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December 16, 2019

Reply To:Thomas BrettDirect Dial:416.941.8861E-mail:tbrett@foglers.comOur File No.191997

VIA RESS, EMAIL AND COURIER

Ontario Energy Board 2300 Yonge Street 27th Floor Toronto, Ontario M4P 1E4

Attention: Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: EB-2019-0082: Hydro One Networks Inc., Application for Electricity Distribution Rates for the Period from January 1, 2020 to December 31, 2022

Please find enclosed herewith BOMA's Submission.

Yours truly,

FOGLER, RUBINOFF LLP

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Thomas Brett TB/dd Encls. cc: All Parties (via email)

ONTARIO ENERGY BOARD

Hydro One Networks Inc.

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

Submission of Building Owners and Managers Association, Greater Toronto ("BOMA")

December 16, 2019

Tom Brett Fogler, Rubinoff LLP 77 King Street West, Suite 3000 Toronto, ON M5K 1G8

Counsel for BOMA

Part 1 (includes Issues 5, 8, 11, 16)

Capital Budget

The proposed capital budget and in-service additions arising from the transmission plan are excessive, for several reasons.

First, the sheer magnitude of the capital budget over the TSP plan term (B-1-1, p21) of \$6.620 billion over the five year TSP-driven capital plan, and \$3.8 billion over the three year custom IR plan are much larger than the capital budgets approved in the previous proceeding. In EB-2016-0160, HONI applied for capital budgets for 2017 and 2018 (the two test years) of \$1,076.2 billion and \$1,222.2 billion, respectively. These amounts represent large increases over the actual expenditures in the previous four years which were \$943.0 million for 2015, \$844.7 million in 2014, \$718.5 million in 2013, and \$776.0 million in 2012 (EB-2016-0160, p26). The Board approved a 2017 capital budget of \$950 million for 2017 and \$1,000 million (\$1 billion) for 2018, which were reductions of \$126.1 million in 2017 and \$122.2 million in 2018, respectively, a total reduction of \$248.3 million, or 11% of the proposed two year capital budget. Those reductions were made to the overall capital envelope. The average annual amount requested for the period 2020-2022 in this proceeding of \$1,290 million, represents an increase of \$315 million (32%), over the average approved capital budget in EB-2016-0160 of \$975 million. This rate of increase is excessive and unsustainable.

Moreover, the 2022 proposed capex is planned to continue in 2023 and 2024. As in 2017-2018, the bulk of the capital expenditures are for system renewal. The increase in average system renewal capital in 2020-2022, over the average for 2017 and 2018, is about the same increase as the increase in total capital expenditure. This substantial increase represents the latest phase of a

multiyear increase in system renewal capital beginning in 2012. The total increase in system renewal capital from 2012 to 2016 was 86%. In EB-2016-0160, HONI proposed to increase it by another 15% in 2018, compared to 2016 (EB-2016-0160, p35). Moreover, the evidence in this proceeding shows system renewal expenditures increasing from \$723 million in 2019 (forecast) to \$865.2 million in 2020, \$1,103.1 million in 2021, and \$1,172 million in 2022. The average system renewal capital expenditure for the three years of the custom IR is \$1,046 billion, an increase of \$273 million (B-1-1, TSP Section 31, p3), or about 35% over forecast 2019. These system renewal capital expenditures are also excessive and unsustainable. The substantial increase in capex, over time, results in equally substantial and excessive transmission rate increases proposed in this proceeding (Exhibit C, Tab 2, Schedule 1, p2). Over the three year, 2020-2022, custom IR term, forecast assets in-service increase 22% over the in-service additions in the previous three years (Tr1, p42).

Moreover, the company's current forecast, the 2022 total capital expenditure requirement will likely continue in 2023 and 2024, given the TSP it has filed (Tr.1, p41).

In setting the initial overall capital budget, the company looked first at the capital budget in the previous two year cost of service proceeding (SEC IR #29) (OEB IR #19(b)). The company's evidence at B-1-1, TSP, 2.1, p8, purports to show the steps in the process of determining an overall budget figure for the three year custom IR plan. The company states that it determined the starting point for the 2020 capital budget by using the Board-approved capital expenditures for 2017 and 2018. However, the company actually used its proposed capital expenditure for those two years, which the Board reduced in EB-2016-0160 by \$248.3 million. As noted earlier, the average annual capital budget proposed for the custom IR period is \$1,290 million compared

to the average Board approved capital budget for 2017-2018 of \$975 million, an increase of \$315 million, or 32%. This increase is clearly excessive. If the correct starting point were used, the 2020 capital budget would be reduced by \$248 million. BOMA proposes that the Board make that reduction in 2020, and maintain it for 2021 and 2022.

HONI's evidence is that the next step in determining the capital budget is to adjust the previous year's capital budget for (1) efficiency gains, and (2) new strategic directions (B-1-1, TSP 2.1, p8).

It is not clear from the evidence what adjustments have been made to the previous year's plan to account for efficiency gains and the company's strategic initiatives. Nowhere in the evidence does HONI provide details on those "efficiency gains" or even how that concept was used to determine the three year capital budget. The company also states that it took into account the feedback from customers in the Innovative study (see below). The company notes repeatedly in its evidence that the overwhelming number of customers supported option C, which proposes a capital expenditure of \$6.6 million a year over a five year period, which the company described as maintaining the current investment level. As noted in our submissions below, that evidence is misleading and incorrect.

Moreover, the company adds a further \$282 million to the three year budget it has developed, to be funded by its proposed productivity savings, including its "progressive productivity program", designed to offset the additional expenditures. Notwithstanding the fact that the progressive productivity program is, at this point, mostly aspirational, HONI decided on a three year capital expenditure budget of \$3.87 billion, which assumes the success of the progressive productivity initiative and the other productivity savings proposals. If only half of that productivity improvement actually occurs in 2020-2022, the capital expenditure budget will not be the company's capital expenditures over that period will not be \$3.87 billion, but \$4.050 billion, a \$168 million increase. Notwithstanding the aspirational nature of the productivity initiatives, the company proposes that it spend the full \$3.87 billion capital budget, even if the productivity savings are not achieved. That is irresponsible in the extreme, as it would conflict with the Board's RRFE policy that the company must manage within its proposed capital and OM&A budgets.

Given the current aspirational nature of the productivity savings, BOMA recommends that the \$282 million be removed from the capital budget at this time. Once the productivity savings, including the progressive productivity program savings for the year 2020, can be verified and have occurred, consideration could be given to adding back a portion of the \$282 million.

For a further discussion of the aspirational nature of the progressive productivity program, see Part 2 of BOMA's submission.

It is BOMA's view that HONI's selection of its initial budget framework is essentially arbitrary. It was wrong for them to claim they had used the previous year's capital budget as a base.

There is no coherent explanation for that large an increase. They have attempted to justify their chosen number by the Innovative survey, but as BOMA shows in Part 4 of these submissions, that survey was sufficiently flawed that HONI cannot reasonably rely on it to support its capital budget.

