2nd May, 2022

Michelle Johnston
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2239 Yonge St
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VIA email and RESS Filing

Nancy Marconi
Registrar
Ontario Energy Board
P.O. Box 2319
2300 Yonge St.
Toronto, ON
M4P 1E4

Re: EB-2021-0110 – Hydro One Networks Inc. (HONI)
2023-2027 Transmission and Distribution Joint Rate Application
Society of United Professionals' (SUP) Interrogatories to HONI re: Amended Evidence

Dear Ms. Marconi,

Attached please find the Society of United Professionals' (SUP) interrogatories to HONI regarding their amended evidence in their above noted proceeding, EB-2021-0110.

Sincerely,

MJohnston

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email copy: interested parties

SOCIETY of UNITED PROFESSIONALS
IFPTE 160

SOCIETY OF UNITED PROFESSIONALS (SUP)
INTERROGATORY QUESTIONS

EB-2021-0110 HYDRO ONE NETWORKS INC. (HONI)

2023-2027 TRANSMISSION AND DISTRIBUTION JOINT RATE APPLICATION

2nd MAY, 2022

EB-2021-0110: The Society of United Professionals' (SUP)
<u>Interrogatory Questions</u>

O-1-1 SUP #1
References:
Exhibit O-1-1

Exhibit O-1-1 Section 1.4 "Deferred Recovery Mechanism" p5 ln25-29, p6 ln1-4
"*As noted above, Hydro One is proposing to defer recovery, until after the 2023 to 2027 rate period, of: (i) the transmission and distribution approved revenue requirement increases arising from the use of updated, higher inflation assumptions, and (ii) the transmission and distribution approved revenue requirement equal to the revenue deficiencies arising from the changes in billing determinants because of the transmission and distribution updated load forecasts. For each of transmission and distribution, the incremental revenue requirement associated with both of these factors will be recorded in a newly proposed deferral account (tracked in separate Sub-accounts for inflation and load forecast for greater transparency) for recovery commencing in 2028.*"
Exhibit O-1-2 Attachment 1.1 p2 Scotiabank Inflation Forecast dated 2022-03-31
"Our forecast is for Canadian inflation to equal 5.9% in 2022, 3.1% in 2023, 21/2% in 2024 and then return toward the Bank of Canada's 2% inflation target in subsequent years."

a) HONI is proposing to defer the effects of forecast inflation to a future rate period (i.e. 2028 +). Given the level of disruption in the international economy and rapidly changing expectations, is HONI's proposed Deferred Recovery Mechanism not a throw of the dice? For instance, it is quite possible that annual inflation in excess of +2% may continue past the period currently forecast by Scotiabank as well as others and recovery of this deferral could make things even more difficult in the next five year rate period. Admittedly no one has a crystal ball but can HONI comment on the degree of confidence it has that its proposed deferral strategy is the best for all ratepayer generations.

b) HONI's proposed Deferred Recovery Mechanism requires 2028 to 2032 ratepayers to pay increased costs due to inflation which 2023 to 2027 ratepayers should really bear. In light of this, can HONI comment on how the proposed Deferred Recovery Mechanism contributes to meeting the regulatory goal of intergenerational equity?

c) (i) Everything else held equal, please confirm that in the 2028 to 2032 period, HONI customer's base rates will be increased to the rate levels they would otherwise have started paying in January 2027 if HONI had not put in place the proposed Deferred Recovery Mechanism [plus any further annual base rate increase HONI may apply for in the 2028 base year].
(ii) If this is not correct, please provide a detailed explanation.

d) As per the second reference provided above, HONI has proposed that recovery of the newly proposed deferral will commence in 2028.

(i) Please confirm that if this proposed deferral account is recovered over a default three year period beginning in 2028, which is typical for recovery of deferral accounts, would this along with the rate increase outlined in b) above result in the rate increase between 2027 December 31st and 2028 January 1st being roughly doubled?
(ii) If this is not correct, please provide a detailed explanation.

e) In light of HONI's replies to b), c) and d) above, please explain what alternatives HONI considered to recover these rate impacts prior to 2028 rather than roughly double the 2028 rate increase. Please provide a detailed explanation.

f) As per Scotiabank in the third reference above, they are projecting that inflation would return toward the Bank of Canada's 2% inflation target in 2025 and subsequent years. Further to HONI's forecast annual additions to the proposed deferral account in 2023 to 2027, what would the estimated high level rate impact be in:
(i) 2025 if 50% of the forecast annual addition to the deferral account was reflected in rates instead.
(ii) 2026 if 75% of the forecast annual addition to the deferral account was reflected in rates instead.
(iii) 2027 if 100% of the forecast annual addition to the deferral account was reflected in rates instead.
(iv) If HONI is incapable of providing the simple estimates requested in parts (i), (ii) and (iii) above, please provide a detailed explanation as to why this is the case.

g) Further to f) parts (i), (ii) and (iii) above, what is the estimated high level impact upon the proposed deferral account balance as of December 31 2027 in dollar and percentage terms.

O-1-2 SUP #2
References:
Exhibit O-1-2 Section 2.5.2 "Confirmation and Adjustment of Inflation Forecast" pp16-17

Exhibit O-1-4 p6

a) If inflation impacts are adjusted at the DRO date as proposed by HONI, there will be no opportunity for intervenor or Board review. SUP presumes that this adjustment will be entirely mechanical. Will detailed calculations be made available for interested parties and Board staff to review? Please confirm or explain why this will not be the case.

b) HONI proposes that the deferral account balances will be approved in this proceeding (ref. O-1-4 p6). Hence no future prudence review or authorization for post 2028 recovery will be necessary. Please comment on this observation.

c) It is quite possible that 2023-2027 annual inflation may exceed Scotiabank's March 31 forecast.
(i) Has HONI considered deferring actual inflationary impacts on revenue requirement and load forecast in a variance account rather than forecast increases in a deferral account?
(ii) Please explain in detail why this option was rejected.
(iii) If this option was not considered by HONI please explain in detail why this was the case.

