Ontario Energy Board | Commission de l'énergie de l'Ontario

DECISION AND ORDER

EB-2018-0218

HYDRO ONE SAULT STE. MARIE LP

Application for electricity transmission revenue requirement beginning January 1, 2019 and related matters

BEFORE: Emad Elsayed
Presiding Member

Lynne Anderson
Member

Allison Duff
Member

June 20, 2019

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1 INTRODUCTION AND SUMMARY

This Decision and Order responds to the application by Hydro One Sault Ste. Marie LP (Hydro One SSM) for Ontario Energy Board (OEB) approval of its electricity transmission revenue requirement to be effective January 1, 2019 and related matters.

The OEB sets rates for rate-regulated electricity transmitters in Ontario by setting a revenue requirement for each transmitter. These individual transmission revenue requirements are incorporated into the Uniform Transmission Rates (UTRs) that are recovered uniformly from ratepayers across the province. Hydro One SSM provides electricity transmission in the vicinity of Sault Ste. Marie, Ontario.

The application included a proposal for an incentive-based revenue cap framework from 2019 to 2026. Hydro One SSM proposes to increase its transmission revenue requirement through this incentive rate-setting mechanism (IRM) for 2019. The IRM would adjust the transmission revenue requirement by a revenue cap index comprised of inflation, less a productivity factor and a stretch factor. The proposed adjustment in 2019 of 1.40% or $556,894 would be added to the existing base revenue requirement of $39,778,120 that was approved for 2016.[1]

The application also included a proposal to reduce Hydro One SSM’s total revenue requirement by $94,909 to dispose of a credit balance in its deferral and variance accounts (DVA).

The OEB approves the proposed revenue cap framework and formula applicable from 2019 to 2026.

The OEB approves the proposed inflation factor of 1.40% for 2019, the proposed productivity factor of 0% and a stretch factor of 0.3% as inputs into the revenue cap formula. As a result, the 2019 approved base revenue requirement is $40,215,679, less the clearance of DVA credit balances of $1,210,502, which results in a 2019 approved total revenue requirement of $39,005,177. As explained further below, the DVA balances need to be updated to reflect audited balances for 2018, and the final 2019 approved revenue requirement will be subject to this update.

[1] EB-2015-0337

The effective date for the approved 2019 revenue requirement is February 1, 2019. The OEB finds that with the adjustments approved in this Decision and Order, the revenue requirement for Hydro One SSM to provide transmission service in 2019 is reasonable.

2 THE PROCESS AND ORGANIZATION OF THE DECISION

Hydro One SSM filed an application with the OEB on July 26, 2018 under section 78 of the *Ontario Energy Board Act, 1998* (OEB Act), and under the OEB's *Filing Requirements for Electricity Transmission Applications* (Filing Requirements).[2] Hydro One SSM is seeking approval for changes to its electricity transmission revenue requirement to be effective January 1, 2019 and related matters.

Prior to filing the application, the OEB approved an application by Hydro One Inc. to purchase all of the issued and outstanding voting securities of Great Lakes Power Transmission Inc. (GLPT) on October 13, 2016 (MAADs decision).[3] The OEB accepted Hydro One Inc.'s proposal to defer rebasing the revenue requirement for the new company, Hydro One SSM, for a ten-year period. Hydro One SSM was permitted to continue with its existing 2016 revenue requirement and to bring forward a subsequent rate application, proposing a revenue cap index framework for the deferral period.

Hydro One SSM filed an application to increase its 2017 revenue requirement. The OEB denied the application,[4] and found that it did not meet the guidance provided in the MAADs decision and the OEB's Filing Requirements. The OEB determined that Hydro One SSM's existing 2016 revenue requirement and charge determinants were to remain in effect in 2017 (2017 decision).

Hydro One SSM did not file an application for a 2018 revenue requirement.

A Notice of Hearing associated with Hydro One SSM's proposed 2019 revenue requirement was issued by the OEB on September 5, 2018. Each of the Association of Major Power Consumers in Ontario (AMPCO), Energy Probe Research Foundation (Energy Probe), Independent Electricity System Operator, Power Workers' Union (PWU), School Energy Coalition (SEC), and Vulnerable Energy Consumers Coalition (VECC) was granted intervenor status. AMPCO, Energy Probe, SEC, and VECC were also granted eligibility for cost awards.