It seems clear that HONI's budget number was developed in a HONI-centric framework, rather than a customer-centric framework. The real driver is HONI's determination of which assets need to be replaced to satisfy "system needs", which are not defined, and asset needs. HONI's planning assumptions never allow for modest degradation of the assets or the performance of the grid as a whole, or any part thereof, other than perhaps in Northern Ontario. The customer experience strategic priority is outlined in HONI's business plan, as follows:

- to deliver industry leading customer service, in response to identified customer preference
- force innovation in the business to adapt to changing customer requirements and market opportunities
- reconciliation and work proactivity to build relationships with indigenous people, and communities based on understanding.

While these are worthy priorities, they do not reflect most Ontario customers' priorities, which are to maintain costs as low as possible, and to keep rate increases to a minimum, certainly no more than inflation or slightly more than inflation. That goal should also be made explicit in the customer experience strategic priority. By not doing so, HONI is not providing services in a manner that responds to identified needs and customer preferences.

In EB-2016-0160, the Board directed HONI to do an independent third party benchmark assessment of its transmission system planning process. HONI chose the Boston Consulting Group to do this work without an RFP. The Boston consulting group had already worked very closely with HONI on its "good to great" initiative. It had been paid several millions of dollars for that work. The "good to great" initiative included substantial work on potential improvements to the investment planning process (Tr.1, pp7-9). Consequently, Boston

consulting group was not an independent third party as it was in part at least reviewing its own work. The Board should give little weight to its report.

Conductor Replacement

The company's evidence is that, for its two large conductor replacement projects, SR-19 and SR-20, forecast capital expenditure for 2020-2022 is twice the capital expenditure on conductor replacement in the previous three years (2017-2019), and seven times the capital expenditure in the three years prior to that (2014-2016). The evidence also indicates that increased testing is the reason for the increase in conductors discovered to be in high risk condition, from 9% to 13%. Moreover, a revised assessment of the estimated service life from 70 to 90 years, has lessened the pressure for conductor replacement.

The evidence also shows that the overhead conductor forced outage frequency and the duration have both turned down over the last ten years, ending in 2017 (the last year of available data) (B-1-1, TSP, 2.2, p58) (Tr1. p.18). The substantial increase for conductor renewal expenditures seems excessive in these circumstances.

The company was not able to confirm that the proposed capital budget for custom IR period would result in a change to the asset condition of its major asset classes.

Moreover, the company's evidence is that they have not quantified the reduction in corrective maintenance resulting from the investment in conductor replacement over the 2020-2022 period, although they admit corrective maintenance would be reduced (Exhibit F, Tab 1, Schedule 3, p44, Table 11). Board policy has for several years been that the applicants must, particularly in a custom IR proposal, assess carefully the OM&A consequences of the substantial continued

capital expenditures. The company's evidence is that they have 29,000 km of conductors of which 13% or 3,680 km have been assessed, through testing, as high risk. But 6,000 km of lines have not yet been tested. Testing those remaining conductions should be a high priority for OM& A funding. They proposed to replace 57% of those high risk conductors, over the 2020-2022 term at a cost of approximately \$336 million (Tr.2, p120) (B-1-1, TSP, 3.3, p16).

The company does not offer evidence to justify the amount of conductors they propose to replace (1,342 km ACSR and 224 km of copper). They say both safety and reliability are the risks they seek to eliminate or mitigate. They do not differentiate between them other than to note that for safety reasons, every single conductor that is shown to be high risk based on strength and resilience testing should be removed. They also say that reliability is not the driver, safety is (Tr.2, p118). They go on to state that the prioritization of the projects within SR-19 and SR-20 are based on forecast reliability improvements (Tr.2, p121). They not only say they have not considered using the cost per avoided interruption as a driver of which high risk conductors should be replaced first, as part of the optimization process, but offer no reason why costs should not be used. Overall, the company does not integrate the condition assessment of the conductors and the priority and the pace at which they will be replaced. Conductor failure appears to have a minor role in customer interruptions. Only 1% of customer delivery point interruptions are due to conductor failure (Staff-73, p2), presumably due in large part to redundancy. Given that fact, and the fact that there appears to be no evidence on how many conductors fall into the high risk category every year or how many fail in every year, the replacement plan seems overly aggressive.

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Air Blast Circuit Breakers

HONI proposes to spend \$366.2 million to replace air blast circuit breakers over the period 2020-2022. HONI's evidence is that these breakers require very high maintenance and can pose a safety risk to workers. BOMA would support relatively rapid removal of these breakers, however, the company has not quantified the substantial savings that will result from avoiding maintenance costs which the company has indicated are ten times the costs of maintaining other types of breakers, nor have they indicated the contribution to customer outages from breaker failures.

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The company is proposing to change 128 breakers (mostly or all air blast circuit breakers) at a total cost of about \$390 million over the period 2020-2022. However, the company cannot quantify OM&A savings on the renewal of those breakers.

Unit Costs

HONI does not benchmark its unit costs (Tr.3, p37; J3.1). It is not clear how HONI uses historical data it has gathered on the "program component" of its total capital costs in its capital budget process. The evidence is that the starting point, the budget it proposed to the Board in EB-2016-0160, is adjusted for efficiencies. These achieved efficiencies, to be valued, must be incremental efficiencies achieved in 2018, and incorporated into the budget in 2020, beginning in 2017, 2018, 2019, which persist throughout the 2020-2022 term. However, the evidence contains no comprehensive, costed statement of what these efficiencies are, and how the amount of reduction from the starting capital budget resulted from their implementation. Moreover, HONI indicated that they have historical unit cost data.

The evidence on the impact of the company's investments on reliability is confusing. Mr. Jesus stated that the objective of the capital program is to maintain current system reliability but not to improve it. He stated:

"So we need to sustain the reliability, so most of the asset replacement that we are doing from a renewal and to continue that performance that was intended and the replacement for a condition point of view, we need to maintain the condition of the assets.

If you want to make a step change in reliability improvement, then perhaps you need to consider redundancy, and your need to do other things. But the focus of system renewal is to deliver the reliability that was intended, and maintain the condition of the assets."

On the other hand, Mr. Brodie stated that the:

"implementation of the air blast breaker portfolio (133 breakers) should all else being held constant, there should be an increase in reliability".

HONI has forecast a 22 minute reduction in SAIDI (Tr.2, p23) over the period 2020-2024, but it has not estimated a reduction for the period 2020-2022, the custom IR period. The company's proposal appears to be that a capital expenditure of \$3.7 billion over the years 2020-2022 will not result in any measureable increase in reliability. However, in the material presented to customers in the Innovative survey, the customers are told that choosing a capital budget that maintains the existing investment will result in improvements in reliability. The company needs to make a clear statement of the impact, if any, on reliability, as measured by SAIDI and SAIFI, or otherwise, from its proposed substantial three year capital investment program.

The company's evidence is there would be OM&A savings from replacing older transformers with new ones (Tr.2, p143) in OM&A (B-1-1, p3) but they are unable to quantify the OM&A reduction is resulting from the installation of new transformers, or station rebuilds, or apparently, even the OM&A savings from the \$90 million (5 years) John Street transformer station rebuild

(Tr.2, p146). They should have these numbers. They have exaggerated the difficulty of producing them.

