February 2, 2017

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

Dear Ms. Walli:

RE: EB-2016-0160 – Hydro One Networks Inc. – Transmission Application - 2017 and 2018 - Final Argument of the Consumers Council of Canada -

Please find, attached, the Final Argument of the Consumers Council of Canada in the above-referenced proceeding.

Yours truly,

Julie E. Girvan

Julie E. Girvan

CC:
All Parties

FINAL ARGUMENT OF THE CONSUMERS COUNCIL OF CANADA

HYDRO ONE NETWORKS INC.

TRANSMISSION REVENUE REQUIREMENT 2017-2018

EB-2016-0160

I. INTRODUCTION:

On May 31, 2016, Hydro One Networks Inc. ("HON") applied to the Ontario Energy Board ("OEB" or "Board"), pursuant to section 78 of the Ontario Energy Board Act, 1998 for an order or orders approving the revenue requirement, use of certain regulatory accounts and customer rates for the transmission of electricity, effective for a two-year period beginning on January 1, 2017.

On July 20, 2017, HON filed an update to its Application, resulting in reductions to the Operating Maintenance and Administration ("OM&A") budgets levels filed in May. On December 2, 2016, HON filed updates to reflect the OEB approved cost of capital parameters.

A Presentation Day was held on September 1, 2016, with HON Executives describing the company's proposals embedded in the Application. On September 22 and 23, 2016, a Technical Conference was held. An oral hearing commenced on November 24, 2016, and was completed on December 16, lasting for a total of 13 hearing days. HON filed its Argument in Chief on January 12, 2016.

These are the final submissions of the Consumers Council of Canada ("Council") regarding HON's Application. The Council does not intend to address all of the detailed issues set out in the Board's approved Issues List. The Council's submissions will focus primarily on the main components of the revenue requirements for 2017 and 2018, the Capital Expenditure forecast and the OM&A budgets. The Council submissions will be set out in the following sections:

- Approvals Requested
- Background and Context
- Capital Expenditures and the Transmission System Plan
- Operating, Maintenance and Administration Costs
- Other Issues

1. APPROVALS REQUESTED:

Through this Application HON is seeking approval of the following:

- Revenue Requirements of $1.487 billion (2017) and $1.558 billion (2018);
- Charge determinants by rate pools to develop the Provincial Uniform Transmission Rates effective January 1, 2017;
- The proposed Transmission Scorecard;
- Continuation of certain deferral and variance accounts;
- Disposition of certain deferral and variance account balances with a net credit balance of $95.6 million[1];
- Significant increases in its capital spending - $1.076 billion for 2017 and $ 1.122 billion for 2018 relative to historical levels and previous forecasts for the two-year period[2];

[1] Ex. K 6.3 (Update to Ex. A/T3/S1/p. 1)
[2] Ex. A/T3/S1/p. 13

- Significant increases in Common Corporate Functions and Services ("CCFS") relative to historical levels.[3]

- Significant increases in Executive Management costs relative to historical levels.

The requested revenue requirements result in a 2.6% increase for 2017 relative to Board-approved levels and a 4.8% increase for 2018 relative the requests for 2017, which take into account the proposed load forecasts for the two years.[4]

The bill impacts arising from the Application for a typical residential customer, consuming 750 kWhs/month are estimated to be .1 % in 2017 and .2% in 2018. The relatively small impacts on the bill result from the fact that transmission costs are a relatively small component of the overall bill (approximately 8.3%) relative to the other components of the bill, which include distribution costs, regulatory charges and and commodity costs.

Despite the relatively small impacts being proposed by HON, the relief requested, if granted, would result HON's ability to recover over $3 billion in revenue from Ontario electricity consumers over the next two years. HON's plans to spend $2.2 billion on capital have longer-term impacts as well, as some of the assets in the capital plans will go into service beyond 2018. These capital expenditure levels are expected to continue beyond 2018.[5] The OEB's review of HON's proposals is critically important for Ontario electricity consumers, particularly as electricity bills are expected to continue to increase significantly over the next several years. It is imperative from the Council's perspective that the Board not take a narrow view and simply assess this Application on the basis of the overall bill impacts of HON's proposals for 2017 and 2018, which are relatively small. The Board must carefully

[3] Ex. C1/T3/S3/p. 2 (July 20, 2016 update)
[4] Ex. K6.3
[5] Ex. A/T3/S1/p. 3

consider whether this $3 billion request, is prudent, cost-effective and represents true value for HON's customers for the services being provided.

