



EB-2017-0049

Hydro One Networks Inc.

**Application for electricity distribution rates beginning
January 1, 2018 until December 31, 2022**

**DECISION ON COMPENSATION for ISSUES LIST and
PROCEDURAL ORDER NO. 3
January 10, 2018**

Hydro One Networks Inc. (Hydro One) filed a 5-year Custom Incentive Regulation application with the Ontario Energy Board (OEB) on March 31, 2017 under section 78 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, (Schedule B), seeking approval for changes to its distribution rates, to be effective January 1, 2018 to December 31, 2022 (the Distribution Rates application).

On September 8, 2017, as directed by the OEB, OEB staff issued a draft issues list for this proceeding (see Schedule A). Comments on the draft issues list were filed by the Balsam Lake Coalition (BLC); City of Hamilton; the Vulnerable Energy Consumers Coalition (VECC); Anwaatin Inc. (Anwaatin); Consumers Council of Canada (CCC); and Hydro One. BLC, OEB staff and Hydro One filed responses to these comments.

On October 11, 2017, Hydro One filed additional evidence on compensation in response to the OEB's September 28, 2017 (as revised October 11, 2017) Decision and Order (the Transmission Decision) on Hydro One's application for 2017 and 2018 transmission revenue requirements and charge determinants (OEB File No. EB-2016-0160, the Transmission Proceeding).

On December 1, 2017, the OEB issued its Decision on the Issues List and Interim Rates and Procedural Order No. 2 approving an interim Issues List, approving interim rates at

current 2017 levels and establishing additional steps to address the inclusion of compensation on the Issues List.

Compensation Issue

On December 12, 2017, Hydro One filed its explanation for the differences among what it proposed for compensation in the Transmission Proceeding, what the OEB decided in the Transmission Proceeding, and what is in its compensation evidence in this proceeding. OEB staff and the School Energy Coalition (SEC) filed submissions in response to the Hydro One filing. Hydro One filed its reply to these submissions on December 21, 2017, and on the same day filed updated evidence.

Findings

The OEB finds that the compensation evidence filed by Hydro One in this proceeding, excluding executive compensation, has changed materially from the compensation evidence filed in the Transmission Proceeding. The OEB therefore finds that non-executive compensation should remain on the Issues List for the current proceeding. Consequently, Issues 39 and 40 in the draft Issues List proposed by OEB staff (Schedule A, December 1, 2017 Decision and Order) shall be added to the approved interim Issues List (Schedule B, December 1, 2017 Decision and Order) with the scope of both issues being limited to non-executive compensation.

Regarding executive compensation, Hydro One submitted that its December 21, 2017 updated evidence reduces executive compensation in the current application by \$3.2 million to reflect the OEB findings in the Transmission Decision. The OEB finds that the executive compensation issues shall not be considered again in this proceeding. However, the amount of the proposed reduction needs to be checked to ensure that it is consistent with the Transmission Decision. Therefore, the OEB finds that an additional issue shall be included in the final approved Issues List which states “Is the updated executive compensation information filed by Hydro One in the distribution proceeding on December 21, 2017 consistent with the OEB’s findings on executive compensation in the EB-2016-0160 Transmission Decision?”

The OEB has attached the final approved Issues List for this proceeding as Schedule A to this Decision and Procedural Order.

The OEB finds that there is merit in the proposal put forward by SEC and endorsed by Hydro One for:

Hydro One, OEB staff, and the intervenors who were also participants in the EB-2016-0160 proceeding, to work together to agree to place on the record in this proceeding, interrogatories response, technical conference and oral hearing transcripts, and undertakings that related to duplicative compensation evidence. This would allow for the common parties to the two proceedings to avoid the need to ask additional interrogatories, and cross-examine witnesses on duplicative evidence.

The OEB is arranging for this joint session as part of this Decision and Procedural Order.

Procedural Order No. 2 set out the schedule for this proceeding up to the filing of interrogatory responses by Hydro One. The OEB has set out below the next steps for this proceeding.

THE ONTARIO ENERGY BOARD ORDERS THAT:

Joint Session on Inclusion of Transmission Evidence

1. A joint session for OEB staff, EB-2016-0160 intervenors and Hydro One will be convened on **January 16, 2018** at 2:00 p.m. in the OEB's Offices at 2300 Yonge Street, 25th floor, Toronto, Ontario to determine the compensation evidence from the record of the Transmission Proceeding to be included in the record of this proceeding with the objective of avoiding unnecessary duplication.
2. Hydro One is to provide a report of the results achieved in the joint session with a specific list of EB-2016-0160 evidence that is to be incorporated in the distribution proceeding no later **than January 18, 2018**.

