less than the Board approved amount for that year.[60] If Hydro One's corporate objectives, to which senior management's compensation is tied, are not set at level to require anything close to 100% of its Board-approved in-service additions in a given year, then what other incentive is there to do so? If the Board of Directors believe a reasonable level is 87% of plan, then so should the Board.[61] Mr. Struthers admitted that the target will also not be 100% for 2014.[62]

2.6.3 SEC submits that for whatever final in-service amount the Board approves for each of the test periods, the Board should set up an asymmetrical variance account to

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[57] Hydro One (Transmission) Actual regulated ROE - 2010: 11.5%, 2011: 10.9%, 2012: 12.4%, 2013:13.2% (See EB-2014-0140, III,iii-I-10-5-p.1).
[58] If SEC thought that the cost forecasts were reasonable, and that Hydro One is incented to maximize its earnings through further cost controls, it might be in the ratepayers' long term interests to forego overearnings in order to get future lower costs. Hydro One has made very clear that reducing costs to increase earnings is not part of its corporate culture, so earnings sharing would have as its primary function protection from overforecasting.
[59] TCJ1.14-Attachment 2, p.3
[60] K4.2 at p.9
[61] Tr.4, p.24
[62] Tr.4, p.25

track the revenue requirement impact of any underspend through the term of the plan. A similar proposal was agreed to in Hydro One's 2015-2016 Transmission settlement proposal[63], as well as in the recent Horizon Custom IR settlement.[64] An important common feature to both those variance accounts is that they allow the utility to reduce any balance in the account due to underspend in one year by catching up on the work in a subsequent year.

2.7 ***Off-Ramps***

2.7.1 Hydro One has proposed several off-ramps which would allow the Board to review and potentially re-consider the plan within the five year term.

2.7.2 First, it has proposed what SEC would consider "regular" off-ramp provisions that are common to 3rd and 4th GIRM, such as, if Hydro One's i) actual regulated ROE is outside the 300 basis points earning band, and ii) if its performance erodes to unacceptable levels.[65]

2.7.3 Second, it has proposed two additional off-ramps: i) industry restructuring, ii) major changes in Hydro One's service territory.[66]

2.7.4 SEC has reviewed Board's Staff submissions and, while it agrees with the general proposal that customized off-ramp policies are not necessary, it believes that in some cases[67] it may be appropriate to ensure that the risk sharing between an applicant and ratepayers is correctly balanced. While this does not arise in this proceeding specifically, it may in others, so in our view the Board should not necessarily foreclose the possibility.

2.7.5 Further, SEC does not agree with Board Staff that the proposed events that would trigger the proposed off-ramps would also qualify as a Z-Factor. Board Staff has conflated off-ramps with Z-Factors, which are distinct regulatory concepts. A Z-Factor provides incremental funding (although not necessarily) for an unforeseen event outside of management control, which is material, and incremental. An off-ramp provides a potential re-opening of a distributor's entire plan, or in the context of IRM, another rebasing proceeding, because a distributor has reached or met

[63] EB-2014-0140, Section II, p.14-15
[64] EB-2014-0002, Settlement Proposal filed September 22, 2014, p.32-35
[65] F1-1-2
[66] Hydro One has indicated that the major changes in Hydro One's service territory off-ramp was not intended to be triggered by acquisitions it has and is making by way of MAAD application. (See. Tr. Issues Day, p.50-51, 54-55).
[67] Not in the case of Hydro One.

some pre-determined threshold (e.g. actual ROE is +/- 300 basis points of its approved ROE).

2.7.6 In this case, SEC takes no issues with Hydro One's proposed off-ramps in concept, but feels they are unnecessary. Any major change that is so significant to require an off-ramp, such as the break-up of Hydro One into regional utilities as recommended by the Elston Report and referenced by Hydro One executives[68], would require a review by the Board to consider the impacts. However, an off-ramp is not necessary to make the Board aware that such a review is necessary. Similarly a major industry restructuring will have consequences for regulated utilities, including Hydro One. The Board will probably be able to figure that out without any requirement for a Hydro One off-ramp. In any case, the impacts will extend beyond Hydro One to many other utilities, none of which have an off-ramp. SEC is confident the Board will make sure the consequences are dealt with fairly.

2.7.7 SEC therefore proposes that the added off-ramps are unnecessary, and should not be approved.

2.8 ***Adjustments outside the Normal Course of Business***

2.8.1 Hydro One has proposed that the Board allow it to apply for adjustments relating to causes outside of the normal course of business, which are material, and impact its operations.

2.8.2 SEC submits that the types of events that Hydro One states could trigger adjustments are no different than would normally be appropriate under a Z-Factor and to that extent are thus appropriate. Insofar as Hydro One's examples are simply just that – examples of events that could trigger an adjustment, SEC has no concern.

2.8.3 If it's Hydro One's position that the types of events listed in the evidence automatically trigger an adjustment[69] then that would not be appropriate. No evidence has been led that could lead the Board to conclude that Hydro One needs a different set of Z-factor criteria than other utilities.

2.8.4 SEC submits, to ensure the balance between ratepayers and the shareholders are allocated appropriately, the Board must make it clear, consistent with the Z-factor

[68]Tr. Issues Day, p.54
[69] SEC recognizes that Hydro One has been clear that the prudence of any additional costs will have to be determined. (See Tr. 1, p.105-106)

in the RRFE, that the adjustments must not be only for potential externally driven events that drive costs up, but also those that require reductions. While admittedly this happens much less often, SEC's concern is that ratepayers and the Board have no visibility to any events that could cause material reductions. Hydro One has the ability simply to keep that information to itself during the term of the plan.

2.8.5 An example of where such a reduction could occur is with regards to regional planning. Hydro One has stated that "if any of the Regional Plans created that need for a project in the 2015-2019 period that was outside of the plan and the materiality threshold, an adjustment to requirement would be sought to fund the project".[70] SEC submits it is also possible that the result of a Regional Plan is that Hydro One now does not need to make the same investment that it has included in its plan because, for example, another distributor should, in full or in part.

2.8.6 Hydro One has further proposed a revenue requirement materiality threshold of $7.5M (approximately 0.5% of its test year revenue requirement), as an alternative to the $1M threshold set out in the Board's Filing Requirements for a distributor of its size. Hydro One made that same submission at the time the RRFE was being developed, and it was not accepted by the Board. SEC has seen no evidence to indicate that the situation has changed since then.

