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April 25, 2019

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th floor
Toronto, ON M4P 1E4

Dear Ms. Walli

**Re: Hydro One Networks Inc. (“Hydro One”)
2018-2022 Distribution Custom IR Application
Board File #: EB-2017-0049**

Pursuant to the Board’s Decision and Order dated March 7, 2019, please consider this letter as Canadian Manufacturers & Exporters’ (“CME”) comments with respect to Hydro One’s Draft Rate Order (“DRO”) submitted on April 5, 2019.

CME submits that Hydro One’s DRO does not contain information with enough detail and granularity to determine if some of the figures and calculations provided by Hydro One are appropriate and reflect the OEB’s Decision. In particular, Hydro One’s DRO does not provide sufficient information with regard to their reductions in capital expenditures. Examples of areas where CME contends that there is insufficient information to determine if the DRO is appropriate and reflects the OEB’s Decision are listed below.

Reconciliation of Reduction

Hydro One proposes to reduce its capital spending from \$3,571 million to \$3,081 million, in order to reflect the OEB’s Decision.¹ This is a reduction of \$490 million. However, CME has been unable to reconcile this total reduction with the reductions listed in the DRO. The DRO lists the following reductions:

¹ Hydro One Networks Inc., *Draft Rate Order*, OEB File No. EB-2017-0049, dated April 5, 2019, p. 12 of 36.

- 1) A capital expenditure reduction of \$300 million over the five-year test period;²
- 2) Reduction of \$18.8 million between the total as filed in-service capital additions in 2021 and 2022 with and without the LDCs;³
- 3) HOAA reductions totalling \$18.7 million over the years 2018-2022;⁴
- 4) A reduction of \$20 million for pension contributions in 2018;⁵ and
- 5) Reductions in Hydro One's OPEB costs included in its capital forecast that can no longer be capitalized totalling \$138 million.⁶

By CME's estimation, this is a reduction of \$495.5 million. Accordingly, it is unclear how Hydro One calculated a \$490 million dollar reduction.

Pension Reduction

The Board ordered a \$20 million reduction for the capitalized portion of the pension cost in 2018,⁷ as well as a reduction of \$17 million in OM&A.⁸ The Board's Decision is silent regarding reductions for the capitalized portion of the pension costs in other years, and it is unclear to CME whether the Board intended the capitalized reduction of \$20 million in 2018 to continue on in subsequent years.

As part of the DRO, Hydro One has included the pension reduction in 2018. However, at page 14 of the DRO, Hydro One states, in explaining why it applied the 2018 pension reduction for 2018 to 2019, that:

"[T]he 2018 pension cut has been applied to the 2019 amount (in addition to the 2019 pension cut)..."⁹

This would suggest that the pension reduction in 2018 has also been applied to at least 2019 and possibly to the remaining years. However, since the \$20 million reduction in 2018 was not included in the \$300 million reduction ordered by the Board more generally, it is not clear if

² Hydro One Networks Inc., *Draft Rate Order*, OEB File No. EB-2017-0049, dated April 5, 2019, p. 7 of 36.

³ Hydro One Networks Inc., *Draft Rate Order*, OEB File No. EB-2017-0049, dated April 5, 2019, p. 14 of 36, Table 4.

⁴ Hydro One Networks Inc., *Draft Rate Order*, OEB File No. EB-2017-0049, dated April 5, 2019, p. 14 of 36, Table 4.

⁵ Hydro One Networks Inc., *Draft Rate Order*, OEB File No. EB-2017-0049, dated April 5, 2019, p. 20 of 36.

⁶ Hydro One Networks Inc., *Draft Rate Order*, OEB File No. EB-2017-0049, dated April 5, 2019, p. 20 of 36, Table 8. This represents the sum of both the capital – service cost and capital-OPEB deferral account non service cost for the years 2018-2022.

⁷ Decision and Order, EB-2017-0049, Hydro One Networks Inc., Application for electricity distribution rates beginning January 1, 2018 until December 31, 2022, pp. 76, 96.

⁸ Decision and Order, EB-2017-0049, Hydro One Networks Inc., Application for electricity distribution rates beginning January 1, 2018 until December 31, 2022, p. 96.

⁹ Hydro One Networks Inc., *Draft Rate Order*, OEB File No. EB-2017-0049, dated April 5, 2019, p. 14 of 36.

Hydro One has or has not included the \$20 million reduction beyond 2018, and the Decision itself was not clear if it was or was not to be extended beyond 2018.

