1st February, 2017

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VIA Canada Post and RESS Filing

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge St.
Toronto, ON
M4P 1E4

Re: EB-2016-0160 Hydro One Networks Inc. (Transmission)
2017 and 2018 Transmission Revenue Requirement and Rates Application
The Society of Energy Professionals' Final Submissions

Dear Ms. Walli,

Please find attached The Society of Energy Professionals' Final Submissions in the Hydro One Networks Inc 2017 and 2018 Transmission Revenue Requirement and Rates Application, EB-2016-0160.

Two (2) hard copies of this submission have been sent to your attention.

Sincerely,

[Original signed by V. Power for]

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The Society of Energy Professionals
FINAL SUBMISSIONS

EB-2016-0160 Hydro One Networks Inc.

2017 and 2018 Transmission Revenue Requirement and Rates Application

1st February, 2017

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EB-2016-0160: The Society Final Submissions

Introduction:

This is the Final Argument of The Society of Energy Professionals ("The Society") in the Hydro One Networks Inc. 2017 and 2018 Transmission Revenue Requirement and Rates Application, EB-2016-0160. This Argument is organized in the same manner as the Ontario Energy Board Staff Submission in this proceeding, dated the 25th of January, 2017.

Rather than put forward positions on all issues, The Society has chosen to limit itself to those largely which it considers to be of primary concern to its interests and where it can provide a different perspective for the OEB's consideration in reaching its decision in this proceeding.

1.0 Transmission System Plan and Capital Expenditures

With regards to Transmission System Plan and Capital expenditures, The Society limits its submissions to the areas of Sustainment Spending - Reliability, specifically regarding the northern, radial portion of Hydro One's system; Customer Engagement, specifically Selection of Participants; Proposed Reduction to Capital Budget; Reporting on Status of Projects; Line Losses, and; Benchmarking, including the recommendations of Navigant and Top Quartile consulting.

1.1 Sustainment Spending – Reliability

Through this proceeding, the Anwaatin identified and underlined their concerns with and the impacts upon them of the poor reliability of the A4L transmission line which services their lands, and how this contributes to the energy poverty of their people[1]. As OEB staff outlined in their submission, whilst outages in the south of Ontario may affect more customers when transmission system redundancy is not sufficient in some circumstances to prevent outages, the impact of system unreliability on customers in the north is very significant[2]. And these impacts are not confined to just the Anwaatin; other customers in northern Ontario who are serviced by Hydro One transmission facilities which fall into the outlier category of the minimum Customer Delivery Point Performance standard face similar impacts upon their lives.

It is incumbent upon the OEB and Hydro One Transmission to take the necessary steps to significantly improve the reliability of these so-called outliers in a reasonable amount of time. This may require a combination of far more aggressive vegetation management and/ or sustainment program system upgrades amongst other things.

[1] Transcript Volume 13, pp11-14

[2] Staff Submission pp10

The Society recommends that the OEB provide sufficient incremental sustainment program funding directed at eliminating or greatly minimizing the transmission facilities in northern Ontario which fall into the outlier category of the minimum Customer Delivery Point Performance standard. Further effort and funding is also required to improve the overall reliability of the northern, radial portion of Hydro One's system. The OEB should require Hydro One to provide evidence in its next cost-based rate case outlining what steps it has taken to improve this situation along with its plans and commitments to make further substantial improvements in its next test period.

1.2 Planning Evidence

The Society has no submissions on Planning Evidence.

1.3 Customer Engagement – Selection of Participants

As confirmed by Hydro One witness Mr. Graham Henderson, only two northern Ontario LDC's were included in the customer consultation that Hydro One Transmission undertook and Hydro One Distribution was not included[3]. As explained by Mr. Henderson, "…the Hydro One distribution voice is not explicitly noted in the IPSOS report, because they were not official participants in the IPSOS customer consultation process"[4].

As confirmed by Mr. Ken Buckstaff and Mr. Ben Grunfeld, the benchmarking study did not involve any consultation with First Nations[5].

It is incumbent upon Hydro One Transmission in future customer consultations to engage northern Ontario customers including First Nations. Hydro One's First Nations and Metis Relations Division should be charged with engaging those specific groups throughout Ontario in ***meaningful*** consultation prior to Hydro One Transmission's future OEB applications.