2.9 ***Annual Adjustments***

2.9.1 Hydro One is proposing a number of annual adjustments that it believes are mechanistic in nature.

2.9.2 ***Cost of Capital.*** Hydro One is proposing to adjust the cost of capital annually, in the same way they have previously done for their multi-year distribution and transmission cost of service applications. SEC submits that this approach is consistent with *Enbridge*[71] and the settlement in Horizon[72], and thus is appropriate.

2.9.3 ***Working Capital.*** Hydro One proposes to update the working capital component of rate base annually to adjust for changes to commodity costs. SEC agrees with Board Staff that this adjustment is not necessary, as a reasonable forecast should have been made.

2.9.4 ***Clearance of Certain Variance Accounts.*** Hydro One proposes to review certain

[70] A-4-3-p.3
[71] *Decision with Reasons (*EB-2012-0459), p.54-55

clearance accounts that do not require prudence review, because they are Group 1 accounts, or prudence has already been determined. SEC agrees that annual disposition of these accounts is appropriate to avoid a large accumulation of balances.

2.10 ***Rate Smoothing***

2.10.1 Hydro One has proposed a revenue requirement smoothing mechanism. This should not be confused with rate smoothing, although in different parts of the evidence the terms have been used interchangeability. If the Board does approve a multiyear proposal, SEC agrees that it would be in the best interest of ratepayers to have the revenue requirement that underlies rates be smoothed over the test period.

2.10.2 SEC does believe that the Board should require Hydro One to make it clear to its customers that a smoothing approach has been taken. While smoothing is beneficial to customers, it does mask actual year over year increases. Hydro One should remain publicly accountable to its customers for its actual spikes in spending each year.

2.11 ***Smart Grid Reporting***

2.11.1 In EB-2013-0141, the Board approved significant smart grid expenditures, to be collected by way of a rate rider. As part of the Settlement Agreement that the Board approved, Hydro One agreed to: i) variance account protection, ii) in its 2015-2019 application, to file evidence and rationale for its proposed allocation of smart grid expenditures, and iii) also in its 2015-2019 application, to file a proposal "on how best to report upon the progress and result of its smart grid program as part of the custom cost of service rate application annual report".[73]

2.11.2 Hydro One has not complied with the third condition of the Settlement Agreement. On cross-examination, Ms. Frank conflated this aspect with the Settlement Agreement, i.e. with Hydro One's agreement to provide information on the rationale for its proposed allocation of smart grid expenditures.[74]These two aspects of the Settlement Agreement are clearly separate and are unrelated. Hydro One has complied with the latter, but not the former. It has not provided any proposal on annual reporting of smart grid results.

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[72] EB-2014-0002, Settlement Proposal, dated September 22nd 2014, at p.15
[73] EB-2013-0141 M1-1, p.3-4 (K1.1, p.62-63)

2.11.3 SEC submits that tracking and monitoring results of smart grid expenditures is critical to ensuring that these programs are providing value to ratepayers, even if the benefit is not immediate. It was a key trade-off for intervenors in EB-2013-0141 in agreeing to Hydro One's full proposal for approval of $15.8M in OM&A and $29.0M in capital expenditures. The lack of any proposed reporting mechanism is even more significant considering Hydro One is proposing significant smart grid expenditures in 2015 and throughout the test period.

Smart Grid Expenditures ($M)	**2015**	**2015-19**
Development OM&A	2.9	21.1
Operations OM&A	5.3	55.9
Customer Service OM&A	5.7	13.4
Total Smart Grid OM&A	***13.9***	***90.4***
Customer Service Capital	22.5	36.3
Total Smart Grid Capital	***22.5***	***36.3***
source: C1-2-3-p.3, C1-2-4-p.8, C1-2-5, p.20, D1-3-5-p.1		

2.11.4 SEC submits that the appropriate remedy to Hydro One's breach of the Settlement Agreement is to deny recovery of all smart grid expenditures until it brings forth the required plan to report on progress and results of its proposed smart grid plan. SEC submits it would be appropriate to allow Hydro One to bring forward this plan during the test period as an annual adjustment.

[74] Tr.1, p.76

3 CAPITAL PLAN

3.1 *Overview*

3.1.1 ***Capital Planning Concerns***. Hydro One's capital spending plan is significant. It is seeking to add to rate base $3,316M in capital additions during the test period.[75] SEC has struggled through this proceeding to understand how much capital investment is appropriate, and the costs passed on to ratepayers. Hydro One did not file any third-party assessments or verifications of its capital plan, or the underlying asset condition assessments and asset prioritization methodology.

3.1.2 Adding to the complexity is the fact that Hydro One has changed the way it assesses asset condition for the purpose of determining the replacement level, and how it prioritizes which assets within a category to replace. SEC does not raise this as a criticism of Hydro One; if a new methodology or process can be implemented, then it should. The Asset Analytics Tool may well be an example of a new and innovative tool, using a wide range of existing data to determine replacement prioritization within a given asset class.

3.1.3 The problem is that since the Asset Analytics Tool is relatively new, it includes incomplete data for certain asset classes, and it has never been validated by a third party expert[76], it is hard to determine how appropriate its use really is.

3.1.4 Further, it is only one part of the entire capital investment planning process. SEC's main concern is not the prioritization of assets that need to be replaced, but the determination of how many need to be replaced to begin with. While Hydro One is utilizing extensive information in its system for purposes of prioritization through its Asset Analytics Tool, it is not using the same breadth of information to determine asset condition. Significant asset demographic information is apparently included in the Asset Analytics Tool for prioritization purposes, but the underlying determination of how many assets in a given class should be replaced is still generally based on asset age.

3.1.5 SEC submits that the same information that goes into asset prioritization, such as customer impact and economics, should determine not just prioritization of assets to be replaced, but also the total number to be replaced. It is the total number which

[75] D1-1-1, p.6
[76] Tr.3, p.50. Tr.5, p.135

drives Hydro One's capital investment budget.

3.1.6 ***No Third-Party Review or Validation.*** There has been no third-party validation or review of any component of the capital planning process. The Board was clear in the RRFE that it expected distributors to bring forward an expert review of its proposed asset management and network investment plan:

> In addition, the Board sees merit in receiving the evidence of third party experts as part of a distributor's application, or retaining its own third party experts, in relation to the review and assessment of distributor asset management and network investment plans (along with other evidence filed by the distributor).[77]

3.1.7 In *Enbridge,* the Board was not satisfied with the filing of third-party analysis of just some of the programs (something Hydro One has not even done).[78] It comments that "extensive external independent analysis" would have been helpful in determining the appropriateness of the proposed capital plan.[79] For the Board, it had the "expectation in a Custom IR application with a significant capital component that the applicant will provide the necessary support, including…. independent assessment".[80] Hydro One has not even attempted to undertake a third-party independent review of its proposed capital spending and investment planning process.