Change in Allocation

Table 3 of Hydro One's DRO indicates that instead of allocating the reductions required by the Board's across the various categories of proposed capital spending – in other words, applying reductions to each of the categories – Hydro One appears to have changed the composition of the capital expenditures. Table 3 is reproduced below:

¹ **Table 3 – Proposed Capital Spending Summary (\$ millions)**

Category	Test Years (As Filed)							Test Years (Decision)				
	2018	2019	2020	2021	2021 w/out LDCs ¹	2022	2022 w/out LDCs ¹	2018	2019	2020	2021	2022
System Access	154.6	157.6	160.9	165.9	163.8	170.0	167.8	175.1	147.9	153.4	152.8	144.9
System Renewal	248.6	318.7	336.7	362.5	356.5	451.1	445.1	219.7	202.3	222.2	240.4	260.2
System Service	81.6	91.6	85.6	78.8	77.6	69.5	68.2	79.1	124.0	129.4	145.9	104.4
General Plant	143.3	168.5	116.2	103.7	103.7	105.9	105.9	90.7	142.8	150.3	95.3	100.4
Total	628.1	736.4	699.3	711.0	701.6	796.5	786.9	564.5	617.1	655.3	634.4	609.9
<i>HOAA reductions</i>	<i>(3.6)</i>	<i>(3.7)</i>	<i>(3.7)</i>	<i>(3.8)</i>	<i>(3.8)</i>	<i>(3.9)</i>	<i>(3.9)</i>	-	-	-	-	-
Total	624.5	732.7	695.6	707.2	697.8	792.6	783.0	564.5	617.1	655.3	634.4	609.9

¹ LDCs refers to the Acquired Utilities

In this regard:

1. General Plant expenditures are lower in every year except 2020 as a result of the Decision, but 2020 increases from \$116.2 million to \$150.3 million;
2. Spending on System Access is \$20.5 million higher in 2018 in the DRO proposed expenditures than it was in the application as filed, and then lower for the remaining years.
3. System Service spending is significantly higher in the DRO spending breakdown than it was in the application for the years 2019-2022. Below is a breakdown of the difference:

	2018	2019	2020	2021	2022
Application Proposed Spending (System Service)	\$81.6	\$91.6	\$85.6	\$78.8	\$69.5
DRO Proposed Spending (System Service)	\$79.1	\$124.0	\$129.4	\$145.9	\$104.4
Total Difference (\$)	-\$2.5	\$32.4	\$43.8	\$67.1	\$34.9
Total Difference (%)	3.06% reduction	35.37% increase	51.16% increase	85.15% increase	50.21% increase

Accordingly, it is not clear to CME whether the proposed capital spending outlined in the DRO represents an entirely different capital spending portfolio, or plan, than the one that was proposed as part of Hydro One's application, and is therefore unable to determine if it is appropriate and reflective of the Board's Decision in EB-2017-0049.

In-Service Additions

Hydro One has presented their proposed capital spending summary in terms of spending on system access, system renewal, system service and general plant spending. However, the in-service capital additions summary is presented differently. The in-service capital is presented in terms of spending on Sustaining, Development, Operations, Customer Service, as well as Common & Other.¹⁰ Due to the different presentation of these categories, CME has had difficulty verifying aspects of the DRO to ensure they are appropriate and reflect the Board's Decision, such as the depreciation expense, and the change in the capital cost allowance.

Customer Forecast

Hydro One applies a percentage to a consensus forecast of housing starts net of demolition in order to calculate the change in residential customers each year. Hydro One used an updated percentage of 13.6% for its last customer forecast.¹¹ In its Decision, the Board ordered that Hydro One was required to update its forecast percentage from 13.6% to 15.4%, as the result of averaging the ratios from 2015-2017.¹²

While Exhibit 2.0 in the DRO reflects an increase in residential, street light and sentinel light customers from the updated forecast in Exhibit I, Tab 6, Staff 219, there is no detail provided that

¹⁰ Hydro One Networks Inc., *Draft Rate Order*, OEB File No. EB-2017-0049, dated April 5, 2019, pp. 13-14 of 36, Tables 3-4.

¹¹ Decision and Order, EB-2017-0049, Hydro One Networks Inc., Application for electricity distribution rates beginning January 1, 2018 until December 31, 2022, p. 129.

¹² Decision and Order, EB-2017-0049, Hydro One Networks Inc., Application for electricity distribution rates beginning January 1, 2018 until December 31, 2022, pp. 129-130.

shows or verifies that the calculation of customer additions is equal to 15.4% as ordered by the Board. As a result, CME has been unable to verify whether the increase shown by Hydro One appropriately reflects the Board's Decision.

Accordingly, given the areas highlighted above, CME submits that the Board should direct Hydro One to provide the required level of detail necessary to properly determine whether Hydro One's calculations and conclusions in the DRO are appropriate and adequately reflects the Board's Decision.

Yours very truly

Borden Ladner Gervais LLP



Scott Pollock

- c. Erin Henderson and Anne-Marie Reilly (Hydro One)
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