1.4 Proposed Reduction to Capital Budget

As noted earlier in subsection 1.1, The Society submits that Hydro One be given incremental sustainment funding to materially improve the reliability of the northern, radial portion of Hydro One's system with particular focus on Hydro One transmission facilities which fall into the outlier category of the minimum Customer Delivery Point Performance standard. OEB staff have suggested a total reduction of $136.56M per year in the capital sustainment funding[6]. The Society submits that half this amount should be provided annually as incremental funding to deal specifically with the above noted reliability issues in the northern, radial portion of Hydro One's system. If the OEB is concerned as to whether these incremental funds are

[3] Transcript Volume 4, pp124, 125

[4] Transcript Volume 4, pp127, 128

[5] Transcript Volume 3 p113

[6] Staff Submission pp17, 18

appropriately utilized, they may wish to instruct Hydro One to track these expenditures in a specific account.

1.5 Reporting on Status of Projects

The Society supports OEB staff's submission[7] that Hydro One should be required, in its revenue requirement applications going forward, to report on the status of major projects or programmes that appeared in the previous application. If a project or programme was not completed, or if money was redirected to a different project, the report should provide the reasons for the change.

1.6 Line Losses

In the course of this proceeding, a great deal of attention was placed on the measurement of transmission losses, metrics for transmission losses and the economic value of minimizing transmission losses. It would appear that Hydro One Transmission places little value on this and does not view it as a responsibility which they do or should have.

Specifically, Hydro One's Mr. Bing Young stated that Hydro One does not have the role of a system operator and thus does not have the control to affect transmission losses, rather this is the accountability of the IESO[8]. Mr. Young also outlined how transmission system planning, which would take into account transmission losses, would be done jointly with the IESO, however in the case of sustainment expenditures, Hydro One would take the lead[9].

Mr. Young provided several examples of how Hydro One minimizes transmission losses within the accountabilities which they do have[10]: keeping abreast of the newest technology; taking into account losses amongst other factors when purchasing high efficiency transformers, and; when considering new lines, the economic impact of losses to the potential solutions are reviewed. However, in reply to Dr. Emad Elsayed, Hydro One's Mr. Mike Penstone noted that he could not recall that in any business cases that he had reviewed through the years that there were any references to transmission losses[11]. An example of this is the current Hydro One EB-2016-0325 section 92 application, which is to upgrade an existing transmission line and expand a transformer station in Toronto; a search of Hydro One's submitted evidence in that proceeding does not reveal a single reference to transmission losses.

Further, it appears that there is little in the public record regarding transmission loss performance metrics. In this proceeding Mr. Peter Thompson enquired numerous times about such measures. For instance on November 28 he asked the

[7] Staff Submission p18
[8] Transcript Vol 5 Dec 1, 2016 pp28, 29 and 61, 62.
[9] Transcript Vol 5 Dec 1, 2016 pp66, 67
[10] Transcript Vol 5 Dec 1, 2016 pp38, 39
[11] Transcript Vol 5 Dec 1, 2016 pp86

two consultants engaged by Hydro One [Transcript Vol 3 Nov 28, 2016 pp131-132] if "[they're] aware of any jurisdictions that measure transmission losses". Mr. Ben Grunfeld responded he wasn't aware of any. Mr. Ken Buckstaff, stated "…I do know many companies track the line losses at both transmission and distribution level. I don't know of anywhere that's on their senior management scorecards, it's more of an operational thing that the engineering groups look at. "

Due to the intertwining of their accountabilities in this area, The Society submits that the OEB should initiate a generic consultation regarding transmission losses involving both Hydro One Transmission and the IESO. This consultation should be charged with engaging independent subject expert consultants in order to:
a) prepare a study and derive methodologies for both Hydro One and the IESO to measure transmission losses annually.
b) derive a transmission loss metric(s) and targets for the Hydro One Transmission and IESO scorecards.
c) derive a methodology as to how transmission losses should be considered in business cases prepared by Hydro One Transmission and the IESO. This would include how the full economic value of transmission losses should be monetized ie through the inclusion of energy and capacity costs.

1.7 Benchmarking

As noted earlier under subsection 1.1 Sustainment Spending – Reliability, The Society recommends that further effort and funding is required to improve the overall reliability of the northern, single circuit, radial portion of Hydro One's system. As part of this recommendation, The Society believes that Hydro One Transmission should benchmark itself against transmission utilities with similar expanses of radial transmission lines and put forward reliability metrics and targets which are a fair measure for radial transmission systems.

Further, there are eight recommendations made in the consultants' report on total cost benchmarking[12]. In the course of the IR process, technical conference and oral hearing, Hydro One was not clear what action if any that they would be taking on some recommendations eg target a corrective maintenance spend that is ~25% of total corrective and preventative[13]. Hydro One nor the consultants who were engaged in this study made any mention of doing a follow up audit on implementing the recommendations[14]. The Society submits that an independent audit should be provided on the company's progress on meeting the eight recommendations at Hydro One Transmission's next cost-based rate case.

