

June 8, 2017

**RESS, EMAIL & COURIER**

Ontario Energy Board  
P.O. Box 2319  
27th Floor  
2300 Yonge Street  
Toronto ON M4P 1E4

Attention: Ms. K. Walli, Board Secretary

Dear Ms. Walli:

**Re: Hydro One Sault Ste. Marie LP - Application for 2017 Transmission Rates  
(EB-2016-0356) – Applicant Argument-in-Chief**

We are counsel to Hydro One Sault Ste. Marie LP, applicant in the above-noted proceeding. Please find enclosed the applicant's argument-in-chief, which has been filed on RESS and sent to the Board in hard copy.

Yours truly,



Tyson Dyck

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**Enclosure**

cc: Intervenors  
Mr. K. Lewis, *Hydro One SSM*  
Mr. C. Keizer, *Torys LLP*

**ONTARIO ENERGY BOARD**

**IN THE MATTER OF** the *Ontario Energy Board Act, 1998*, S.O.1998, c.15 (Sched. B)

**AND IN THE MATTER OF** an application by Hydro One Sault Ste. Marie Inc. on behalf of Hydro One Sault Ste. Marie LP for an Order or Orders pursuant to section 78 of the *Ontario Energy Board Act, 1998* for 2017 transmission rates and related matters

**EB-2016-0356**

**Applicant Argument-in-Chief**

**Hydro One Sault Ste. Marie Inc.**

**on behalf of Hydro One Sault Ste. Marie LP**

June 8, 2017

## **1.0 Introduction**

1. On December 23, 2016, Hydro One Sault Ste. Marie LP (“Hydro One SSM” or the “Applicant”) – formerly known as Great Lakes Power Transmission LP – applied to the Ontario Energy Board (the “Board”) for an order or orders approving just and reasonable rates for the transmission of electricity in 2017. Pursuant to the Board’s Procedural Order No. 2 dated May 26, 2017, the Applicant hereby files these submissions as its Argument-in-Chief in this proceeding.
2. The Applicant is seeking Board approval for 2017 base revenue requirement of \$40,533,904 to be reflected in rates effective January 1, 2017. This amount was calculated using Hydro One SSM’s 2016 Board approved revenue requirement (\$39,778,120) as the based revenue adjusted by an annual adjustment (1.90%) under the revenue cap index framework. As further discussed in Section 2.0 below, this is in accordance with the EB-2016-0050 Decision and Order (the “MAAD Decision”), which, among other things: granted Hydro One Inc. (“HOI”) leave to purchase the voting securities of the Applicant’s general partner, accepted HOI’s proposal to defer the rebasing of the Applicant’s rates for a 10 year period, and stipulated that the Applicant can continue with its existing 2016 revenue requirement and apply for rates using a revenue cap index framework for the deferral period.
3. Hydro One SSM is also seeking approval to continue to use various regulatory accounts, to dispose of balances in various deferral and variance accounts, and, if necessary, to establish a sub-account to record revenue deficiencies incurred from January 1, 2017 until Hydro One SSM’s proposed 2017 rates are implemented.
4. As a result, this application is based on a revenue cap index for 2017, which is modeled on the price cap incentive regulation (“Price Cap IR”) framework used for distributors. As Hydro One SSM is seeking an adjustment to its 2016 revenue requirement which was fully reviewed and approved by the Board in EB-2014-0238, this application is intended to represent year two of the revenue cap adjustment period (which is typically 5 years but in this case will be 10 years on account of the approved deferral period) and provides the information as requested in the MAAD Decision, specifically, "the annual adjustment

(expected inflation, productivity, stretch factors) and proposed performance reporting and monitoring (draft scorecard, RRR filings, etc.)”.<sup>1</sup>