In its Argument in Chief ("AIC") HON pointed to the fact that very limited intervenor evidence was filed in this proceeding that contradicts the conclusions made by HON in its Application.[6] This is true. However, the fact that limited intervenor evidence was filed does not necessarily strengthen HON's case. From the Council's perspective there was a great deal of evidence adduced through the discovery process and the oral hearing phase of the proceeding demonstrating that many of HON's proposals are not appropriate. On the basis of that evidence the Council will, throughout these submissions, challenge many of HON's proposals and present alternatives.

HON has indicated its intent to become fully aligned with the OEB's ratemaking expectations now described on the Board's Handbook to Utility Rate Applications, including the principles and objectives of the Renewed Regulatory Framework for Electricity Distributors ("RRFE")[7]. It is HON's position that its Application reflects the RRFE's goals of continuous improvement, robust integrated planning and asset management, strong incentives to enhance utility performance, ongoing monitoring of performance against targets, and customer engagement to ensure utility plans are informed by customer expectations.[8] As set out below, the Council does not believe that HON's Application is consistent with the RRFE goals. Furthermore, and even more importantly, the proposals for capital and OM&A spending will not result in just and reasonable rates and should be reduced.

2. BACKGROUND AND CONTEXT:

[6] Argument in Chief (AIC), p. 5
[7] AIC, p. 4
[8] AIC, p. 77

Before addressing HON's specific revenue requirement proposals it is important to set out some important points that provide the context for the Board's consideration of this Application:

- This is the first rate Application before the Board since HON began its transition from an entirely Crown-owned corporation into one that is more commercially oriented. The Province has now sold off almost 30% of HON. HON has indicated that moving to a more commercially oriented approach entails a transformation within the company to achieve its vision of becoming a best in class, customer centric, commercial entity, with a culture of continuous improvement and excellence in execution.[9] The ability to achieve these goals has yet to be proven by HON. In addition, it is important to note that transitioning to a more commercially oriented entity has been coincident with significant increases in management compensation levels;

- This is a cost of service application for a two-year period beginning January 1, 2017. HON has viewed this as a "transitional application" as it moves towards an incentive based approach for future years.[10] This Application does not include rate-making requests for the period beyond the test years. It is HON's intent to submit another application in 2018 for the period beginning January 1, 2019 and beyond. HON is exploring the rate options available to it under the RRFE, which include a price cap approach and a Customer Incentive Regulation Mechanism ("Custom IR"). HON may well be before the Board for a subsequent rate review in the next year. The Board is not required to approve budgets beyond the test year, but the significant level of spending proposed now will ultimately have impacts on future rates;

- HON Distribution will be filing a rate application in the next few months seeking approval for a five-year Custom IR plan. At that time the Distribution

[9] Tr. Vol. 1, p. 21
[10] TC Transcript, September 22, 2016, p. 6

allocation of the Common Corporate Costs that are being reviewed in this case will be reviewed again when that Application is before the Board;

- HON is, during this period, also developing metrics to assess its performance against other utilities and to track its own performance over time. The development of these metrics and targets is not yet complete;

- HON's forecast of Capital Expenditures and the overall business planning process for the test period has essentially been a moving target over the past two years with forecast costs changing extensively over a relatively short time frame[11]. HON did not go through its normal business planning cycle in terms of developing the budgets put forward in this Application. There is a significant variance, for example between the Capital Expenditure forecasts set out in the Initial Public Offering Transaction ("IPO Transaction") prospectus in October 2015, the budgets reviewed by the Executive team in November 2015 and the forecasts included in the Application on May 31, 2016[12]. That variance is approximately $500 million[13];

- With respect to Transmission, HON's actual return on equity ("ROE") has exceeded the allowed ROE in each year during the period 2012-2015. One of the primary reasons for this was that during the period 2012-2014 actual in-service additions were less than planned[14]. HON was also projecting to overearn in 2016 as well[15];

- This Application comes at a time when HON customers, both directly connected transmission customers, and end-use retail customers, continue to face rising electricity bills;

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[11] Ex. J 8.1
[12] Ex. J 8.1
[13] Tr. Vol. 1, p. 61
[14] Ex. I/T2/S30
[15] HON letter dated November 23, 2016

- The last third party asset condition assessment for HON Transmission was performed in 2008.[16] HON's evidence in this proceeding is that there was no time for a third party review[17] ; and

- The evidence in this proceeding is that HON's reliability performance is good when compared to other like utilities and has been, over a long period of time.[18]

3. CAPITAL EXPENDITURES AND THE TRANSMISSION SYSTEM PLAN:

The following Table sets out HON's Capital Expenditure budget for the Test Years:

Table 5: Summary of Transmission Capital Budget ($ Millions)