2.0 Scorecard

[12] Exhibit B2 Tab 2 Schedule 1 p4 Table 1 "Addressing the [Transmission Total Cost Benchmarking Study] Recommendations"
[13] Technical Conference Transcript Vol 2 Sep 23, 2016 pp161 ln2-12
[14] Transcript Vol 3 Nov 28, 2016 pp86 ln6-12

The Society supports OEB staff's submission that Hydro One place additional emphasis on elevating the Tier 2 and 3 metrics concerning interruption frequency in the single circuit system, to their Tier 1 scorecard to directly reflect the different reliability records of the radial as compared to the multi-circuit systems[15].

3.0 Operations, Maintenance and Administration (including Compensation)

As noted earlier in subsections 1.1 and 1.4, The Society submits that Hydro One be given incremental sustainment funding to materially improve the reliability of the northern, radial portion of Hydro One's system with particular focus on Hydro One transmission facilities which fall into the outlier category of the minimum Customer Delivery Point Performance standard. OEB staff made a submission that an approximate 5% reduction in Sustainment OM&A, amounting to $12 million per test year should be made[16]. The Society submits that half this amount should be provided annually as incremental funding to deal specifically with the above noted reliability issues in the northern, radial portion of Hydro One's system. If the OEB is concerned as to whether these incremental funds are appropriately utilized, they may wish to instruct Hydro One to track these expenditures in a specific account.

4.0 First Nations Permits

The Society supports OEB staff's submission that Hydro One should make the necessary efforts to resolve the issues surrounding the agreements or permits granted by the Department of Indian and Northern Affairs Canada (INAC) which allow Hydro One transmission and distribution facilities to cross and/or occupy portions of First Nation reserves. Protection of First Nations rights and provision of appropriate compensation in the new agreement are key[17].

5.0 Niagara Reinforcement Project (NRP)

In its submission, OEB staff assert that Hydro One should no longer receive recovery of the allowance for funds used during construction (AFUDC) on the NRP despite the OEB not placing a limit on the period of time that Hydro One could recover the AFUDC on the NRP[18]. OEB staff's view is that regulated utilities are required to face some risk in their business operations, and that they are compensated for risk through their Return on Equity.

The basic facts are that NRP was not placed into service as a result of a continuing land claim dispute in Caledonia, Ontario which does not directly involve Hydro One. As this land claim dispute is essentially between the First Nations in the region and the Province of Ontario, there is limited if any ability for Hydro One to resolve this

[15] Staff Submission p22
[16] Staff Submission pp24,25
[17] Staff Submission pp31,32
[18] EB-2006-0501 Decision With Reasons, August 16, 2007, p. 64

dispute which would allow it to complete and put its transmission line into service. Effectively Hydro One Transmission's NRP is the collateral damage in this larger dispute. It is hard to imagine that the Return on Equity is constructed in a manner which adequately compensates a utility for not being able to place a prudent expenditure of roughly $100M into service due to factors outside of its control or influence.

The Society submits that Hydro One should continue to recover its carrying cost for NRP, which is AFUDC, until the Province of Ontario and the First Nations in the region reach some resolution in their dispute which allows Hydro One to place into service and operate NRP.

6.0 Tax and Accounting Issues

6.1 Accounting for Pension and OPEB Costs

In their submission, OEB staff outline how Hydro One currently apply an accrual accounting based recovery method for other post-employment benefits (OPEBs)[19] and not a cash recovery method. As per Hydro One, there is difference between the accrual and cash recovery methodologies of $27M in 2017 and $25M in 2018[20].

The Society supports OEB staff's submission that in this proceeding the OEB should not make a final determination on whether the cash or accrual method should be used for OPEB cost recovery for Hydro One. Rather, over the 2017 and 2018 test years Hydro One should continue using the accrual accounting method. However, as OEB staff submit, the difference between the accrual and cash recovery methodologies of OPEB recovery should be tracked in a variance account. This will allow a future OEB panel at Hydro One Transmission's next cost-based rate case to apply the outcome of the OEB's EB-2015-0040 consultation on rate-regulated utility pensions and OPEBs in the electricity and natural gas sectors to Hydro One Transmission.

