



**Hydro One Networks Inc.**

**Application for electricity transmission rates for the  
period from January 1, 2020 to December 31, 2022**

**DECISION ON ISSUES LIST AND CONFIDENTIALITY  
September 23, 2019**

Hydro One Networks Inc. (Hydro One) filed a custom incentive rate-setting application with the Ontario Energy Board (OEB) on March 21, 2019 under section 78 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, (Schedule B), seeking approval for changes to the rates that Hydro One charges for electricity transmission, to be effective January 1, 2020 and for each following year through to December 31, 2022.

Procedural Order No. 1 (PO No. 1), issued on May 30, 2019, set out a schedule of procedural steps including a direction that OEB staff either file a proposed issues list for the OEB's consideration, or advise in writing that parties and OEB staff were unable to reach an agreement. PO No. 1 also made provision for the filing of expert evidence by OEB staff and intervenors.

**Issues List**

On August 20, 2019, OEB staff filed a letter with the OEB stating that parties had been unable to reach a full agreement on a proposed issues list as there was one disputed issue. The letter also included a proposed issues list, which highlighted the following issue 8 as the disputed issue:

What is the status of Hydro One's joint work with the IESO to explore cost effective line loss reduction opportunities and to report on those initiatives?

This issue was proposed by Environmental Defence and opposed by Hydro One Networks.

On August 22, 2019, the OEB received a letter on this matter from Environmental Defence, which provided an explanation of its position. Environmental Defence noted that the OEB had added a transmission losses issue to the issues list in the 2018 IESO

proceeding<sup>1</sup> and stated that adding a specific transmission losses issue in this Hydro One proceeding would be consistent with the OEB's decision in the IESO proceeding.

Alternatively, Environmental Defence stated that transmission losses could potentially be dealt with under issue 1 in the proposed issues list, which is as follows: "Has Hydro One responded appropriately to all relevant Ontario Energy Board (OEB) directions from previous proceedings?"

Environmental Defence stated that it was requesting either confirmation that the proposed issues list allows it to explore the appropriateness of Hydro One's responses to the OEB's directions regarding transmission losses, or the inclusion of disputed issue 8 as discussed above.

On August 22, 2019, the OEB issued Procedural Order No. 4, which established a process for written submissions and reply submissions on the disputed issue. The OEB stated that after reviewing the submissions, it would issue a final issues list and noted that only matters on the final issues list will be considered in this proceeding.

The OEB further stated that it would adopt the remaining proposed issues, with two amendments, which were that the OEB will revise issue 14 and add a new issue 11, and renumber the other issues accordingly once a final determination is made related to disputed issue 8. Issue 14 becomes Issue 15 on the approved issues list.

New Issue 11 is as follows:

11. Is the proposed capitalization of other post-employment benefits (OPEB) for both Hydro One Transmission and Hydro One Distribution appropriate, and if not, what is the appropriate approach for these costs?

Revised Issue 15 is as follows:

15. Are the amounts proposed to be included in the revenue requirement for income taxes appropriate, including consideration of the Accelerated Investment Incentive (Federal Bill C-97)?

On August 22, 2019, Hydro One filed a letter with the OEB stating that it agreed with Environmental Defence's suggestion that transmission losses may be dealt with under Issue 1 and providing confirmation that the proposed issues list will allow for the

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<sup>1</sup> EB-2018-0143, *Decision on Issues List and Procedural Order No. 2*, July 30, 2018, p.5.

exploration of the appropriateness of Hydro One's response to the OEB's direction regarding transmission losses. Hydro One submitted that as such an additional standalone line loss issue was not necessary. Hydro One reaffirmed this position in its submission of September 5, 2019.

On August 23, 2019, Environmental Defence filed a letter with the OEB stating that it had no further submissions on this matter.

On September 5, 2019, OEB staff filed a submission which expressed agreement that transmission losses could be dealt with under Issue 1 and therefore a separate issue relating to this matter is not required.