[2] February 11, 2016
[3] EB-2016-0050 October 13, 2016 Decision and Order, pages 24 and 25; MAADs refers to mergers, acquisitions, amalgamations and divestitures
[4] EB-2016-0356, Decision and Order, September 28, 2017

In its Decision and Interim Rate Order,[5] the OEB declared Hydro One SSM's current base revenue requirement of $39,778,120 interim, effective January 1, 2019 and directed Hydro One SSM to remove $787,816 in DVA balances from its total revenue requirement, as this amount was already collected. Hydro One SSM's charge determinants were also declared interim.

The OEB made provision for a transcribed technical conference, the filing of evidence by OEB staff, and interrogatories and responses related to that evidence. OEB staff filed a report prepared by Pacific Economics Group Research LLC (PEG) entitled *"Empirical Research for Incentive Regulation of Transmission"* (PEG Report) on February 4, 2019.

The OEB also established dates for Hydro One SSM's Argument-in-Chief, submissions from OEB staff and intervenors, and a reply submission from Hydro One SSM.

This Decision and Order is organized in chapters that correspond to the categories of issues set out in the OEB-approved issues list.[6]

The Decision and Order concludes with the terms of the OEB's Order pertaining to the relief requested by Hydro One SSM.

[5] Decision and Interim Rate Order, December 6, 2018
[6] January 10, 2019 Issues List Decision, Schedule A

3 PREVIOUS OEB DECISIONS AND FILING REQUIREMENTS

Hydro One SSM indicated that it responded appropriately to all relevant OEB directions from previous proceedings.[7]

OEB staff submitted[8] that Hydro One SSM has generally complied with prior OEB decisions and the OEB's Filing Requirements. OEB staff submitted that Hydro One SSM had provided an adequate explanation for not adhering to some of the past OEB decisions[9] and observed that some of the Filing Requirements, such as those related to income taxes and property taxes, were not applicable to this proceeding.[10]

VECC stated that Hydro One SSM had not met two of the past OEB directions, including an updated lead-lag study and load forecast.[11] However, VECC accepted Hydro One SSM's explanation for not updating the lead-lag study and noted that an updated load forecast would not likely be material to the relief sought in this proceeding.

PWU submitted that most directions from Hydro One SSM's 2015 rates application decision were not applicable during a deferred rebasing period, but the remaining directions were adequately addressed.[12]

Energy Probe submitted that in general, Hydro One SSM had responded appropriately to all relevant OEB directions from previous proceedings.[13]

Findings

The OEB finds that Hydro One SSM has complied with prior OEB decisions, filing requirements and directives applicable to an incentive-based, revenue cap application. The OEB finds that an application seeking approval of a formulaic revenue requirement increase does not require a lead-lag study, load forecast, or a review of items such as

7 Argument-in-Chief, March 29, 2019, page 7
8 OEB Staff Submission, April 12, 2019, page 6
9 For example, at Exhibit A, Tab 2, Schedule 2, Page 2, Hydro One SSM explained that the current proceeding is not a cost-of-service application, and as a result, an updated lead-lag study was not filed
10 Filing Requirements section 2.8.11 Taxes or Payments In Lieu of Taxes and Property Taxes, February 11, 2016
11 VECC Submission, April 12, 2019, page 2
12 PWU Submission, April 12, 2019, page 1
13 Energy Probe Submission, April 12, 2019, page 2

those related to Hydro One SSM’s income taxes or property taxes. The OEB finds the application complete.

The use of Hydro One SSM’s updated load forecast is addressed in the Charge Determinants section of this Decision and Order.

4 CALCULATIONS OF THE 2019 REVENUE REQUIREMENT

In its pre-filed evidence,[14] Hydro One SSM proposed a 2019 base revenue requirement of $40,255,457. This amount was calculated from the OEB-approved 2016 base revenue requirement for GLPT[15], which was maintained in 2017 and 2018, plus the proposed revenue cap increase in 2019.