HONI did not present a clearly defined set of priorities for its proposed \$3.7 billion of capital expenditures over the three year IR term and for each year of the three year term. Some utilities have made an effort to rank programs and projects in order of priority in a manner that the Board and intervenors can understand. The exercise should not be that difficult. All parties would agree that first in priority are the projects that are required by law, including relocations as directed by governments, or connection of customers. For some connections, contributions are expected so the net outlay of those connections to HONI may not be large. A second priority will be new transmission lines immediately required to provide access to regions with rapidly increasing loads, such as the Learnington area. Such projects are likely required by the Transmission System Code, and will need to be coordinated with LDC projects. Finally, there are the system renewal projects for each asset class, which while not required by law, compose the bulk of HONI's proposed capital budget for 2020-2022. These projects are prioritized by the application of the six factors, including criticality, economics, diminution of safety risk, etc. HONI claims to have done this but it has not included in its evidence a prioritized list for each asset class and for all asset classes, nor has it explained how it has applied the six factors it uses to prioritize to various projects and programs. It needs to have a coherent narrative that describes how it has made these decisions. BOMA's understanding from the evidence is that it is only after these decisions have been made and the projects and programs have been prioritized that HONI applies the Copperleaf program to "optimize the priorities". Again, HONI needs to explain the extent to which the Copperleaf program, when applied, results in changes to the chosen priorities. The explanation should show any changes in ordering of the priorities that result from the tweaking of the list as a result of the computer-driven calculations and the detailed reasons for those changes.

Part 2 – Productivity Savings (includes Issues 1, 6, 7)

HONI provides a summary of its forecast capital and OM&A-related savings from productivity improvements at B-1-1, TSP 1.6; see also Exhibit A, Tab 3, Schedule 1, p21. For the IRM term (2020-2022), the company claims capital-related productivity savings of \$212 million and OM&A-related productivity savings \$70 million, respectively, for a total of \$282 million. HONI has introduced another category of proposed productivity savings "progressive productivity". Progressive productivity can be capital-related or OM&A-related, and can be either "defined or undefined". In the three year IRM term, the company proposes \$30 million of "defined" capital-related productivity savings, and \$57 million of "undefined" capital-related productivity savings. "Defined" progressive productivity savings refers to the savings from productivity initiatives that have been identified and budged. "Undefined" progressive productivity savings are proposed savings from as yet "undefined" projects. The total of "defined" and "undefined" progressive productivity savings forecast for the 2020-2022 term is \$117 million (Exhibit A, Tab 3, Schedule 1, p21).

The evidence is that progressive productivity is a further reduction cost mechanism that HONI has included in its capital expenditure plan, to lower the capital expenditure budget, in response to concerns that were raised in the Board's decision in the EB-2016-0160 proceeding, regarding the overly rapid growth of capital investments. Progressive productivity savings represent a commitment by HONI to fund further efficiencies over the custom IR period and beyond, to the end of the five year TSP plan period.

In EB-2016-0160, the Board directed HONI to establish short-term and long-term targets for productivity improvements as a means to drive continuous improvements and improve the company's internal and external benchmarking standings. The Board has also made it clear, in several recent proceedings, especially in dealing with custom IR proposals, that it is not sufficient for the applicant to state that the savings proposals are, in aggregate, embedded in the budget and the business plan. The applicant must identify each initiative, provide the amount and timing of cost savings which results from each initiative, and report annually on the extent to which the target for savings from each initiative has been achieved, in each year of the custom IR term, in this 2020-2022 case. Those results should be reported annually to the Board and, BOMA would suggest, to intervenors, as part of the annual rates adjustment proceeding. Otherwise, overspending of capital budgets will occur, and ratepayers will be misled and harmed. It is not enough to say that the productivity measures are embedded in the capital expenditure and OM&A budgets.

These amounts have been directly embedded into the cost forecasts underpinning the business plan and the TSP (Exhibit A, Tab 3, Schedule 1, p20). In other words, were it not for the proposed reductions, the capital budget would be higher by the amount of the productivity offset.

BOMA has several concerns about the claims of productivity savings, including progressive productivity. First, the evidence uses different time periods which complicates analysis. The key period for this proceeding is 2020-2022, three years, not the five year totals shown in several places in the evidence. The Board should be focused on the amounts claimed as productivity offsets in the 2020-2022 period. BOMA's overarching concern is that the company proposes to spend the gross capital budget, whether the productivity savings are achieved or not. A mechanism needs to be introduced to ensure that that does not happen. As noted earlier,

BOMA's proposed approach is to reduce the 2020-2022 capital budget by \$282 million and to use 2020-2022 as a trial period for the productivity savings, so as to allow the incremental amount of productivity savings from an agreed baseline (see below) for each separate savings initiative in each of the years 2020-2022 to be verified. Some of the productivity savings initiatives are detailed in J2.28 and J2.9. In BOMA's view, such productivity savings claims should only be recognized by the Board if they are actually achieved, based on agreed measurement calculations and baselines and the scope of each initiative is clearly defined.

HONI's evidence is that they needed to reduce their initial draft capital budget by about 10%, so they decided, rather than to actually find that amount of capital reductions, to produce productivity initiatives over the three year period to offset 10% of the proposed capital budget (Tr.2, p64). However, they were not able to identify sufficient productivity initiatives over the 2020-2022 custom IR term, so they invented the idea of progressive productivity. In effect, they hope to identify and implement incremental productivity initiatives, which produce of \$117 million in savings over the period 2020-2022. Their evidence identifies only \$30 million of the \$117 million. The remaining \$87 million for 2020-2022 has yet to be defined (B-1-1, TSP 6, p7, Table 1).

HONI states in its evidence that by embedding the forecast productivity savings in its capital budget, HONI bears the risk of not delivering its planned productivity initiatives. That statement is not correct, since HONI intends to spend its capital budget, whether or not the offsetting savings are achieved and then to argue in its next proceeding that it should not have to rebate to customers the excess amounts if achieved savings are less than forecast (B-1-1, TSP 1.6, p8).

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Another requirement for verifiable and credible savings proposed is the establishment of an appropriate baseline for each productivity initiative. The baseline should be 2019, unless compelling evidence can be made for a year prior to 2019, since earlier initiatives have already been reflected in earlier capital and OM&A budgets. The \$282 million of proposed productivity savings should be incremental to productivity savings achieved to date.

Each initiative should be described in sufficient detail, and in a coherent, unabbreviated manner, to be verifiable by a third party, the calculation used to determine the savings for each year must be provided, and the savings should be matched against that year's capital expenditure or OM&A expenditure to demonstrate that they have reduced those budgets. For example, the company has stated that over the 2020-2024 period, enhancements to procurement processes will result in \$190 million in savings, which savings are embedded in the capital and OM&A budgets. The company should provide, for each of 2020, 2021 and 2022, for each specific change in the procurement process, a savings calculation for that specific change. The evidence mentions some of the improvements in the procurement process, but the assessment of the dollar value of each component needs to be displayed and aggregated so that the \$190 million estimate or more precisely, that part of the \$190 million estimate which is proposed to be realized over the 2020-2022 custom IR plan can be verified. Otherwise, the productivity estimates represent simply wishful thinking. It is not appropriate to claim the full amount of savings from a productivity initiative that was started, say in 2015, since those amounts have already been reflected in earlier capital budgets or OM&A budgets or financial statements from those earlier years. The incremental productivity savings in 2020-2022 over the savings realized by the initiative in 2019, the base year, are a proper offset to increased capital/OM&A budgets in those years. In other words, the acceleration or enhancement of the savings stream commencing in 2020, relative to 2019, is a legitimate productivity improvement claim for 2020 and beyond.