3.1.8 ***Distribution System Plan.*** The purpose of the Board requiring distributors to file a Distribution System Plan ("DSP") is so that the Board and ratepayers have a better understanding of its investment planning process and resulting capital plan. Hydro One did not actually file a DSP as contemplated by Chapter 5 of the Board's Filing Guidelines. It simply provided cross-references its Application with the requirements of a DSP.

3.1.9 The problem with this approach is that it is very hard for intervenors to properly understand Hydro One's investment process. In fact, it did not actually become clear until Brown's presentation in Hydro One's Examination-in-Chief of Panel 3. While Hydro One took the view that a consolidated DSP would have made comparison with earlier applications difficult[81], SEC submits that due to the

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[77] RRFE, p.37
[78] *Decision with Reasons (*EB-2012-0459), July 17 2014, p.9, p.9
[79] *Ibid.*
[80] *Ibid.*
[81] Tr.TC1, p.7

significant changes that occurred in its planning process anyways, it was already very difficult to compare applications[82].

3.1.10 ***No Long-Term Planning.*** Hydro One's Application is premised on its need for significant capital expenditures over a sustained period of time to renew its system.[83] These increased capital expenditures are a significant reason that Hydro One's rates continue to increase.

3.1.11 Of concern to SEC is that while Hydro One has laid out a 5 year investment plan in this application, it does not appear to have any longer term (10 to 20 year) investment plan that would put its current Application in context of the investment that its system will ultimately need.[84] The reason this is especially important in the context of Hydro One, is that ratepayers must have confidence that there is a plan to finally get over the investment "hump" at some point, so that the level of investment (as a percentage of its depreciation) is in line with other distributors.

3.1.12 SEC submits that the Board should not allow Hydro One to come before the Board, time after time, with massive capital investment plans, but with no plan for when this will end. Hydro One should not be allowed to be an outlier forever. Its predecessor, Hydro One, spent itself into oblivion. That should not be allowed to happen again.

3.1.13 Therefore, the Board should require Hydro One to file a full and complete DSP, with a time horizon sufficient to show when and how Hydro One will have its costs within a reasonable range (twenty years, for example), such plan to be filed within one year from the date of the Board's decision in this proceeding.

3.2 ***Pole Replacement Program***

3.2.1 Hydro One is proposing a significant increase in its pole replacement program, spending approximately $533M over the test period, compared to $323M over the

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[82] At the same time, SEC wants to emphasize that while the Filing Requirements should be followed, it should not be at the expense of form over substance. In SEC's experience reviewing DSPs in other applications, it is clear that some distributors are creating a capital planning process for the purpose of meeting the Filing Requirements, not for the purpose of having better planning processes. Such an approach is even less helpful to the Board and ratepayers than one that meets the Filing Requirements but is disconnected from a distributor's actual planning process.
[83] MR. STRUTHERS: So what Hydro One is proposing is a five-year custom cost of service application, which properly reflects a situation of increased capital spending. Capital spending as compared to depreciation outstrips it in the ratio of almost 2:1. (See Tr. Issues Day, p.39).
[84] Tr.1, p.44-45

previous 5 years.[85] SEC has a number of concerns with the level of expenditures proposed.

3.2.2 ***Pace of Replacements too High***. Hydro One is proposing to ramp up replacements from 10,720 in 2013 (EB-2012-0136 ICM Application) and 11,000 in 2014, to 15,200 a year by 2019. Even at 2011 levels, it is a significant increase over the historical level of replacements, which averaged approximately 7,430 poles per year from 2009-2012.

3.2.3 The evidence does not support the increased pace of replacements. Hydro One's basis for its required replacement level is almost exclusively on the basis of pole age. This is clear as the level of replacements increase, the actual level of 'high risk' poles has decreased.[86] While there is a relationship between age and asset condition, especially with an asset like poles, that is not the sole factor. Other asset condition indicators must be taken into account to determine the appropriate replacement level.

3.2.4 SEC submits that the appropriate level of pole replacements should be 11,000 poles, which is what Hydro One achieved in 2013 and 2014. This amount is still a significant increase on its historic level of pole replacements.

3.2.5 ***Hydro One May Not Be Able To Achieve Its Proposed Level of Replacements***. SEC does not believe that Hydro One will be able to achieve the level of pole replacements that it is forecasting. Mr. Brown's evidence in this proceeding is that Hydro One had issues meeting its previous level of replacements in 2013, but was able to achieve its target by doing the "easy" poles.[87] Since it believes there are no more "easy" ones left, SEC submits it will not be able to achieve the level of replacements forecast, an amount that is significantly more than the level it had a hard time achieving in the past. Hydro One has not provided any evidence to demonstrate than it can actually deliver on its proposed expanded pole replacement program.[88]

3.2.6 ***Pole Replacement Unit Cost Is Rising Significantly.*** The corollary to the above concern is that Hydro One's unit cost for pole replacement is increasing

[85] D1-3-2, p.8
[86] Hydro One indicates that 4% of its poles are high risk (See J5.9). In EB-2009-0096, it indicated 5% were considered to be "poor or very poor). (See D1-2-1, p.7).
[87] Tr.4, p.183
[88] Tr.4, p.183

significantly. Even if the main driver of this is that the "harder" poles are to be done during the test period, there is no evidence of any productivity initiatives to try to contain the unit cost increases. The unit cost for pole replacements is increasing significantly from historical levels even with 2013 removed. Even more concerning is that as the number of poles being replaced increases so does the unit cost per pole.[89] One would expect that the more poles in a year Hydro One replaces, the more efficient and productive they would be. This would lead to a lower unit cost not a higher one.

Pole Unit Cost

	2010	2011	2012	2013	2014
Total Cost $m)	53.6	54.7	55.5	73.9	82.5
Number of Poles Replaced	7,518	7,282	7,452	10,720	11,000
Unit Cost	$7,129.56	$7,511.67	$7,447.67	$6,893.66	$7,500.00
	2015	**2016**	**2017**	**2018**	**2019**
Total Cost $m)	88.7	95.1	105	115.2	128.8
Number of Poles Replaced	11,600	12,200	13,200	14,200	15,200
Unit Cost	$7,646.55	$7,795.08	$7,954.55	$8,112.68	$8,473.68

source: D1-3-2-p.8, A4-4-4-p.8

3.2.7 ***Pole Proactive Maintenance.*** Hydro One has indicated that it does not undertake pole proactive maintenance activities.[90] Mr. Brown was even unaware if Hydro One has even studied the issue.[91] Pole preventive maintenance activities are undertaken in the industry to reduce risks such as rot and decay, and to extend the life of this asset class. SEC submits Hydro One should consider the cost/benefit of these programs as it may potentially be a way to reduce capital costs.

