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October 21, 2016

VIA RESS AND COURIER

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

Dear Ms. Walli:

RE: EB-2016-0160 Hydro One Networks Inc. ("Hydro One") Reply Submissions to School Energy Coalition Notice of Motion filed September 29, 2016

Please find enclosed Hydro One's Reply Submissions to the Notice of Motion filed by School Energy Coalition.

Yours truly,

McCarthy Tétrault LLP

Per:


For: Gordon M. Nettleton

GMN
Enclosure

SEC IR #2 Hydro One Business Group Business Plans (“**Individual Business Plans**”)
SEC IR #28, 29 Individual Asset Replace vs Refurbish Graphs (“**Business Cases**”)
AMPCO IR #1 Internal Audit Reports (Audit Investment Planning; Transmission Lines Preventive Maintenance Optimization) (“**Audit Reports**”)

1 There are two fundamental issues arising with SEC’s Motion: (1) whether the public interest is
2 served by the production of the requested information, and in that context, (2) whether the
3 additional information can reasonably be expected to assist the Board in its understanding and
4 assessment of the evidence Hydro One has filed in support of the relief sought.

5 As discussed below, requiring the production of the NATF Reports will result in Hydro One
6 being removed from NATF, a leading not-for-profit transmission industry forum whose objectives
7 include understanding and promoting best practices and improving reliability. Hydro One’s
8 exclusion from this organization and consequent inability to take advantage of peer review and
9 reliability information from other industry members must be seriously weighed against the public
10 interest in disclosing this information.

11 With regard to production of the remaining requested information, Hydro One submits that the
12 information will not materially assist the Board or parties in assessing whether the applied-for
13 rate relief is just and reasonable. Certain information requested is not within Hydro One’s
14 control, and/or cannot be provided using reasonable efforts. The only purpose served by having
15 this additional information placed on the evidentiary record is to promote granular level
16 examination and debate regarding the suitability of costs and the substitution of the utility’s
17 decisions respecting those costs. Hydro One’s data presented in this application is consistent
18 with applications previously filed with the Board and on which decisions could be taken.
19 Comparability with past applications creates regulatory efficiencies for the purposes of testing
20 the reasonableness of Hydro One’s evidence.

21 **B. SUBMISSIONS**

22 **1. Overview and Context**

23 Hydro One’s application seeks approval of just and reasonable rates. The purpose of the
24 hearing process to strike a balance between the amount of evidence necessary to evaluate an

1 application and regulatory efficiency. The Board's recent rates decision regarding Toronto Hydro
2 Electric System Limited notes that finding this balance is an exercise where the business
3 judgment rule is respected ("**Toronto Hydro Decision**").¹ It is neither the Board's role, nor the
4 role of intervenors, to manage the utility or substitute their judgment in place of the Applicant's
5 management:

6 "The record in this case is one of the largest that the OEB has ever seen. It is
7 important to strike a balance between the amount of evidence necessary to
8 evaluate the Application and the goal of striving for regulatory efficiency. It is
9 important to note that it is not the OEB's role, nor the intervenors, to manage the
10 utility or substitute their judgment in place of the applicant's management. That is
11 the job of the utility. The OEB has established a renewed regulatory framework
12 for electricity (RRFE) which places a greater emphasis on outcomes and less of
13 an emphasis on a review of individual line items in an application. It is on the
14 basis of outcomes that the OEB has reviewed the Application and come to its
15 Decision."² [Emphasis added]

16 The level of information that is placed on an evidentiary record should reflect this principle of
17 business judgment. Placing information on the record in order to question or substitute
18 management's judgment breaches this principle.

19 The Board has considered the scope and purpose of the interrogatory process in the context of
20 past motions for more detailed responses to interrogatories. In Ontario Power Authority's
21 ("**OPA's**") 2007 application for approval of its Integrated Power System Plan and Procurement
22 Processes, the Board commented broadly on the goal of the interrogatory process:

23 "The paramount consideration for the Board is to have available to it the information it
24 requires to be able, at the end of the hearing process, to make the necessary well-
25 reasoned decision on the IPSP. At the same time, the Board wishes to ensure that the
26 hearing is completed within a reasonable timeframe so that the results of the process are
27 meaningful and useful."³ [Emphasis added]

28 Recall that the Board's *Rules of Practice and Procedure* provide that the interrogatory process
29 is designed to:

- 30 • clarify evidence filed by a party;

¹ EB-2014-0116, Decision and Order (29 December 2015).

² *Ibid*, Page 2.

³ EB-2007-0707, Decision and Order on Motions Related to Interrogatory Responses of the Ontario Power Authority (29 July 2008), Pages 4-5.

- 1 • simplify the issues;
- 2 • permit a full and satisfactory understanding of the matters to be considered; or
- 3 • expedite the proceeding.⁴

4 In the present case, the SEC's requests are not in line with the goals of the interrogatory
5 process as set out by the Board. Producing the requested information does not provide clarity
6 to the evidence. Providing voluminous information on detailed aspects of Hydro One's
7 management and operations does not simplify the issues nor serve a useful purpose in
8 determining the relevant issues in the present proceeding. It is in this context that each of
9 SEC's requests should be considered.