6.2 Capitalization of Overhead Costs

In their submission[21], OEB staff assert that Hydro One should align its overhead capitalization practices with that of other Ontario regulated entities under modified International Financial Reporting Standards (MIFRS). In OEB staff's view, alignment between regulated entities in terms of the expectation to maintain up to date useful lives and a more conservative capitalization practice are the key underpinnings to establishing an equitable foundation for ratemaking across the sector. Ratepayers will benefit as they will no longer be paying weighted average cost of capital (WACC) and depreciation expense on capitalized overhead costs.

[19] Staff Submission pg 33 & Exhibit I-1-131
[20] Staff Submission pg 34 & Exhibit I-1-131
[21] Staff Submission pp 34-37

Based on the related undertaking response provided[22], Hydro One indicated that overhead amounts capitalized for the test period would be lower by $180M and $182M for 2017 and 2018 respectively, with a corresponding increase in OM&A expense. Note that in Exhibit I-1-75, Hydro One indicated that under MIFRS they expect that the total capitalization on a consolidated basis at the Hydro One Inc. level would decrease by approximately $310 million. So, in the case of Hydro One Distribution, in 2018 overheads capitalized would be roughly $130M lower and with a corresponding increase in OM&A expense.

To mitigate this impact, OEB staff propose that the OEB could spread the increase to OM&A over a number of years for this first transitional revenue requirement approval. If the OEB was to approve a transition period of 7 years (to potentially align with the two years of this current application and say, a five year Custom IR application to follow), the annual increment to the revenue requirement would be approximately $25 million or 1.6% of the total proposed revenue requirement for 2017 and approximately $50 million or 3.3% for 2018. It is not clear how OEB staff propose the difference of $25M expensed in 2017 and the estimated overheads capitalization of $180M is to be treated. Will the $155M difference be placed in a variance account for future recovery or will Hydro One be able to capitalize $155M of overheads in 2017? This is also the case in 2018 when $50M of formerly capitalized overheads will be expensed – will the difference of $132M be placed in a variance account for future recovery or will Hydro One be able to capitalize $132M of overheads in 2018?

Basically, in order to meet OEB staff's desire to put in place a consistently more conservative capitalization practice in rate regulated gas and electricity companies in Ontario, all Ontario ratepayers will face a Transmission revenue requirement which will be about $180M higher (in constant 2017 $) in 2023, less the reduction in ratebase due to lower overheads capitalized. If OEB staff are proposing a gradual reduction in overheads capitalized between 2017 and 2023 this would amount to roughly a $60M reduction in revenue requirement assuming that ratebase additions/ deletions have a 10% impact upon revenue requirement. So the OEB are effectively telling ratepayers that the total transmission revenue requirement will likely be over $120M higher in 2023 due to the OEB's need to change capitalization accounting practices. Perhaps electricity ratepayers will not be as concerned with rising electricity rates in 2023, but from The Society's perspective, it would be very insensitive to the concerns of electricity ratepayers for the OEB to make such an announcement in 2017.

Note that if the OEB puts in place a similar reduction in overheads capitalized in Hydro One Distribution over seven years beginning with its upcoming 2018-2022 rate application, this would represent increased reductions in overheads capitalized in $20M per year increments. In its 2023-2027 application, in the 2023 rebasing year, Hydro One Distribution revenue requirement would be about $120M higher

[22] Undertaking J11.21

(in constant 2017$) less the reduction in ratebase due to lower overheads capitalized. Again, if OEB staff are proposing a gradual reduction in overheads capitalized between 2018 and 2024 this would amount to roughly a $35M reduction in revenue requirement in 2023 due to lower rate base. So the OEB are effectively telling Hydro One Distribution ratepayers that the total distribution revenue requirement will likely be about $95M higher (in 2017$) in 2023 due to the OEB's need to change overhead capitalization accounting practices; and this doesn't include the impact of total transmission revenue requirement in the province increasing by $120M for the same reason. Again, from The Society's perspective, it would be very insensitive to the concerns of electricity ratepayers for the OEB to make such an announcement in late 2017 or early 2018 when the Hydro One Distribution 2018-2022 rate application decision is issued.

The Society submits that due to its impact on transmission ratepayers, it would be imprudent for the OEB to put in place OEB staff's recommendations regarding overheads capitalized accounting practices.

6.3 IPO Tax Benefits

The Society adopts and supports the position put forward by the Applicant and OEB staff. To repeat OEB staff's conclusion, in the case of the departure tax, Hydro One did incur a cost to create the tax benefit, and to pass the benefit through to ratepayers would create harm to Hydro One[23].

ALL OF WHICH IS RESPECTFULLY SUBMITTED ON THIS 1st DAY OF FEBRUARY, 2017

[23] Staff Submission p39