3.2.8 ***Summary.*** A reasonable pace of pole replacements is 11,000 a year, which is a significant increase over historic levels and slightly more than what was approved in Hydro One's 2013 ICM application (EB-2012-0136). Ratepayers should also expect that Hydro One would become more productive as it replaces more poles not less. SEC submits that an appropriate unit cost per pole for the purpose of setting rates is $7,500 a year which is reflective of historical actual pole unit cost. On this basis, the total reasonable pole replacement cost for 2015 would be $82.5M, a reduction of $6.2M, and for the entire term of the plan, a total cost of $412.5M, a reduction of $120.3M.

[89] See AMPCO Final Argument
[90] Tr.5, p.160
[91] Tr.5, p.161

3.3 ***Transformer Replacements and Spares Program***

3.3.1 SEC has reviewed the detailed submissions of AMPCO in these areas and agrees with its analysis.

3.4 ***Station Refurbishment Program***

3.4.1 SEC is concerned with Hydro One's aggressive station refurbishment program, which would if approved increase planned spending from $63.4M over the previous 5 years to $203M over the test period.[92] A significant cause of the increase in spending is the change in capital planning policy. Hydro One previously ran its distribution and regulation stations on a run-to-failure basis.[93]

3.4.2 Hydro One has not provided an adequate rationale for changing its capital planning policy from run-to-failure to pre-emptive replacement. Run-to-failure for many asset classes is an appropriate capital planning policy. Most striking is that even with this change in capital planning policy, and a very aggressive refurbishment program, Hydro One is forecasting no improvement in reliability. Its forecast substation caused interruptions for the test period are the same as the previous 5 years' actuals (average of 2009-2013) and actually equal to or higher than those from 2012-2014.[94] SEC questions the benefit of changing capital planning policies when substantial investment in preventive replacements yields no actual benefits to customers.

3.4.3 Additionally, since 65% of the station refurbishments will include a replacement of transformers, it is important to consider not just general station caused interruptions, but also transformer failures.[95] The evidence when interpreted correctly, by excluding failures avoided, shows that a trend of actual transformer failures decreasing since Hydro One's last cost of service application.[96]

3.4.4 SEC submits that the evidence does not support an increase in station refurbishment spending that is 3.5 times higher than historical average. SEC submits that the Board should reduce Hydro One's forecasted spending in this area to half. This would result in a reduction of $17.3M for 2015, and $101.5M for the term of the

[92] A-4-4-p.10
[93] A-17-4-p.8, D1-2-1, I-3.02 6 VECC 61
[94] A-4-4, p.10
[95] J5.4
[96] Tr.5, p.145. D1-2-1. p.6. EB-2012-0136 B-2-2, p.25 (K5.1, p.21)

plan. While this may seem like a significant reduction, it is still significantly more than the amount spent in the previous 5 years.

4 OM&A

4.1 *Overview*

4.1.1 SEC has significant concerns with Hydro One's overall OM&A as demonstrated by its abysmal productivity rankings and lack of incremental gains proposed during the test year (see Section 2). SEC believes that, on an overall basis, the Board should reduce OM&A to a level that is no more than1.0% higher, each year, than the previous year, starting with 2013 actuals.

4.1.2 With respect to specific OM&A cost items, SEC believes the Board should in addition to an overall reduction in OM&A costs, make appropriate reductions in compensation and vegetation management costs to be included in revenue requirement.

4.2 *Compensation Costs*

4.2.1 ***Compensation Costs Are Too High.*** Hydro One's compensation costs, which have been an issue in many previous proceedings, remain too high. Even though based on the Mercer Study Hydro One commissioned, it is making progress compared to an industry benchmark, compensation for the Society and the PWU remains significantly above the market median. With respect to the Society, compensation costs are going in the wrong direction. They have increased from 5% above the market median in 2008 and 2011, to 9% in 2013.[97] While Mercer shows management compensation at approximately the 50%, the Hay Study summary provided for the first time in Undertaking J4.7, would indicate a different conclusion.[98] Using its data, it shows that management compensation is on average above the 50th percentile.

4.2.2 Hydro One admits that it still has work to do[99], but that in and of itself does not make the amount embedded in its test year budget appropriate, especially when it includes a 2 percent increase per year.[100]

4.2.3 Ratepayers should not have to pay for costs that are above the market median, even though the issue of compensation has been raised in numerous Hydro One

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[97] C1-3-2, p.3. C1-3-2-Attachment, p.2.
[98] J4.7
[99] Tr.2, p.142
[100] Tr.2, p.144

Distribution and Transmission proceedings.[101] A 2% per year increase is only appropriate if it is applied to a reasonable level. The evidence shows that it is not.

4.2.4 The Board should disallow the portion of compensation costs in excess of the median amount for both the Society and PWU. The response to Undertaking J.3.12 provides that if in 2014 Hydro One was at the median, its OM&A would be reduced by $15.38M.[102] SEC submits the Board should reduce Hydro One's compensation costs by at least $15.38 for 2015, and $76.9M over the test period.

4.2.5 ***Better Benchmarking Required.*** Hydro One should also be required to file in its next cost of service or Custom IR application, a compensation study that provides a more accurate sample of comparator organizations. The current study is deficient in this regard.

4.2.6 For the most part, Hydro One does not actually compete for labour with the comparator organizations that Mercer used. Only four of the organizations included are Ontario distributors. The markets for most of Hydro One's employees are other Ontario based utilities, not organizations in other provinces. Further, for many employees who work in finance, accounting, legal, supply chain and other non-operational positions, Hydro One recruits and competes for talent not just with other utilities, but the entire spectrum of public and private organizations. A broad array of organizations, which Mercer would have access to in its general compensation databases, were not included.

