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Hydro One Networks Inc. (HONI)
EB-2018-0130
Application for Electricity Transmission Revenue Requirement effective January 1, 2019

Submission
of the
Vulnerable Energy Consumers Coalition
(VECC)

March 14, 2019

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Vulnerable Energy Consumers Coalition

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1.0 The Issues

1.1 Hydro One Network Inc. (Hydro One or HONI) filed an application on October 26, 2018 for a revenue cap index adjustment for the purpose of determining its transmission operations 2019 revenue requirement. HONI is seeking to have the new revenue requirement implemented for January, 1, 2019.

1.2 Specifically Hydro One is requesting approval for:

- a Revenue Cap Incentive ("RCI") mechanism to be used to adjust the last Board approved revenue requirement to a new revenue requirement to be effective January 1, 2019;
- a variance account to track the revenue requirement impact of differences between the proposed RCI parameters and the final values approved by the OEB in EB-2018-0218;
- disposition of regulatory accounts with total net credit balances of $37.6 million effective January 1, 2019, to be refunded over a one-year; and
- an update to the Accounting Order approved by the OEB in EB-2017-0338 allowing for the continued tracking of the impact of the Accounting Standards Update (ASU) 2017-07 change related to pension and OPEB accounting.

1.3 The RCI formula is composed of an inflation adjustment and an "X" factor which is the combined adjustment related to productivity and stretch factors. In this Application HONI proposes to apply the inflation and productivity factors approved in the concurrent application of its affiliate transmission company, Hydro One Sault Ste. Marie ("HOSSM") EB-2018-0218. HOSSM's application was filed July 26, 2018.

1.4 Hydro One also proposes to apply in this Application the Board's ruling in EB-2017-0049 with respect to the implementation of executive compensation as constrained for rate making purposes by the Hydro One Accountability Act (HOAA).

1.5 While the Board did not provide an issues list it set out the scope of the proceeding in Procedural Order No. 1 in a series of questions[1]:

- Is it appropriate to use the rate setting parameters proposed for Hydro One SSM on a preliminary basis, or should another approach be adopted?
- What should be the nature of the proposed variance account? Should it true up to the approved parameters for Hydro One SSM, true up to parameters determined in Hydro One's Custom IR proceeding or some other option?
- What additional evidence should Hydro One be required to file in its next Custom IR application with respect to the RCI parameters?

[1] EB-2018-0130 Procedural Order No.1 pg.2

1.6 The Board also required that Hydro One provide a status report with respect to opportunities for reducing transmission line losses. That report was filed as directed by the Board in Procedural Order No. 1. As this issue has been relegated in that Order to a matter of information purpose only VECC has made no submissions with respect to line losses.

1.7 VECC's submissions are with respect to the three questions posed by the Board, the DVA disposition balances and the disallowance of executive compensation.

2.0 Is it appropriate to use the rate setting parameters proposed for Hydro One SSM on a preliminary basis, or should another approach be adopted?

2.1 There are, in our submission three options the Board might consider with respect to the setting of the transmission revenue requirement for 2019. It could deny the Application in its entirety; it could adopt the proponent's proposal; or, it could adjust the current approved revenue requirement by some other reasonable amount. This final option is what we believe is in the best interest of consumers and one that is both more reasonable and simpler than the Applicant's proposal.

2.2 The Application received Hydro One Board of Director approval for filing an application on October 1, 2018. The Application was subsequently filed with the Ontario Energy Board on October 26, 2018[2]. With a request for a January 1, 2019 implementation clearly there was insufficient time for the matter to be dealt with by the Board in the ensuing time. There are various reasons given for the lateness of this Application and these are set out in a number of places in response to the interrogatories such as at Exhibit I, Tab 3, Schedule 5 (LPMA IR #5)[3]. In part the delay is as a result of changes in Hydro One's executive management and Board of Directors and in part it results from the Board's desire to make the distribution and transmission filings of Hydro One coincidental.

2.3 In either event it is clearly unreasonable to expect the Board to deal with this Application in 8 weeks. Simply the notice provisions would take that amount of time. As well in the case of electricity transmission applications more time is required since the end result must be translated into a revised UTR. The UTR affects not only the Applicant but cascades down to every ratepayer in the Province. The burden therefore clearly lies with Hydro One to file in a timely manner. On this measure the Applicant surely fails.