Including Capitalized Overheads and Interest Capitalized*	Historic				Bridge Year	Test Years		Forecast		
Description	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Sustaining	389.3	480.0	621.3	694.3	724.3	776.8	842.1	825.7	915.2	1118.1
Development	329.4	171.7	131.6	166.0	166.0	196.4	170.2	244.0	254.0	258.3
Operations	15.2	17.7	28.4	15.6	30.1	25.4	30.8	58.8	21.1	24.7
Common Corporate Costs Capital	42.1	49.1	63.4	67.1	83.5	77.6	79.1	79.1	78.2	73.8
Total	**776.0**	**718.5**	**844.6**	**943.0**	**1003.8**	**1076.1**	**1122.2**	**1207.5**	**1268.6**	**1474.9**

*Includes Allowed Funds Used During Construction.

(Ex. A/T3/S1/p. 3)

HON has a forecast of capital spending in the test year of $1.076 billion for 2017 and $1.22 billion in 2018. These levels of capital spending are unprecedented. HON's evidence is that the increases are primarily driven by the following factors:

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16 Ex. J 7.1
17 Tr. Vol. 1, p. 176
18 Ex. J2.4

- Increases in Sustainment Capital that arise from the use of the reliability risk model and HON's overall capital planning process. HON is proposing expenditures on Stations at the same level of investment in 2015 and 2016. HON is proposing increased investment in the Lines category. This is focused primarily on replacing line insulators, refurbishing end of life conductors, and making new investments to apply protective zinc coatings to aged steel towers in corrosive environments to extend asset lives. [19]

- Increases in Development Capital, which are primarily driven by inter-area network transfers, local area supply and load connection identified through the regional planning process.[20]

- Increases in Operations Capital related to building a new back-up control centre and the end-of life replacement of grid control network elements that are required to monitor and control the system; and

- Increases in Common Corporate Capital related to IT, increased facility needs and investments in transport and work equipment.[21]

HON has recently introduced the reliability risk model, which is a new approach to inform its capital budgeting process and assess the level of investment required to manage system reliability risk. It relies on three key inputs – asset specific hazard curves, the asset demographic of HON's current fleet and the total units of each asset class that are planned to be replaced called the reliability risk model. [22] This approach is essentially untested. Although HON's evidence is that it had been

[19] Tr. Vol. 1, p. 28
[20] Ex. B1/T3/S1/p. 5
[21] Ex. B1/T3/S1/p. 5
[22] Ex. B1/T2/S4/Attachment 1, p. 1

informed by the development of similar approaches in other jurisdictions, the only jurisdiction identified was the U.K.[23]

In the last proceeding HON had forecast a decline in capital over the period 2016-2019. HON's projection for capital spending in 2017 and 2018 was $1.7 billion and in this case, for the same period of time it is $2.2 billion, an increase of $500 million[24]. In fact, the capital expenditure forecasts went through several iterations from the time the last application was filed (EB-2014-0140 – June 27, 2016) until the currently proposed budgets were filed on May 31, 2016. The important steps in the overall chronology, from the Council's perspective, are as follows:

- June 2014 – Application filed for 2015 and 2016. In that Application the proposed capital expenditure amounts for 2017 and 2018 were $847.8 million and $838 million respectively;

- February 2015 - Through the investment planning process, candidate investments were inputted into HON Asset Investments Planning ("AIP") tool to begin the annual planning cycle;[25]

- March 2015 – An insulator failure caused a line drop over a commercial parking lot in Etobicoke, Ontario;

- May 2-3 – AIP optimization of candidate investments and review of the output with each planning group and the Chief Operating Officer;

- July- August 2015 – The investment plan was updated to incorporate the COO's input;

- July 2015 – New CFO appointed;

- September 2015 – New CEO appointed;

- October 29 - IPO Prospectus was released with $848 million and $839 million capital numbers for 2017 and 2018[26];

[23] Ex. I/T1/S14
[24] Tr. Vol. 1, pp. 58-61
[25] Tr. Vol. 11, p. 95
[26] Tr. Vol. 11, p. 105

- November 2-4 – The CEO and CFO undertake a review of the investment plan which includes $920 million and $978 million capital numbers for 2017 and 2018;

- November –December 2015 – Board Discussions regarding a draft business plan and decisions made to review productivity, customer consultation and improving analytics, but no formal Business Plan was approved by the Board;

- December 2015 – Auditor General's Report issued;

- December 29, 2015 – OEB Decision and Order in the Toronto Hydro Customer IR Application issued, setting out the OEB's expectations regarding the RRFE;

- February 11, 2016 - Transmission Filing Requirements issued;

- February 17, 2016 – HON finalized its Reliability Risk Model;

- March 9, 2016 - Customer Consultation initiated;

- April 12-19 Business Plan developed and revenue requirement numbers for 2017 and 2018 finalized;

- April 18 – Final Customer Engagement Report received by HON;

- May 6, 2016 – Board of Directors review the Transmission Rate Application memorandum;

- May 31, 206 – HON files the Transmission Rate Application.[27]

- December 2, 2016 – Business Plan approved by the Board of Directors consistent with the Capital Expenditure forecasts included in the Application.

