

ONTARIO ENERGY BOARD

EB-2019-0082

IN THE MATTER OF the *Ontario Energy Board Act*, 1998, S. O. 1998, c. 15, Schedule B;

AND IN THE MATTER OF an application by Hydro One for electricity transmission rates for the period from January 1, 2020 to December 31, 2022

Submissions of Environmental Defence

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Overview

These submissions discuss the status of Hydro One's work to meet the Board's directives regarding transmission losses. In short, more work is needed and that work needs to happen in a more timely fashion. However, Environmental Defence is very pleased that Hydro One has agreed to take what we believe are the necessary next steps. This agreement means that further work need not wait for a Board order, considerable time and expense was saved during the oral hearing, and the issues in contention before the Board have been reduced.

Despite this positive development, Environmental Defence believes it is important for the Board to hear a perspective on the work completed thus far that is different from Hydro One's positive characterization.¹ As detailed below, Hydro One has not made any improvements to its loss mitigation processes, addressed the Board's concerns, or saved even a single kWh in avoided transmission losses in response to the Board's directives.² Nor does it follow the best practices in leading jurisdictions.³ Although we believe these shortcomings will be addressed and agree with Hydro One on the next steps, we also believe it is important that the Board hear this different perspective on the work thus far.

Background and Board Directives

Transmission losses cost Ontario energy consumers hundreds of millions dollars every year.⁴ Ensuring that losses are reduced to an optimal level (i.e. to the level that is most cost-effective) is incredibly important for consumers, and fits squarely within the statutory objective of this Board to "protect the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service."⁵

The Board has repeatedly directed Hydro One and the IESO work to better address the issue of transmission losses. In the 2017 Hydro One rates case, the Board directed Hydro One to work jointly with the IESO to explore cost effective opportunities to reduce transmission losses and report on these initiatives. The direction from EB-2016-0160 reads as follows:

The OEB finds that, given the magnitude of line losses, Hydro One should work jointly with the IESO to explore cost effective opportunities for line loss

¹ Exhibit B-1-1, TSP Section 1.8, Attachment 2, p. 1. In particular, Environmental Defence does not agree with Hydro One's assertion that it has "substantially completed all OEB directives related to transmission line losses."

² Re lack of improvements, see page 3 below; re lack of response to Board's concerns see page 7; re lack of actual loss reductions see page 4.

³ See page 4.

⁴ Ballpark estimates from EB-2016-0160 range from \$280 million to \$390 million in 2015 alone; see EB-2016-0160, Exhibit 5.4, tab 1, p. 1; EB-2016-0160, Transcript vol. 12, p. 99, ln 22 to p. 100, ln. 15; see also the Board's Decision in EB-2016-0160, p. 31 (finding that "the cost of transmission line losses is very large").

⁵ *Ontario Energy Board Act, 1998*, s. 1(1)1.

*reduction. Hydro One should also explore, as part of its investment decision process, opportunities for economically reducing line losses. The OEB requires Hydro One to report on these initiatives as part of its next rate application.*⁶

In the IESO's 2017 fees case, the Board again directed the IESO and Hydro One to work on transmission losses issues, stating as follows:

*The OEB expects the IESO to work with Hydro One and to report on initiatives for economically reducing transmission line losses in the first revenue requirement submission following the completion of the joint work with Hydro One.*⁷

In the IESO's 2018 fees case, the Board added a stand-alone transmission losses issue to the issue list.⁸ The Board approved a settlement that included a number of provisions regarding transmission losses, including the following:

*The IESO will engage with stakeholders regarding the IESO's transmission losses work/report (similar to the 2017 engagement the IESO undertook on the development of its regulatory scorecard) including a discussion of the transmission losses processes used by National Grid UK, the recommendations of the Council of European Energy Regulators, and methodologies to assess the cost effectiveness of transmission loss reduction measures.*⁹

In Hydro One's 2019 rates case, the Board again directed it to work on the transmission losses issue stating as follows:

The OEB directs Hydro One to provide an update on the status of its work which was ordered by the OEB in the EB-2016-0160 proceeding regarding opportunities for reducing transmission line losses. This status update is for information purposes only to inform the OEB that progress is being made, but will not be adjudicated as part of this proceeding as it has no impact on the requested RCI adjustment.