O-1-2 SUP #3
References:
Exhibit O-1-1 Section 1.2 "Inflation Update" pp1-4

Exhibit O-1-2 "Inflation Update"

Exhibit O-1-2 Attachment 1.1 p3 Scotiabank Inflation Forecast dated 2022-03-31
"While the year-over-year [inflation] rate is projected to gradually decelerate (chart 1), this assumes that the Bank of Canada will raise its policy interest rate as aggressively as we forecast. We expect a total of 2.0 percentage points of Bank of Canada rate hikes this year [2022] including the already delivered 0.25% increase followed by another 0.5% in 2023 with the policy rate peaking at 3%. Should policy not tighten accordingly, we would probably raise our inflation forecast for a longer period of time."

a) Please confirm that HONI has not updated its Cost of Capital forecast, including its cost of debt and the capitalized interest for its investment program, in its evidence update referenced above.

b) Please confirm whether or not HONI's expected Cost of Capital, including its cost of debt and the capitalized interest for its investment program, would increase if the Bank of Canada rates are expected to be hiked.

c) Please provide HONI's rationale for NOT updating its Cost of Capital forecast, including its cost of debt and the capitalized interest for its investment program, in light of Scotiabank's position regarding expected Bank of Canada rate hikes in 2022 and 2023 provided in the above reference.

O-1-2 SUP #4
References:
Exhibit O-1-2 Section 2.3 "Description of Inflationary Update To Evidence" pp8-10

Exhibit O-1-2 Section 2.4 "Impact of Inflation On HONI's Investment Plan" pp11-15

Exhibit O-1-2 p11 lns8-11

"To successfully achieve the outcomes and benefits of Hydro One's proposed plan, the forecast costs must be updated to include the impacts of inflation. If current inflation levels are not accounted for, Hydro One will not be able to complete the work included in the investment plan."

a) In light of the rationale provided by HONI as referenced above for updating its forecast costs for inflation, please explain how its investment plan can be completed if HONI has chosen not to update its Cost of Capital forecast and not reflect expected increased capitalized interest costs for its investment plan. Please provide a detailed explanation.

O-1-2 SUP #5
Reference:
Exhibit O-1-2 Section 5.5 "Regulatory Taxes" pp34-36

Preamble: As outlined in the referenced section, due to the impact of inflation on rate base (due to In-Service Addition increases), CCA deductions also increase in all years, which reduces regulatory taxes. HONI proposes to reflect these forecast lower regulatory taxes in 2023 to 2027 rates. This is inconsistent with the HONI's proposal to pickup all 2023 to 2027 increased inflation impacts in deferral accounts.

a) Why has HONI chosen to inconsistently treat these increased CCA deductions in this manner?

b) Why should 2023 to 2027 ratepayers benefit from these increased CCA deductions which result from inflation, whereas 2028 to 2032 ratepayers must pay the increased costs resulting from inflation in 2023 to 2027 which HONI proposes to place in deferral accounts?

c) Please confirm that HONI's proposed treatment of increased CCA deductions in 2023-2027 resulting from inflation is theoretically inconsistent with its proposed Deferred Recovery Mechanism.

E-6 SUP #6
References:
Exhibit O-1-1 Section 1.2 "Inflation Update" pp1-4

Exhibit O-1-2 "Inflation Update"

Exhibit E-6-1 Attachment 1.1 "Compensation Benchmarking Forecast"

Interrogatory response to E-6 SUP #10

a) In the opinion of Mercer, in light of increased inflation expectations reflected in HONI's amended evidence, do the previous annual forecasts of HONI's standing versus P50 market median for 2023 to 2027 still hold?

b) If the reply to a) is no, please provide a high level estimate update.

c) If the reply to a) is yes, please provide a detailed explanation.

E-7 SUP #7
References:
Exhibit E-7-1 "Pension and OPEB Costs", Table 4a "Transmission OPEB Costs Included in Rates", and Table 4b "Distribution OPEB Costs Included in Rates"

Exhibit E-7-1, Attachment 2, "Revised Hydro One Inc. Projected 2021-2027 Benefit Cost Under FASB ASC 715-20-50", prepared by Willis Towers Watson (WTW) , dated 26 February 2021.

Exhibit O-1-2 Attachment 1.1 p3 Scotiabank Inflation Forecast dated 2022-03-31
"While the year-over-year [inflation] rate is projected to gradually decelerate (chart 1), this assumes that the Bank of Canada will raise its policy interest rate as aggressively as we forecast. We expect a total of 2.0 percentage points of Bank of Canada rate hikes this year [2022] including the already delivered 0.25% increase followed by another 0.5% in 2023 with the policy rate peaking at 3%. Should policy not tighten accordingly, we would probably raise our inflation forecast for a longer period of time."

a) What impact would Scotiabank's referenced Inflation Forecast have on the inflation rates used by WTW in its referenced projection dated the 26th February 2021?

b) What impact would Scotiabank's referenced Inflation Forecast and expected Bank of Canada rate hikes in 2022 and 2023 have on the discount rates used by WTW in its referenced projection dated 26th February 2021?

c) i) Has HONI requested WTW to revise its referenced projection dated the 26th February 2021 to reflect the items in a) and b) above?
ii) If not, why not? Please provide a detailed explanation.

d) What would the high level estimated impact be on HONI OPEB costs summarized in the referenced Exhibit E-7-1 tables 4a and 4b if they were revised to reflect the factors outlined in a) and b) above?