2.4 In our submission, it is not incumbent upon the ratepayers of Ontario to make whole the shareholders for a late filing just as it has not been the duty of the shareholder to share the

[2] Exhibit I, Tab 3, Schedule 2

[3] See also Exhibit I, Tab 7, Schedule 1 (SEC IR #1) and Exhibit I, Tb 9, Schedule 1, (Energy Probe IR #1) for further information on the delays in filing an application.

benefits of it exceeding the regulated rate of return over the past few years. Those returns to the transmission operations are shown below[4]:

2015 – 10.93%
2016 – 10.02%
2017 – 9.03%

2.5 In response to an interrogatory by the Consumers Council of Canada (“CCC”) Hydro One stated its 2018 ROE is not currently available. However we note that as a matter of public record Hydro One’s fourth quarter reporting shows that average monthly Ontario 60-minute peak demand increased from 18,946 MW to 19,416MW and consolidated revenues grew by 7.5% between 2017 to 2018. All of which indicates that regulated returns can be expected in 2018 to, once again, exceed the Board’s 2019 target ROE of 8.98%.[5]

2.6 The Board should, in our view, impose a symmetrical view. The Utility shareholder cannot both benefit from its management abilities in improving returns but be protected from its failures to seek a timely adjustment to rates (revenue requirement).

2.7 The Applicant’s proposal not only provides an opportunity for overearning it is also overly complex. As it stands the proposal to adopt the parameters of the RCI in the HOSSM proceeding boils down to a proposal to use only an inflation estimate to adjust the revenue requirement. However Hydro One also requires a deferral/variance account in consideration of an alternative outcome in the HOSSM proceeding. All of which presupposes the Board adopts in any part the RCI formula for HOSSM (it could perhaps deny any adjustment). Given the Applicant appears to be seeking only an inflation adjustment to the revenue requirement for one year it would be simpler to discuss the merits of that proposition alone.

2.8 Not only is the proposal for a one year adjustment overly complex the method of addressing it has, we would suggest, procedural flaws. It is not clear to us that all parties in one case are parties in the other. And while we respect the Board’s decision to leave the merits of the derivation of an X-Factor to that other proceeding it is our observation that likely not much turns on the matter. That is the reasonably possible numerical adjustments are likely to be small. In HOSSM proceeding both Board staff’s and the Applicant’s expert appear to agree on the end result (even as they argue vociferously as how to arrive there). In any event a modest stretch factor applied for a single year is likely to be of no material import in the ultimate calculation of the UTR for 2019.

2.9 In our submission the material issue is whether and how to adjust Hydro One’s revenue requirement for inflation in 2019. In our view the inflation rate the current inflation rate suggested in the evidence of 1.4% is based on the most recent data is generally reflective

[4] Exhibit I, Tab 6, Schedule 2
[5] www.hydroone.com/investorrelations/Reports/Hydro One Limited 4Q18 Results.pdf

of the consumer price index inflation actuals to-date[6]. However, as we have noted above the Applicant has not filed in a timely manner and its returns do not, on the face of it, support an upward adjustment to its revenue requirement. Taking that fact into consideration the Board might simply reasonably deny the Applicant's proposal and wait for a more comprehensive proposal coordinated (with distribution).

2.10 That is not what we propose. Rather in our submission the simplest and equitable (to ratepayer and shareholder) would to adjust the revenue requirement by 1.4% but for the period from May1, 2019. That is, the revenue requirement adjusted for inflation for the equivalent of only the 9 month period. This avoids any retroactive adjustments, future deferral/variance accounts and it recognizes that the Utility must accountability for the lateness of the filing.

2.11 Such a solution is both simple and fair. It also provides an incentive to Hydro One to be more timely in its next filing since the 2019 revenue requirement will capture only part of the estimated inflation in that year.

Rate Pool Allocation

2.12 As note by Board Staff and agreed to by Hydro One the allocation of the 2019 revenue requirement needs to be adjusted for the fact that the disposition of 2017 foregone revenue distorts the 2018 rate revenue requirement Pool allocation. In response to Board Staff Interrogatory No. 3 Hydro One has shown an adjusted allocation.[7] The principles of the allocation shown in Table 1 to the response to that interrogatory should be used to allocated the prorated revenue requirement proposed by VECC.

3.0 What should be the nature of the proposed variance account? Should it true up to the approved parameters for Hydro One SSM, true up to parameters determined in Hydro One's Custom IR proceeding or some other option?

3.1 In VECC's submission the proposed variance account and true up proposal are overly complicated, unwarranted and not required under the simpler approach we propose.

3.2 Our proposal also avoids the Board having to consider the applicability of using one application to impose a solution on another. It also avoids any prejudice to any intervenor who is a party in one proceeding but not the other.

[6] See Exhibit I, Tab 3, and Schedule 7 for the calculation which reflects the latest inflation factor for 2019.
[7] Exhibit I, Tab 1, Schedule 3

4.0 What additional evidence should Hydro One be required to file in its next Custom IR application with respect to the RCI parameters?