Part 3 (includes Issues 1, 3, 5, 8)

Customer Needs and Preferences

HONI did not respond appropriately to all of the Board's directives in EB-2016-0160 (the most recent HONI Transmission decision). For example, HONI made very little effort to determine the views of the LDCs' customers other than the LDCs' large volume customers.

In that proceeding, the Board directed that:

"Hydro One should have discussions with LDCs to determine practical ways to seek some input from their end users to inform Hydro One's application." (EB-2016-0160, p24)

The Board reiterated that direction in its conclusions in that proceeding (p117).

Moreover, at the stakeholders' session (B-1-1, TSP 1.3, Attachment 2), the parties made it clear to HONI that it needed to take into account the views of the LDCs' customers. In EB-2016-0160, the Board noted that the LDCs' end use customers comprised 92% of HONI Transmission's revenues. Under existing ratemaking principles, the LDCs are entitled to pass through HONI Transmission cost increases to their ratepayers. The LDCs are, therefore, insulated from HONI Transmission costs increases. However, their ratepayers are directly exposed to these increases. Numerous studies and surveys have made it clear that all of the LDCs' rate classes, except for, in some cases, their large volume customers, but always including residential, small business, and mid-market customers, have repeatedly made cost reductions and lower or no rate increases their first priority in their rates proceedings.

The Board also said in that proceeding that improvements should be made to ensure that the information presented to the customers is unambiguous and easy to understand. HONI agreed that the distribution customers considered high prices for distribution rates as their first priority and primary concern. In BOMA's view, it is clear from the record in these distribution cases that high distribution rates and costs that are too high are the primary concern of all distribution customer classes, except for the large customer class.

Notwithstanding the Board's direction in EB-2016-0160, BOMA was only able to find one question in the Innovative online survey that dealt with the LDCs' customers' needs. At p56 (of 144):

"Were your responses to this survey informed by your own customer engagement activities for the purpose of a rate application, or by any other customer research".

When the twenty-eight of the forty-five LDCs who participated in the survey were asked the question, reproduced above, only eleven said they were responding on behalf of their end use customers (Tr3, p105). The remainder of the LDCs, seventeen of them, said they were responding on behalf of themselves, or made no reference to their end use customers. The question noted above did not ask directly whether the LDC had included the priorities of their end users in formulating their responses to the survey. HONI made no effort to follow up with the LDCs to request the results of the surveys of their customers, and it did not analyze the reasonable sample of those surveys to confirm the LDCs' customers' needs and preferences. HONI did have access to the surveys conducted by HONI Distribution, but they did not attempt to reflect those concerns in their list of customer concerns in this proceeding. Moreover, in EB-2017-0049, the most recent HONI Distribution case, HONI received the advice from IPSOS, the consultant that performed the customer engagement study in that case, that keeping costs low

was the top priority for end use customers, and reliability concerns were the second priority (EB-2017-0049, p51).

HONI's failure to take the views of the LDCs' customers into account has meant that in an overall sense, the views of the consumers that pay the transmission bills, other than the directly-connected industrial customers, were not reflected in the Innovative engagement and report. As noted above, the LDCs do not pay the transmission costs and generators' loads are restricted to station power, which is de minimis. Generators' principle interests are in a robust infrastructure to deliver electricity from plants to consumers, and cost-effective connection arrangements.

The customer engagement activities were not sufficient to determine the customers' needs and preferences, not only because the views of the LDCs' customers were not included, but also because the 108 customers surveyed were not given the opportunity to state the importance of lower prices (rates) or lower costs, or in the list of outcomes that HONI and Innovative presented to them, and asked them to prioritize (Innovative Report, p12).

The words "lower or reasonable rates, or minimization of costs" did not appear in the lower or reasonable rates key table on p12, notwithstanding the fact that prioritization of the seven outcomes is a very important question in the survey used to inform and shape the custom IR proposal. HONI's failure to include the rates and costs factor for the surveyed customers is a very significant omission and a large mistake. HONI's reply that rates and costs are not an outcome is nonsense. In almost every customer engagement study performed in the last few years, the trade-off between price (rates)/costs, and reliability is the core question.

Many customers, when asked whether they had comments on the seven outcomes they were asked to rank, mentioned the need for lower rates or the need to obtain, at the lowest possible cost (Tr7, p112). For example, they stated:

"The main outcome should be to provide reliable power at the best possible cost, which should be benchmarked to a world standard to remain competitive and to make it so people don't have to choose between eating and having available power"; and

"Productivity should be a key focus at Hydro One. There is little evidence that this is a consideration at any level in the organization"; and

"Some of the questions miss the mark. I don't care about productivity. I care about costs going down"; and

"Customer service should be accomplished by customer service and not by the ratepayer paying anything" (Innovative, p74); and

"You can do with less on all of this – it's not a trade-off between money and results – we need the results described and we need it at a more affordable rate" (Innovative, p75).

When end use customers were asked why they preferred the option they chose over the other two (three) scenarios, of seventeen verbatim responses quoted, eleven mentioned that costs (rates) were too high. When LDCs' customers were asked the same question, nine of seventeen responses cited they wanted lower rates and costs, and when asked to explain why they preferred one scenario over another, many of the customers (9 or 10 of them) stated the need to keep costs or rates as low as possible, yet lower costs of operation were not included in the outcomes provided to customers Tr7, p115). They only came to light because Innovative asked the additional question of *"is there anything that concerns you that we have left out in our questions?"*.

Finally, BOMA believes that in its instruction to customers, Innovative has again put its finger on the scale when it stated that moving from option B to option C would result in significant improvements and long term reliability (Tr7, p122; p117 of Innovative Report). However, neither HONI nor Innovative document the magnitude of that change, or even an order of magnitude estimate. They simply provide an arrow pointing upward.

The customer outcomes presented in the Innovative study list seven outcomes, which customers were asked to rank in importance. Costs and lower rates/stable rates were not included. Small rate increases, for example, or rate increases no greater than the CPI, as an independent outcome, were not included. But reasonable rate increases driven by reasonable cost increases or no rate increase are clearly a key outcome. The decision not to include price/cost considerations in the list of outcomes has allowed HONI to propose a plan that results in an average annual increase of 6.2% over the plan's three year term (2020-2022), more than three times the forecast rate of inflation. The outcome of reasonable rate increases, and reasonable cost increases, is a key outcome in determining just and reasonable rates in this proceeding, and a key customer preference.