10 2. NATF Reports

11 Hydro One objects to providing the NATF Reports on the basis that production of this
12 information will cause it to no longer be able to participate in the NATF organization. Such an
13 outcome would have far reaching implications to Hydro One's reputation within the transmission
14 industry. These are further discussed in the attached Affidavit of Mr. Michael Penstone found
15 as **Exhibit "1"** to these submissions.

16 Careful consideration must be given to the consequences of a decision requiring production of
17 the NATF Reports. NATF membership provides Hydro One with a cost effective resource which
18 has allowed it to gain industry peer perspectives into its operational practices. Forgoing access
19 to this information would be counter-intuitive to the overarching objectives of promoting and
20 enhancing grid reliability across North America. The exclusion of Hydro One from this forum is
21 not in the public interest or in the best interests of ratepayers.

22 The context of this request is important, particularly as it concerns Hydro One's Application.
23 The SEC Motion requests that Hydro One produce the NATF Reports in view of responses
24 provided to SEC's IR #6 and SEC IR #36.⁵ In SEC's IR #36, SEC requested a list of all
25 international and national benchmarking studies to which Hydro One has contributed. Hydro
26 One responded by providing a full list of the studies to which it has contributed, which included
27 the NATF Reports. Hydro One is not justifying the relief sought in its application based on the

⁴ Ontario Energy Board *Rules of Practice and Procedure*, Section 26.01.

⁵ EB-2016-0160, Exhibit I, Tab 6, Schedule 36, Page 1 of 1.

1 content of the NATF Reports. Even if Hydro One would like to use such information in its
2 Application, it cannot do so because of the stringent confidentiality restrictions imposed on
3 members of the NATF organization.

4 NATF is a not-for-profit organization in which North American transmission utilities participate
5 with the goal of facilitating confidential information-sharing, particularly the sharing of best
6 practices. Full and frank exchanges of information is possible because NATF members
7 participate on the understanding that the information they provide and receive will at all times be
8 kept confidential within the NATF organization. Maintaining confidentiality is of paramount
9 concern to all NATF members.

10 NATF has informed Hydro One that if the NATF Reports are placed on the public record, Hydro
11 One's membership in NATF will be revoked. NATF has taken this position because disclosure
12 jeopardizes the operation of NATF, breaching one of NATF's fundamental tenets and
13 discouraging the participation of other utilities. Declining participation in NATF would serve to
14 diminish the quality of the information and best practices shared amongst its members. NATF's
15 concerns and its planned course of action are found in its letter dated October 20, 2016, which
16 is attached as **Exhibit "2"** to these submissions.

17 The NATF Reports are fundamentally different in purpose than reports authored by independent
18 third party experts that are prepared in contemplation of regulatory proceedings. The latter type
19 of report is, from the outset, fully expected to be tested in the course of an application. The
20 NATF Reports differ from these types of expert reports because they are prepared by peers, on
21 a voluntary basis, and those peers participate with the underlying expectation that their
22 observations and opinions are maintained and protected from public dissemination. Justification
23 for that expectation is predicated upon facilitating frank exchanges between member entities.
24 To override this objective unnecessarily excludes Hydro One from its peers and undermines the
25 important public policy objectives carried out by NATF.

26 **3. 2016 ROE Forecast**

27 The SEC Motion requests that Hydro One produce its 2016 ROE Forecast as a follow-up to
28 BOMA IR #30.⁶

⁶ EB-2016-0160, Exhibit I, Tab 2, Schedule 30, Page 1 of 1.

1 At the outset, Hydro One does not use or maintain a forward-looking transmission ROE forecast
2 that accounts for the remainder of 2016. SEC has not adequately explained the need for a
3 quarterly period forecast of ROE, or why this type of information would assist the Board in its
4 consideration of the applied-for rates for the 2017 and 2018 test period.

5 Hydro One has provided comparative information regarding historical OEB approved and actual
6 ROE levels, and the underlying reasons for these variances. As is the norm, this information
7 has been provided on an annual basis.⁷

8 As it concerns the current 2016 Bridge Year, information regarding Hydro One's allowed ROE is
9 on the public record. Specifically, it is found in the Draft Rate Order filed as part of proceeding
10 EB-2014-0140.⁸ Information to assist in comparing actual results for 2016 is also publicly
11 available. As a reporting issuer, Hydro One files quarterly financial information with its
12 securities regulator which describes actual ROE performance. The Q3 results are expected in a
13 matter of weeks, before completion of the oral hearing in this proceeding.

14 In light of these circumstances, Hydro One does not see a pragmatic reason for the Board to
15 direct it to prepare a forecast that it does not otherwise have. The value of this specific
16 information and how it relates to the applied-for relief is unclear. What is clear is that the 2017
17 and 2018 test year rates are based upon ROE values established by this Board. This fact,
18 again, casts doubt on how a single quarter forecast will provide assistance to the Board in its
19 understanding of the evidence and its deliberations into this application.

20 CME suggests that affording confidential treatment to the requested forecast would be
21 appropriate and address Hydro One's status as a reporting issuer. With respect, Hydro One
22 disagrees. The underlying issue is the limited value and materiality that this information would
23 have to assist the Board in its decision-making. Hydro One submits that sufficient information is
24 on the evidentiary record to test the issues in this proceeding.