On the same date, the Power Workers' Union (PWU), an intervenor in this proceeding submitted that it was more concerned about the inclusion or exclusion of the transmission line losses issue in this proceeding than whether the issue should be included as a stand-alone or addressed as part of any other issue in the issues list.

## Findings

While the OEB could consider the matter under Issue 1, the OEB concludes that the importance of this matter warrants a separate issue. The OEB shall include an explicit separate issue in the approved issues list dealing with transmission line losses. This issue shall state:

What is the status of Hydro One's joint work with the IESO to explore cost effective transmission line loss reduction opportunities and to report on those initiatives?

The OEB finds that this is a significant issue which needs to have a visible profile in this proceeding.

Hydro One was directed by the OEB to pursue this issue and report on it in the previous transmission proceeding.<sup>2</sup> In a subsequent proceeding (application for electricity transmission revenue requirement effective January 1, 2019),<sup>3</sup> Hydro One was requested to provide an update, for information purposes, on the status of the work ordered in the previous proceeding. The OEB stated its expectation that this work "will be substantially advanced and reported as part of Hydro One's next rebasing

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<sup>2</sup> EB-2016-0160, Decision and Order, November 1, 2017, p.33

<sup>3</sup> EB-2018-0130

application.”<sup>4</sup> In response, Hydro One provided a brief update in a letter dated March 1, 2019,<sup>5</sup> indicating that it was working collaboratively with the IESO to explore cost effective opportunities for line loss reduction and that it was seeking assistance from the Electrical Power Research Institute (EPRI) to review transmission line loss mitigation practices of other utilities.

The OEB also added a transmission line losses issue in an IESO proceeding regarding the status of the IESO’s transmission losses study.<sup>6</sup> In that proceeding, the IESO included a copy of the EPRI report but suggested that the proceeding was not the right forum to address the line losses issue. The IESO was also of the view that the EPRI report’s findings would best be addressed in Hydro One’s transmission rates application.<sup>7</sup>

In the current proceeding, Hydro One provided a copy of the EPRI report and stated that the report concluded that Hydro One’s design practices are “materially consistent with industry best practices for loss mitigation.”<sup>8</sup>

The OEB finds that, given that OEB’s initial direction was given to Hydro One more than two years ago, more focus should be placed in this proceeding on Hydro One’s specific actions so far as well as plans going forward to achieve concrete results.

The approved issues list is attached as Schedule A.

### **Proposed Adoption of Certain Evidence from EB-2018-0218**

On June 28, 2019, the OEB issued a letter related to the proposed adoption of certain evidence from the Hydro One Sault Ste. Marie 2019 Revenue Requirement proceeding<sup>9</sup> into the current proceeding. In its letter, the OEB proposed to adopt the evidence from that proceeding listed in Attachment A to the letter, pertaining to econometric analyses on productivity and total cost benchmarking by Power Systems Engineering, Inc. (PSE) and Pacific Economics Group Research LLP (PEG).

On July 2, 2019, Hydro One responded to the OEB’s letter and expressed its agreement that the OEB’s proposal would avoid duplication of the record and save time, effort and

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<sup>4</sup> EB-2018-0130, Procedural Order #1, January 24, 2019. P.3

<sup>5</sup> EB-2018-0130, March 1, 2019

<sup>6</sup> EB-2018-0143, Decision on Issues List and PO#5, July 30, 2018, p.5

<sup>7</sup> Interrogatory Responses, Ex. I, Tab 5.4, Sch 5.09, ED 9, August 31, 2018

<sup>8</sup> Exh. B-1-1, TSP Section 1.8, p. 5.