*The OEB's expectation is that the work ordered by the OEB in the EB-2016-0160 proceeding will be substantially advanced and reported as part of Hydro One's next rebasing application.*¹⁰

In this current case, the Board again affirmed the importance of this issue and the need for progress, stating as follows:

⁶ Decision in EB-2016-0160, p. 32.

⁷ EB-2017-0150, *Decision and Procedural Order No. 5*, October 31, 2017, p. 2.

⁸ EB-2018-0143, *Decision on Issues List and Procedural Order No. 2*, July 30, 2018, p. 5

⁹ EB-2018-0143, *Decision and Order*, October 25, 2018, Schedule A (Settlement Proposal), p. 15.

¹⁰ EB-2018-0130, *Procedural Order No. 1*, January 24, 2019, p. 3.

[T]he 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. ...

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

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.¹¹

Board Directives not yet Completed

Hydro One asserts that it has “substantially completed all OEB directives related to transmission line losses.”¹² This is not the case because Hydro One:

1. Has not made any improvements or saved even a single kWh in avoided transmission losses in response to the Board's directives;
2. Has not implemented any measures aimed at cost-effectively reducing losses;
3. Falls short of best practices from leading jurisdictions;
4. Did not address the Board's concerns regarding the lack of consideration of losses in business cases or the lack of loss evaluation documentation;
5. Did not adequately review its own practices or those of leading jurisdictions through the EPRI report; and
6. Has missed the Board's deadlines.

Despite the current status, Environmental Defence is confident that these issues will be remedied and is in agreement with Hydro One about the appropriate next steps.

No Improvements Made

As noted above, the Board directed Hydro One to explore opportunities to cost-effectively reduce transmission losses.¹³ Hydro One has not identified even a single additional opportunity

¹¹ EB-2019-0082, *Decision on Issues List and Confidentiality*, September 23, 2019, p. 3-4.

¹² Exhibit B-1-1, TSP Section 1.8, Attachment 2, p. 1

¹³ Decision in EB-2016-0160, p. 32.

to reduce transmission losses as a result of the Board's direction.¹⁴ Nor has it identified even a single improvement to its decision-making processes in this regard.¹⁵

Environmental Defence specifically asked Hydro One whether it improved its investment decision processes to better explore opportunities for economically reducing line losses as a result of the Board's direction.¹⁶ Hydro One's answer was clear: "No, Hydro One has not made improvements to its investment decision processes with respect to line losses."¹⁷

Environmental Defence also specifically asked Hydro One what cost effective opportunities for transmission loss reductions it identified as a result of the Board's direction.¹⁸ Again, Hydro One's answer was clear: "No cost reduction opportunities have been identified that would not have been otherwise identified."¹⁹

No Loss Reduction Opportunities Identified

Hydro One may argue that it did not improve its loss mitigation processes because they were already perfect. But that is very unlikely to be the case. Hydro One acknowledged that its processes did not identify *any* measures aimed at reducing losses.²⁰ It clearly stated that "no cost reduction opportunities have been identified that would not have been otherwise identified" by other drivers such as reliability and safety.²¹ It also acknowledged that it "did not perform a cost-benefit analysis with respect to transmission line losses for any of the specific projects identified within Hydro One's capital plan."²²

Examples of Gaps/Problems with Loss Mitigation Processes

It is impossible to comprehensively identify the problems or potential problems with Hydro One's transmission loss mitigation practices because they are not documented.²³ Hydro One needs to document its practices and strategies in detail. This would allow the Board and stakeholders to evaluate whether consumers interests are being advanced. However, even without this documentation, the information that has been provided suggests that significant gaps exists.

¹⁴ EB-2019-0082, Response to ED Interrogatory #3 (Ex. I-06-3).

¹⁵ EB-2019-0082, Response to ED Interrogatory #2 (Ex. I-06-2).

¹⁶ Response to ED Interrogatory #2 (Ex. I-06-2).

¹⁷ *Ibid.*

¹⁸ Response to ED Interrogatory #3 (Ex. I-06-3).