25 **4. Individual Business Plans**

26 The SEC Motion requests all of Hydro One's internal business plans as a follow-up to SEC IR
27 #002, which requested copies of all budget guidance documents issued regarding the 2017 and

⁷ EB-2016-0160, Exhibit I, Tab 2, Schedule 30, Page 1 of 1.

⁸ EB-2014-0140/EB-2014-0357, Draft Rate Order (9 December 2014), at Exhibit 1.4, "Capital Structure and Return on Capital Details".

1 2018 budgets underlying the application.⁹ Hydro One responded to this interrogatory by
2 providing business and planning documents.¹⁰

3 SEC's request for additional information stems from the discussion that took place during the
4 Technical Conference and in follow-up to information concerning the Corporate Common
5 Functions and Services ("**CCF&S**") forecast costs as originally found in Exhibits C1-6-1.
6 According to the transcript from Day 1 of the Technical Conference,¹¹ SEC's concern appears to
7 be two-fold: (i) the desire to have a breakdown of the CCF&S Costs by individual departments,
8 and (ii) scrutiny of the method used to prepare the forecasts.

9 Exhibit C1-6-1 was prepared to be consistent with past applications affording comparability to
10 historical periods. This level of information has not been challenged in prior rate applications
11 and has allowed the Board to make informed decisions about these costs.

12 Hydro One provided additional information about the CCF&S forecast, as presented in Exhibit I-
13 4-12. Upon reflection on SEC's concerns as well as others, Hydro One is prepared to assist
14 parties by providing further breakdown of these forecast costs. This breakdown is attached as
15 **Exhibit "3"** to this submission. This breakdown depicts labour and non-labour costs for the
16 departments that fall under each of the CCF&S presented in Exhibit C1-6-1 and I-4-12.

17 Regarding SEC's concerns over the information used and method by which these forecast
18 amounts were scrutinized, Mr. Michael Vels, Hydro One's Chief Financial Officer, will be
19 available at the hearing to address process enhancements and increased scrutiny used to
20 develop its CCF&S forecasts. Mr. Vels was directly involved in this process. He will explain
21 how the new management team required process enhancements to place greater focus on cost-
22 reduction initiatives and justifications for line item detail, without requiring preparation of
23 formalized departmental business plans. These process enhancements were implemented
24 through interactive discussions between Mr. Vels and each department whereby the review was
25 focused on a variety of detailed information and with a view to driving process efficiency and
26 improving productivity.

⁹ EB-2016-0160, Exhibit I, Tab 6, Schedule 2, Page 1 of 1.

¹⁰ See e.g. EB-2014-0140, Exhibit C1, Tab 3, Schedule 3, Page 2 of 31; EB-2013-0146, Exhibit C1, Tab 5, Schedule 1.

¹¹ EB-2016-0160, Technical Conference Transcript, Day 1, Page 25, Lines 13-24.

1 In light of these circumstances, Hydro One sees no reasonable purpose served by placing on
2 the record of this proceeding what would amount to all working papers and exchanges
3 considered during its detailed budgeting and forecasting process.

4 The forecast CCF&S amounts have been presented in a manner consistent with prior
5 applications. This information provides comparability which should be one of the primary
6 objectives. Hydro One has now provided a level of further breakdown of departmental forecast
7 information. The process by which these forecasts were scrutinized can best be addressed
8 through cross examination. Production of all or one subset of the information used, reviewed
9 and considered during that exercise is not necessary in order to promote an understanding of
10 the budgeting process and the manner in which management has scrutinized the forecast
11 information.

12 With the inclusion of the additional information provided in **Exhibit "3"** to this submission, an
13 adequate evidentiary record exists for the parties.

14 **5. Business Cases**

15 The SEC Motion seeks additional information related to Board Staff IR #28 and SEC IR #29,
16 specifically "individual asset replace vs. refurbish Asset Economic Assessment graphs for
17 assets over \$20M".¹²

18 In Board Staff IR #28, Hydro One was asked:

19 "Does Hydro One develop business cases to evaluate the all-in
20 economic risk of individual assets or groups of assets (such as
21 integrated substation investment projects) when preparing its capital
22 budgets, and when determining if the economic risk of an asset or group
23 of assets would be most economically addressed by replacement or
24 refurbishment?

25 i. If yes, does the business case evaluation criteria change in
26 accordance with a certain materiality threshold? Please provide
27 details.

28 ii. If yes, please provide the business cases for all projects listed
29 in this filing with total costs of over \$20M."

¹² EB-2016-0160, Notice of Motion filed by School Energy Coalition (September 29, 2016), Page 1.

1 Hydro One's response, in part, was as follows:

2 "a) Yes, Hydro One evaluates the economic risk of replacing or
3 refurbishing assets or groups of assets when developing business cases.

4 i. Only major assets such as transformers, breakers and
5 transmission lines are economically evaluated to determine if
6 they should be replaced or refurbished. See the graph below for
7 a sample economic analysis of a 230kV autotransformer."

8 The information SEC seeks relates to Hydro One's evaluation of economic risk of assets – in
9 particular, the determination of when it is economical to replace versus refurbish its major asset
10 types.¹³ Similarly, AMPCO's submissions in support of the SEC Motion seek information
11 relating to the evaluation of economic risk.

