



EB-2016-0160

Hydro One Networks Inc. Transmission

Application for electricity transmission revenue requirement and related changes to the Uniform Transmission Rates beginning January 1, 2017 and January 1, 2018

DECISION ON THE ISSUES LIST AND PROCEDURAL ORDER NO. 3 October 12, 2016

Hydro One Networks Inc. (Hydro One) filed a cost of service application with the Ontario Energy Board (OEB) on May 31, 2016 under section 78 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, (Schedule B), seeking approval for changes to its transmission revenue requirement and to the Ontario Uniform Transmission Rates, to be effective January 1, 2017 and January 1, 2108.

On July 27, 2016, the OEB issued Procedural Order No. 1 approving intervenor status for fifteen parties and also approving cost award eligibility for ten of those intervenors. Procedural Order No.1 also established the dates for filing of interrogatories and for Hydro One's reply to those interrogatories.

On August 31, 2016, Hydro One provided responses to the interrogatories and sought confidential treatment for a number of documents attached to eight of its interrogatory responses. On September 8, 2016 the OEB issued Procedural Order No. 2 establishing the procedures for submissions on Hydro One's request for confidentiality. After the steps outlined in Procedural Order No. 2 were completed, the OEB released its Decision on Confidentiality (Decision) on September 21, 2016. By email dated September 21, 2016 Hydro One advised the OEB of its intention to seek a review and variance of certain parts of the Decision. The OEB issued an Interim Order preserving the confidentiality of the information until such time as the review and variance request could be considered. The Decision was corrected on September 26, 2016 to address some formatting issues. On September 30, 2016 Hydro One filed its formal Motion to

Review and Vary the Decision to allow limited redactions of sensitive information from the Inergi Outsourcing Agreement (Inergi Agreement). A copy of the redacted document that Hydro One is proposing was provided to the OEB in electronic form saved on a USB drive. It has not yet been placed on the public record.

A technical conference was held on September 22 and 23, 2016. Following the technical conference, submissions were received on the OEB staff's draft proposed issues list and three motions were filed:

1. Hydro One motion to review and vary the Decision
2. School Energy Coalition (SEC) motion for full and adequate responses to interrogatories and technical conference questions
3. Environmental Defence (ED) motion for full and adequate interrogatory responses.

In this Procedural Order, the OEB will establish the approved Issues List for this proceeding, set out the process for the foregoing three motions, will address the filing of expert evidence by OEB staff and cost eligible intervenors.

Issues List

On September 26, 2016 OEB staff advised the OEB that parties were unable to reach an agreement on a proposed issues list. Staff indicated that due to a full agenda in the technical conference, parties were unable to undertake a full discussion of the draft issues list. Staff informed the OEB that discussions were to take place in the week of September 26, 2016 and requested an extension for the filing of the proposed issues list until October 4, 2016. On September 27, 2016 the OEB extended the filing date until October 4, 2016. OEB staff filed the proposed issues list on that date.

Some parties filed submissions with the OEB on the draft proposed issues list as circulated by OEB staff.

- HQ Energy Marketing (HQEM) opposed the inclusion of Issue 29: "Is the Export Transmission Rate of \$1.85 and the resulting ETS revenues appropriate?"
- On September 29, 2016, Anwaatin Inc. (Anwaatin) proposed an additional issue; "Has Hydro One undertaken adequate outreach and consultation with Indigenous communities and groups and are its current processes and procedures sufficient to do so?" On September 30th Hydro One responded opposing the request. Anwaatin filed a response to Hydro One's submission on October 3, 2016.

OEB staff held a conference call on October 3, 2016 for the purpose of discussing the proposed issues list. Representatives from the Building Owners and Management Association, Greater Toronto (BOMA), the Association of Major Power Consumers in Ontario (AMPCO), HQEM, Hydro One, SEC and Anwaatin participated.

Regarding the export transmission rate issue, after some discussion, HQEM informed staff that it was content to have the issue remain on the list.

With respect to the issue proposed by Anwaatin, the parties were unable to reach agreement.

Findings

The OEB reviewed the proposed issues list as filed by OEB staff on October 4, 2016 and approves that list with the revisions and additions described below.

1) Issue #2 – Revenue Requirement

The OEB finds that this issue should be broadened to ensure that all elements of the proposed 2017 and 2018 revenue requirements can be scrutinized. The issue shall be revised to read as follows;

“Are all elements of the proposed 2017 and 2018 revenue requirements and their associated total bill impacts reasonable?”