¹⁹ *Ibid.*

²⁰ Response to ED Interrogatory #4 (Ex. I-06-4).

²¹ *Ibid.* (Note: This was in response to the following interrogatory wording: "What cost effective opportunities for transmission loss mitigation has Hydro One identified since the Board's decision in EB-2016-0160 that Hydro One would not have otherwise implemented due to other drivers such as reliability, safety, and so on?").

²² Response to ED Interrogatory #6 (Ex. I-06-6).

²³ Response to ED Interrogatory #5 (Ex. I-06-5).

Undervaluation of Transmission Losses

First and foremost, it appears that Hydro One values transmission losses based only on the Hourly Ontario Electricity Price (“HOEP”).²⁴ This is less than one quarter of the wholesale electricity commodity cost and approximately 10% of the overall cost of electricity.²⁵ This is not a sound practice as it excludes the global adjustment.²⁶ Although this issue was raised in Hydro One’s 2017 rates case, neither Hydro One nor the IESO have taken steps to analyze or address it.²⁷ This is a major issue – remedying it would increase the valuation of transmission loss reductions multiple times over.

Falling Short of Best Practices

Hydro One asserts that it follows the loss reduction practices identified by National Grid.²⁸ This is not the case as National Grid practices are much more advanced. For example:

- **Detailed Strategy:** National Grid has a detailed strategy to cost-effectively reduce transmission losses.²⁹ Hydro One does not.
- **Losses Always Considered:** National Grid always accounts for transmission losses in investment decisions.³⁰ Hydro One does not.³¹
- **Explicit Materiality Thresholds:** National Grid has explicit and documented materiality thresholds for determining when additional analysis is required with respect to transmission losses in its investment decision-making processes.³² Hydro One does not.³³
- **Detailed Losses Analysis:** National Grid does a detailed losses analysis more frequently with respect to (a) large transmission projects to strengthen or extend the electricity

²⁴ Exhibit JT 1.33

²⁵ IESO, Monthly Market Report, February 2019, p. 22 (<http://www.ieso.ca/-/media/Files/IESO/Market-Summaries/2019/02/Monthly/2019Feb.pdf>); IESO, Global Adjustment (<http://www.ieso.ca/en/Power-Data/Price-Overview/Global-Adjustment>).

²⁶ According to Mr. Lusley of Power Advisory LLC, the global adjustment cannot be excluded if one is trying to calculate the cost of losses (EB-2016-0160, Transcript, Vol. 12, p. 100, ln. 16 to p. 101, ln 5); Hydro One’s witness was not able to speak to whether or not the global adjustment should be included in calculating the cost of losses (EB-2016-0160, Transcript Vol. 5, p. 55, Ins. 23-26).

²⁷ *Ibid.*

²⁸ Exhibit B-1-1, TSP Section 1.8, Attachment 2, Page 5.

²⁹ I-06-EnvironmentalDefence-25 3): National Grid Strategy Paper to Address Transmission Licence Special Condition 2K: Electricity

Transmission Losses, Reporting Period: 1 April 2013 to 31 March 2021, Published November 2013, Revised September 2014 [“National Grid Strategy Paper”]

³⁰ National Grid Strategy Paper, *supra* note 29, p. 3.

³¹ Response to ED Interrogatory #14 (Ex. I-06-14); Transcript TC1, August 12, 2019, p. 187, ln 25 to p. 88, ln 4.

³² National Grid Strategy Paper, *supra* note 29, p. 3-4.

³³ Response to ED Interrogatory #5 (Ex. I-06-5).

transmission system and (b) overhead line conductor asset replacement schemes.³⁴ Hydro One does not.³⁵