The importance of rates and costs for customers is demonstrated by the fact that customers, when asked for specific comments or questions about the seven proposed outcomes and whether anything else occurred to them that was not included in those outcomes, repeatedly mentioned costs or prices or rates (Tr.7, pp12-14). The argument that cost is not an independent factor for customers undermines the support for, and the validity of HONI's capital budget. The cost/price considerations are a critical impact to the level of the capital budget, in conjunction with "asset and system needs". Their primary purpose is not to help determine which asset replacements HONI should choose. HONI ought to be using the Innovative work to determine what the level of the overall capital budget should be, but did not do so. As Mr. Sidlofsky noted,

"But you never gave customers an opportunity to raise cost, because you left cost out of the proposed outcomes that you gave your customers to comment on" (Tr.7, p19).

This is the key "weakness" in the survey, and HONI's responses were disingenuous, weak, or non-existent. HONI had no reasonable, coherent, or persuasive response to the question of why rates/cost was not in the list of outcomes. They tried to avoid dealing with this question by saving that there were other consultations with its customers in addition to the Innovative exercise, where costs were mentioned, but these consultations were with individual customers, either individual LDCs, where the LDCs' customer impacts were not a priority, or with individual directly-connected large customers. In these meetings, both of these groups were more focused on those investments that pertained to improved reliability of the HONI feeders that directly supported them, rather than the more general impacts on the customers. Similarly, the generators individual conversations with HONI focused on the investments that were specific to them, mainly their cost-efficient and reliable connections to the grid. As the Board is well aware, the generators are not a significant load. Reference to these other consultations missed the point that the issue is what are the consumers' preferences, including LDCs' customers' preferences, for rates and costs with respect to the custom IRM as a whole. In this respect, costs and prices rates are two sides of the same coin. The construct used by HONI and Innovative that cost is only meaningful as a trade-off for incremental investment on specific capital projects misses the mark. It is simply wrong. In order to counter intervenor criticism of the Innovative Report, HONI attempted to downplay the importance of the Innovative Report. HONI also repeatedly downplayed the importance of the Innovative Report as an influence on the eventual custom IRM proposal, relative to other ongoing consultations, such as ongoing consultations as noted above. However, it was clear from its evidence that the other consultations were not relied on to the same extent as the Innovative Report, to support the TSP and capital expenditure proposal (a 144 page report). Mr. Greg Lyle, President of Innovative, sat on the witness panel with HONI officials to promote and justify the Innovative Report.

In addition, HONI continued to use the risk reliability model in the Innovative survey, which is not appropriate, given the reservations the Board has expressed about the reliability model in EB-2016-0160:

"Regarding the RRM, the OEB finds that the model needs further refinement and testing if it is to be used to convey to customers information about the value about capital investment in terms of system reliability" (p23).

In the TSP, section 1.3, attachment 4, HONI said it continues to test and refine the model to make it more useful.

HONI and Innovative have protested that the survey work commenced before the EB-2016-0160 decision was issued in November 2017, because it began on February 9, 2017, and ended when the final customer engagement report was submitted on July 2, 2017, and were unaware of the depth of the Board's concern, expressed in its Decision. However, BOMA does not accept this excuse. First, HONI would have been well aware of the discussion of the importance of obtaining the views of the LDCs' customers, which took place during the 0160 proceeding and on that basis, could have added additional questions to the survey, or conducted a supplementary survey. More importantly, the three year application for a custom IRM for 2020-2022 was not filed until March 21, 2019, almost two years after the final customer engagement report was submitted to HONI. HONI had a nineteen month period to carry out a supplemental survey which focused more on the shortcomings raised by the Board in its November 2017 decision. Given that there were only 125 customers in the three categories of LDCs' directly connected, large users and generators that needed to be canvassed, HONI's reluctance to do a follow-up

survey at least of the LDCs, which would focus on their customers' concerns, because of customers' possible "survey fatigue", was overblown. It appears that HONI simply did not want to do the follow-up survey for strategic reasons, and used the timing issue as an excuse not to do the additional work.

In a core part of the Innovative Report, customers were asked to select their preferred capital expenditure level (p47) from the four capital budget options presented to them. The four options were displayed as four points on a line graph, with another fifteen points along the same line graph (pp46-47). While HONI claimed that the four budgets were illustrative only, that is not correct, since one of the options, Option C, located at point eleven on the line graph, was described as the "current investment spending". This description was wrong, and BOMA suggests it is reasonable to infer that it would have seriously misled customers. Option C does not represent the Board-approved capital expenditures in the last transmission case (EB-2016-0160). In that case, HONI had proposed a capital budget that reflected the capital budget stated in Option C. However, the Board did not approve HONI's proposal. Rather, the Board reduced HONI's capital budget by \$248 million, over the two year cost of service proposal. HONI's endorsement of Option C as the current investment was effectively "putting its finger on the scale" to help persuade customers that Option C was the most natural and appropriate choice. So, HONI's customers were misled twice, both by the incorrect amount shown and by the designation of that amount as the "current investment". Notwithstanding those efforts, the average customer response was, according to HONI, 9.8 on the line graph, which was equivalent to a capital budget significantly less than that proposed in Option C. In fact, of the 108 respondents, forty selected a capital budget less than Option C, twenty-five respondents chose Option C, and twenty-four chose a budget higher than Option C (Ibid, p47 of 146). HONI stated,

in its Investment Services Summary, one of the most critical pages of the study, that "Option C, which maintains current investment...". As noted above, Option C does not maintain current investment; it increases the current investment by \$248 million. Had customers known this, the results may well have been different. The same misstatement is found at p47.

Further, it is not clear how the four options were chosen. Moreover, on p46, the table should contain the reliability impacts over the custom IR plan, in addition to the impacts over the five year plan. More important, the long term reliability impacts are indicated as positive or negative by arrows up or down. There is no attempt to quantify the changes or to link Option C to the achievement of a first quartile ranking among Canadian utilities. Choosing Option C was described as going with the status quo, which, of course, it was not.

Moreover, HONI did not clearly and carefully show consumers the implication of their choice of capital budget, other than to link the choice to reliability risk, which is now a discredited concept.

In the March 2017 consultation, noted above, a number of parties, including several customer group intervenors and other participants, raised the issue of the need to obtain the views of the LDCs' customers, not just the LDCs as corporations (Tr6, p181). In this proceeding, HONI selected only two or three topics, and asked questions about those topics and about the customer preferences for the appropriate total capital investment budget, given the information provided by HONI in the online survey as to the expected reliability impacts and rate impacts of the investment option chosen.

Part 4 – Scorecard (includes Issues 6 and 7)

In EB-2016-0160, the Board made a number of determinations to inform HONI's continued scorecard development (EB-2016-0160, pp38-39). These determinations include:

- develop performance indicators that better reflect the satisfaction level of the ultimate end use customers (customers of distributors)
- indices that are solely based on ensuring that this level of spending originally considered reasonable are spent
- targets that improve the use of HONI's asset diagnostics to enhance the accuracy of replacement schedules
- measures that deal with the development of the smart grid, including, for example, the advancement of measures that facilitate the connection of distributed generation

BOMA has the following concerns with the Evolved Scorecard (B-1-1, TSP 1.5, p5).

First, the description of the Customer Satisfaction Corporate Survey does not comply with the OEB's direction in the last proceeding to ensure that the customer satisfaction/engagement determinations deal with the LDCs' customers' satisfaction levels and concerns. BOMA has already noted its concerns with the Innovative Engagement on this point.

