



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 MOTIONS for FULL AND ADEQUATE RESPONSES TO INTERROGATORIES and TECHNICAL CONFERENCE QUESTIONS November 1, 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. The Decision and Procedural Order No. 4 issued on October 27, 2016, addressed the confidentiality issue and approved the filing of evidence by Environmental Defence (ED) and Anwaatin Inc. A technical conference was held on September 22 and 23, 2016.

Following the technical conference, two motions were filed:

1. School Energy Coalition (SEC) motion, dated September 28, 2016, for full and adequate responses to interrogatories and technical conference questions.
2. Environmental Defence (ED) motion, dated September 29, 2016, for full and adequate interrogatory responses.

This is the Decision on the above two noted motions.

Motions for Full and Adequate Responses to Interrogatories and Technical Conference Questions

SEC requested 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/Tab 6/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/Tab 6/Schedule 2));
- 4) OEB staff Interrogatory #28 (Exhibit I/Tab1/Schedule 28) and SEC Interrogatory #29 (Exhibit I/Tab 6/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/Tab 3/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, in its motion, requested 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/Tab 5/Schedules 1 – 5). The information that ED seeks relates to the topic of Hydro One's transmission losses and consists of:

- the actual import and export capacity of Hydro One's transmission assets and the constraints on its system that define that capacity;
- data on historical transmission losses, including peak period losses for the past 10 years;
- average transmission losses for other transmission companies in the United States and Canada;
- data on various sources of transmission losses including regional variations; and
- annual estimated cost of transmission losses for Hydro One for each of the past 10 years.

In Procedural Order No. 3, the OEB provided for submissions on these motions by OEB staff, followed by submissions from Hydro One, and then reply submissions from SEC and ED.

OEB staff filed submissions on October 18, 2016. Also, on October 18, 2016, submissions in support of the SEC Motion were made by the Vulnerable Energy Consumers Coalition, Consumers Council of Canada, Canadian Manufacturers and Exporters and the Association of Major Power Consumers in Ontario. The OEB issued a letter on October 19, 2016, indicating that Hydro One should take these letters into account in its reply submissions. Hydro One filed its submissions on October 21, 2016 and the reply submissions from SEC and ED were received by the OEB on October 25, 2016.

SEC Motion

NATF Peer Review and Transmission Reliability Reports

Relying on the Affidavit of its Vice President - Planning, Hydro One objects to producing these reports on the grounds that Hydro One states that it will be forced to withdraw as a member of the NATF organization if the OEB requires it to produce these reports on the public record.

2016 Forecast ROE

SEC notes that for the years 2012 to 2015 inclusive the actual ROE for Hydro One Transmission exceeded the OEB formula percentage. SEC contends that, in these circumstances, the forecast of Hydro One's 2016 ROE is relevant to an assessment of the reliability of Hydro One's 2017 and 2018 transmission revenue and expenditure forecasts. Hydro One contends that the requested information is not relevant to matters at issue in this proceeding and that it should not have to produce the information even if it is protected under the auspices of an OEB confidentiality order.

Business Plans

The technical conference transcript indicates that Hydro One has not yet developed a company-wide business or strategic plan or an organization chart of its operations. The only business plans that currently exist are the individual business plans at a group level. SEC requests but Hydro One refuses to produce these documents on the grounds that the level of granularity implicit in this degree of scrutiny of its business plans is not appropriate in this proceeding. SEC contends that its production request is reasonable having regard to the fact that these are the only internal business plans that are available.

Asset Investment Economic Analysis (Replace or Refurbish)

SEC seeks the production of Hydro One's replace versus refurbish economic analyses for the subset of Hydro One's capital projects that have an estimated cost exceeding \$20M. Hydro One objects to producing this information on the grounds that it will lead to a level of scrutiny that is unreasonably granular.

Internal Audit Reports

SEC, supported by AMPCO, seeks the production of 2 specific audit reports from the total of 40 internal audits conducted by Hydro One in the past 2 years. Hydro One objects on the grounds that, in past decisions, the OEB has not required that such audit reports be filed in response to blanket requests for their production. Instead the OEB has directed Hydro One to file summaries of these audit reports. In this proceeding, AMPCO submits that these summaries do not enable the reader to understand the issues raised during the audit or the recommendations made at the conclusion of the process.

ED Motion

Hydro One opposes the ED requests for further information on the grounds that it is not in possession or control of the information requested. It relies on a letter from the IESO dated October 20, 2016. This letter refers to other processes where the matter of transmission losses is being considered including the development of the Ministry of Energy's next Long Term Energy Plan (LTEP).

In its Reply submissions dated October 25, 2016 ED noted that Hydro One did not respond to the suggestions contained in paragraphs 17 and 26 of the ED Motion materials. These suggestions describe ways one might estimate Hydro One's transmission losses and their cost. These suggested estimating mechanisms are repeated in footnote 9 of ED's reply.

Now that the OEB has allowed ED to file evidence in this proceeding¹ Hydro One will be presenting a witness to address, to the extent possible, the questions that ED has about energy losses information and Hydro One's rationale for not taking such information into account in its transmission planning process.