- **Loss Capitalization Figures:** National Grid has explicit, documented, non-site-specific loss capitalization figures for assessing the value of loss reductions in transformers and other equipment, which have been benchmarked against figures for other utilities.³⁶ Hydro One does not.³⁷
- **Site-Specific Loss Valuation:** National Grid generates site specific loss valuation figures when necessary.³⁸ Hydro One does not have documentation confirming whether or when it does so.³⁹
- **Losses often Drive Transformer Choice:** National Grid has been able to identify that transmission losses are often a significant or even deciding factor in the choice of the winning bid for transformers.⁴⁰ Hydro One has not been able to indicate whether this is the case for its purchases.
- **Assessment of Transformer Material Quality:** National Grid has assessed the quality of materials in its latest transformer purchases to confirm that its valuation of losses is driving the lowest loss commonly available grade steel to be used; it predicts this pressure will stimulate steels with up to 10% fewer losses.⁴¹ Hydro One has not undertaken a similar assessment.⁴²
- **Minimum Transformer Efficiency Rating:** National Grid is implementing a minimum efficiency rating for transformers that increases in stringency over time.⁴³ Hydro One has not indicated that it has implemented any similar such minimum standards.
- **Upsizing Conductors in Replacement Projects:** National Grid sometimes installs larger conductors in replacement projects to reduce losses.⁴⁴ Hydro One does not.⁴⁵

³⁴ National Grid Strategy Paper, *supra* note 29, p. 4.

³⁵ Response to ED Interrogatory #14 (Ex. I-06-14); Transcript TC1, August 12, 2019, p. 187, ln 25 to p. 88, ln 4.

³⁶ National Grid Strategy Paper, *supra* note 29, p. 6.

³⁷ Response to ED Interrogatory #5 (Ex. I-06-5).

³⁸ National Grid Strategy Paper, *supra* note 29, p. 6.

³⁹ Response to ED Interrogatory #5 (Ex. I-06-5).

⁴⁰ National Grid Strategy Paper, *supra* note 29, p. 7.

⁴¹ *Ibid.*

⁴² Response to ED Interrogatory #5 (Ex. I-06-5).

⁴³ National Grid Strategy Paper, *supra* note 29, p. 7.

⁴⁴ National Grid Strategy Paper, *supra* note 29, p. 26 (see also p. 4 for discussion of this being an example of when a more detailed assessment of losses is more likely to be necessary).

⁴⁵ Response to ED Interrogatory #6 (Ex. I-06-6); Response to ED Interrogatory #10 (Ex. I-06-10).

This list is merely intended to provide some examples of what else Hydro One could do to meet the Board’s directive to identify additional opportunities to reduce transmission losses. These examples come only from one utility – National Grid and there are likely improvements that could be made to National Grid’s practices. The above is far from a comprehensive list of what Hydro One should be doing – it is merely evidence that it could and should be doing more to fulfill the Board’s directives. Environmental Defence hopes that Hydro One can improve on the transmission loss reduction strategies of leading jurisdictions like National Grid to maximize the net savings for Ontario consumers.

Investment Planning

Hydro One argues that it accounts for transmission losses in its investment plan because it tallies up the loss reductions achieved by projects driven by adequacy or reliability.⁴⁶ This completely misses the point. The purpose of considering transmission losses is to determine if different project alternatives might be able to cost-effectively reduce losses by a greater degree. Hydro One should be asking whether better routing, conductors, equipment, or project design could reduce the cost of losses by more than the incremental cost of the upgrade. This is not achieved by simply adding up the loss reductions achieved by investments that would take place in any event due to other drivers.

An examination of transmission losses is meant to determine if additional steps could be taken to save money and thus reduce bills. In contrast, Hydro One describes a process whereby losses are identified only after-the-fact as an output or byproduct of investment decisions driven by other means.⁴⁷ That is far from the process described by EPRI and others whereby steps are taken to reduce the cost of losses wherever that is cost-effective.

Board Concerns not Addressed

Hydro One has not addressed the specific concerns regarding transmission losses expressed by the Board in its 2017 rates case.

No Loss Evaluation Documentation

Hydro One has not addressed the Board’s concern about a lack of loss evaluation documentation. In its decision in EB-2016-0160, the Board expressed this concern as follows: “Hydro One’s witnesses were not able to point to any internal documents that describe its approach to evaluating line losses as part of its investment planning process.”⁴⁸ Hydro One acknowledged in this proceeding that this is still the case. Hydro One clearly stated that: “There are no internal

⁴⁶ Hydro One Argument in Chief, November 22, 2019, p. 38 (“Hydro One incorporates line loss mitigation into its investment plan by identifying transmission line loss reduction for projects undertaken to provide supply adequacy or reliability.”)