Hydro One SSM also proposed to credit customers $94,909 to dispose of sub-accounts of Account 1508, Other Regulatory Assets as of December 31, 2018. Table 1 provides a summary of the balances proposed for disposition and includes the amount recorded in Account 1595, Aggregate Regulatory Assets.[16]

Table 1: Deferral and Variance Account 2018 Balances[17]

Account Number	Description	Forecast Account Balance December 31, 2018
1508	In-Service Addition Net Cumulative Asymmetrical Variance	($148,110)
1508	OEB Cost Assessment Variance	($84,866)
1508	Legal Claim (Comstock)	$99,338
1508	Property Tax Variances	$17,974
1508	BES	$20,755
1595	Aggregate Regulatory Assets	($1,115,593)
	Net Asset Regulatory Asset (Liability) Balance	($1,210,502)

Hydro One SSM submitted that its proposed 2019 total revenue requirement was calculated in accordance with OEB policies and practices.

[14] Exhibit D, Tab 2, Schedule 1, Page 4
[15] EB-2015-0337 Decision and Order, January 14, 2016
[16] Source of Table 1: Exhibit E, Tab 1, Schedule 4, page 6.
[17] Hydro One SSM's proposal to dispose of $94,909 is the total from Table 1 less the $1,115,593 from Account 1595.

DVA Account 1508 In-Service Addition Net Cumulative Asymmetrical Variance

Hydro One SSM proposed to dispose of the $148,110 credit in the In-Service Addition Net Cumulative Asymmetrical Variance Account (asymmetrical capital variance account)[18]. Hydro One SSM indicated that it established this account for 2015 and 2016 in accordance with the GLPT cost of service decision[19]. The purpose of the account was to track the impact on the revenue requirement of in-service capital additions in 2015 and 2016 during the test years compared to OEB-approved forecast amounts.[20] As of December 31, 2018, the account had a forecasted credit balance of $148,110, inclusive of carrying charges. Hydro One SSM proposed to close this account after the balance is disbursed, as it will no longer be required in the future.

AMPCO submitted[21] that the credit balance in the asymmetrical capital variance account should be deducted from the 2016 OEB-approved revenue requirement. The adjusted 2016 base revenue requirement would then be increased by the revenue cap index to set the 2019 revenue requirement. AMPCO agreed that the account could be closed.

SEC made a similar submission,[22] but suggested that the 2016 approved revenue requirement should be reduced by the amount added to the account in 2016, although the amount was not included in the evidence. SEC submitted that another option would be to maintain the account through the deferred rebasing period, rather than closing it. SEC noted that the variance account could capture the same 2016 revenue requirement amount, adjusted every year by the revenue cap index adjustment. SEC suggested that the full amount, with interest, could be credited back to customers at the end of the deferred rebasing period.

In its reply submission, Hydro One SSM argued that SEC's and AMPCO's submissions should be rejected. Hydro One SSM submitted that the account was established in the context of a two-year cost of service application in which forecasts of in-service capital additions for 2015 and 2016 were provided. In contrast, the current application does not

[18] Hydro One SSM's reply submission indicated that it "will clear the credit balance of $94,909 in the In-service Addition Net Cumulative Asymmetrical Variance Account" which appears to be a misstatement.
[19] EB-2014-0238 Decision
[20] If the cumulative amount of in-service additions during 2015 and 2016 was less than the cumulative OEB-approved amount, the revenue requirement impact would be entered in the variance account.
[21] AMPCO Submission, April 12, 2019, page 4
[22] SEC Submission, April 12, 2019, page 3

include any forecasts of in-service capital additions. Hydro One SSM stated that under a revenue cap framework, costs are decoupled from rates, and rates are adjusted only by the revenue cap parameters. Hydro One SSM submitted that SEC is effectively trying to adjust the revenue cap formula by a factor other than the inflation factor and the productivity factor, which is neither typical nor appropriate.

Findings

The OEB approves the disposition of the $148,110 credit balance in the In-Service Addition Net Cumulative Asymmetrical Variance Account.

The OEB does not find it appropriate to adjust the 2019 revenue requirement to account for variances in capital additions from 2015 and 2016, or to maintain the asymmetrical capital variance account. The variance account was established in a cost of service proceeding when annual forecasts of capital additions were approved. As 2015 and 2016 are now historical years and the account was specific to 2015 and 2016, the account's purpose has been fulfilled. In addition, Hydro One SSM is under an incentive rate-setting mechanism and it is not standard practice to adjust existing base rates under such a plan.