12 As explained in Exhibit TCJ1.33, an individual asset investment decision is an involved, multi-
13 stage process dependent upon prevailing facts and circumstances in each case.¹⁴ Four
14 examples are provided in Hydro One's undertaking response which set out these differences,
15 and in particular, set out the differences in the level of information used and which is dependent
16 on the facts and circumstances of the underlying investment. These examples provide an
17 appropriate level of additional information into the investment decision process used by Hydro
18 One. These examples also demonstrate the complex nature of the task, and that there is no
19 one document that is prepared or used by Hydro One when making these decisions. The
20 supplementary information provided in support of the four investment decision examples is
21 comprised of 9 documents with a combined page count total of 170. Requiring all supporting
22 documents for the investments described in Exhibit B1-3-11 is unreasonable and inconsistent
23 with the balance and purposes described in the Board's prior decisions.¹⁵

24 Hydro One's "business cases" were explained in the undertaking to be prepared after projects
25 have been accepted and prioritized. Business cases are prepared when authorizations from
26 management are sought for the expenditure of funds for the execution of an entire project or its
27 phases (for example, Hydro One may seek authorization to purchase equipment with long
28 delivery periods prior to committing the entire project). A business case provides management
29 with justification regarding the need, timing and amount of the proposed expenditure. Business

¹³ See e.g. *Ibid*, Page 7.

¹⁴ EB-2016-0160, Exhibit TCJ1.33.

¹⁵ EB-2016-0160, Exhibit B1, Tab 3, Schedule 11.

1 cases do not include a “repair vs replace” analysis as this determination is established through
2 the Asset Risk Assessment process. The “business cases” do not address the information
3 underlying the intent of the SEC Motion and sought in the AMPCO submissions.

4 In summary, Hydro One submits that the pre-filed evidence, which now includes Exhibit
5 TCJ1.33, provides parties with an appropriate level of information to understand Hydro One’s
6 investment planning and decision-making process. The additional information sought in the
7 SEC Motion is extensive, and would lead to detailed questioning about underlying investments.
8 Hydro One sees no valid reason for this rates proceeding to become a forum for second
9 guessing technical information and decisions made by the business professionals with relevant
10 expertise.

11 6. Audit Reports

12 In past proceedings, SEC has requested the production of internal audit reports and the Board
13 has repeatedly decided that production of such reports is not useful in determining appropriate
14 rates or fees.

15 In OPA’s 2013 application for review of proposed expenditures, revenue requirements and fees,
16 SEC and other intervenors filed a motion for an order to produce further information respecting
17 certain interrogatories.¹⁶ Among others, OPA was requested to produce: (i) descriptions of
18 findings and recommendations from internal audits; and (ii) copies of all written compliance and
19 assessment audits and internal audits conducted by OPA. OPA objected to producing copies of
20 the audits, and Board Staff supported this position, submitting:

21 “[T]he actual level of detail that’s provided in the Audit Reports is not
22 something that is relevant for the purpose of the Board making a
23 determination on the particular issue in this proceeding.”¹⁷ [Emphasis
24 added.]

25 The Board refused to require production of the audit reports:

26 “The Board also finds it important to note that while it does not accept the
27 OPA’s position that information in the Audit Reports is not relevant to the
28 Board’s mandate in approving the 2014 fees, the Board does accept the
29 submission made by both the OPA and Board Staff that the detail
30 contained in the Audit Reports about the method by which the auditors

¹⁶ EB-2013-0326, Decision on Motion for Production of Documents and Other Information (24 July 2014).

¹⁷ *Ibid*, Page 4.

1 conducted their inquiries is not relevant in this case. It is only the
2 outcome of the audit that is relevant going forward.¹⁸ [Emphasis added.]

3 While the Board in this decision commented that this was not a general finding respecting audit
4 reports,¹⁹ Hydro One submits that the scope of the present application and the level of detail in
5 the Audit Reports is analogous to the OPA decision.

6 In Hydro One's 2013 distribution rates application, SEC again requested copies of internal
7 audits.²⁰ The Board refused to require production of the audit reports, finding that the
8 summaries were sufficient:

9 "The Board finds that the summaries proposed to be filed by Hydro One are adequate for
10 the Board's purposes in this case. The Board is interested in understanding the
11 recommendations made and actions taken in areas of Hydro One's business relevant to
12 this application. The Board will not require Hydro One to produce the actual internal audit
13 reports. Hydro One may choose to seek confidential treatment for the summaries if the
14 company believes confidential treatment of the information is warranted."²¹ [Emphasis
15 added.]

16 The format of the audit summaries provided by Hydro One in 2013 is the same as the
17 summaries Hydro One has provided in the present proceeding in response to AMPCO IR #1
18 (the "**Summary Report**").²² Hydro One also notes that the AMPCO submissions in support of
19 the SEC Motion are concerned with the "background and basis" for setting the
20 recommendations outlined in Hydro One's response to AMPCO IR #1.²³ However, the format of
21 the Summary Report has been accepted by the Board in the past without requiring production of
22 the full reports. SEC and AMPCO have not presented any change in circumstance justifying
23 deviation from this approach.

24 The SEC Motion submits that it recognizes the Board's past refusal of its request, and therefore
25 SEC is now only asking for two internal audit reports. Hydro One submits that this is an
26 irrelevant concession, as the principle upon which the Board based its earlier decision still
27 stands. Merely limiting its request to two reports is not sufficient reason to ignore that the
28 Summary Report is consistent with the expectations the Board has previously established.