5. The approval of Hydro One SSM’s revenue requirement, plus the disbursal of certain deferral and variance accounts receivable from ratepayers, will result in a 0.06% increase in the overall revenue requirement used in the calculation of Uniform Transmission Rates of Ontario ("UTR") for 2017. This change in the Hydro One SSM revenue requirement does not result in any change to the existing UTR. Based on the Applicant’s estimate, the revenue requirement increases arising in this application will result in a negligible impact to the typical residential and retail customer's total bill for 2017.
6. These submissions address the following elements:
  - (i) the proposed annual adjustment, including the stretch factor, productivity factor, and inflation factor; and considerations stemming from the Board’s policy objectives with respect to the deferral period and treatment of synergy savings;
  - (ii) the requested effective date of January 1, 2017;
  - (iii) the requested approvals with respect to deferral accounts; and
  - (iv) the plan to file a detailed and comprehensive Asset Management Plan as part of a future HONI revenue requirement application.

## **2.0 Annual Adjustment**

7. The annual adjustment is based on expected inflation taking into account productivity and stretch factors. In 2017, Hydro One SSM will continue to operate as a stand-alone licensed transmitter. During 2017 and 2018, Hydro One Networks Inc. (“HONI”) and Hydro One SSM will be undertaking a significant review of Hydro One SSM's operations prior to its operational integration into HONI, which is anticipated to begin in 2019. This review is expected to result in longer term operational synergies and savings post

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<sup>1</sup> EB-2016-0050 Decision and Order, page 19.

operational integration. Hydro One SSM does not expect any significant operational integration steps, or savings, to occur during 2017 or 2018 and submits that under this premise the annual adjustment being proposed is appropriate.

8. Based on the MAAD Decision, Hydro One SSM is requesting to continue with its existing 2016 revenue requirement and proposing a revenue cap index framework for the 10 year deferral period, which is longer than the typical 5 year term for revenue cap index as set out under Chapter 2 of the *Filing Requirements for Electricity Transmission Applications*, dated February 11, 2016 (the “Filing Requirements”). It is Hydro One SSM's intention to maintain the proposed revenue cap index framework for the full ten year deferral period and, as indicated in Exhibit 1, Tab 2, Schedule 9 and interrogatory response 1-Staff-2, Hydro One SSM would continue to use this framework throughout the deferral period by filing annual revenue cap adjustment applications. Once the applicable framework has been approved by the Board in this proceeding for the deferral period, the subsequent annual applications would set out the relevant calculations on that basis.

Stretch Factor

9. The Board does not have an approved stretch factor for Ontario transmitters. As a result, Hydro One SSM is requesting a stretch factor of zero, based on the unique situation it is currently operating under, the Board’s policy on rate-making with respect to consolidation transactions (i.e. cost savings realized in the deferred rebasing period are intended for the acquiring utility’s shareholder to offset transaction costs and premiums)<sup>2</sup>, and on the basis of the First Quartile Consulting (“1QC”) benchmarking report.
10. During the first two years of the deferral period, to maximize operational synergies, HONI and Hydro One SSM will be undertaking a significant review of Hydro One SSM's operations prior to its operational integration into HONI. In 2018, HONI intends to file a Custom IR application (for 2019 transmission rates and beyond) which would propose an annual productivity factor and stretch factor. It is anticipated that Hydro One SSM's

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<sup>2</sup> See: Board’s *Handbook to Electricity Distributor and Transmitter Consolidations* (January 19, 2016).

revenue cap adjustment in those future years would adopt the same rate given that Hydro One SSM would be operationally integrated with HONI at that time. Consequently, Hydro One SSM submits that it would not be cost effective or timely to conduct a Hydro One SSM-specific stretch factor study for establishing 2017 and 2018 revenue requirements.