4.1 In response to VECC interrogatory number one Hydro One listed all Board directions which it expects to address in the next (2020) application. In our view other than addressing these issues we believe it best to allow Hydro One to apply for new rates (revenue requirement) as it sees fit.

4.2 We are somewhat sceptical of the merits of the factor productivity studies in general and the (unwarranted) regard often given to their specificity. In our view ratepayers are better served by a greater emphasis on intra-provincial benchmarking.

5.0 Variance Account Disposition

5.1 Hydro One proposes the following disposition of variance accounts[8]:

Table 1 - Transmission Regulatory Accounts Requested for Disposition ($ Millions)

Description	Forecast Balance as at Dec 31, 2018
Excess Export Service Revenue	(6.5)
External Secondary Land Use Revenue	(16.0)
External Station Maintenance, E&CS and Other External Revenue	(2.1)
Tax Rate Changes	0.4
Rights Payments	1.6
Pension Cost Differential	(13.0)
Long-Term Transmission Future Corridor Acquisition and Development	0.0
LDC CDM Variance Account	(0.8)
External Revenue – Partnership Transmission Projects Account	(0.0)
OEB Cost Differential Account	(1.3)
Total Regulatory Accounts Seeking Disposition	**(37.6)**

Exhibit Reference: A-6-1.

[8] Exhibit A, Tab 3, Schedule 1, pg.7

5.2 VECC notes that account 1508 -OEB Cost Differential Account - records the total variance and not just that related to the change in the Board's cost assessment model. However, in response to VECC interrogatory No. 8 Hydro One indicated that the predominant amount ($1.1) of the $1.3 million amount was recorded in 2016 subsequent to the introduction of the new model. For this reason we think the proposal to recover the amounts is reasonable and notwithstanding the account does not meet the materiality threshold of the Utility.

6.0 Executive Compensation

6.1 In accordance with the *Hydro One Accountability Act* ("HOAA") Hydro proposes an adjustment to the revenue requirement to account for removal of compensation related to its Executive Leadership Team (ELT). The ELT is ELT is comprised of the President and Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, EVP and Chief Corporate Development Officer, EVP and Chief Legal Counsel, EVP Customer Care and Corporate Affairs and10 SVP People and Culture, Health and Safety. Table 1.1 shows the proposed compensation adjustments:[9]

Table 1 - ELT Compensation ($M)

Tx Allocated Costs	2018 Costs in Revenue Requirement	2018 Costs per OEB Decision	2018 Reductions Required to Ensure Bill 2 Compliance
CEO, CFO Compensation	2.7	0.8	-0.8
Other ELT Members	1.1	1.1	-1.1
Total ELT	**3.8**	**1.9**	**-1.9**
OM&A Comp		**0.9**	**-0.9**
Capital Comp		**1.0**	**-1.0**

6.2 The result is a $0.96m adjustment to the 2019 revenue requirement.

6.3 The Board adopted the methodology proposed by Hydro One as part of its decision in EB-2017-0049[10] In that same Decision the Board noted the February 21, 2019 Directive of Management Board of Cabinet issues under the authority of the HOAA requires certain

[9] Exhibit A, Tab 5, Schedule 1, pg.7
[10] Decision with Reasons, EB-2017-0049, March 7, 2019, pgs. 116-118.

exclusions with respect to compensation for executives and Board of Directors. In its EB-2017-049 Decision with Reasons the Board states[11]:

> *In order to determine appropriate values for compensation and Board of Directors costs in this proceeding, the OEB requires information from Hydro One on the impact of the Directive on the amounts currently requested in those areas. The OEB does not intend to suspend this proceeding to allow for the Compensation Framework to be finalized. Rather, the OEB requires Hydro One to file its calculations and relevant supporting evidence and submissions in this regard in conjunction with its draft rate order. The draft rate order shall include any further reductions in compensation costs that Hydro One considers necessary as a result of the Directive. OEB staff and intervenors may make submissions in response to Hydro One's filing in conjunction with their comments on Hydro One's draft rate order, and Hydro One may then reply to those submissions. The OEB may give further procedural directions in that regard should it consider it necessary to do so*.

The referenced draft rate order is to be filed with the Board by or before April 11, 2019.

6.4 In our submission Hydro One should respond to this issue in its reply argument and provide its preferred approach to making any similar changes to the proposed HOAA related adjustment in this Application.

7.0 Reasonably Incurred Costs

7.1 VECC respectfully submits that it has acted responsibly and efficiently during the course of this proceeding and requests that it be allowed to recover 100% of its reasonably incurred cost.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

[11] Ibid, pg. 118