Findings

School Energy Coalition Motion

NATF Peer Review and Transmission Reliability Reports

The OEB has articulated the importance it places on both internal and external benchmarking on numerous occasions, most recently in the Handbook for Utility Rate Applications. The OEB is sensitive to Hydro One's concerns about maintaining its confidentiality commitments to NATF and will not compel production of the NATF reports at this time. The OEB will first attempt to obtain information related to the benchmarking nature of the reports in a fashion that can be used openly in the hearing.

The OEB requires Hydro One to provide a summary of the pertinent information in these reports complete with the number of entities that participated in each, its own performance tracking over time against itself and how it ranks in relation to its peers over time. The OEB will determine the need for further exposure of the reports once it receives this information.

¹ Decision and Procedural Order No. 4, Oct. 27, 2016

The OEB notes that Hydro One has been a member of NATF since 2006 and that the NATF Peer Review and Transmission Reliability Reports are produced annually. The information that the OEB is directing Hydro One to produce is to include the data from its own operations relating to the benchmarks that NATF used to conduct its peer review and transmission reliability assessments in each of the years 2006 to 2015. This information will help the OEB better understand the transmission system benchmarks that are considered by the industry to be appropriate and Hydro One's year-over-year performance in relation to those benchmarks. This information is to be accompanied by the total number of members in NATF in each year against which Hydro One was benchmarked and, for each benchmark used in each report, Hydro One's ranking amongst the other transmitters.

2016 Forecast ROE

The OEB regards information of this nature to be of some relevance to matters at issue in this proceeding. That said, the OEB prefers to obtain data on the public record that can be used freely in public submissions and in public decisions. The OEB will not require a projection of the 2016 year end ROE at this time. Rather the OEB requires Hydro One to provide the actual 3rd quarter ROE (once available) along with the type of analysis that accompanied BOMA IR #30 explaining the reasons for any variance in actual ROE to date compared to the forecast ROE to date embedded in Hydro One's 2016 OEB approved revenue requirement.

Business Plans

The OEB has provided its expectations with respect to the filing of business plans in the recent Handbook for Utility Rate Applications. The OEB is assisted by these types of documents because they provide insight into the overarching company objectives that are underpinned by its many activities.

The OEB requires Hydro One to provide a business level plan that describes the overall strategy and business planning direction of the company. What the OEB requires is the type of document that would typically be presented to the board of directors for approval. If such a document does not exist, then the OEB requires Hydro One to explain the reasons for its unavailability in view of the fact that similar documents have been filed with the OEB in previous proceedings (e.g. EB-2012-0031 and EB-2013-0416). As a minimum, the OEB requires Hydro One to file any existing documents that articulate the objectives and high level plans of the most significant business units within Hydro One which would typically be presented to senior management for approval.

Asset Investment Economic Analysis, (Replace or Refurbish)

The OEB considers this type of information to be informative of the company's approach to its core asset management function. The OEB does not need to examine all projects captured by SEC's request to obtain an understanding of Hydro One's approach. The OEB will however compel the production of a subset of the information sought in SEC's motion. The OEB requires Hydro One to file the "replace versus refurbish" economic analysis and any other documentation that was produced or used in support of the approvals related to 3 examples for each major asset type. For each major asset type, the 3 examples will consist of recent projects having the largest investment levels. .

Internal Audit Reports

The OEB finds the two reports requested by SEC to be relevant and not onerous to provide and requires them to be filed. The OEB will afford these reports an interim confidential status subject to Hydro One providing compelling reasons to maintain that status. The previous audit report production decisions of the OEB, on which Hydro One relies, are distinguishable in that they were based on blanket requests. Moreover since those decisions were rendered, the summaries that they authorized, as substitutes for the audit reports, have not been found to be useful.

ED Motion

The OEB does not require any further information related to the inertia capacity. The significance of issues that ED has identified is reflected in the IESO letter of October 20, 2016 where it refers to the other public forums and processes where these matters are being pursued. The OEB does not require any analysis of potential electricity market procurement opportunities in other jurisdictions in its consideration of Hydro One's current application.

As noted in the OEB's determination on ED's evidence proposal, the OEB wishes to gain a better understanding of transmission losses. The OEB expects to be informed by the additional evidence that ED will be providing and from the witness that Hydro One has committed to provide on this topic. In anticipation of gaining a better understanding of the manner in which transmission losses are generally managed in the sector, the OEB considers it premature to require the production of the information that ED seeks in its entirety. That said, the OEB does require Hydro One to provide the estimates of transmission losses and their cost using the approaches described in ED's footnote 9 on page 3 of ED's October 25, 2016 reply submission or to explain why these estimates either cannot be provided or are otherwise inappropriate.

IT IS THEREFORE ORDERED THAT:

1. Hydro One shall provide the responses and information as determined in this Decision, no later than November 11, 2016.

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.

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DATED at Toronto, November 1, 2016

ONTARIO ENERGY BOARD

Original signed by

Kirstin Walli
Board Secretary