DVA Account 1595 Aggregate Regulatory Assets

Hydro One SSM did not propose to dispose of the balance in Account 1595, Aggregate Regulatory Assets. This account is used to true-up between amounts approved for recovery and the actual amounts recovered. Hydro One SSM proposed that disposition of the $1,115,593 credit balance be deferred to a future rate proceeding, and that only the $94,909 credit from Account 1508 balances be disposed.

OEB staff disagreed with Hydro One SSM's proposal to defer disposition of the $1,115,593 credit balance in Account 1595. OEB staff referred to the 2015 and 2016 GLPT cost of service decision,[23] in which the OEB approved the recovery of $787,816 debit balances in each of 2015, 2016 and 2017, yet Hydro One SSM continued to recover this amount in 2018. The forecast over-recovery as of December 31, 2018, including carrying charges, was a credit balance of $1,115,593.[24]

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[23] EB-2014-0238, December 18, 2014
[24] Exhibit E, Tab 1, Schedule 3, Page 1

OEB staff submitted that Hydro One SSM should return a total credit of $1,210,502, or the audited amount if different, which includes the over-recovery with interest of $1,115,593 in 2018, plus the $94,909 credit balance as proposed.

Hydro One SSM submitted that it is not seeking to dispose of the amount that was over-collected in 2018, because it would be "prudent to wait for the year to conclude and financial statements audited before determining the final amount to be refunded".[25]

PWU submitted that as Hydro One SSM proposes to dispose of this balance, including carrying charges, in a future application once the final amount to be refunded has been determined, this would ensure ratepayers are fully refunded for any overpayments in 2018.

Findings

The OEB finds that Hydro One SSM should return to customers the $1,210,502 net credit DVA balance as at December 31, 2018 in Table 1, or the audited amount if different. In its draft Revenue Requirement and Charge Determinant Order, Hydro One SSM shall provide the audited DVA balances to December 31, 2018, including carrying charges. A significant amount has been over-recovered from customers and the OEB concludes that this should be returned to customers as soon as possible.

Hydro One Accountability Act and the February 21, 2019 Directive

The *Hydro One Accountability Act, 2018* (HOAA) is Schedule 1 of Bill 2. Among other things, the HOAA amended section 78 of the OEB Act by adding the following new subsection (5.0.2) effective August 15, 2018:

> In approving or fixing just and reasonable rates for Hydro One Limited or any of its subsidiaries, the Board shall not include any amount in respect of compensation paid to the Chief Executive Officer and executives, within the meaning of the *Hydro One Accountability Act, 2018*, of Hydro One Limited.

[25] Exhibit E, Tab 1, Schedule 3, Page 2

The February 21, 2019 Directive (Directive) set out certain compensation-related requirements for the Chief Executive Officer (CEO), other executives and boards of directors of Hydro One Limited and its subsidiaries, which Hydro One Limited and its subsidiaries must follow when Hydro One Limited develops the executive and board of directors compensation framework (Compensation Framework) under the HOAA. The Directive requires Hydro One Limited to establish caps on executive compensation in the Compensation Framework – not only for the CEO, but also for other executives and boards of directors of Hydro One Limited and its subsidiaries. The Compensation Framework received Management Board of Cabinet approval on March 8, 2019.

As the HOAA and the Directive were issued after this application was filed, OEB staff questioned whether Hydro One SSM was in compliance, as neither the HOAA nor the Directive was addressed in evidence. OEB staff submitted that there may be a need for reductions in compensation costs in the OEB-approved Hydro One SSM 2019 revenue requirement to ensure compliance with the HOAA and the Directive. OEB staff recommended that Hydro One SSM clarify in its reply submission whether any reductions are needed.

OEB staff also submitted that Hydro One SSM’s reply submission should describe and quantify whether and how any executive and director compensation is allocated to Hydro One SSM, whether through the service level agreement or from any other type of transfer of executive and director compensation to Hydro One SSM.

Further, OEB staff submitted that the reply submission should address whether any executive and director compensation amounts are embedded in Hydro One SSM’s 2016 base revenue requirement upon which the proposed 2019 revenue cap index is based, as such costs should be quantified and removed.