With respect to justifying its Capital Expenditure forecasts as set out the Application HON has argued that it appropriately instituted a proper and valid investment planning process.[28] HON has focused on the fact that the capital plans and forecasts are consistent with customer needs and expectations and have been developed using the reliability risk model. HON has also repeatedly stressed an urgency to deal

[27] Ex. J 8.1
[28] AIC, p. 13

with the safety and reliability concerns associated with the line insulators, conductors and steel towers.[29]

The Council recognizes that HON has, over the last several years, been undergoing a transition. It is moving from being a Provincially-owned entity to one that is publicly traded and "more commercially oriented". Executive Management and the Board of Directors have changed. There have also been a number of significant staffing changes – new roles and new faces. It will take time for the Company to adjust, but from the Council's perspective the interests of the customers should not get lost in that transition.

The Council submits that a careful consideration of the chronology set out in J 8.1, and highlighted above, leads to the following conclusions:

- HON did not follow its normal business planning process leading up to the development of the 2017 and 2018 rate filing;

- In the period December 2015 to May 31, 2016, HON attempted to incorporate elements of the RRFE into its planning process, but did not do so effectively. The Toronto Hydro-Electric Limited Decision released on December 29, 2015, likely influenced what HON attempted to do to comply with the RRFE in the January to May period. This included customer engagement, the need for productivity to be embedded in the forecasts, and improving reliability analytics;

- The reliability risk model which was not finalized until February 17, 2016, could not have had a meaningful influence on the determination of the 2017 and 2018 Capital plans;

[29] AIC pp. 37-45

- HON undertook customer engagement in order to comply with the RRFE, but that customer engagement process was not meaningful (the Council's concerns with the customer engagement process are set out below). The $24 million increase in the capital plans as a result of that process has not been justified;

- HON did not obtain an independent review of its capital planning process or the resulting budgets although the RRFE requires it. HON indicated that there was no time for a third-party assessment[30];

- A formal Business Plan was not approved by the Board of Directors prior to the filing of the Transmission Rate Application;

- A Business Plan, underlying this Application by the Board of Directors was not approved until December 2, 2016, during the end of the oral hearing process. In that plan the Capital Expenditure amounts embedded in the rate Application were not adjusted to take into account better information, although they were finalized April 2016.

From the Council's perspective all of this puts into question the robustness of HON's Capital Expenditure forecasts for 2017 and 2018. HON did not undertake a rigorous planning process, did not engage a third party review of its Transmission System plan, did not engage its customers in a meaningful way and did not demonstrate that its reliability risk model is an appropriate planning tool. In addition, HON has not demonstrated that it has embedded productivity into its capital planning processes and its overall capital expenditure budgets. Although HON attempted to comply with the RRFE requirements, it has not met the Board's expectations.

[30] Tr. Vol. 1, p. 176

HON' s current forecasts are also inconsistent with the longer term plans filed in the last rate proceeding and in the numbers embedded in the Draft Business from November 2015. The lack of a sufficient planning process requires the Board to make reductions to HON's proposed capital budgets. In addition, the Association of Major Power Consumers in Ontario ("AMPCO"), the School Energy Coalition ("SEC") and Board Staff have presented comprehensive arguments for budget reductions at the individual asset level. These are reductions largely based on pacing, rather than eliminating capital programs altogether. There is do doubt that the overall transmission system must be maintained and refurbished, so the nature of work required is not being debated in this case. Where HON and the intervenors differ is that pace at which that work should be done.

The Council supports reducing the Capital Expenditure amounts in 2017 and 2018 to account for the lack of a sufficient planning process, the need to better pace investments and to ensure that HON works toward developing productivity and efficiency gains with respect to its capital spending. The Council submits that HON should be required proceed with a capital spending envelope for 2017 and 2018 of $900 million per year. This amount is consistent with previously approved amounts, gives HON some flexibility in terms of planning, recognizes the need for pacing and will incent HON to be more efficient. Assuming these levels are approved HON should be able to manage its business effectively, strive for efficiency gains, establish a robust capital expenditure priority system, and minimize impacts on ratepayers.