Within the ambit of this issue is the question of the appropriateness of the regulatory treatment that Hydro One is proposing for any transmission asset value changes and related income taxes resulting from the privatization of Hydro One. The OEB wishes to have this topic fully examined at the hearing and directs Hydro One to have one of its witness panels prepared to address this question.

2) Issue #3 - Customer Engagement Activities

The OEB finds that wording of the issue proposed by Anwaatin related to its concerns about Hydro One’s customer engagement activities is too broad in the context of this particular test period for a transmission revenue requirement proceeding.

The OEB expects that transmitters will initiate or continue customer engagement activities and provide a summary of those activities as part of their test period revenue requirement applications. The Transmission System Code (TSC) defines customer as a generator, consumer, distributor or unlicensed transmitter whose facilities are

connected to or are intended to be connected to the transmission system. The TSC requires some communications and discussions with customers related to matters such as regional planning, connection procedures, testing and inspections, system performance and outages.

The Filing Requirements for Transmitters (Filing Requirements) provide that an applicant should describe these and any other activities designed to engage all customers connected to the transmission system, including discussions related to investment planning and transmission rates and charges. Transmitters should specifically discuss how their customers were engaged in order to determine their needs, what their needs are, and how the application has responded to any identified needs. To clarify the intended purpose of evidence with respect to customer engagement in this case the OEB hereby adds an additional issue under the “General Heading” of the issues list as follows;

“Were Hydro One’s customer engagement activities sufficient to enable customer needs and preferences to be considered in the formulation of its proposed spending?”

This issue defines the intended purpose of the customer engagement activity with respect to the relief sought in this test period transmission revenue requirement proceeding. It also reflects the Filing Requirements and the TSC in that it pertains to all customers that will be impacted by Hydro One’s level of test period spending.

3) Productivity Improvement

The OEB has also determined that the issue of productivity improvement was not adequately reflected in the proposed list of issues. Therefore, the OEB will add another issue under the “Performance Scorecard” section (to be renamed “Productivity Improvement and Performance Scorecard”):

“Has Hydro One taken appropriate steps to identify and quantify productivity improvements in all areas of its transmission operations?”

4) Rate Base and Cost of Capital

To make sure that matters related to capital structure can be examined in this proceeding the OEB finds that proposed Issue 19 should be revised to read;

“Are the amounts proposed for rate base and capital structure in 2017 and 2018 reasonable?”

The approved issues list with the above additions and revisions is attached to this Procedural Order as Schedule A.

Motion to Review and Vary the Decision on Confidentiality

In its Motion to Review and Vary, Hydro One indicated that it has had discussions with two intervenors in order to consider whether providing a copy of the Inergi Agreement with limited redactions is a workable solution to balance parties’ participatory interests with confidentiality concerns. As a result of these discussions, Hydro One provided to the OEB an electronic version of the redacted Inergi Agreement which has been saved on a USB drive. The redactions are in only three key areas:

- Information that is sensitive from a security viewpoint, as it includes information such as the location of servers (Security Information);
- Information about services specific to Hydro One’s distribution business, as it is beyond the scope of Hydro One’s current application (Distribution Business Information); and
- Information on unit pricing and information that can be used to derive unit pricing, as it harms Hydro One's future negotiating position in respect of outsourcing agreements (Unit Pricing Information).

Hydro One believes the rationale for redacting the Security Information and the Distribution Business Information is self-explanatory. Disclosure of the Security Information could cause a great deal of harm, in comparison to its limited utility to participants or the Board in determining just and reasonable rates in this proceeding. The Distribution Business Information is irrelevant in determining just and reasonable transmission rates in this proceeding. Redactions concerning Unit Pricing Information have, to the greatest extent possible, been minimized. A description of all of the proposed redactions is attached to the Motion as Schedule 1.

Findings

The OEB has reviewed the redactions and is inclined to vary the Decision to treat the limited number of redactions as confidential as proposed by Hydro One. However, the OEB will provide any parties that object to this proposal to state their rationale for such objections within the time limit set out in the Order below.

Motions for full and adequate responses

On September 28, 2016, SEC filed a Motion relating to refusals given at the technical conference and with respect to certain interrogatory responses. SEC requests an order requiring Hydro One to provide full and adequate responses to the following interrogatory and technical conference questions:

- 1) SEC Interrogatory #6 (Exhibit I/Tab6/Schedule 6) specifically, the production of the:
 - i) North American Transmission Forum (NATF) Hydro One Peer Review Report, and
 - ii) North American Transmission Forum (NATF) Transmission Reliability Report;
- 2) Hydro One's 2016 forecast ROE (a follow-up question to BOMA Interrogatory #30 (Exhibit I/Tab2/Schedule 30));
- 3) Hydro One Business Group Business Plans; (follow up to SEC Interrogatory #2 (Exhibit I/Tab6/Schedule 2)
- 4) OEB staff Interrogatory #28 (Exhibit I/Tab1/Schedule 28) and SEC Interrogatory #29 (Exhibit I/Tab6/Schedule 29), specifically individual asset replace vs. refurbish Asset Economic Assessment graphs for assets over \$20M; and
- 5) Production of two internal audit reports: (follow-up to AMPCO Interrogatory #1 (Exhibit I/Tab3/Schedule 1), specifically the:
 - i) Audit of Investment Planning #2014-29 (January 30, 2015); and
 - ii) Transmission Lines Preventive Maintenance Optimization #2015-33 (April 7, 2016)

ED filed a motion on September 29, 2016 requesting an order that Hydro One and/or the Independent Electricity System Operator (IESO) provide full and adequate responses to ED interrogatories 1-5 (Exhibit I/Tab5/Schedules 1 – 5).

Findings

The OEB has reviewed the interrogatory responses and technical conference information requests as outlined by SEC and ED. The OEB will provide for a submission on these motions by OEB staff, followed by a submission from Hydro One. SEC and ED will then be provided with the opportunity to reply to these submissions.

OEB Staff and Intervenor Expert Evidence

If either OEB staff or any cost eligible intervenor plans to file expert evidence in this proceeding, then the proponents of such evidence shall first file a letter with the OEB describing the nature of the evidence, whether the expert evidence will be commissioned jointly with other parties, how those customers represented by the intervenors are affected by the subject matter of the evidence, and the anticipated date for the filing of any such evidence. In addition, the expert's prior experience testifying on the subject before a regulator and the estimated cost should be included.

The estimated cost should include an explanation of any assumptions regarding the purpose and scope of the participation of the expert in the proceeding, and should include an estimate of any incremental time that will be spent by the intervenor's counsel or any other consultant(s) in relation to the expert evidence.

After reviewing this material, the OEB will provide guidance on whether and to what extent any costs associated with the participation of any expert(s) or the preparation of any expert report(s) will be eligible for cost recovery in accordance with the OEB's Practice Direction on Cost Awards.

The OEB sets out below a number of matters related to the proceeding but parties should note that the schedule may need to be adjusted subject to the OEB's consideration of any expert evidence proposals.

IT IS THEREFORE ORDERED THAT:**Issues List**

1. The approved issues list for this proceeding is attached as Schedule A.

Motion to Review and Vary

2. Parties that wish to make submissions on the proposal from Hydro One regarding its Motion to Review and Vary should file these submissions with the OEB and serve them on all parties not later than October 14, 2016. The electronic version of the Inergi Agreement with the redactions saved on a USB drive shall be placed on the public record.
3. Hydro One may file its reply submission on the proposal if needed, no later than October 18, 2016.

Motions for Full and Adequate Responses

4. OEB staff may file any submission with respect to the Motions filed by the School Energy Coalition and Environmental Defence with the OEB and serve on all parties by October 18, 2016.
5. Hydro One shall file its submissions on the Motions filed by School Energy Coalition and Environmental Defence by October 21, 2016.
6. Environmental Defence and the School Energy Coalition may file their respective reply submissions by October 25, 2016.

OEB staff and Intervenor Expert Evidence

7. OEB staff and cost eligible intervenors who plan to file expert evidence shall inform the OEB of those plans no later than October 19, 2016 and provide estimated costs including assumptions regarding the participation of the expert in the proceeding and incremental time that will be spent by counsel for the proponents of such evidence and any other consultants in relation to the opinion testimony. The anticipated date for filing any expert evidence should also be noted. If the OEB determines that OEB staff and/or intervenor evidence is appropriate, the dates set below for the oral hearing may be amended.

Oral Hearing

8. The oral hearing for this proceeding will commence on Monday, October 31, 2016 and continue on November 3, November 4, November 7, November 8, November 24, November 25, November 28 and November 29 (as required).

All filings to the OEB must quote the file number, EB-2016-0160, be made in searchable /unrestricted PDF format electronically through the OEB's web portal at <https://www.pes.ontarioenergyboard.ca/eservice/>. Two paper copies must also be filed at the OEB's address provided below. Filings must clearly state the sender's name, postal address and telephone number, fax number and e-mail address. Parties must use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at <http://www.ontarioenergyboard.ca/OEB/Industry>. If the web portal is not available parties may email their documents to the address below. Those who do not have

internet access are required to submit all filings on a CD in PDF format, along with two paper copies. Those who do not have computer access are required to file 7 paper copies.