In its reply submission, Hydro One SSM indicated that there were no Hydro One executive costs to remove from the proposed 2019 revenue requirement. Hydro One SSM explained that the source of the 2019 base revenue requirement was GLPT’s 2016 revenue requirement, approved by the OEB[26] prior to the completion of the transaction with Hydro One Inc. to purchase the company. The previous GLPT revenue requirement did not include executive costs from Hydro One Limited.

[26] EB-2015-0337 Decision and Order, January 14, 2016

Findings

The OEB finds that no adjustment is required to the proposed 2019 base revenue requirement to comply with the HOAA and the Directive. The OEB accepts Hydro One SSM's explanation provided in its reply submission. The OEB agrees that the source of the 2019 base revenue requirement is the OEB-approved amount from the EB-2015-0337 proceeding for GLPT, prior to the completion of the transaction with Hydro One Inc. to purchase the company. The revenue requirement of GLPT in 2016 would not have included executive costs from Hydro One Limited; therefore, there are no Hydro One Limited executive costs to remove.

5 REVENUE CAP FRAMEWORK

Hydro One SSM proposed that its revenue cap framework include the following revenue cap formula:

$$RR_t = RR_{t-1} \times (1 + (I_t - X \pm Z))$$

where

RR_t is the revenue (requirement) for year *t*
I_t is the inflation index for year *t*
X is the X-factor, composed of a base productivity factor and a stretch factor
Z is any qualifying and allowed exogenous factor(s).

Hydro One SSM filed evidence[27] prepared by its consultant, Power Systems Engineering, Inc. (PSE Report) in support of the proposed inflation, base X factor, and stretch factor for the revenue cap plan. PSE's evidence is based on Total Factor Productivity (TFP) and total cost benchmarking analyses comparing Hydro One Network Inc.'s transmission business to that of a sample of U.S. utilities with electricity transmission operations. PSE's evidence also included an analysis and recommendation for a transmission sector-specific inflation factor.

Hydro One SSM submitted that its revenue cap proposal is consistent with the requirements outlined in the OEB's Filing Requirements[28], through: (i) the inclusion of an inflation measure; and (ii) the inclusion of both a productivity and stretch factor informed by benchmarking.[29]

Hydro One SSM's proposed revenue cap framework also included an earnings sharing mechanism (ESM), an incremental capital module (ICM) and Z-factor, which are addressed in subsequent sections of this Decision and Order.

OEB staff retained PEG to review and assess PSE's evidence and Hydro One SSM's revenue cap proposal. The PEG Report contained PEG's evidence[30] with its own TFP and total cost benchmarking analyses.

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[27] Exhibit D, Tab 1, Schedule 1, Attachment 1
[28] February 11, 2016, p. 5
[29] Argument-in-Chief, March 29, 2019, p. 10
[30] Exhibit M1

OEB staff submitted that Hydro One SSM's revenue cap proposal is consistent with OEB policy and is appropriate given the OEB's established approach for setting and recovering the costs of electricity transmitters. However, OEB staff took issue with the proposed parameter values of Hydro One SSM's revenue cap proposal.

OEB staff submitted that a revenue cap adjustment formula typically includes a growth factor g. Hydro One SSM's proposal for not including the growth factor was supported by its consultant, PSE.[31] Hydro One SSM claimed that $g = 0$ as there is little growth in demand historically or expected during the term of the plan.

SEC submitted that the Hydro One SSM's proposed approach is consistent with the OEB's expectations in the MAADs decision.[32] Energy Probe submitted that the elements of Hydro One SSM revenue cap framework proposal are reasonable and in accordance with prior decisions and with OEB policy.[33]

PWU submitted that Hydro One SSM's proposed revenue cap framework and associated mechanisms were appropriate, and noted that "[t]he Earning Sharing Mechanism and availability of the Z-factor and Incremental Capital Module (ICM) were approved in the MAADs application [EB-2016-0050] and no changes have been proposed as part of this proceeding".[34]

Findings

The OEB approves the proposed revenue cap formula. The OEB finds the omission of a growth factor in the formula is acceptable for 2019-2026. There was insufficient evidence to justify the incorporation of a growth factor or explore the implications. The inclusion of a growth factor could be considered in a future proceeding after the deferred rebasing period. The OEB notes that the approved price cap framework and formulas for electricity and gas distributors do not include growth factors.