11. Hydro One SSM has filed the 1QC Report at Exhibit 3, Tab 1, Schedule 4, Appendix "A", which outlines that Hydro One SSM's total O&M and A&G costs are lower than its peers: "GLPT falls below average on a cost per asset basis" and "compared against the panel of companies on the total of O&M and A&G, GLPT compares favorably, ranking well below the median for the panel."<sup>3</sup>
12. Given that its operating costs fall below the majority of its comparable peers and that significant operational integration steps are not expected during 2017 or 2018, Hydro One SSM submits that a 0% stretch factor is appropriate. The proposed stretch factor will be used for 2017 and 2018 revenue requirement adjustments, after which time Hydro One SSM will adopt the same stretch factor as proposed by HONI.

Productivity Factor

13. Since the Board does not have an established productivity factor for transmitters, Hydro One SSM used the Board-approved productivity factor established for Ontario distributors, and has made the assumption that this is an appropriate factor to use. The rationale for this assumption is that transmitters' opportunities to realize productivity improvements are not greater than those of distributors.
14. As indicated on Page 2 of Exhibit 4, Tab 2, Schedule 1, this factor would only be used for adjustments to Hydro One SSM's 2017 and 2018 revenue requirement, after which time Hydro One SSM's revenue requirement adjustment factor would adopt the same productivity and stretch factors as proposed by HONI. As also mentioned in the same Schedule, Hydro One SSM has not conducted any studies to justify the factors, as it

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<sup>3</sup> Exhibit 3, Tab 1, Schedule 4, Appendix "A", page 2.

believes it would not be cost effective given the short period of time the factor would be used.

*Inflationary Adjustment*

15. Under Price Cap IR, the Board determines the inflationary rate to be applied. The inflationary rate applied is against the total revenue requirement of the utility. It is not limited to a view of only one aspect of costs (i.e., OM&A). Given the direction provided by the Board in the MAAD Decision, and the Board's prescribed inflation rate in Price Cap IR, Hydro One SSM believes it is appropriate to request an inflation factor of 1.90%, as calculated and released by the Board on October 27, 2016 for Ontario distributor incentive rate setting under the Price Cap IR and Annual Index plans for rates effective in 2017.
16. Hydro One SSM proposes that in the absence of a specific inflation factor established by the Board for transmitters, it is appropriate for Ontario's transmitters to use the same inflation factor as distributors, recognizing they will share many of the same inputs.

*MAAD Policy-Related Considerations*

17. The Board's *Handbook to Electricity Distributor and Transmitter Consolidations* dated January 19, 2016 (the "MAAD Handbook") allows the acquiring utility to select a deferral period to allow an opportunity to realize cost savings to offset the transaction costs and premiums incurred in respect to the transaction. In the MAAD Decision, the Board approved a 10 year deferral period upon which HOI could realize cost savings to offset the transaction costs and premiums incurred in respect to the transaction. To the extent costs are decreasing in the test year, as a result of both continuing to implement efficiencies and savings identified in its last rate application and from synergy savings resulting from the acquisition (a key objective of consolidation), Hydro One SSM believes these saving are to be used to offset the transaction costs and premiums incurred in respect to the transaction and should not impact the calculation of the inflation factor.
18. As discussed in interrogatory response 2-AMPCO-4(b), while there are specific areas where Hydro One SSM anticipates cost savings, there are other cost drivers that will arise

in 2017 and 2018 that did not exist. For example, Hydro One SSM is anticipating cost increases related to personnel and SCADA warranty costs, among others which are expected to offset any one-time cost savings anticipated.

19. Further, inclusion of a stretch factor would reduce Hydro One SSM's annual revenue requirement, and thereby reduce the amounts of achieved cost savings available to the acquiring utility, which in Hydro One SSM's view would be inconsistent with the Board's MAAD Handbook and policies.