<sup>9</sup> EB-2019-0082, “Proposed Adoption of Certain Evidence from EB-2018-0218, June 28, 2019.

costs. Hydro One stated that it consented to the adoption of the evidence listed in Attachment A of the OEB's letter subject to the two following points:

1. Hydro One will be relying on the PSE report dated January 24, 2019 as filed in this proceeding (the 2019 PSE Report), rather than the earlier report filed in EB-2018-0218. Hydro One stated that this was because, as noted in the OEB's letter, the 2019 PSE Report contains certain updates and changes, as identified in the 2019 PSE Report; and
2. That the evidence in EB-2018-0218, listed in Attachment A to the OEB's letter, be adopted only to the extent it remains relevant in this proceeding. Hydro One requested that if necessary and at the appropriate time, the parties in this proceeding be provided with an opportunity to make submissions as to the relevance of any of the particular listed items of evidence in EB-2018-0028 to the current proceeding.<sup>10</sup>

On July 4, 2019, the OEB issued a letter which stated that the OEB found that the two suggestions made by Hydro One in its July 2, 2019 letter to the OEB were reasonable. The OEB further stated that regarding the second suggestion, the OEB expected the parties to discuss and agree, if possible, on which of the evidence items from EB-2018-0218, which are listed in Attachment A to the OEB's June 28, 2019 letter, are relevant and should be adopted in the current proceeding. The OEB stated that this discussion may take place during the time allotted to the technical conference (but not part of the transcribed technical conference) and/or as part of the discussion regarding the issues list and that OEB staff was to inform the OEB about the results of this discussion as part of the issues list submission.

The OEB notes that there was no reference made to this matter in OEB's staff's correspondence of August 20, 2019. The OEB also notes that the proceeding has moved forward since the time of the OEB's July 4, 2019 letter and the relevance of the particular listed items of evidence to the current proceeding has not arisen as an issue since that time. The OEB will accordingly deal with any concerns as to the relevance of any of these items of evidence when and if they arise during the remainder of the proceeding by allowing parties to make any submissions as to relevance at such time as they may prove to be necessary.

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<sup>10</sup> EB-2019-0082

## Confidentiality Issues

On September 5, 2019, OEB staff filed expert evidence, prepared by PEG. OEB staff requested confidential treatment of PEG's Working Papers<sup>11</sup> for the following reasons:

- PEG's working papers include information obtained from working papers provided by Hydro One's consultant PSE
- PSE's working papers were previously determined by the OEB to be deemed as confidential<sup>12</sup> and this data has been used by PEG to develop alternative models
- Providing a redacted public version of PEG's Working Papers would prove difficult due to the incorporation of PSE's data in PEG's Working Papers
- The information contained in PEG's Working Papers is proprietary in nature
- Public disclosure of PEG's Working Papers may have an adverse effect on the competitive positions of PEG, PSE and any third party involvement.

On September 16, 2019, OEB staff filed confidential un-redacted PEG Working Papers with the OEB, and with parties who had filed signed Declarations and Undertakings.

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<sup>11</sup> EB-2019-0082, OEB Staff Letter "Request for Working Papers of the Expert Evidence of Pacific Economics Group Research LLC (PEG)", September 13, 2019. The Working Papers are described as data, documentation and models.

<sup>12</sup> Decision on Confidentiality, September 11, 2019.

## Findings

The OEB grants confidential treatment for the reasons identified by OEB staff. The OEB has granted confidential treatment for PEG's working papers in previous proceedings.<sup>13</sup>

**DATED** at Toronto, **September 23, 2019**

## ONTARIO ENERGY BOARD

*Original signed by*

Kirsten Walli  
Board Secretary

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<sup>13</sup> For example: EB-2018-0165, Toronto Hydro-Electric System Limited, Decision on Confidentiality and Procedural Order No. 7, April 1, 2019; EB-2018-0218, Hydro One Sault Ste. Marie LP, Decision on Request for Confidential Documents and Procedural Order No. 4, February 15, 2019; EB-2017-0049, Hydro One Networks Inc., Decision on Confidentiality and Procedural Order No. 6, May 18, 2018;.