¹⁸ *Ibid*, Page 5.

¹⁹ *Ibid*, Page 5.

²⁰ Decision and Order on Confidentiality and Motion: EB-2013-0416 (25 August 2014).

²¹ Decision and Order on Confidentiality and Motion: EB-2013-0416 (25 August 2014), Page 7.

²² EB-2016-0160, Exhibit I, Tab 3, Schedule 1, Attachments 1 & 2.

²³ EB-2016-0160, AMPCO Submissions filed in support of the SEC Motion (18 October 2016).

1 Given the Board's previous expectations, Hydro One understands that it is the
2 recommendations and the actions described in the requested audit reports that are relevant
3 areas of inquiry in this proceeding. Hydro One's Summary Report²⁴ describes the
4 recommendations and actions arising from the audit reports. Hydro One's position with respect
5 to the audit report summaries is also consistent with its response to Technical Conference
6 Undertaking TCJ1.28.

7 Hydro One also notes that AMPCO's submissions in support of the SEC Motion have raised a
8 question as to the completeness of the Summary Report. Specifically, AMPCO notes that under
9 2. Customer, Asset and System Need Assessment, the first recommendation that appears in
10 the table is 2.3, but recommendations 2.2 and 2.1 are not listed.²⁵

11 The lack of continuity in the Summary Report numbering is easily explained. Certain
12 recommendations were removed from the Summary Report because the recommendations
13 were either: (i) "low risk" results, (ii) related to distribution, and (iii) consolidated based on their
14 similarity.

15 Importantly, the Summary Report highlights only high and medium categories of risk. The
16 definitions of each risk level are noted on the first page of the summary report, and the low risk
17 category means that "Controls are Good".²⁶ This categorization process is consistent with
18 Hydro One's internal audit process described in Exhibit TCJ1.29.²⁷ Hydro One does not
19 develop plans to address the "low" risk category, as this categorization means that the audit
20 demonstrated that the controls do not require improvement. The audits which resulted in action
21 items are listed in the Summary Report, namely, the medium and high risk items.

22 Audit recommendations concerning Hydro One's distribution business were not included in the
23 Summary Report. This comports with the purpose and nature of the current application.

24 Recommendations were consolidated where there was significant similarity. Listing all of the
25 un-consolidated recommendations would be unduly repetitive and inconsistent with the
26 summary nature of the report.

²⁴ *Ibid*, Attachment 2.

²⁵ EB-2016-0160, AMPCO Submissions filed in support of the SEC Motion (18 October 2016), citing EB-2016-0160, Exhibit I, Tab 3, Schedule 1, Attachment 2, Page 15 of 115.

²⁶ EB-2016-0160, Exhibit I, Tab 3, Schedule 1, Attachment 2, Page 1.

²⁷ EB-2016-0160, Exhibit TCJ1.29.

1 For the reasons detailed above, information gaps do not exist in the Summary Report. The
2 Summary Report contains all recommendations made other than those falling in the categories
3 above. Production with the full audit reports is therefore inconsistent with past decisions and
4 unnecessary in these circumstances.

5 **C. CONCLUSIONS**

6 Based on the foregoing, Hydro One respectfully submits that the requests made by SEC for
7 further information fall outside the scope of the present proceeding and/or are otherwise not
8 producible using reasonable efforts. Hydro One requests that the Board not require Hydro One
9 to produce such information as has been requested by SEC and set out above.

10 All of which is respectfully submitted this 21st day of October, 2016.



For: Gordon M. Nettleton
Partner, McCarthy Tetrault LLP
Counsel to Hydro One Networks Inc.

Exhibit 1

1 **Q.3 Have you reviewed the Motion made by Schools Energy Coalition dated**
2 **September 28, 2016 (“SEC Motion”)?**

3 A. Yes.

4 **Q.4 What is the purpose of this evidence?**

5 A. I wish to provide additional information and clarification concerning the items described
6 in parts (a) and (d) located on page 1 of the SEC Motion, namely: (i) North American
7 Transmission Forum (“**NATF**”) information; and (ii) Hydro One’s business cases and
8 economic evaluation process.

9 **II. NATF INFORMATION**

10 **Q.5 Please provide background information concerning NATF.**

11 A. NATF is a non-profit organization focused on improving the performance of transmission
12 utilities across North America. NATF does this by identifying and sharing good practices
13 and by facilitating the exchange of information amongst member transmission owners
14 and operators. Its effectiveness depends upon the candid exchange of information.
15 Consequently, NATF members are bound by confidentiality obligations.

16 NATF was originally an adjunct part of the North American Reliability Corporation
17 (“**NERC**”) following the August 2003 blackout, which left millions of residents in the U.S.
18 and Canada without electricity. The 2003 blackout prompted both regulators and
19 transmission operators to discover ways to improve the reliability of North American
20 transmission systems and avoid widespread outages. Attached and marked as **Exhibit**
21 **“2”** to Hydro One’s Reply Submissions is a letter from NATF which provides further
22 information about the organization. Additional background information regarding NATF
23 may be found at its website: www.natf.net (see also
24 <http://www.natf.net/docs/natf/documents/organization-and-programs.pdf>).