4.3 ***Vegetation Management***

4.3.1 A significant portion of Hydro One's test period increase in OM&A costs is due to spending on its vegetation management program. The vegetation management budget accounts for 45% of Hydro One's test year-sustaining OM&A budget. Hydro One proposed to spend $814 M over the test period, an increase from the previous 5 year period of 22%.[103] Just the line clearing component alone is expected to increase by 60% - from $338M from 2010-2014 to $540M - during the test period.[104]

4.3.2 The issue of Hydro One's vegetation management program is not new to the Board.

[101] *Decision with Reasons* (EB-2008-0272), dated May 28, 2008, p. 30. *Decision with Reasons* (EB-2009-0096), dated April 9, 2010, p. 18. *Decision with Reasons* (EB-2010-0002), dated December 23, 2010, p.20.
[102] J3.12
[103] J4.9

In Hydro One's last cost of service proceeding, it was a central issue in both the hearing and the Board's decision. In EB-2009-0905, Hydro One sought increased funding to move from an 8 year cycle to a 7 year cycle.[105] In its Decision, the Board rejected the increased costs:

> The Board concludes that this is an area where spending deferrals or reductions may well be warranted. The analysis suggests that there are net benefits from moving to a 7-year cycle. However, the actual benefits of moving to an 8-year cycle have yet to be demonstrated on Hydro One's system. The Board understands the lag involved between increased spending levels for vegetation management and reduced future expenditures on trouble calls, but it would be appropriate to perform some analysis of actual results at the 8-year cycle before embarking on the significant expense associated with moving to the 7-year cycle.
>
> The evidence also suggests that Hydro One's efficiency level for this activity could be enhanced whatever the cycle length. The significant expenditures associated with moving to the 7-year cycle should be supported by a thorough demonstration that Hydro One has investigated all potential efficiency improvements for this work, for example, greater outsourcing.[106]

4.3.3 The Board was concerned with the efficiency level for vegetation management. This was partly based on the same study filed in this proceeding. It showed that Hydro One's vegetation management activities are double that of other utilities.

4.3.4 Surprisingly, in this application, Hydro One is not seeking an increase in vegetation management costs to move to a 7 year cycle, or even just to remain at an 8 year cycle. It is seeking an increase in its management costs to <u>move</u> from a 9.5 year cycle to an 8 year cycle.

4.3.5 SEC had assumed, based on the evidence in Hydro One's 2009-2010 cost of service proceeding, that Hydro One was already on an 8 year cycle. Mr. Brown's evidence was that Hydro One has been on a 9.5 or 10 year cycle for "some time [p]robably years".[107] This is confirmed by the response to J5.10. Hydro One's proposed increase in cost is not so that Hydro One can move to an 8 year cycle immediately; it is so that by 2023 it will finally be on such a cycle.[108]

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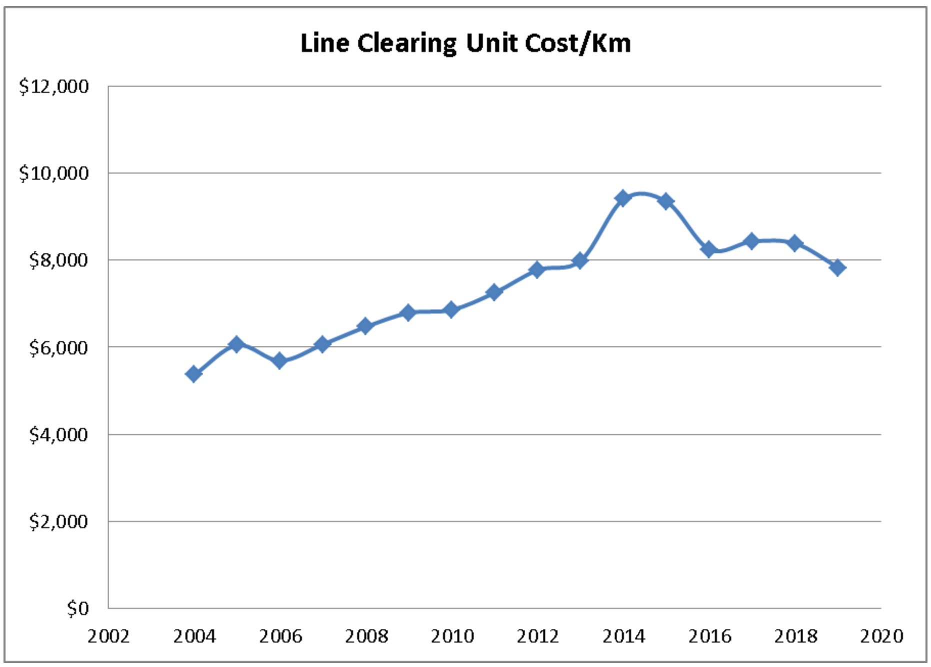
[104] A-4-4, p.6
[105] *Decision with Reasons* (EB-2009-0096), dated April 9 2010, p.18
[106] *Ibid*, p.19-20
[107] Tr.4, p.200
[108] Tr.4, p.201

4.3.6 Regardless of the cycle Hydro One is on now, the major issue is that its productivity has steadily gotten worse, and any improvements during the test period[109] are simply trying to make minor adjustments. Hydro One's unit cost for line clearing has increased by approximately 33% since its last cost of service proceeding – a proceeding in which the Board found that Hydro One's unit cost for this activity was too high. Yet, Hydro One not only did not improve their efficiency in this area, it got steadily worse. Only now is Hydro One projecting some future improvements, and even then, by the end of the term plan in 2019, the unit cost will still be significantly higher than what it was in 2008-2009.[110]



4.3.7 Hydro One has tried to rationalize its decreased productivity and increased costs as a result of challenges clearing overgrown right-of-way and increased tree densities, which occur because of its long vegetation management cycle.[111] SEC submits the Board should reject this claim. The evidence is that Hydro One has been on a 9.5 or 10 year cycle for a significant period of time. Nothing appears to have changed since the last time Hydro One was before the Board, explaining their much lower (but still high) line clearing costs.

4.3.8 Thus, while the long cycle may be a reasonable rationale for why Hydro One's

[109] Tr.4, 201
[110] For a full chart showing and underlying data showing vegetation management budget see K5.1, p.50-51.
[111] As an example, see Tr.5, p.199-200.

costs are so different than other utilities, who have been historically on shorter cycles, it does not explain why Hydro One's productivity and cost-effectiveness has decreased so dramatically.

4.3.9 KPMG on behalf of the Ministry of Energy, and the more recent 2011-2012 Utility Vegetation Management Benchmarking Report produced in J3.10, provide a very stark assessment of Hydro One's vegetation management costs. The findings include: i) Hydro One's labour hours for distribution routine maintenance was the highest of all utilities surveyed, and ii) the vegetation management cost per customer is approximately 2.5 times the <u>next lowest</u> peer company, and over 6 times the level for the median utility.[112] The conclusion from the report, as described succinctly by KPMG, is that "Hydro One has been benchmarked as the highest cost vegetation management program relative to peers."[113]

4.3.10 The Board mustrein in Hydro One's vegetation management costs. It must reinforce the message it already sent Hydro One in EB-2009-0096.