HON will be submitting a new Application for the period 2019 and beyond. With respect to its capital program the Council submits that HON should be required to submit the following:

- An independent third-party review of its Transmission System Plan ("TSP");

- Meaningful customer engagement regarding the TSP;

- Robust benchmarking; and

- A list of metrics that will allow HON to measure itself against other like utilities and measure its performance in a useful way over time with respect to its capital programs.

4. CUSTOMER ENGAGEMENT

HON has described how it communicates on an ongoing basis with its stakeholders and customer base. This includes the "Key Accounts Management" Group, which facilitates direct communications with customers (directly connected to the Transmission system) regarding non-operational issues. The Ontario Grid Control Centre ("OGCC") has direct communication with customers regarding real-time operations and outages. HON also has other working groups, committees and undertakes an annual transmission customer satisfaction survey.[31] With respect to this customer engagement the only forum for engagement with end-use retail customers with the Customer Advisory Board, which has not been engaged at all over the last year.

In the Spring of 2016 HON undertook a specific customer engagement initiative "to identify the needs and preferences of customers" as it related to the formulation of the five year TSP. Ipsos Reid was engaged to undertake a three-part engagement plan, which involved one on one meetings, five group customer consultation meetings and an on-line consultation tool.[32]

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[31] EX. B1/T2/S2/p. 6
[32] Ex. B/T2/S2/pp. 7-8

HON presented its investment plan embedded in this Application as one that would strike a balance between: developing the transmission system and building new infrastructure; sustaining existing assets and maintaining the health of its system; and rate impacts. It is HON's evidence that because government policies related to the connection and integration of renewable energy generation and the retirement of coal fired generation system renewal needs have increased, posing a risk to current reliability levels.[33] HON has used the customer engagement feedback from the Ipsos Reid engagement process to conclude, "Customer feedback and external benchmarking evidence both support increased capital spending above historical levels to address this risk". [34]

HON's customer engagement results have been identified as one of the primary justifications for HON's increased spending on sustainment capital in 2018 and 2019. As Mr. Penstone stated in his opening remarks at the oral hearing, the transmission system plan addresses the concerns HON heard from its customers, particularly, "that they do not want reliability risk of Hydro One's transmission network to increase."[35]

HON concluded from the engagement process:

> Hydro One's Transmission System Plan reflects its general assessment of customer needs and preferences. The investment plan takes customer engagement information into account as follows:
>
> - The plan mitigates the current risk to service levels posed by asset deterioration;
> - The plan supports Hydro One's ability to continue to provide first quartile reliability in a safe manner; and

[33] Ex. B/T3/S1/p. 2
[34] Ex. B/T3/S1/p. 2
[35] Tr. Vol. 1, p. 27

> - The plan optimizes the life of the assets to avoid unnecessary capital expenditures
>
> The investment plan reflected in this Application seeks to meet customers' needs regarding service levels, in a manner that controls costs to address their desire for low or competitive costs. [36]

The Council submits that the Board should reject the notion that the results of the Ipsos Reid engagement process are a true reflection of customer needs and preferences. In addition, the Board should be cautious about accepting the proposed increases in Sustainment Capital on the basis of the conclusions derived from that process. The Council submits that the customer engagement process was flawed for a number of reasons:

- The process did not get started until March 2016, with the final report not completed until April 18[37], leaving little time to influence the May 31 Application filing;

- The participation rates were low in all of the "Waves";

- It is unclear as to whether the participants understood the difference between reliability performance and "reliability risk" which is a very new concept for HON and its customers[38];

- Participants were not informed that that HON's reliability has been improving;[39]

[36] Ex. B1/T2/S2/p. 11
[37] J 8.1
[38] Tr. Vol. 4, p. 20
[39] Ex. B1/T2/S2/Att. 2, p. 9

- As a part of that process HON did not survey end-use customers but focused on its directly connected transmission customers and local distribution companies ("LDCs"). This is despite the fact that 92% of the revenue comes from end-use LDC customers[40]. HON's rationale was in part because it has no commercial relationship with customers of LDCs. In addition it is HON's position that this would result in customer confusion, be difficult to interpret the results and the cost difficult to justify.[41] The Council disagrees as end-use customers are the ones that pay for transmission and their views and the views of the LDCs with respect to rates and service can differ significantly;

- Ipsos Reid's conclusion that most customers felt the right balance between reliability risk and rates was somewhere between Scenario 2 and Scenario 3 was not adequately substantiated.