Second, the customers' delivery point performance standard outlier metric needs a more coherent explanation. The answer to Mr. Garner's questions on this point were, at least to BOMA, difficult to understand. BOMA recommends that it would be helpful if the company were to include in its final argument a more fulsome explanation of the metric, including its historical development and the significance of it for service quality to customers of various rate classes. Third, the scorecard covers only 20% of the total capital expenditures (Tr.1, pp116-117). The Capital Program Accomplishment Complaints Index applies to only selected capital expenditure categories, most of which do not include the major capital investment areas. Why are the other larger capital programs not included, for example, Air Blast Breaker replacement, Conductor replacement, Transformer and/or Station replacement/refurbishment.

Fourth, each of the capital programs and groups of projects should be broken out separately on the scorecard.

Fifth, each method of calculation should be displayed in the table, or attached as an appendix.

Sixth, the company keeps a corporate scorecard on the other 80% of capital projects and programs. These progress reports, especially ones with targets, should be shown as part of the scorecard, as part of the Capital Program Accomplishment Indices. Some of the projects could be included on a portfolio basis, and grouped together, for example, the air blast breaker replacement, rather than having a target for each individual breaker replacement. The objective should be to give the Board and intervenors a good sense of how each element of the capital budget is performing against work completed versus budget spent to date. The metrics should contain both elements. The company must already conduct earned value analysis on each of its projects, many of which are multiyear in nature.

Seventh, some of the scorecard measures are too aggregated to be useful and should be disaggregated further. For example, Capital Expenditure as a percentage of Budget is too aggregated. It should be additionally broken down into at least the four major categories of spending – system access, system service, system renewal, and general plant – and perhaps

further broken down for system service and system access because each of those categories contain a number of subcategories that are different from one another.

Eighth, unit cost targets should be introduced where possible.

With respect to reliability, in addition to the targets for SAIDI/SAIFI (sustained) SAIFI (monetary), and the other items, the company needs to explain what improvements it needs to make to return to the top quartile reliability performance as compared to the company's Canadian peers (Exhibit A, Tab 3, Schedule 1, p10 of 49).

It is not clear whether the proposed budget will accomplish that goal, and how much the changes in reliability targets and performance (SAIDI and SAIFI) are due to the changes the company has recently made in the manner in which it measures MED events and force majeure. HONI has stated that it has changed its reporting of SAIDI and SAIFI from 2019 forward from how it did so historically (Tr.1, pp20-21). The company's evidence is that historical measures of SAIDI and SAIFI included "everything", including the 1998 ice storm, the 2003 blackout, flooding in the GTA area (as an aside, a very different measure than the loss of supply/major event days used by most distributors in Ontario). However, the targets and performance measurement going forward will exclude <u>force majeure events</u> based on a two beta methodology, which have a 10,000 MW/minute impact on the system. The company does not explain what "force majeure events based on a two beta methodology" means, and what the likely change of impact of the change will be in the following years, based on a backcast of the change on the impact of the change on its historical reporting of SAIDI and SAIFI.

HONI states that it targets to improve its SAIFI average from 0.63 (5 year performance) to 0.50 by 2024. It does not provide a 2020-2022 target. It predicts a reduction in SAIDI from 54.9

minutes (five year historical average) to 32 minutes in 2022. In order for these numbers to be useful and credible, HONI needs to clarify the impact of the change in metrics, as described above, be crystal clear on the definition of the metrics it is using (the information the company provided at Tr1, p24-25 is unintelligible) and whether the company's targets for each year from 2020 to 2022 and each historical year are five year averages, or the performance or target for that particular year. The definition of the exclusions should be explained by example. Otherwise, the numbers are not very useful. The company needs to make a clear coherent statement on what if any, SAIDI and SAIFI targets it is setting for the three years of the custom IR program and what the consequences are if it does not achieve those targets.

More generally, the company should report its earned value analysis for each project in each year, and this report should be an attachment to the Cost Control section of the scorecard. Additional unit cost data, beyond the two items now recorded, line clearing cost per km and bush control cost per hectare included. An auditable measurement methodology should be outlined for each productivity measure and scorecard entry. At the moment, the scorecard is more iconic than substantial. It needs to be made more detailed, with clear targets and consequences of not achieving those targets.

Part 5 - Compensation (includes Issues 11, 15)

The company has forecast total compensation for the transmission division for the test year 2020 of \$684.2 million, increasing to \$711.2 million in 2022 (F-4.0.1 Attachment 5, p3). Moreover, transmission compensation has increased substantially over the period 2018-2020, a 12.5% increase over two years, or an annual increase of 6.3%. The forecast 2022 transmission compensation is 17% higher than the 2018 transmission compensation. Transmission FTEs have

increased 8.6% from 2018 to 2022, so compensation has increased more than twice the rate of FTEs. The remainder of the increase in compensation is accounted for by escalation in labour costs (Tr.5, p159).

2020 Transmission compensation costs are forecast to increase by 8% over 2019 transmission compensation costs (Exhibit A, Tab 3, Schedule 1, p41), an increase driven by negotiated wage increases for HONI's represented staff and a very large number of additional hires. The company has substantially ramped up both FTEs and compensation from 2019 to 2020. 2020 is the cost of service test year that forms the basis for subsequent rate increases in 2021 and 2022.

In the 2020 test year, only \$178 million of the proposed \$684.2 million of transmission compensation is included in the 2020 proposed OM&A expenditures. (Compensation is typically 40-50% of total OM&A expenditures, Tr.5, p15). The remainder of the \$684.2 million, \$505.2 million, is capitalized as part of the 2020 capital budget. In 2021, total transmission compensation increases by about \$28 million, but the amount of compensation capitalized increases by about \$36 million (Ibid), while the OM&A-related compensation in 2021 decreases by about \$8 million relative to 2020. So the greatly expanded work plan in 2021 drives a large increase in capitalized compensation. BOMA notes that a significant portion of the capital budget in any year consists of capitalized compensation.

There was a very substantial increase in FTEs for all three categories of regular employees from 2018 to 2019, the bridge year, an increase from 5,502 employees to 6,008 employees (506 employees), which is an increase of over 10%. The increases over the test year period 2020-2022 relative to 2019 are smaller, about 108 FTEs over two years. HONI has substantially ramped up its payroll during the bridge year, 2019, which falls between two cost of service

years, 2017 and 2018, and a third cost of service year in 2020. The 2019 rate proceeding was a very mechanistic proceeding, which approved an inflation-driven rate increase over 2018 rates. This abbreviated proceeding resulted in the very large increase in FTEs in 2019 over 2018, not being scrutinized by the Board. HONI is now asking the Board to confirm these increases, along with a large capital expenditure increase in 2020 over 2019. Recall that 70% of compensation increases are capitalized and contribute to the significant increase in capital expenditures in 2020. Given these circumstances, BOMA does not support any further FTE increases over the custom IR term.