25 **Q.6 When did Hydro One become a member of NATF?**

26 A. Since it was first formed in 2006.

1 **Q.7 Please explain how Hydro One's membership in NATF provides benefit to Hydro**
2 **One's operations.**

3 A. There are several benefits. NATF develops an annual report on the reliability
4 performance of its members based on outage data that is submitted in confidence. This
5 report is owned by NATF, and is used by Hydro One to examine and understand the
6 various reasons for its performance relative to other North American utilities. NATF
7 members are available to offer advice on equipment or operational concerns and review
8 various aspects of utilities' operations. This information directly contributes to the
9 identification, development and implementation of practices that support the reliable
10 operation of the North American grid and Hydro one's goal to continuously improve its
11 operations.

12 **Q.8 Do you believe it is reasonable for NATF to require all information exchanged and**
13 **produced by NATF be kept confidential and not disclosed?**

14 This step is not only reasonable, it is essential to ensure that the highest quality of
15 information is gathered within the NATF organization through promoting frank
16 discussions of operational experiences, challenges and solutions.

17 NATF explicitly recognizes confidentiality as one of its "guiding principles", because its
18 confidential programs and venues promote "open, candid intra-membership dialogue".
19 NATF's guiding principles are described in its Organization and Programs document,
20 which further describes that NATF originally adopted the model used by the Institute of
21 Nuclear Power Operations (INPO). The INPO decided to conduct its performance
22 review activities on a confidential basis after finding that the threat of public disclosure
23 and scrutiny did not provide candid responses (NATF Organization and Programs
24 Document (September 2016, at 4-5: <[https://www.natf.net/docs/natf/documents/
25 organization-and-programs.pdf](https://www.natf.net/docs/natf/documents/organization-and-programs.pdf)>).

26 As discussed in **Exhibit "2"**, the peer review and processes, by their very nature,
27 involve the opinions and perspectives provided by employees of other members of the
28 transmission industry. Reviewers are well recognized experts in their fields, and these
29 reviewers have an underlying objective to share best in class practices and ways for

1 other member organizations to improve their operational performance. Maintaining
2 confidentiality of these views and perspectives promotes candid, pragmatic, and direct
3 exchanges which provide learnings intended to promote safety, security and reliability
4 objectives.

5 Conversely, the threat that NATF information could become public creates a chilling
6 effect on both the willingness of individuals to participate in these processes as well as
7 the quality of the underlying information that is shared. The fear that peer reviewers
8 could be required to attend and testify before public utility commissions and boards, for
9 example, would reasonably dissuade involvement. For example, if such an outcome
10 was a real possibility (i.e. that I would have to testify before boards in foreign
11 jurisdictions about opinions, information and feedback I, or other Hydro One employees,
12 provided to another NATF member), it would cause me to not participate in NATF.
13 NATF peer information differs significantly from the role performed, and the information
14 provided, by third party consulting experts. In my experience, those types of individuals
15 recognize and accept the expectation to provide testimony and justification with respect
16 to the reports they create and which are filed and relied upon by administrative tribunals.

17 **Q.9 Is Hydro One relying on the NATF Information to support the relief sought in its**
18 **Application?**

19 A. No. Even if Hydro One wanted to take this step, it could not do so because of the
20 confidentiality restrictions that are placed upon NATF Information. It is important to
21 remember Hydro One's reference to the NATF Information only came about because of
22 a response provided to SEC Interrogatory #036 (Ex. I-6-36). The question asked in this
23 interrogatory requested all benchmarking studies to which Hydro One has contributed,
24 not those relied on for the purposes of its current application before the Board.

25 **Q.10 If Hydro One was ordered to produce the NATF Information, what consequences**
26 **would ensue?**

27 A. As noted in **Exhibit "2"**, Hydro One's membership in NATF would effectively terminate.
28 Hydro One could not fulfill NATF's underlying need to have its information at all times
29 kept confidential and not subject to any disclosure.

1 **Q.11 How would this outcome affect Hydro One?**

2 A. Significant impacts come to mind. First, NATF is a cost effective way by which Hydro
3 One receives advice regarding its operational skills and practices. Individuals involved
4 in NATF are our professional peers involved directly in our industry. Their involvement
5 provides important insights and contributes to Hydro One's ongoing objective to
6 continuously improve its operations. NATF is a unique organization which facilitates this
7 peer exchange of information. I am not aware of any similar organization in our industry
8 in North America that is capable of providing these perspectives.

9 Second, Hydro One's removal from NATF would damage Hydro One's reputation with
10 other transmitters that operate across North America. Our removal and absence from
11 NATF, at minimum, would cast doubt as to why this step has occurred and why Hydro
12 One's regulatory scheme does not permit it to act in a manner similar to its peers in
13 other jurisdictions that are regulated in a similar manner. This outcome would be seen
14 to be at cross purposes with the overarching public policy objective that industry is
15 striving for, namely, continuous improvement in operational performance and reliability
16 across North America's transmission grid.