Technical Conference

3. A transcribed technical conference will be held **March 1, 2018** starting at 9:30 a.m. in the OEB's Offices at 2300 Yonge Street, 25th floor, Toronto, Ontario to clarify any matters arising from the interrogatories only. If required, the technical conference will continue on **March 2, 2018**. Parties intending to participate are to notify Hydro One, and copy all parties, of the topic areas for questioning by **February 26, 2018**. The OEB may provide further guidance on the scope of the technical conference.

Expert Evidence

4. OEB staff shall inform the OEB if it plans to file expert evidence no later than **February 16, 2018** and provide a summary of the anticipated evidence.
5. Cost eligible intervenors that plan to file expert evidence shall inform the OEB of those plans no later than **February 26, 2018**, provide a summary of the anticipated evidence and estimate the costs for providing the evidence.
6. After the OEB has made its determination on the filing of expert evidence, anticipated to be no later than March 9, 2018, OEB staff and any intervenors permitted to file expert evidence shall file such evidence with the OEB, and provide a copy to Hydro One and intervenors by **April 6, 2018**.
7. OEB staff, intervenors or the applicant shall request any relevant information and documentation regarding the expert evidence filed by OEB staff and intervenors by written interrogatories filed with the OEB and served on all parties by **April 18, 2018**.
8. Intervenors and OEB staff that filed expert evidence shall file with the OEB complete written responses to the interrogatories and serve them on the applicant, all intervenors and OEB staff by **April 30, 2018**.

All filings to the OEB must quote the file number, **EB-2017-0049**, 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.oeb.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@oeb.ca and OEB Counsel, James Sidlofsky at james.sidlofsky@oeb.ca.

ADDRESS

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

E-mail: boardsec@oeb.ca
Tel: 1-888-632-6273 (Toll free)
Fax: 416-440-7656

DATED at Toronto, January 10, 2018

ONTARIO ENERGY BOARD

Original signed By

Kirsten Walli
Board Secretary

Hydro One Networks Inc.

Distribution Rates Application, 2018 – 2022

EB-2017-0049

Schedule A

Final Approved Issues List

January 10, 2018

**Hydro One Networks Inc.
Distribution Rates Application, 2018 - 2022
EB-2017-0049
Final Approved Issues List
January 10, 2018**

A. GENERAL

1. Has Hydro One responded appropriately to all relevant OEB directions from previous proceedings?
2. Has Hydro One adequately responded to the customer concerns expressed in the Community Meetings held for this application?
3. Is the overall increase in the distribution revenue requirement from 2018 to 2022 reasonable?
4. Are the rate and bill impacts in each customer class in each year in the 2018 to 2022 period reasonable?
5. Are Hydro One's proposed rate impact mitigation measures appropriate and do any of the proposed rate increases require rate smoothing or mitigation beyond what Hydro One has proposed?
6. Does Hydro One's First Nation and Métis Strategy sufficiently address the unique rights and concerns of Indigenous customers with respect to Hydro One's distribution service?

B. CUSTOM APPLICATION

7. Is Hydro One's proposed Custom Incentive Rate Methodology, using a Revenue Cap Index, consistent with the OEB's *Rate Handbook*?
8. Is the proposed industry-specific inflation factor, and the proposed custom productivity factor, appropriate?
9. Are the values for the proposed custom capital factor appropriate?
10. Are the program-based cost, productivity and benchmarking studies filed by Hydro One appropriate?
11. Are the results of the studies sufficient to guide Hydro One's plans to achieve the desired outcomes to the benefit of ratepayers?

12. Do these studies align with each other and with Hydro One's overall custom IR Plan?
13. Are the annual updates proposed by Hydro One appropriate?
14. Is Hydro One's proposed integration of the Acquired Utilities in 2021 appropriate?
15. Is the proposed Earnings/Sharing mechanism appropriate?
16. Are the proposed Z-factors and Off-Ramps appropriate?

C. OUTCOMES, SCORECARD AND INCENTIVES

17. Does the application adequately incorporate and reflect the four outcomes identified in the Rate Handbook: customer focus, operational effectiveness, public policy responsiveness, and financial performance?
18. Are the metrics in the proposed additional scorecard measures appropriate and do they adequately reflect appropriate outcomes?
19. Are the proposals for performance monitoring and reporting adequate and do the outcomes adequately reflect customer expectations?
20. Does the application promote and incent appropriate outcomes for existing and future customers including factors such as cost control, system reliability, service quality, and bill impacts?
21. Does the application adequately account for productivity gains in its forecasts and adequately include expectations for gains relative to external benchmarks?
22. Has the applicant adequately demonstrated its ability and commitment to manage within the revenue requirement proposed over the course of the custom incentive rate plan term?