### **3.0 Effective Date**

20. Hydro One SSM requests that the proposed revenue requirement be reflected in rates effective January 1, 2017. For the 2017 test year, if implementation of approved rates occurs after January 1, 2017, Hydro One SSM requests that the existing transmission rates be made interim to permit the implementation of the proposed revenue requirement effective January 1, 2017, and that an accounting order be approved to establish a sub-account within deferral account 1574 to record revenue deficiencies incurred from January 1, 2017 until Hydro One SSM's proposed 2017 revenue requirement and rates are implemented.
21. The Board has in the past issued its decision establishing transmission rates with an effective date of January 1 well after such effective date (see EB-2009-0408). In Hydro One SSM's opinion, the circumstances in this case, as described below, warrant the establishment of transmission rates effective January 1, 2017. On the basis of the Board's October 31, 2016 MAAD Decision, Hydro One SSM management began the process of preparing and filing the EB-2016-0356 application for 2017 transmission rates, which it filed as quickly as practicable after the acquisition by HOI closed.
22. The revenue deficiency resulting from a 6-month delay in implementing rates would be approximately \$470,000. Hydro One SSM believes a delay in implementing the rate by 6 months would not be appropriate given the absence of a transmission consolidation policy, and the fact that Hydro One SSM's rates application was prepared and made expediently once clear direction was provided in the MAAD Decision.



#### **4.0 Deferral Accounts**

23. Hydro One SSM has requested the disposition of various deferral account balances totaling a debit of \$975,564 over a 12 month period in 2017 using Account 1595.<sup>4</sup> This approach is consistent with the disposition methodology in prior Rate Applications, and the amount, by itself, would not result in a change in the existing UTR.
24. As discussed in Exhibit 5, Tab 1, Schedule 1, Hydro One SSM is requesting approval for continuance of certain regulatory accounts.
25. Hydro One SSM is also requesting approval to use and populate a sub-account within Account 1574 to record revenue deficiencies incurred from January 1, 2017 until Hydro One SSM's proposed 2017 rates are implemented, if necessary.
26. Hydro One SSM is not requesting a Z-factor deferral account in this application. As described in more detail in Section 1.5 of Exhibit 2, Tab 1, Schedule 1 and interrogatory response 1-Staff-1, in the event Hydro One SSM encounters unforeseen events which meet the three defined eligibility criteria of Causation, Materiality and Prudence, an application would be brought forward to use the Z-factor deferral account (Account 1572). If this is necessary, Hydro One SSM will follow the Filing Requirements for Electricity Transmission Applications for purposes of requesting a Z-factor deferral account and claiming costs eligible for Z-factor treatment (including the requirement to notify the Board of an unforeseen event within six months of the event).

#### **5.0 Asset Management Plan**

27. As indicated in interrogatory response 1-SEC-2, Hydro One SSM did not file a more detailed and comprehensive Asset Management Plan ("AMP") in this proceeding. This is because Hydro One SSM, with the assistance of HONI, is in the midst of assessing and revising its approach to asset management. To this extent, any AMP prepared prior to the completion of this exercise would not accurately convey how Hydro One SSM's assets

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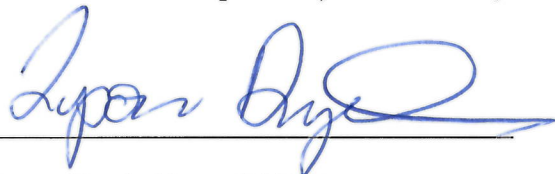
<sup>4</sup> Exhibit 5, Tab 2, Schedule 1 Page 3.

will be managed in the long run. Such an AMP will be filed as part of HONI's future revenue requirement application.

**6.0 Conclusion**

28. Based upon the forgoing, Hydro One SSM submits that its requests for Board approvals with respect to the proposed annual adjustment mechanism (including stretch, productivity, and inflationary factors), the January 1, 2017 effective date for 2017 rates, and the use and disposal of certain deferral and variance accounts, have been made on an appropriate basis in alignment with the Board's MAAD Decision and relevant policy considerations.

All of which is respectfully submitted by:



Tyson Dyck, Torys LLP

Counsel for Hydro One Sault Ste. Marie LP

June 8, 2017