17 **Q.12 Why did Hydro One contact NATF subsequent to SEC's Motion being filed on**
18 **September 28?**

19 A. Hydro One is under a contractual obligation to maintain and protect all information
20 received from NATF on a confidential basis. If successful, the SEC Motion would
21 interfere with this obligation. Given this obligation, Hydro One advised NATF of the SEC
22 Motion, and the more recent Board ruling regarding the production of other
23 benchmarking studies. NATF advised that production of any NATF information provided
24 to its members is entirely inconsistent with its mandate and function. NATF also
25 confirmed the importance of ensuring confidentiality over the requested information. The
26 concern, again, is the potential for disclosure and the potential need for this information
27 to be addressed by the individuals involved in the reports through some type of special
28 confidential hearing process. Hydro One requested NATF to provide a letter setting out
29 the reasons for these concerns, which is provided in **Exhibit "2"**.


1 III. CONCLUSION

2 Q.13 Does this conclude your affidavit testimony?

3 A. Yes it does.

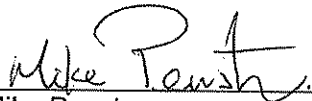
4 I make this Affidavit in support of Hydro One's submissions in response to the SEC
5 Motion and for the purposes of providing additional materials for the hearing of this
6 matter.

SWORN BEFORE ME at the City of)
Toronto, in the Province of Ontario, this)
21st day of October, 2016.)



A Commissioner for Taking Affidavits)
in and for the Province of Ontario)

7 Emily Stopps



Mike Penstone

Exhibit 2

October 20, 2016

VIA E-MAIL

Scott McLachlan
Director – Planning Analytics
TCT13 D5
Hydro One Networks Inc.
scott.mclachlan@HydroOne.com

Re: *Confidentiality of NATF Materials*

Dear Scott,

We were recently informed that an intervener in one of Hydro One's Transmission Rate Filings before the Ontario Energy Board is requesting that Hydro One disclose confidential materials of the North American Transmission Forum, Inc. ("NATF"), including NATF peer review reports and transmission reliability reports. The requested NATF materials are highly confidential and, for the reasons discussed below, it is imperative that Hydro One does not breach its contractual commitment to maintain the confidentiality of information received as part of Hydro One's participation in NATF.

History of NATF

NATF is a non-profit organization focused on improving performance in the transmission industry, with its membership consisting of transmission owners and operators. NATF was created in the wake of the increased oversight of the transmission industry that followed the August 2003 blackout, which left millions of residents in the U.S. and Canada without electricity. The 2003 blackout was, in many ways, a tipping point in the transmission industry that caused both regulators and transmission operators to look for ways to improve transmission systems in the hopes of avoiding another major incident.

On the regulatory side, the U.S. Congress passed the Energy Policy Act of 2005 (the "Act"), mandating the development of reliability standards for the transmission industry. The Act provided the U.S. Federal Regulatory Energy Commission ("FERC") with responsibility for establishing reliability standards, as well as the authority to certify an entity as the "electric reliability organization" or "ERO" that, in turn, would enforce the new mandatory standards. The following year, FERC certified the North American Electric Reliability Corporation ("NERC") as the ERO in the United States, and Canadian regulatory authorities likewise recognized NERC as the entity with authority to regulate and enforce transmission reliability standards in Canada.

At the same time as these regulatory changes, the transmission industry itself took proactive steps to improve reliability, security, and safety. As a result of discussions taking place shortly after the 2003 blackout, a number of transmission companies sought to establish an organization similar to the one that nuclear power operators created to improve the nuclear industry after the 1979 incident at Three-mile Island. In the wake of that incident, the nuclear power industry recognized that it needed to foster a sense of commitment, unity, and candor amongst industry members in order to improve the industry as a whole. The nuclear power industry ultimately developed a model organization built on candid and confidential peer reviews, self-audits, and member exchange of information. The concept was to push the industry past standards set by regulators and motivate each other to excellence with rigorous reviews that went beyond

government requirements. The companies participated with the promise of confidentiality. The INPO model worked: the U.S. nuclear plant safety record has been exemplary since INPO's creation.

Seeking to follow in the footsteps of the nuclear power industry, transmission companies petitioned NERC in 2006 to create NATF's predecessor, the Transmission Owners and Operators Forum. This Forum was to exist within NERC and had an express purpose of improving the reliability and security of the bulk power system by facilitating the pursuit of operational excellence through a forum where transmission owners and operators could, among other things, identify and exchange confidential information on best practices. Just as with INPO, members would participate and engage in peer reviews and self-audits with the promise of confidentiality. After being created as part of NERC, NATF became an independent non-profit organization in January 2010.

NATF Today

Since 2010, the NATF has remained an independent non-profit organization. The independence and confidentiality commitment made by the companies participating in NATF is critical to its success. NATF's members consist of a broad range of transmission companies, including both investor-owned and state or government operated organizations. NATF's members currently represent approximately 80% of the transmission circuit miles at 100 kV and above in the U.S. and Canada.

NATF seeks to pursue reliability, safety, and security excellence by fostering constructive confidential peer challenge and efficiently sharing timely, detailed, and relevant information, including lessons learned and superior practices. To this end, NATF is organized around the following six integrated programs: (1) Peer reviews that include reports with recommendations for improving member performance; (2) Assistance with developing action plans for specific member needs or requests; (3) Practice initiatives from teams of subject-matter experts who hold monthly web meetings and annual workshops, as well as write best practices and principles of excellence; (4) Reliability initiatives to target specific issues affecting transmission systems; (5) Knowledge management, which includes various program tools developed by the NATF to help facilitate the exchange and management of operating experience and reliability data; and (6) membership-wide training.