⁴⁷ *Ibid.*

⁴⁸ Ontario Energy Board, Decision and Order, EB-2016-0160, September 28, 2017, p. 32.

documents that describe an approach to line losses in Hydro One's investment planning process."⁴⁹

No Consideration in Business Cases

In its decision in EB-2016-0160, the Board was concerned that "Hydro One's witnesses also could not recall any reference to transmission line losses in business cases associated with relevant capital investments."⁵⁰ This problem remains. Hydro One did not consider transmission losses in any business cases.⁵¹

Insufficient IESO Input

In its decision in EB-2016-0160, the Board was concerned that "Hydro One also acknowledged that many of its planning decisions (e.g. choice of conductor and station configurations) are made without any input from the IESO."⁵² This problem also remains as Hydro One has acknowledged that it has not made any improvements to its processes as a result of the Board's transmission losses directives.⁵³

Unsound Cost/Benefit Methodologies

In its decision in EB-2016-0160, the Board rejected Hydro One's suggestion that measures to reduce losses are never justified. In doing so, it noted that Hydro One's cost/benefit analysis methodology was unsound. The Board stated as follows:

*Hydro One's main argument is that the benefit of taking measures to reduce line losses would not justify the associated cost. The example provided by Hydro One during the hearing was disputed because it used the total project cost as opposed to the incremental cost of loss reduction measures to compare to annual savings resulting from line loss reduction.*⁵⁴

Surprisingly, Hydro One made the same analytical mistake in this proceeding. To justify its decision not to consider upsizing conductors as part of its conductor replacement projects, Hydro One again focused on the *total* cost of replacing the conductor, not the incremental cost of upsizing the conductor.⁵⁵ It did so even though Environmental Defence specifically asked Hydro One to discuss the incremental cost of upsizing the conductor as part of a replacement project.⁵⁶

⁴⁹ Response to ED Interrogatory #5 (Ex. I-06-5).

⁵⁰ Ontario Energy Board, Decision and Order, EB-2016-0160, September 28, 2017, p. 32.

⁵¹ Response to ED Interrogatory #6 (Ex. I-06-6); Response to ED Interrogatory #14 (Ex. I-06-14); Transcript TC1, August 12, 2019, p. 187, ln 25 to p. 88, ln 4.

⁵² Ontario Energy Board, Decision and Order, EB-2016-0160, September 28, 2017, p. 32.

⁵³ *Ibid.*

⁵⁴ Ontario Energy Board, Decision and Order, EB-2016-0160, September 28, 2017, p. 32.

⁵⁵ Response to Undertaking JT 1.33 (Ex. JT 1.33).

⁵⁶ Transcript TC1, August 12, 2019, p. 183, ln 25 to p. 184, ln 21.

No Loss Reduction Initiatives

In its decision in EB-2016-0160, the Board was concerned that “Hydro One has not provided any evidence of specific initiatives that it has undertaken or is planning to undertake to reduce line losses.”⁵⁷ It remains the case that Hydro One has no initiatives, past or planned, to reduce losses.⁵⁸

EPRI Report Insufficient

Hydro One assert that the EPRI report establishes that Hydro One is following “best practices” when it comes to transmission loss reductions. The EPRI report does not do this.

First and foremost, EPRI did not actually examine Hydro One’s loss mitigation practices in any detail. EPRI did not receive documentation from Hydro One detailing Hydro One’s loss reduction practices.⁵⁹ Of course, Hydro One acknowledged in this proceeding that no such documentation exists.⁶⁰ The EPRI report cannot be relied on as evidence of what Hydro One does and does not do with respect to transmission losses. Nor can it be relied on as evidence of whether its processes are prudent and appropriate. For example, the EPRI report is silent on the gaps identified by the Board in EB-2016-0160 (discussed above) and the additional issues identified in the following section.

Second, EPRI acknowledges that it did not identify or focus on best practices from leading jurisdictions.⁶¹ Instead, it did a partial jurisdictional scan. Furthermore, the loss reduction measures identified by EPRI (see Tables 8 3-1 and 5-3) and reproduced by Hydro One (TSP-01-08 p.9 Table 1) were based on a survey conducted over a decade ago.⁶² EPRI did a North American jurisdictional scan, focusing primarily on a decade-old survey, which is very different from identifying the best practices from leading jurisdictions.