**SCHEDULE A**  
**HYDRO ONE NETWORKS INC.**  
**EB-2019-0082**  
**APPROVED ISSUES LIST**  
**SEPTEMBER 23, 2019**



**Hydro One Networks Inc.**  
**2020 to 2022 Transmission Rates Application**  
**Ontario Energy Board**  
**File Number EB-2019-0082**  
**Approved Issues List**

**A: GENERAL**

1. Has Hydro One responded appropriately to all relevant Ontario Energy Board (OEB) directions from previous proceedings?
2. Are the bill impacts resulting from Hydro One's proposed revenue requirement reasonable?
3. Were Hydro One's customer engagement activities sufficient to enable customer needs and preferences to be considered in the formulation of its proposed spending?
4. Is the proposed effective date of January 1, 2020 appropriate?

**B: CUSTOM APPLICATION**

5. Are all elements of Hydro One's proposed Custom Incentive Rate framework for the determination of revenue requirement appropriate?

**C: PRODUCTIVITY IMPROVEMENT AND PERFORMANCE SCORECARD**

6. Has Hydro One taken appropriate steps to identify and quantify productivity improvements in all areas of its transmission operations?
7. Are the metrics in the proposed scorecard appropriate and do they adequately reflect appropriate outcomes? Do the outcomes adequately reflect customer expectations?
8. What is the status of Hydro One's joint work with the IESO to explore cost effective transmission line loss reduction opportunities and to report on those initiatives?

#### **D: TRANSMISSION SYSTEM PLAN**

9. Are the proposed forecast capital expenditures and in-service additions arising from the transmission system plan appropriate, and is the rationale for planning and pacing choices (including consideration of customer preferences, planning criteria, system reliability, asset condition and benchmarking appropriate and adequately explained?
10. Are the methodologies used to allocate Common Corporate capital expenditures to the transmission business and to determine the transmission Overhead Capitalization Rate appropriate?
11. Is the proposed capitalization of other post-employment benefits (OPEB) for both Hydro One Transmission and Hydro One Distribution appropriate, and if not, what is the appropriate approach for these costs?
12. Does Hydro One's Transmission System Plan sufficiently address the unique rights and concerns of Indigenous customers and rights-holders?

#### **E: OPERATIONS MAINTENANCE & ADMINISTRATION COSTS**

13. Are the proposed 2020 OM&A expenditures appropriate and is the rationale for planning choices appropriate and adequately explained?
14. Are the methodologies used to allocate Common Corporate Costs and Other OM&A costs to the transmission business appropriate?
15. Are the amounts proposed to be included in the revenue requirement for income taxes appropriate, including consideration of the Accelerated Investment Incentive (Federal Bill C-97)?
16. Is Hydro One's proposed depreciation expense appropriate?

#### **F: COMPENSATION COSTS**

17. Are the compensation related costs appropriate?

**G: RATE BASE & COST OF CAPITAL**

- 18. Are the amounts proposed for rate base (including the working capital allowance amounts) reasonable?
- 19. Is the proposed cost of capital (interest on debt, return on equity) and capital structure reasonable?

**H: LOAD & REVENUE FORECAST**

- 20. Is the load forecast methodology (including consideration of CDM impacts) and the resulting load forecast appropriate?
- 21. Are Other Revenue (including export revenue) forecasts appropriate?

**I: DEFERRAL/VARIANCE ACCOUNTS**

- 22. Are the proposed amounts, disposition and continuance of Hydro One's existing deferral and variance accounts appropriate?
- 23. Are the proposed new deferral and variance accounts appropriate?

**J: COST ALLOCATION**

- 24. Is the transmission cost allocation proposed by Hydro One appropriate?

**K: EXPORT TRANSMISSION SERVICE RATES**

- 25. Is the Export Transmission Rate of \$1.85 and the resulting ETS revenues appropriate?