With respect to the customer engagement process and its role in the development of the capital plans, Mr. Hubert stated the following:

> In the past, we actually relied on, as Mr. Penstone pointed out, the technical assessments and past levels of investment and, in certain cases, actual assumptions and input we had from our customers through day-to-day interactions, but not through a concerted customer engagement, as Mr. Rubinstein discussed with his questions.
>
> This time, we actually approached transmission-connected customers, laid out three hypothetical scenarios, and asked for some directional feedback on what would the trade-off between the level of investment and the reliability risk.
>
> So that also informed our plan in addition to the total cost benchmarking study and the reliability risk assessment. So those three elements are all changed from previous applications.[42]

[40] Ex. J1.1
[41] Ex. I/T6/S13/p. 1
[42] Tr. Vol. 1, 106

The Council submits that the Board should put little weight if, if any on HON's customer engagement process. Clearly the Board cannot view it as an endorsement of HON's capital planning process and the associated budgets proposed for 2017 and 2018.

5. OPERATING, MAINTENANCE AND ADMINISTRATION COSTS:

HON has presented itself as an organization that is transforming to execute its vision of being "best-in-class", a customer-centric commercial utility with a culture of continuous improvement and excellence in execution. [43] The Council applauds that objective, but submits that HON is only in the early stages of such a transformation, and that transformation is not reflected in the proposed OM&A budgets for 2017 and 2018. HON has also claimed that its commitment to productivity and cost efficiency is further illustrated as "OM&A expenses are expected to demonstrate a declining trend in the 2016 bridge year and in the 2018 test years."[44]

The Council submits that HON's OM&A is not declining as claimed and in fact, it is increasing in certain areas, specifically with respect to the components of Common Corporate and Other OM&A – the areas where costs are shared between the Distribution and Transmission business units.

The Council submits that HON's OM&A forecasts for 2017 and 2018 should be reduced for the following reasons:

- HON has consistently in each year, since 2012 spent less that its forecast OM&A levels with no exception[45];

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[43] AIC, p. 55
[44] Ex. A/T3/S1/p. 3
[45] EX. I/T13/S25 (CCC interrogatory setting out historical OM&A levels Actual and Approved)

- HON has failed to build in sufficient incremental productivity into its budgets for 2017 and 2018 despite its stated commitment to productivity and cost efficiency;

- HON has failed to justify the significant increases in executive compensation and other Common Corporate Functions and Services costs;

The following Table sets out the most updated forecast of overall Transmission OM&A costs:

Table 9: Summary of Transmission OM&A Budget ($ Millions)

Description	Historic				Bridge	Test	
	2012	2013	2014	2015	2016	2017	2018
Sustaining	204.7	221.0	228.6	233.6	227.5	241.2	238.5
Development	8.5	8.6	7.5	6.1	5.3	4.8	5.0
Operations	54.8	56.7	56.6	59.0	60.0	61.3	62.1
Customer Care	4.4	5.3	5.4	5.1	4.1	4.0	3.9
Common Corporate and Other OM&A	80.7	75.8	37.2	73.9	72.3	49.9	47.5
Taxes Other Than Income Taxes	62.1	21.2	64.1	63.9	62.9	63.6	64.3
Pension Adjustment*	-	-	-	-	-	-11.4	-9.9
B2M LP Adjustment*	-	-	-	-	-	-0.8	-2.1
Total	**415.2**	**388.4**	**399.5**	**441.6**	**432.1**	**412.7**	**409.3**

*See Exhibit C1, Tab 2, Schedule 1 for further details.

The most current updated bridge year forecast for OM&A is approximately $420.7 million as compared to $432.1 million in the Application[46]. In the EB-2014-0140 case the Board-approved amount was $436.7 million, which included a $20 million reduction relative to HON's as-filed forecast as result of the Settlement Agreement.[47] HON' s original forecast in that proceeding was $457.5 million[48]. So the variance relative to that forecast is $37.5 million.

The accounting of HON's OM&A costs is complicated by a number of factors. HON Transmission and Distribution are operated as a consolidated entity. Some services

[46] Ex. J 12.1
[47] Ex. A/T3/S1/p. 19
[48] EB-2014-0140 – Ex. C1/T2//S1/p. 2

are outsourced and provided by external service providers through long-term service agreements (Inergi LP and Brookfield Global Integrated Solutions). There are costs that are directly attributable to each business unit, but there are also Common Corporate Costs which are comprised of common corporate functions and services ("CCFS"), asset planning services, information technology ("IT"), cost of sales to external parties and other OM&A. Other OM&A includes a capitalized overhead credit, the environmental provision credit, indirect depreciation and other costs.[49]

The Common Corporate OM&A Costs are allocated among the business entities that use the common services. In 2015 HON retained Black and Veitch to provide an update to the methodology used to allocate the common costs.[50] In addition, in order to arrive at the final OM&A amount for the test years there is an adjustment made to reflect credits associated with capitalized overhead, environmental provisions, indirect depreciation and other material unexpected or non-recurring expenses.[51] Increases in the amounts capitalized should not be construed as reductions in the overall OM&A costs.