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[31] PSE Report, pp. 13, 17-18, 50-51
[32] EB-2016-0050
[33] Energy Probe Submission, April 12, 2019, p. 3
[34] PWU Submission, April 12, 2019, p. 3

5.1 Inflation Factor

Hydro One SSM proposed a 2-factor Input Price Index (IPI) to measure inflation for the annual revenue cap adjustment. The general methodology for the 2-factor IPI is the same as that which the OEB has adopted for electricity distribution[35] and, more recently, for a five-year price cap plan for Ontario Power Generation Inc.'s (OPG's) prescribed hydroelectric generation assets.[36] However, Hydro One SSM proposed different weights for the labour and non-labour components, representative of the electricity transmission sector specifically. In its decision in the 2017 revenue requirement proceeding, the OEB expressed its expectation that Hydro One SSM would propose transmission sector weights.[37] Based on the proposed inflation index methodology, Hydro One SSM proposed an inflation factor of 1.40% for 2019.

Hydro One SSM's consultant, PSE, did the analysis on the inflation factor which it documented in the PSE Report,[38] and which Hydro One SSM proposed in its application. The proposed weights are 14% labour and 86% non-labour, indicative of the capital-intensive nature of electricity transmission operations.

AMPCO, PWU and VECC submitted that Hydro One SSM's proposed inflation value of 1.40% is reasonable.

OEB staff submitted that it preferred the use of GDP-IPI (the current non-labour inflation factor), noting that this is the fifth variation of the 2-factor IPI currently in use or proposed in the Ontario energy sector. However, if the OEB adopted the proposed 2-factor IPI, OEB staff submitted that the weighted weights of 15% labour and 85% non-labour would be more representative of the sector.[39]

In its reply submission, Hydro One SSM reiterated that its inflation factor of 1.40% should be approved, as a change in the weights was immaterial to the proposed inflation value for 2019.[40]

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[35] The input price index is a weighted average of labour and non-labour (materials and capital) inflation indices measured and reported by Statistics Canada. The weights are a labour and non-labour cost shares representative of the industry sector. Further details are provided in the *Report of the Board on Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors*, November 21, 2013, corrected December 4, 2014, in section 2.1 and Appendix C..
[36] EB-2016-0152
[37] Decision and Order EB-2016-0356, September 28, 2017, p. 5
[38] PSE Report, pp. 12, 49
[39] OEB Staff Submission, April 12, 2019, pp. 19-22
[40] Hydro One SSM Reply Submission, April 26, 2018, p. 8

Findings

The OEB approves the use of the 2-factor IPI proposed by Hydro One SSM, applying the 14% labour and 86% non-labour weights. The OEB finds the 2-factor IPI is consistent with OEB decisions applicable to electricity distributors and OPG. The OEB also finds that applying weights reflective of the transmission sector is consistent with the OEB's 2017 decision. This results in an approved inflation factor for 2019 of 1.4%. The calculation of the inflation factor will be updated based on the 2-factor IPI for subsequent rate applications during the term.

5.2 Productivity and Stretch Factors (X-factor)

The PSE Report included an estimate of -1.71% as the average annual TFP trend for the electricity transmission sector. The estimate was based on a sample period from 2004 to 2016, a set of 43 U.S. investor-owned utilities with transmission assets and operations, and Hydro One Networks Transmission.[41] However, the PSE Report recommended a base productivity factor of 0%, recognizing that previous OEB decisions have not accepted negative base productivity factors.[42] Hydro One SSM concurred with PSE's recommended 0% and submitted that "the process used by PSE to arrive at the recommended productivity parameters i.e. stretch factor and industry total factor productivity (TFP) trend, follows methodologies similar to what was approved by the OEB to set rates for electricity distributors under the 4th Generation IRM framework, adapted to the circumstances of the transmission industry".[43]

OEB staff retained its own expert, PEG, to provide an assessment of PSE's evidence and Hydro One SSM's revenue cap proposal generally. In its evidence, PEG documented concerns with PSE's approach, including a concern regarding the time period (from 2004 to 2016) for PSE's TFP and cost benchmarking analyses of U.S. transmitters. PEG indicated that PSE's sample period was a time of regulatory policy change (Energy Policy Act of 2005) and structural changes (transmitters joining with