4.3.11 SEC submits that Hydro One's forecast vegetation management costs should be determined by using the unit cost per km for line clearing and brush clearing that is the highest reasonable amount customers should have to bear. SEC believes that setting the 2015 unit cost at the average of the unit cost for 2009-2013 (last 5 years of actuals) is appropriate. This would result in a unit cost of $7336.46/km (line clearing) and $2874.00/km (brush clearing) compared to $9,342/km (line clearing) and $3,100/km (brush clearing) as proposed. In 2015 this would lead to a reduction in revenue requirement of $22.75M. For 2016-2019, that unit cost level should remain constant, so that it slowly gets closer to industry norms. Unit costs, if anything, should be decreasing, not increasing, as a utility strives to be more productive over time.

4.3.12 The total Vegetation Management budget for 2015-2019 would therefore, under SEC's proposal, be $463.1M instead of $540M, a reduction $76.7M, but still $125M more than the amount spent in the previous 5 year period.

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[112] I-3-03-09-SEC-31-Attachment 2, slide 33
[113] I-3-03-09-SEC-31-Attachment 2, slide 25

5 COST ALLOCATION AND RATE DESIGN

5.1 *Introduction*

5.1.1 Earlier in this Final Argument we have noted increases in distribution bills for schools of 75% or more over six years.[114] This seems at odds with the claim of Hydro One that the increases proposed in this Application are relatively modest.

5.1.2 In cross-examination of Hydro One Panel 4[115], SEC tried to nail down why it was that high. What we discerned is that there were many ways that Hydro One was increasing the distribution rates of schools, including:

(a) Increase in the revenue requirement;[116]

(b) Cost allocation changes:

i) Higher costs allocated to larger customers under the minimum system study;[117]

ii) Use of the USofA accounts for allocation of new spending on capital and OM&A (small increase);[118]

iii) Changes in direct allocation (small increase);[119]

iv) Updated loss factors (apply to everyone, and no material impact between classes;[120]

v) Moving consideration of density factors from below the line to within the model (small increase);[121]

vi) Change in weighting factors for billing and collection (small increase);[122]

(c) Rate design changes:

[114] I-7.04-9-SEC-61 and 64
[115] Tr.7, p.100-171
[116] Tr.7, p.135
[117] Tr.7, p.145
[118] Tr.7, p.147
[119] Tr.7, p.147
[120] Tr.7, p.148
[121] Tr.7, p.148-150
[122] Tr.7, p.162

i) Bring revenue to cost ratios within the Board's ranges using the standard Board methodology (small impact);[123]

ii) Move revenue to cost ratios to a range of 98% to 102% over the test period;[124]

iii) Smooth rates over the test period (no net impact);[125]

iv) Increase the fixed charge for the general service classes;[126]

5.1.3 As it turned out, the witnesses agreed that the primary factors driving up rates for schools were the increasing revenue requirement and the cost allocation changes driven by the minimum system study.

> MR. SHEPHERD: The big cost allocation drivers that affected this class were the PLCC and the revenue requirement?
>
> MR. ANDRE: Yes, I would agree those are the two biggest factors, yes. [127]

5.1.4 In further discussion, the witnesses also agreed that, if schools are generally smaller demand-billed customers relative to the size of the class, they will have a disproportionate impact from the increase in monthly charges.[128]

5.1.5 SEC will deal with each of these main impacts in turn. However, it is also important to highlight the overall impact, which we referred to as "piling on":

> MR. SHEPHERD: All right. So my last questions really are sort of a summary questions, and I -- this is really to sort of give you an opportunity to explain. When I talk to the schools they say, Well, you know, bad enough that they're asking for 40 percent more for revenue requirement, but then they want to increase the revenue-to-cost ratios, they want to increase the fixed charge, they want to change their cost allocations. **It feels like piling on.** And so the question I want to put to you is, in terms of under -- of dealing with the impact of this on the customers, did you consider taking a different approach in which you didn't do this all at once and whack them with all four things at the same time? Did you consider an alternative approach?
>
> MR. ANDRE: Well, a couple of those things I think just need to be done, like

[123] Tr.7, p.135
[124] Tr.7, p.135, 158-166
[125] Tr.7, p.136
[126] Tr.7, p.136-8
[127] Tr.7, p.149
[128] Tr.7, p.138

> rewriting the cost allocation model, using the best available inputs, the data will fall the way it falls out, but I think it is our responsibility to ensure a fair and accurate allocation of costs, so I don't think, you know, not doing the cost allocation or not making a change to those factors, if we have the best available information, I think so we need to use it. [emphasis added] [129]

5.1.6 SEC submits that it is unreasonable to load one increase after another on to the same customers, and expect that the rates will still be just and reasonable. Rate increases of 75% are in no sense just and reasonable, but Hydro One does not appear to be concerned with that. Their view, expressed above, is that the calculations fall where they do, and customers should just suck it up. This is not acceptable ratemaking.

5.1.7 SEC notes that this is particularly concerning in the context of the obvious issues with rate classification based on density, discussed in more detail below.

5.1.8 In summary, SEC believes that the cost allocation and rate design changes proposed by Hydro One should not be implemented on top of the already egregious increases in revenue requirement also proposed in the Application.

5.2 ***Rate Classification Issues***

5.2.1 In cross-examination, Hydro One witnesses clearly did not want to get into the impacts of density on rates for various customers, saying that these issues had all been dealt with in the density study filed in a previous proceeding.

5.2.2 What the witnesses also admitted, however, is that the information needed to understand the real impacts of density for customers was just developed for this proceeding[130], and even then is not accessible to individual customers as yet. The maps that SEC spent some time on during Day 7 are in fact brand new. Until those maps, none of us knew who was in which class. Even Hydro One was allocating customer to classes on a completely ad hoc basis.[131]

5.2.3 Even today, SEC can only guess, because we don't have the detailed information. The information on rate zones is available to Hydro One, but not readily accessible to customers.[132]

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[129] Tr.7, p.166
[130] Tr.7, p.110
[131] Tr.7, p.108

5.2.4 The capricious nature of the allocations to classes is exemplified by the exchange on the City of Dryden, a town of 7800 people with more than 5000 Hydro One customers.[133] The witness remembers that, in a previous rate application, the City of Dryden was listed as urban[134], but somehow Dryden was no longer classified as urban by the time the rate reclassification in this proceeding was being done. It was, by then, classified as medium density.[135]

5.2.5 This came as a surprise to SEC. Previous documents provided to SEC during EB-2007-0681 show that schools in Dryden are in the UGe (2 schools) or UGd (3 schools) classes, but apparently they are not. The density didn't change, nor did the classification rules. Hydro one just decided that they would be moved, apparently during the rate order phase of the proceeding.[136] Despite undertaking to confirm how that happened, Hydro One never did.[137]

5.2.6 The more interesting part of this is the current state of affairs. As Hydro One points out in J7.4, Dryden does not qualify, on a density basis, for urban density according to them. Despite this, three residential customers, and two energy-billed general service customers, are treated as urban. Perhaps they live in a different Dryden, which does qualify.[138]

5.2.7 Dryden is used as an example only. How many other towns and cities in Ontario are urban in fact, but are treated as medium density by Hydro One?