What is also unique to HON is the fact that the approval of OM&A costs attributable to Transmission are approved on a different timeline and different evidentiary basis fro the costs attributable to Distribution, yet the common costs are essentially the same costs, simply allocated to each entity. Going forward the Board may want to consider a process by which these costs are reviewed by the Board at the same time, then allocated to each business unit according to an approved allocation methodology.

The following Table provides a Summary of Common Corporate OM&A Costs:

[49] Ex. C1/T3/S1/p. 1
[50] Ex. C1/T3/S1/p. 2
[51] Ex. C1/T3/S3/p. 24

Table 1: Summary of Common Corporate OM&A Costs 2012-2018 ($Millions)

Description	2012	2013	2014	Historic 2015	Bridge 2016	Test 2017	Test 2018
Asset Management	32.3	31.8	32.6	31.0	36.6	36.5	35.8
Common Corporate Functions & Services	80.5	87.7	93.1	95.7	98.9	98.3	97.6
Information Technology	60.7	61.1	55.2	55.1	61.4	59.8	57.6
Cost of Sales	11.4	13.9	11.1	8.8	5.0	5.0	5.0
Other OM&A	-104.2	-118.6	-154.8	-116.8	-129.6	-149.7	-148.5
Total	80.7	75.8	37.2	73.9	72.3	49.9	47.5

(Ex. C1/T3/S1/p. 2)

What this Table illustrates, when considered in the context of the previous Table, is that OM&A amounts for 2017 and 2018 are not declining as the result of cost reductions, or productivity improvements, but are declining for two major reasons. These are the increase in capitalized overheads (which a formulaic adjustment driven by the capital budget amounts) and an adjustment for pensions that arose out of a new actuarial study. Asset Management Costs, IT Costs and CCFS costs are have all increased in the period 2016-2018 which is contrary to the statement above that, "OM&A expenses are expected to demonstrate a declining trend in the 2016 bridge year and in the 2018 test years."[52] What is also important is that the most updated 2016 OM&A amount was $420.7 million[53]. From the Council's perspective this represents an important starting point to consider the appropriate levels of OM&A for 2017 and 2018. In considering an adjustment it is important to recognize that the amount of Common Corporate Costs being capitalized in 2016 is $20 million less than the amounts in 2017 and 2018.

The Common Corporate Functions and Services are a subcomponent of the Common Corporate OM&A Costs. The following Table sets out these costs:

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[52] Ex. A/T3/S1/p. 3

[53] Ex. J 12.1

Table 1: CCFS Costs ($ Millions)

Description	Historic Years				Bridge Year	Test Years		TX Allocation	
	2012	2013	2014	2015	2016	2017	2018	2017	2018
Corporate Management	5.0	4.9	5.5	5.4	11.1	22.3	22.1	7.2	7.1
Finance	35.2	41.9	41.0	40.4	42.2	41.0	38.6	21.9	19.4
People and Culture	9.9	11.1	13.1	13.9	16.0	14.8	14.2	7.6	7.3
Corporate Relations	11.3	15.0	19.6	17.4	17.5	17.3	19.4	8.7	9.9
General Counsel and Secretariat	8.8	9.6	9.3	9.3	10.5	10.4	10.5	5.5	5.6
Regulatory Affairs	20.6	20.6	23.1	24.4	25.8	25.4	25.9	9.6	9.8
Security Management	3.1	3.4	3.5	4.2	5.1	4.7	4.8	2.2	2.3
Internal Audit	3.5	3.4	4.0	4.3	6.0	6.3	6.4	3.3	3.4
Real Estate and Facilities	54.6	54.1	53.6	60.0	60.1	59.6	60.7	32.2	32.7
Total CCF&S Costs	**152.0**	**164.0**	**172.8**	**179.4**	**194.2**	**201.8**	**202.7**	**98.3**	**97.6**

(Ex. C1/T3/S3/p. 2)

As noted above, HON has had a consistent pattern of spending less than its forecast OM&A levels in each year 2012 to 2016. This is demonstrated by looking at Exhibit I/T13/S25 and cross-examination of HON's Finance Panel during the oral phase of the hearing.[54]:

- In 2012 the Board approved level of OM&A was $427.2 million and the actual amount was $415.1;

- In 2013 the Board approved level was $440 million and the actual amount was $388.4 million;

- In 2014 the Board approved amount was $449.8 and the actual amount was $399.5;

[54] Tr. Vol. 11, pp. 179-183

- In 2015 the forecast amount (before the ADR adjustment) was $452.1 million and the actual $441.6;[55]and

- In 2016 the forecast amount (before the ADR adjustment) was $457.5 million [56] and the most recent Bridge year forecast is $420. 7 million.