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[41] PSE Report, p. 10
[42] Exhibit D, Tab 1, Schedule 1, p. 4, PSE Report, p. 12. In response to Exhibit I, Tab 1, Schedule 58 (OEB Staff Interrogatory #58), PSE clarified that its recommendations would also hold for Hydro One SSM's proposed revenue cap plan.
[43] Argument-in-Chief, March 29, 2019, p. 11

independent transmission operations and regional transmission organizations) that would have affected transmitter productivity and cost performance.[44]

PEG also undertook its own analysis and documented alternative TFP and total cost benchmarking models (PEG Report). PEG's analysis started from PSE's dataset, adjusted certain data items, and included additional data. PEG extended the data from 1996 to 2016 for the U.S. transmission utilities. The PEG Report provided a transmission sector TFP trend of -0.34% for the sample of U.S. utilities and Hydro One Networks Transmission. Combined with the results of its alternative total cost benchmarking analysis of 0.34%, PEG recommended a combined productivity-plus-stretch factor of 0%.

PWU submitted that a combined value of 0% was recommended by both PSE and PEG and should be accepted by the OEB.[45]

OEB staff agreed with the proposed productivity factor of 0% but disagreed with the proposed stretch factor of 0%. OEB staff noted that the TFP and total cost benchmarking econometric analyses that PSE and PEG prepared were completed despite a lack of data and availability of similar studies available in the electricity transmission sector. OEB staff indicated that the transmission sector was unlike the natural gas and electricity distribution sectors, where there is nearly twenty years of experience with these econometric analyses. OEB staff expressed concern over the absence of other Canadian utilities in the TFP and cost benchmarking analysis, while acknowledging that a single source for data on Canadian transmitters is not available, analogous to the U.S. Federal Energy Regulatory Commission Form 1 data. OEB staff submitted that relevant data for some other Canadian transmitters may be available; and imperfect data and proxies could be substituted. OEB staff argued that there is no indication that PSE or Hydro One SSM "even attempted" this.

OEB staff submitted that the transition to IRM for the proposed multi-year revenue cap plan supports the use of a higher stretch factor than the 0% proposed by Hydro One SSM. OEB staff submitted that a stretch factor of 0.3% should be used.[46]

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[44] Exhibit M1, pp. 3-4, 7-9
[45] PWU Submission, April 12, 2019, p. 4
[46] OEB Staff Submission, April 12, 2019, pp. 23-32

SEC submitted that a productivity factor of 0% was acceptable, but a stretch factor of 0.3% was more appropriate.[47] AMPCO similarly recommended a productivity factor of 0% and a 0.3% stretch factor.[48]

VECC recommended a stretch factor between 0.3% and 0.1%. VECC submitted that the OEB has previously found that:[49]

> A key objective of the OEB's incentive regulation is to drive improvements in cost efficiency. This would have been an expectation regardless of the amalgamation. The amalgamation provides additional opportunities to generate cost savings, and the applicants have proposed a number of initiatives for this purpose. The stretch factor provides incentive to find further efficiency improvements beyond those proposed.

Energy Probe disagreed with Hydro One SSM's proposed base productivity and stretch factors as supported by the PSE Report, and questioned the appropriateness of expressing the inflation factor as an annual percentage change while the base productivity factor is expressed as a logarithmic percentage change.[50] Energy Probe questioned the estimated TFP analyses in the evidence of both PSE and PEG, submitting that their TFP estimates are directly reflective of cyclical trends in the United States during the study periods. Energy Probe submitted that Hydro One Networks Transmission data should have been omitted from the analyses.[51] While noting the longer (1996-2016) period of PEG's TFP analysis, Energy Probe had similar concerns about the cyclicality of annual TFP results.

Energy Probe took issue with both the PEG Report and the PSE Report, and submitted that the OEB should consider estimates of Canadian and U.S. aggregate business sector multi-factor productivity, as published by Statistics Canada and the U.S. Bureau of Labor Statistics.[52] Energy Probe submitted that the OEB should adopt Statistics Canada's MFP estimate of 0.556% (for the period 1961-2016) as the base X-factor. Energy Probe made no recommendation on the stretch factor, but submitted that it