5.2.8 SEC explored this in cross-examination. The cities served by Hydro One are not necessarily treated as urban. Ancaster is, for example, but Dundas is not. Some Windsor suburbs are, but others are not. Some Ottawa suburbs are, but others are not[139].

5.2.9 In fact, it turns out, as we now know, that the "urban" density used by Hydro One is not so truly urban after all. Only 17 of the LDCs in Ontario would qualify for urban density treatment under the Hydro One test. That would not include Ottawa,

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132 Tr.7, p.109
133 J7.4
134 Tr.7, p.127
135 J7.4
136 Tr.7, p.127
137 J7.4
138 There are also 162 R2 customers. We have no idea where they live, since Dryden is R1.
139 See the discussion about these areas in Tr.7:111-121.

Powerstream, Oakville, London, Cambridge, Mississauga, or Brampton.[140]

5.2.10 Even a cursory review of the maps in 9-SEC-56 shows that Hydro One considers very few parts of their service territory to be urban for rate classification purposes. Many cities and major towns are not considered to be urban, even though by any common sense definition they would be.

5.2.11 Why does this matter? Well, for residential customers it has only a partial impact, because there is a medium density class. While most residential customers do not qualify for urban "status" under Hydro One's approach, most live in towns, and so are treated as medium density customers.

5.2.12 Not so with schools. There are very few schools outside of towns and cities. However, from Hydro One's point of view, schools are all treated as if they are in rural areas, because there is no medium density general service class for either energy-billed or demand-billed customers. While they are not factually in rural areas (in fact, most are in areas that the average person would call urban), they pay rural rates.

5.2.13 Hydro One admits that the net effect of this, on schools, is that they are overpaying. Hydro One excuses that as an artifact of having rate classes at all:

> MR. SHEPHERD: And would you accept that that means that customers in the towns that are in the general service classes are paying relatively more than their costs and customers in the rural areas in the GS class are paying relatively less than their costs, generally speaking?
>
> MR. ANDRE: I would agree -- I would agree with that and just point out that like all rate classes, I mean, you can't get them perfect.[141]

5.2.14 Until SEC saw the new maps, and until we found out that schools we believed were in urban classes were not (such as in Dryden), school boards and SEC were not aware the extent to which school are being overcharged as if they were rural customers.

5.2.15 SEC submits that, based on the evidence in this proceeding, the Board, should require Hydro One to carry out an independent review of its general service customer classes, to assess whether general service customers in towns and cities

[140] Tr.7:114
[141] Tr.7, p.154

are overpaying for electricity distribution. Until that study is done, SEC believes that the Board should ameliorate the rate increases being proposed for the general service classes, as outlined in more detail below.

5.3 ***Cost Allocation Issues***

5.3.1 Hydro One admits that the main cost allocation impact on the general service classes arises due to the new minimum system study, which allocated less minimum system costs to residential, and more to general service.[142] The details of that impact were described in cross-examination[143], but the actual costs that were reallocated have not been described to the Board.

5.3.2 In fact, Hydro One initially was not even willing to admit that the reallocation of costs as a result of the new minimum system study has an impact on the general service demand-billed classes almost as much as the large increase in revenue requirement. It took ten long minutes of resistance[144] before Hydro One finally admitted that:

> MR. SHEPHERD: I'm getting there. So if you've added 8 million, you've added 4 million or so for revenue requirement, because we know what that is. It's 18 percent, right?
>
> MR. ANDRE: Yes.
>
> MR. SHEPHERD: The rest of it is reallocation of costs under your cost model. There's no other way you can get there, right?
>
> MR. ANDRE: Yes. I'll accept that. [145]

5.3.3 Shortly after that, the witness agreed that the minimum system study change in the PLCC adjustment had "a large impact, a significant impact" on the general service classes.[146]

5.3.4 What the Board does not know is, what are those costs that were shifted from residential responsibility to general service responsibility?

5.3.5 SEC was concerned that Hydro One may be more sensitive to residential rates than

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[142] Tr.7, p.144-45
[143] Tr.7, p.130-32
[144] Tr.7, p.139-144.
[145] Tr.7, p.144.
[146] Tr.7, p.145.

general service rates, and that may have had an impact on cost allocation. We put that question directly to Hydro One, and their answer was very clear:

> MR. SHEPHERD: Is Hydro One more sensitive to residential rates than to general service rates? A cynic could look at your application and say: Well, you've set it up -- whatever judgment calls you've made -- you've set it up so that the residential rates don't go up very much, and everybody else gets whacked. So that tends to suggest you're playing to the public, as opposed to trying to be fair to all customers.
> I'm not saying that's what you're doing. All I'm doing is asking the question: Are you more sensitive to the residential rates because there are so many residential customers?
>
> MR. ANDRE: I can absolutely say that, no, we apply, try to apply those principles as fairly as possible, without consideration of which rate classes would be more or less impacted.[147]

5.3.6 SEC wants to make clear that it in no way wants to imply that Mr. Andre was anything less than forthright in his answers. He was frank and honest.

5.3.7 However, SEC is concerned with a major change that was not highlighted in the prefiled evidence, and is not readily understandable as a result of the explanation either in the Application, in the discovery process, or in the oral hearing. SEC still does not know what costs were formerly the responsibility of residential customers, and are now the responsibility of general service customers, including schools.

5.3.8 SEC therefore asks that the Board defer implementation of this change in the PLCC adjustment until Hydro One, in its next annual adjustment application, provides detailed explanatory evidence showing the shifts of costs between classes, and the reasons for those shifts. SEC submits this cannot simply be two cost allocation spreadsheets. It should be a comparative analysis, showing not just what costs were re-allocated, but why. If the primary reason is that the old load shapes were wrong, that should be explained in detail, including how the changing load shapes impacted the major cost categories.

5.3.9 SEC submits that, on the evidence currently before the Board, the Board cannot reasonably conclude that the shifts in costs arising out of the minimum system study were just and reasonable. The onus is on the Applicant to demonstrate that they are, and they have not done so. Filing a cost allocation model is not sufficient, and it is not reasonable to expect the Board panel members to conclude, with only

[147] Tr.7, p.170

that spreadsheet, that they understand what costs were reallocated, and they agree those reallocations were reasonable.