Furthermore, total 2020 compensation per FTE has increased by 3.3% from 2019 to 2020, a further 3.1% in 2021 over 2020, and a further 2.6% in 2022 over 2021. The corporate (team) scorecard found at Exhibit F, Tab 4, Schedule 1, Attachment 4, p1 is structured to ensure that the overall corporate results determine 80% of the short-term incentive bonuses for all management employees. The largest determinant of the cash bonus short-term incentive pool is driven to the extent of 30% by the net income to common shareholders, and is the largest of several determinants of the short-term incentive pool, higher than, for example, customer satisfaction.

The Long-Term Incentive Plan, available only to senior management, director level and above, is based on only two criteria, earnings per share, and productivity increases. However, as noted by the Board in its EB-2016-0160 decision, earnings in excess of the Board's guidelines for allowed ROEs do not provide any benefits to ratepayers unless the company has a fair earnings sharing regime. The company's proposed 50-50 earnings sharing for earnings in excess of 100 basis points (1%) above the Board's allowed ROE is not fair, given the short term and long term incentive skewed towards increased earnings. The 50-50 earning sharing should apply to all earnings of the allowed ROE. Only in this circumstance will the incentives yield benefits to

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ratepayers on an equal basis with benefits to shareholders. BOMA notes that part of the shareholders' share of profits in 2019 is redacted. It should not be redacted.

The evidence shows that HONI remains above the market median compensation in all three categories of its full-time, regular labour force, management, engineering/supervisors (society), and the technical and trades group (PWU represented). These numbers are found in the 2017 Mercer study, for example, at Exhibit F, Tab 4-1, Attachment 2, p5 of 34). For 2017, the management is 1% above the market median. The professionals are 12% above market median, and the trades and technical are 12% above market median. The dollar amounts of the premium to market, or forecast to increase beyond 2017 through the custom IR period as follows: 2017 - \$34.9 million; 2020 - \$38.6 million; 2021 - \$40 million; 2022 - \$39 million (SEC-55).

The professionals have increased their percentage compensation above median over the period 2011-2017 (the last six years) from 5% to 12%. In BOMA's view, the above market rates paid to professionals and trades and technical staff are too far above the market median. While progress has been made to reduce the premium to market of the trades, the professionals have widened their percentage above market in recent years. The ratepayers' responsibility for the premiums paid to the trades and professionals over the median need to be reduced to at or no greater than 1% above the median. The 2022 budget should include rates based on compensation for the three employee groups no higher than the market median plus 1%. Any remaining premiums should be the responsibility of the shareholder. Mr. Morris, the Mercer employee that conducts the compensation studies, stated that he had never done a study of whether a reduction of salary or compensation levels of a given amount would result in wholesale movement of employees to another employer (Tr.5, p12). The premise of the HONI compensation strategy is that there can never be a decrease in labour rates. BOMA is of the view that given the attractive levels of

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current compensation at HONI, and given the absence of empirical data on the question of whether HONI should be able to hire and retain employees, as it currently does for management employees, within 1% of the market median. HONI has provided no evidence that setting its professional and technical trades staff compensation at 1% above the market median would lead to problems with hiring and retaining professional and technical trades staff, nor has it provided evidence that having average management compensation at 1% over the market median, as it now does, has led to difficulties in hiring and retaining competent managers. Nor does BOMA accept the company's assertion that it is impossible "to get compensation to market parity for the professional and technical and trades unionized groups". The company provided no evidence for this statement, other than the fact that negotiations with PWU and the Society were difficult. Of course they were difficult, but that is not an excuse for not achieving a fair result. The Supreme Court of Canada has upheld the utility's right to demand cost reductions to be achieved through future collective bargaining with employees.

In EB-2016-0160, the last transmission case, the Board ordered that HONI Distribution's compensation, which was above market including all compensation components, should be for the shareholders' account. Accordingly, the Board reduced the total OM&A envelope by \$15 million for 2017 and 2018 based on the fact that Mercer's 2016 study had estimated that HONI's total transmission compensation was \$12.5 million above median, but that the compensation in question at that time did not include either short-term or long-term incentive plans. BOMA is of the view that the Board should adopt a similar approach.

Part 6 - Custom IRM Application (includes Issue 5)

The elements of the applicant's custom IR application are not all appropriate. In particular, BOMA has concerns about the custom C-factor. The custom C-factor is not an index but is a percentage increase applied to the 2020 and 2021 revenue requirement to generate incremental revenues in each of 2021 and 2022 over and above the revenues generated through the I-X adjustment, to support HONI's proposed capital expenditures in 2021 and 2022, respectively.

The custom C-factor is not an index like the inflation and industry productivity indices, which are based on objective data outside of HONI. It is a residual funding mechanism. For example, in the event the Board were to reduce the capital expenditure envelope, the custom C-factor would decrease accordingly.

The custom C-factor's fundamental weakness is that it does not provide any incentive for HONI to restrain its capital expenditures which, in the form of subsequent in-service additions, are the primary driver of the proposed increases in revenue requirement and ultimately in rates. The purpose of the C-factor is explicitly to ensure that HONI recovers all of its capital driven capital requirement. The C-factor effectively transforms the custom IR proposal into a cost of service proposal, which is inconsistent with the Board's RRFE policy. Moreover, the custom IR proposal/cost of service proposal lacks some of the safeguards of a true cost of service proposal, which usually has only a one year term, never more than two years. The ensuing frequent rebasings permit the appropriate scrutiny of the proposal lack a substantial plan to increase verifiable productivity gains over the custom IR 2020-2022 term, as required by the RRFE, the intrinsic weakness inherent in the custom C-factor would be mitigated. However, as noted

elsewhere in these submissions, HONI's productivity plan, in particular, its progressive productivity component, is mostly aspirational, and is used to offset yet additional expenditures which the company has reserved the right to recover in rates, even if the progressive productivity measures and the other productivity measures do not materialize or are less than forecast. In this context, the operation of the custom C-factor remains as a guarantee that the very large increases in capital spending will be made and recovered in full. The Board, therefore, in this case needs to scrutinize the capital spending plan all the more closely.

The first and most important point about the C-factor is the magnitude of the incremental revenues that the C-factor will generate in each of 2021 and 2022 (the 2020 revenue requirement is determined on a cost of service basis). It is more than 2.5 times (250%) of the revenue generated by the I-X formula, even assuming that the Board assigned no stretch factor (Exhibit A, Tab 3, Schedule 1, p9). The large size of the C-factor reflects the magnitude of the requested capital expenditures and in-service additions. The C-factor is a symptom of a more serious issue which is the fact that the custom IR proposal is too much like a cost of service application, which is precisely what the Board sought to move away from with the RRFE.

As noted above, the C-factor is not an index. It does not meet the criteria set out in the Board's RRFE policy, which requires the use of a genuine custom index that is more challenging than the typical index used in fourth generation IR. The Board goes to some length to try to distinguish the custom IR concept from cost of service ratemaking.