The Necessity of Confidentiality

Confidentiality is an absolute necessity to the success of an organization like NATF. The commitment that NATF members make to each other to keep all of the information confidential is the only way to ensure that there are candid exchanges of information and a willingness of member companies to provide details about their operations. Indeed, NATF is built on the principle that the open and candid exchange of information among its members is the key to improving reliability, security, and safety of transmission systems in the U.S. and Canada. The success of NATF, therefore, depends on the willingness of its members to be candid and to exchange confidential information. NATF, after all, is a voluntary organization. It can succeed only to the extent that its members are willing to participate.

To date, NATF has been able to effectively continue its mission of improving the transmission industry because of its assurance to participating members that the information they provide to NATF will be kept confidential. The member agreement that NATF enters into with each participant includes promises from both NATF and its members not to disclose any confidential information to third parties. These promises are critical because the information that participants receive as part of their membership in NATF is not limited to their own confidential data. The reports, including those sought to

be disclosed in Hydro One's current proceeding, are developed based on information provided to the NATF in confidence by all of its members.

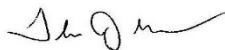
No regulatory agency or authority has compelled the production of NATF confidential materials. NATF has considered, and rejected, turning over confidential records or redacted records to regulators, as both cases set an unacceptable precedent. Moreover, any such agreements are contrary to the conditions required by members to participate in NATF.

If Hydro One were to disclose the confidential NATF information in its possession, such disclosure would have widespread effects on Hydro One, the NATF, and potentially the transmission industry as a whole. If the confidential NATF reports were released, Hydro One effectively would be violating its agreement with NATF and would be subject to exclusion from future participation in NATF. Forcing NATF to remove Hydro One from its membership would mean that Hydro One would lose the benefits that come with this membership, including critical assessments from independent experts and insight on best practices from Hydro One's peers. It also would diminish the information available to NATF and, thus, the overall effectiveness of critical NATF programs to all NATF members.

If Hydro One remained in NATF after disclosing confidential information, other members would be reluctant to continue sharing confidential information for fear that it could be disclosed again when provided to Hydro One. This also could lead to NATF members determining that they can no longer remain in NATF, causing further member withdrawals.

In short, NATF was created for the purpose of improving performance in the transmission industry, and it can only achieve this purpose if its members are willing to exchange confidential information regarding the operation of their transmission systems. If NATF or its members do not maintain the confidence of information shared through this voluntary member organization, NATF cannot survive and the industry as a whole will suffer.

Sincerely,

A handwritten signature in black ink, appearing to read 'T.J. Galloway'.

T.J. Galloway
President & CEO

cc: M. Penstone (H1),
M. Magruder, Brandon Keels (King & Spalding)

Exhibit 3

Description	Bridge Year	Test Years		TX Allocation	
	2016	2017	2018	2017	2018
Corporate Management	14.5	16.0	15.7	7.2	7.1
<i>Labour</i>	12.4	12.8	12.5	5.8	5.7
<i>Non-Labour</i>	2.2	3.2	3.2	1.5	1.5
Finance	42.1	41.0	38.6	21.9	19.4
<i>Labour</i>	26.2	24.4	24.4	14.0	14.1
<i>Non-Labour</i>	4.3	7.0	6.9	3.7	3.5
<i>Inergi</i>	11.6	11.4	11.6	6.0	6.1
<i>Procurement adjustments Finance</i>		-1.8	-4.2	-1.8	-4.2
People and Culture	16.2	14.8	14.2	7.6	7.3
<i>Labour</i>	11.7	12.0	12.2	6.2	6.3
<i>Non-Labour</i>	4.5	2.9	2.0	1.5	1.0
Corporate Relations	17.5	17.3	19.4	8.7	9.9
<i>Labour</i>	9.8	10.1	10.2	5.1	5.2
<i>Non-Labour</i>	7.7	7.2	9.2	3.6	4.7
General Counsel and Secretariat	10.3	10.4	10.5	5.5	5.6
<i>Labour</i>	6.0	6.1	6.3	3.3	3.3
<i>Non-Labour</i>	4.3	4.3	4.3	2.3	2.3
Regulatory Affairs	26.4	25.4	26.0	9.6	9.8
<i>Labour</i>	8.9	8.3	8.4	3.7	3.7
<i>Non-Labour</i>	1.7	1.9	1.6	0.9	0.7
<i>OEB/NEB Cost</i>	15.8	15.2	15.9	5.1	5.4
Security Management	5.1	4.7	4.8	2.2	2.3
<i>Labour</i>	4.8	4.4	4.5	2.1	2.1
<i>Non-Labour</i>	0.4	0.4	0.4	0.2	0.2
Internal Audit	6.2	6.3	6.4	3.3	3.4
<i>Labour</i>	5.1	5.2	5.3	2.7	2.8
<i>Non-Labour</i>	1.0	1.1	1.1	0.6	0.6
Real Estate and Facilities*	60.1	59.6	60.7	32.2	32.7
<i>Labour</i>	7.7	7.7	7.7	6.3	6.3
<i>Non-Labour</i>	2.4	2.4	2.4	1.3	1.3
<i>Facil & Real Estate Work Program</i>	50.0	49.5	50.5	24.6	25.1
Total CCF&S Costs	198.4	195.5	196.3	98.3	97.5