D. DISTRIBUTION SYSTEM PLAN

23. Was the customer consultation adequate and does the Distribution System Plan adequately address customer needs and preferences?
24. Does Hydro One's investment planning process consider appropriate planning criteria? Does it adequately address the condition of distribution assets, service quality and system reliability?
25. Does the Distribution System Plan adequately reflect productivity gains, benefit sharing and benchmarking?

26. Does the Distribution System Plan address the trade-offs between capital and OM&A spending over the course of the plan period?
27. Has the distribution System Plan adequately addressed government mandated obligations over the planning period?
28. Has Hydro One appropriately incorporated Regional Planning in its Distribution System Plan?
29. Are the proposed capital expenditures resulting from the Distribution System Plan appropriate, and have they been adequately planned and paced?
30. Are the proposed capital expenditures for System Renewal, System Service, System Access and General Plant appropriately based on the Distribution System Plan?
31. Are the methodologies used to allocate Common Corporate capital expenditures to the distribution business appropriate?
32. Are the methodologies used to determine the distribution Overhead Capitalization Rate for 2018 and onward appropriate?

E. RATE BASE & COST OF CAPITAL

33. Are the amounts proposed for the rate base from 2018 to 2022 appropriate?
34. Are the inputs used to determine the working capital component of the rate base and the methodology used appropriate?
35. Is the proposed capital structure appropriate?
36. Are the proposed timing and methodology for determining the return on equity and short-term debt prior to the effective date of rate implementation appropriate?
37. Is the forecast of long term debt for 2018 and further years appropriate?

F. OPERATIONS MAINTENANCE & ADMINISTRATION COSTS

38. Are the proposed OM&A spending levels for Sustainment, Development, Operations, Customer Care, Common Corporate and Property Taxes and Rights Payments, appropriate, including consideration of factors considered in the Distribution System Plan?
39. Do the proposed OM&A expenditures include the consideration of factors such as system reliability, service quality, asset condition, cost benchmarking, bill impact and customer preferences?

40. Are the proposed 2018 human resources related costs (wages, salaries, benefits, incentive payments, labour productivity and pension costs) including employee levels, appropriate?
41. Has Hydro One demonstrated improvements in presenting its compensation costs and showing efficiency and value for dollar associated with its compensation costs?
42. Is the updated executive compensation information filed by Hydro One in the distribution proceeding on December 21, 2017 consistent with the OEB's findings on executive compensation in the EB-2016-0160 Transmission Decision?
43. Are the methodologies used to allocate Common Corporate Costs and Other OM&A costs to the distribution business for 2018 and further years appropriate?

G. REVENUE REQUIREMENT

44. Is Hydro One's proposed depreciation expense for 2018 and further years appropriate?
45. Are the proposed other revenues for 2018 – 2022 appropriate?

H. LOAD AND REVENUE FORECAST

46. Is the load forecast methodology including the forecast of CDM savings appropriate?
47. Are the customer and load forecasts a reasonable reflection of the energy and demand requirements for 2018 – 2022?
48. Has the load forecast appropriately accounted for the addition of the Acquired Utilities' customers in 2021?

I. COST ALLOCATION AND RATE DESIGN

49. Are the inputs to the cost allocation model appropriate and are costs appropriately allocated?
50. Are the proposed billing determinants appropriate?
51. Are the revenue-to-cost ratios for all rate classes over the 2018 – 2022 period appropriate?
52. Are the proposed fixed and variable charges for all rate classes over the 2018 – 2022 period, appropriate, including implementation of the OEB's residential rate design?

53. Are the proposed Retail Transmission Service Rates appropriate?
54. Are the proposed specific service charges for miscellaneous services over the 2018 – 2022 period reasonable?
55. Are the proposed line losses over the 2018 – 2022 period appropriate?
56. Do the costs allocated to acquired utilities appropriately reflect the OEB's decisions in related Hydro One acquisition proceedings?

J. DEFERRAL/VARIANCE ACCOUNTS

57. Are the proposed amounts, disposition and continuance of Hydro One's existing deferral and variance accounts appropriate?
58. Are the proposed new deferral and variance accounts appropriate?
59. Is the proposal to discontinue several deferral and variance accounts appropriate?

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