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

With respect to distribution lists for all electronic correspondence and materials related to this proceeding, parties must include the Case Manager, Harold Thiessen at harold.thiessen@ontarioenergyboard.ca and OEB Counsel, Maureen Helt at maureen.helt@ontarioenergyboard.ca.

ADDRESS

Ontario Energy Board
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DATED at Toronto, October 12, 2016

ONTARIO ENERGY BOARD

Original signed by

Kirstin Walli
Board Secretary

Schedule A

**Hydro One Networks Inc.
2017 and 2018 Transmission Cost of Service Application
Board File Number EB-2016-0160**

APPROVED ISSUES LIST

October 12, 2016

**Hydro One Networks Inc.
2017 and 2018 Transmission Cost of Service Application
Board File Number EB-2016-0160**

**APPROVED ISSUES LIST
October 12, 2016**

A. GENERAL

1. Has Hydro One responded appropriately to all relevant OEB directions from previous proceedings?
2. Are all elements of the proposed 2017 and 2018 revenue requirements and their associated total bill impacts reasonable?
3. Were Hydro One's customer engagement activities sufficient to enable customer needs and preferences to be considered in the formulation of its proposed spending?

B. TRANSMISSION SYSTEM PLAN

4. Does the Transmission System Plan adequately address customer needs and preferences?
5. Does Hydro One's investment planning process consider appropriate planning criteria? Does it adequately address the condition of the transmission system assets?
6. Are the proposed 2017 and 2018 Capital Expenditures for Sustainment, Development and Operations appropriate?
7. Do the proposed capital expenditures include the consideration of factors such as customer preferences, system reliability and asset condition?
8. Are the proposed 2017 and 2018 levels of Common Corporate capital expenditures appropriate?
9. Are the methodologies used to:
 - (i) allocate Common Corporate capital expenditures to the transmission business appropriate? and
 - (ii) to determine the transmission Overhead Capitalization Rate for 2017 and 2018 appropriate?
10. Is the benchmarking evidence adequate/sufficient and does it support the proposed Transmission System Plan and related cost forecasts?

C. PRODUCTIVITY IMPROVEMENT AND PERFORMANCE SCORECARD

11. Has Hydro One taken appropriate steps to identify and quantify productivity improvements in all areas of its transmission operations?
12. Are the metrics in the proposed scorecard appropriate and do they adequately reflect appropriate outcomes? Do the outcomes adequately reflect customer expectations?

D. OPERATIONS MAINTENANCE & ADMINISTRATION COSTS

13. Are the proposed spending levels for Sustainment, Development, Operations, and Customer Care OM&A in 2017 and 2018 appropriate, including consideration of factors such as system reliability and asset condition?
14. Do the proposed OM&A expenditures include the consideration of factors such as system reliability, asset condition and customer preferences?
15. Are the proposed spending levels for Common Corporate Services and Other O&M in 2017 and 2018 appropriate?
16. Are the 2017 and 2018 human resources related costs (wages, salaries, benefits, incentive payments, labour productivity and pension costs) including employee levels appropriate?
17. Has Hydro One demonstrated improvements in efficiency and value for dollar associated with its compensation costs?
18. Are the methodologies used to allocate Common Corporate Costs and Other OM&A costs to the transmission business for 2017 and 2018 appropriate?
19. Are the amounts proposed to be included in the 2017 and 2018 revenue requirements for income taxes appropriate?
20. Is Hydro One's proposed depreciation expense for 2017 and 2018 appropriate?

E. RATE BASE & COST OF CAPITAL

21. Are the amounts proposed for rate base and capital structure in 2017 and 2018 reasonable?
22. Are the inputs used to determine the working capital component of the rate base and the methodology used appropriate?

23. Are the proposed timing and methodology for determining the return on equity and short-term debt prior to the effective date of rates appropriate?

24. Is the forecast of long term debt for 2017 and 2018 appropriate?

F. LOAD REVENUE FORECAST

25. Is the load forecast methodology and the resulting load forecast appropriate?

26. Have the impacts of conservation and demand management initiatives been suitably reflected in the forecast?

27. Are Other Revenue (including export revenue) forecasts appropriate?

G. DEFERRAL/VARIANCE ACCOUNTS

28. Are the proposed amounts, disposition and continuance of Hydro One's existing deferral and variance accounts appropriate?

29. Are the proposed new deferral and variance accounts appropriate?

H. COST ALLOCATION

30. Is the transmission cost allocation proposed by Hydro One appropriate?

I. EXPORT TRANSMISSION SERVICE RATES

31. Is the Export Transmission Rate of \$1.85 and the resulting ETS revenues appropriate?