Third, following the release of the EPRI report, Hydro One later acknowledged that it does not undertake a number of the critical loss reduction practices identified in the EPRI report. For example:

⁵⁷ Ontario Energy Board, Decision and Order, EB-2016-0160, September 28, 2017, p. 32.

⁵⁸ *Ibid.*

⁵⁹ Response to ED Interrogatory #20 (Ex. I-06-20); Response to ED Interrogatory #22 (Ex. I-06-22);

⁶⁰ Response to ED Interrogatory #5 (Ex. I-06-5).

⁶¹ Response to ED Interrogatory #23 (Ex. I-06-23)

⁶² Response to ED Interrogatory #16 (Ex. I-06-16); Response to ED Interrogatory #17 (Ex. I-06-17);

- With respect to transmission losses, EPRI concludes that “efficiency must be considered in business cases.”⁶³ As noted above, Hydro One did not consider transmission losses in any business cases.⁶⁴
- EPRI concludes that “transmission system expansion and refurbishment must incorporate efficiency considerations in the development of projects.”⁶⁵ Hydro One was unable to provide any examples where loss reductions considerations were incorporated.⁶⁶
- EPRI concludes that “Loss mitigation costs and benefits should be considered in all project development and solution total cost analyses, such that the most cost-efficient solution is pursued that meets all reliability and safety criteria.”⁶⁷ Hydro One acknowledged that it does not do this.⁶⁸

Progress too Slow

Hydro One was directed to address the losses issue in its 2017 rates case and to report on these initiatives as part of its next rate application.⁶⁹ As noted above, no additional opportunities have been identified thus far. Although Environmental Defence is very pleased that Hydro One has agreed to work on next steps now, progress has been too slow.

Incentive Mismatch and Role of the Regulator

After reviewing the above, one might ask how extensively the Board should oversee Hydro One’s efforts to mitigate transmission losses. Environmental Defence believes the Board has an important role to play because otherwise Hydro One has an inappropriate incentive to cut operational costs in a way that could negatively impact efforts to reduce losses.

The regulatory process encourages Hydro One to cut costs without corresponding encouragement to ensure it is doing everything necessary to cost-effectively reduce losses. Transmission losses cost customers hundreds of millions of dollars each year but do not show up on Hydro One’s balance sheet or scorecard in any way. The Board has an important role to play in overseeing this area to ensure that appropriate efforts are being made.

⁶³ EPRI Report, p. 3-1 (Ex TSP-01-08-01).

⁶⁴ Response to ED Interrogatory #6 (Ex. I-06-6); Response to ED Interrogatory #14 (Ex. I-06-14); Transcript TC1, August 12, 2019, p. 187, ln 25 to p. 88, ln 4.

⁶⁵ EPRI Report, p. 3-1 (Ex TSP-01-08-01).

⁶⁶ Response to ED Interrogatory #6 (Ex. I-06-6); Response to ED Interrogatory #14 (Ex. I-06-14); Transcript TC1, August 12, 2019, p. 187, ln 25 to p. 88, ln 4.

⁶⁷ EPRI Report, p. 4-6 (Ex TSP-01-08-01).

⁶⁸ Response to ED Interrogatory #15(b) (Ex. I-06-15).

⁶⁹ Decision in EB-2016-0160, p. 32.

Next Steps

Hydro One has agreed to take important next steps with respect to transmission losses.⁷⁰ Those steps focus on achieving concrete results and identifying improved processes, option analysis methodologies, documentation, and reporting.⁷¹

This agreement means that further work need not wait for a Board order and is happening now. The agreement also saved considerable time and expense during the oral hearing. It could also save considerable time and effort of the Board when it prepares its decision because Hydro One has already agreed to do what Environmental Defence would have otherwise been asking the Board to direct it to do. Environmental Defence strongly supports the agreed-on next steps and looks forward to working with the IESO and Hydro One to achieve concrete results.

⁷⁰ Letter from Hydro One, October 17, 2019.

⁷¹ *Ibid.*