5.4 ***Rate Design Issues***

5.4.1 The primary issue in rate design is the fixed/variable split.

5.4.2 Hydro One has relatively low fixed charges, and their proposal to increase fixed charges to the minimum system plus PLCC adjustment level is not, on the face of it, either unreasonable or inconsistent with Board policy.

5.4.3 Assuming for the sake of dealing with this issue that the minimum system study, including the PLCC adjustment, is correct, SEC is still concerned with whether this is the right time to implement this change. This is, as noted earlier, the issue of "piling on".

5.4.4 There is no question that the impact of higher fixed charges is to increase the bills of small customers in the class, to the benefit of the larger customers in the class. There are winners and losers[148].

5.4.5 In this case, schools that are demand-billed, which is most of them, are generally among the smaller customers in those classes.[149] The effect of increasing the monthly fixed charge is to add a further increase to their bills, on top of the many other increases in their bills being proposed in this Application.

5.4.6 SEC submits that utilities should not be "piling on", adding one increase after another to an identifiable customer group. This is not good ratemaking, and should not be approved by the Board.

5.4.7 Therefore, SEC proposes that the Board require Hydro One to defer their increases in fixed charges until their next cost of service application.

5.4.8 This has the added benefit that, given the Board's consultation on revenue decoupling, there may be a new policy that could be applied to some or all rate classes, and with appropriate transitional rules including potentially additional sub-classes.[150]

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[148] Tr.7, p.137-38
[149] Tr.7, p.137
[150] Something Chairman Quesnelle was pursuing in his questions of this same witness panel. See Tr.7, p.186.

6 OTHER

6.1 *Costs*

6.1.1 The School Energy Coalition hereby requests that the Board order payment of our reasonably incurred costs in connection with our participation in this proceeding. It is submitted that the School Energy Coalition has participated responsibly in all aspects of the process, in a manner designed to assist the Board as efficiently as possible

All of which is respectfully submitted.

Original signed by

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Mark Rubenstein
Counsel for the School Energy Coalition

APPENDIX A

Utility Name[151]	**Base Monthly Distribution Total (100KW GS>50)[152]**
Hydro One Networks Inc. - GSd	$1,243.47
Algoma Power Inc. - R2	$904.99
Canadian Niagara Power Inc. - Port Colborne	$846.49
Canadian Niagara Power Inc. - Fort Erie	$835.80
Canadian Niagara Power Inc. - Eastern Ontario	$835.80
Atikokan Hydro Inc.	$778.03
Hydro One Networks Inc. - Ugd	$754.81
Kenora Hydro Electric Corporation Ltd.	$689.11
Orillia Power Distribution Corporation	$677.69
Wellington North Power Inc.	$665.63
Norfolk Power Distribution Ltd.	$641.57
PUC Distribution Inc.	$641.40
Toronto Hydro-Electric System Limited	$640.86
Newmarket Tay Power Distribution Ltd.	$615.58
Kitchener-Wilmot Hydro Inc.	$612.00
Hydro Ottawa Limited	$609.80
Espanola Regional Hydro Distribution Corporation	$605.05
Whitby Hydro Electric Corporation	$601.14
Niagara Peninsula Energy Inc. - Niagara Falls	$595.25
Niagara Peninsula Energy Inc. - Peninsula West	$595.25
Greater Sudbury Hydro Inc.	$587.27
Waterloo North Hydro Inc.	$585.72
Oakville Hydro Electricity Distribution Inc.	$581.65
Lakeland Power Distribution Ltd.	$577.74
Parry Sound Power Corporation	$575.45
EnWin Utilities Ltd.	$575.20
Bluewater Power Distribution Corporation	$562.46
Chapleau Public Utilities Corporation	$550.75
Cooperative Hydro Embrun Inc.	$539.91
Brantford	$521.78
Centre Wellington Hydro Ltd.	$516.67
Horizon Utilities Corporation	$512.78

[151] Hydro One has included all Ontario electricity distributors with the exception of of the four distributors that were excluded from the PEG analysis (Attawapiskat First Nation; Fort Albany First Nation; Kashechewan First Nation; and Hydro One Remote Communities Inc).
[152] Base distribution rates include the monthly fixed charge, variable charge, and any Incremental Capital Module, Green Energy, and/or Smart Grid rate riders.

Welland Hydro-Electric System Corp.	$510.07
Cambridge and North Dumfries Hydro Inc	$507.36
North Bay Hydro Distribution Ltd.	$503.63
Sioux Lookout Hydro Inc	$498.02
Enersource Hydro Mississauga Inc.	$495.64
Wasaga Distribution Inc.	$494.32
Festival Hydro Inc.	$491.06
Brant County Power Inc.	$489.95
Rideau St. Lawrence Distribution Inc.	$479.99
Haldimand County Hydro Inc	$477.00
Niagara-on-the-Lake Hydro Inc.	$476.67
Kingston Hydro Corporation	$474.56
PowerStream Inc.	$472.87
Entegrus Powerlines Inc.	$464.39
Thunder Bay Hydro Electricity Distribution Inc.	$450.11
Innisfil Hydro Distribution Systems Inc.	$448.91
Ottawa River Power Corporation	$443.61
Renfrew Hydro Inc.	$438.20
Essex Powerlines Corporation	$437.38
Woodstock Hydro Services Inc.	$430.24
Westario Power Inc.	$429.53
Fort Frances Power Corporation	$429.06
Veridian Connections Inc.	$421.02
Guelph Hydro Electric Systems Inc.	$421.01
Peterborough Distribution Inc.	$418.53
Erie Thames Powerlines Corporation	$418.18
Halton Hills Hydro Inc.	$416.44
Lakefront Utilities Inc.	$414.17
Oshawa PUC Networks Inc.	$414.10
Collus PowerStream Corp.	$408.48
London Hydro Inc	$406.59
St. Thomas Energy Inc	$395.97
West Coast Huron Energy Inc.	$386.25
Orangeville Hydro Limited	$374.82
Midland Power Utility Corporation	$373.65
Hydro One Brampton Networks Inc.	$361.81
Grimsby Power Inc.	$343.97
Burlington Hydro Inc.	$343.82
Milton Hydro Distribution Inc.	$333.00
E.L.K. Energy Inc.	$332.90
Tillsonburg Hydro Inc.	$330.69

Hydro Hawkesbury Inc.	$294.68
Northern Ontario Wires Inc.	$273.16
Hydro 2000 Inc.	$221.32