HON's witnesses also confirmed that the overall budgeting process has not changed significantly in the past few years.[57] What this pattern demonstrates that HON's customers have paid more in rates over the past 4 years to fund OM&A costs that were not realized. These are not insignificant amounts. What it also demonstrates is that HON's forecasting methodologies have tended to overstate the OM&A spending requirements consistently. The Council submits that this is a legitimate reason to question the appropriateness of HON's OM&A forecasts for 2017 and 2018. HON should no longer be allowed to recover money from ratepayers that is not required.

The Council submits that as a starting point HON's OM&A should be adjusted to reflect a pattern of spending significantly less for OM&A activities than forecast, and included in rates. Board Staff has proposed that OM&A be reduced in each year by $15 million in light of this pattern.[58]

The Council submits that there are a number of other reasons that justify a reduction to the proposed OM&A amounts. These include:

- HON compensation costs continue to be above the market median as is demonstrated by the Mercer study and the Towers Watson study;

[55] EB-2014-0140 – Ex. C1/T2/S2/p. 2
[56] EB-2014-0140 – Ex. C1/T2/S2/p. 2
[57] Tr. Vol. 11, p. 181
[58] Board Staff Submission, p. 25

- HON executive compensation has increased exponentially without a clear understanding of how this benefits ratepayers. It is HON's position that the higher compensation levels are required to attract a higher caliber of management, which will ultimately be a benefit to ratepayers.[59] Until the HON can demonstrate a direct benefit to ratepayers these compensation levels should not be recoverable in rates;

- Overall, the CCFS costs are increasing without sufficient justification. This includes Corporate Management, General Counsel and Secretariat, Corporate Relations and Internal Audit. These are areas that can and should have budgets maintained at current levels;

- OM&A should decline in an environment with significant increases in capital spending, particularly with respect to Sustainment. As assets are replaced or reinforced, there should be a corresponding reduction in maintenance cost. This is not reflected in the current budgets;

- HON has failed to embed sufficient productivity adjustments into its forecasts for 2017 and 2018. HON has identified a relatively small amount of productivity that it has embedded in its forecasts in Exhibit TC J 1.17. The Council would argue that the majority of these do not represent incremental productivity gains, but are simply activities and programs that are in place or planned for the test years. HON's evidence that the Company expects to drive increased and sustainable savings for years to come.[60] It is therefore appropriate to incorporate a stretch factor into the budgets for 2017 and 2018 to incent HON to achieve those efficiencies.

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[59] Tr. Vol. 8, p. 149
[60] Tr. Vol. 1, p. 20

The Council proposes that HON's OM&A budgets for the Test Years be reduced by $30 million a year. This adjustment accounts for consistent underspending relative to forecast amounts (indicating a forecasting and budgeting bias), compensation costs above the median relative to comparators, excessive executive compensation (in the absence of any clear benefits to customer from those increased costs), overall CCFS cost increases that have not been justified, and the fact that Sustainment OM&A is increasing while Sustainment capital expenditures are ramping up significantly over the test year period.

6. OTHER ISSUES:

Effective Date

HON filed its Application on May 31, 2016. The Council submits that the effective date should be one month after the final rate order is issued. The Council is of the view this is an appropriate approach given the Board's filing requirements regarding utility Applications, and standard practices. The Council has concerns with retroactive billing and the impacts on customers in the absence of a valid reason to do so, which an effective date of January 1, 2017 would create. It was HON 's decision to file on May 31, 2016, for rates effective January 1, 2017. HON had every opportunity to file earlier if a January 1, 2017 effective date was required.

Niagara Reinforcement Project:

Board Staff has recommended that the recovery of amounts in the revenue requirement for the Niagara Reinforcement Project ("NRP") be removed. The rationale is that the NRP has never been put into service because of an outstanding land claim dispute. The Council agrees with the submissions of Board Staff regarding the NTP. There are no benefits accruing to ratepayers so the inclusion of these costs in the revenue requirement is inappropriate. If the project is revived

HON has every opportunity to come forward and seek recovery of the costs, assuming there is a corresponding benefit to the ratepayers.

Costs:

The Council requests that it be awarded 100% of its reasonably incurred costs in connection with its participation in this proceeding.

ALL OF WHICH IS RESPECTFULLY SUBMITTED