Many intervenors, including BOMA, in the Toronto Hydro case as well as the Board staff's expert in that case, Dr. Lowry, tried to develop remedies to deal with the inherent weakness of the custom IR proposal with its C-factor. They proposed an adjustment to the C-factor to reduce

it by an amount which would result in an equivalent treatment of the utility had the utility adopted fourth generation IR which had access to the ICM/ACM regime. The proposed adjustment included an ICM/ACM-type threshold and deadband. BOMA supported that effort as a short-term fix, but as noted earlier, the real problem is the design of the custom IR option itself. As currently designed, it does not work. It is simply a multiyear cost of service proposal with one or two tweaks including, in some cases, but not in this case, an absolute cap on the three or five years' worth of capital expenditures and an asymmetrical deferral account, which HONI's proposal does include, which BOMA supports, to ensure that if the company collects funds in rates for assets that it did not place in-service because the capital expenditure was not spent, is returned to ratepayers. While BOMA is sympathetic to the need expressed in the RRFE to make regulation more efficient, and results-oriented, the custom IR option does not meet either of those objectives. It is a bridge too far and is essentially a blank cheque to utilities to tally up all their asset and system needs and request that they be funded in total without regard to a clear set of priorities and ranking of projects and detailed justification for the proposed expenditures for each asset class.

As for the remainder of the custom IR proposal, BOMA adopts Dr. Lowry's proposed 0.3% stretch factor minus 0.25% industry productivity factor and his proposed inflation factor. However, BOMA proposes that the 100 basis point deadband be removed from HONI's earnings sharing proposal, so that the customers and HONI would share equally in any earnings above the allowed return on equity.

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Part 7 – Rates and Bill Impacts

The bill impacts resulting from HONI's proposed revenue requirement are unreasonable, given that they derive from transmission rate increases that are much higher than the forecast rate of inflation. The current Board-approved inflation rate for the calculation of fourth generation IRM index is 1.7%. The three year average annual rate increase of the custom IR proposal is 6.2%, a rate increase approximately four times the company's forecast inflation rate for 2021 and 2022 of 1.4% (Exhibit A, Tab 3, Schedule 1, p9; Presentation Day slides K1.1, p7). If the impact of the forecast reduction in demand is factored out, the three year average transmission rate increase is still 4.5%, more than three times the company's proposed inflation rate, and much higher than the 2019 over 2018 increase of 3.6%.

Given the stated preferences of the bulk of the LDCs' end use customers, that is all of the LDCs' customer classes except the large customer class, for lower or stable rates, and the fact that those customers represent the bulk of HONI Transmission's revenue, these proposed rate increases are excessive.

The total bill impacts are much smaller, approximately 1/12th the percentage of increases of rates, but that is due only to the fact that HONI's rate is, on average, about 7% of the end use customer's total bill. If electricity commodity prices/global adjustment were to increase further, the bill impact would be lower still, but not due to any effort on the part of HONI Transmission. The transmission rate (the price of transmission services) is the only part of the bill that HONI can determine, and it is the only part of the bill that HONI is responsible for. The Board should, therefore, focus on the transmission rate, to determine whether HONI has, inter alia, done all that it reasonably can to keep its rates and rate increases reasonable. Otherwise, HONI will have

essentially free reign to substantially increase its annual capital budgets and in-service assets, by very substantial amounts, which would result in only modest increases to its total bill. Put differently, it ceases to be accountable for the prudent management of its business.

Financial

In considering HONI's proposal for average transmission rate increases of 6.9% over the 2020-2022 custom IR term, including an 8.7% increase in rates in 2020 over 2019, the Board should take into account Hydro One Networks Inc.'s ("Networks") recent history of overearnings and financial strength, relative to other Ontario utilities and its current strong financial ratios. Networks' recent historical returns on equity are presented below (Exhibit A, Tab 3, Schedule 1, Attachment 1). HONI's actual returns on equity relative to the Board's allowed return in the last several years are as follows: 2014 - allowed 9.36%, actual 13.12%; 2015 - allowed 9.30%, actual 10.3%; 2016 - allowed 9.19%, actual 10.02%; 2017 - allowed 8.78%, actual 9.03%.

In other words, HONI overearned in each year between 2013 to 2017, often by more than 100 basis points.

Moreover, Networks has achieved one of the highest returns on equity of any major electricity utility in Ontario, in 2018, ranking in the top five (2018 Electricity Distribution Handbook). Hydro One Inc.'s (the publicly traded company that owns 100% of Networks) and which issues the group's public debt, financial position remains strong. In a recent ratings update, DBRS, one of HONI's regular rating agencies, stated as follows:

"On April 10, 2019, DBRS Limited (DBRS) confirmed the Issuer Rating and the Senior Unsecured Debentures rating of Hydro One Inc. (HOI or the Company) at A (high) and the Commercial Paper rating at R-1 (low). All trends are Stable. The confirmations reflect HOI's relatively low risk business profile supported by a transparent regulatory framework, a strong franchise area for its electricity transmission and distribution services and reasonable financial profile sustained by predictable earnings and cash flow. The Stable trends assume that the regulatory regime will remain supportive, allowing HOI to earn a fair rate of return while recovering costs on a timely basis." (Exhibit A, Tab 6, Schedule 3, Attachment 7)

DBRS also stated that Networks' overall credit metrics have remained reasonable for the current rating category with a debt-to-capital ratio of 57.6%, a cash-flow-to-debt ratio of 13.0%, and EBIT interest coverage at 2.87% for 2018. DBRS noted that Networks' refinancing risk remains manageable with maturities well spread out (Ibid, p5).

Hydro One Inc.'s listed shares have performed very well over the last twelve months, have reached new highs in recent weeks, and are now trading well above their initial offering price. If it needed to do so, HONI could sell additional equity at attractive prices.

HONI's new strategy recently reported in the Globe and Mail focuses on Ontario business and the completion of acquisitions of Peterborough and Orillia Hydro, and perhaps other distributors, which will further improve its strong financial position.

Part 8 - Impact of Forecast Reduced Load on Rates

The company's explanation for its use of the 3.5% reduction in load in setting 2020 test year rates is unpersuasive. The company states that it used the 2018 actual load which was 3.5% lower than the 2018 forecast load, which forecast was completed at the beginning of 2016 (Tr.6, p143). BOMA has some concerns. First, there may have been special circumstances in 2018 that were not necessarily repeatable and the 2018 actual load was not normalized. Second, HONI should have produced a new load forecast for 2020-2022 using the normalized 2018 demand as a base. BOMA recommends the Board not accept the 3.5% reduction number at face

value as a partial explanation for the large rate increases HONI proposes over the IR term, which begin with an 8% increase in the 2020 test year over the 2019 rate.

Part 9 – Depreciation (includes Issues 11, 14)

BOMA is of the view that a variance account should be established to reflect the impact on depreciation rates of the redirection process or other substitution of projects for the projects included in the forecast capital expenditure budget with different depreciation rates, to reflect the difference between the depreciation forecast in the application for 2020, 2021, and 2022, and the actual depreciation incurred in each of those years. The impact of a change in aggregate depreciation rates is somewhat complicated. For example, lower than forecast depreciation rates should reduce OM&A but should increase the ratebase. Therefore, the short-term effect might be to reduce the revenue requirement, but over a longer period, returns would increase and offset the earlier impacts. With that understanding, the deferral account would provide transparency to this phenomenon. Some would argue that the company's earning sharing proposal would protect customers but BOMA does not believe that would necessarily be so, given the proposed 100 basis point deadband.

ALL OF WHICH IS RESPECTFULLY SUBMITTED