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[47] SEC Submission, April 12, 2019, pp. 1-2
[48] AMPCO Submission, April 12, 2019, p. 3
[49] VECC Submission, April 12, 2019 page 4, which references the EB-2017-0306/307 Union Gas Limited and Enbridge Gas Distribution Inc., Decision and Order, August 30, 2018, pg.27
[50] Energy Probe Submission, April 12, 2019, p. 3
[51] *Ibid*., p. 5
[52] *Ibid*., pp. 13-15. The MFP data were provided on the record in an interrogatory posed by Energy Probe to PSE (D1-EP26).

should not be set *ex post* to bring the combined X-factor to 0%, as PSE and PEG had done.[53]

In its reply argument, Hydro One SSM submitted that the X-factor should be 0% consistent with the recommendation of both consultants. Hydro One SSM claimed that those who supported a 0.3% stretch factor based on PEG's Report ignore the material errors that were identified, and corrected by PEG in interrogatory responses.[54] Hydro One SSM submitted that corrections documented in PEG's responses to interrogatories would suggest a stretch factor of 0.15%.

Hydro One SSM noted that PSE documented that it had contacted nine Canadian utilities to participate in its study, but that all had declined. Hydro One SSM submitted that reasonable efforts were made to include Canadian utilities.[55]

Hydro One SSM also submitted that OEB staff's argument for a 0.3% stretch factor was inconsistent with OEB policy, stating that previous OEB decisions were based on the utilities' actual performance.[56]

Findings

The OEB approves the proposed productivity factor of 0%, a factor indicative of the change in productivity expected for the transmission sector as a whole. No party argued for a negative productivity factor even though both PSE and PEG calculated a negative TFP.

The OEB finds the PSE Report and PEG Report informative of the transmission sector, yet finds both reports have inherent issues, dependent upon the sample periods selected. Consistent with past determinations for electricity distributors, natural gas distributors and OPG, the OEB will not approve a negative productivity factor in this proceeding.

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[53] *Ibid.*, p. 15
[54] Hydro One SSM Reply Submission, April 26, 2019, p. 9
[55] *Ibid.*, p. 11
[56] *Ibid.*, pp. 13-14

The OEB approves a stretch factor of 0.3% to incent efficiencies to be shared with customers. The stretch factor component of the incentive rate-setting formula is based on utility-specific performance.

The PSE and PEG evidence for electricity transmission utilities provided in this proceeding was based primarily on 43 U.S. utilities with the only Canadian utility being Hydro One Networks. Given the absence of sufficient Canadian data and utilities the size of Hydro One SSM, the OEB finds neither study appropriate to determine the stretch factor for Hydro One SSM, a small Canadian transmission utility. In the absence of applicable evidence, regardless of the reason, the OEB must rely upon its judgement and experience in incentive regulation to establish a stretch factor.

As OEB staff indicated, the OEB has almost two decades of experience with performance based regulation and incentive rate mechanisms for electricity and natural gas distribution. Currently, the OEB regulates 60+ electricity distributors and relies upon Ontario-based data to benchmark and base incentive rate decisions.

The OEB has applied a 0% stretch factor to certain electricity distributors based on their total cost performance as benchmarked against other distributors in Ontario. The most efficient distributor is assigned the lowest stretch factor of 0%. Conversely, a higher stretch factor, up to 0.60%, is applied to a less efficient distributor to reflect the incremental productivity gains that the distributor is expected to achieve. The OEB finds no evidence to justify a 0% stretch factor for Hydro One SSM, implying it is the most efficient transmitter.

VECC submitted that the OEB’s role is to establish incentives which lead to better future outcomes to the benefit of both customers and shareholders, and that keeping the utility whole for inflation over the deferred rebasing period without a stretch factor that corresponds to the utility’s efficiency level does none of this. The OEB agrees. The OEB will not approve a 0% stretch factor which would amount to approving a revenue cap increase equal to inflation.

The OEB approves a stretch factor of 0.3% to provide an incentive to Hydro One SSM beyond the rate of inflation and balance the needs of its customers and shareholders during the term of the revenue cap framework.

This stretch factor finding was made independent of the acquisition by Hydro One Inc. and the existence of a deferred rebasing period. Clearly, capital and OM&A savings are expected to result from the integration of Hydro One SSM into Hydro One Networks that is underway in 2019. The OEB finds that a stretch factor of 0.3% provides incentives to find further efficiency improvement beyond those proposed by the acquisition.

The OEB reserves judgement on the new "construction standards index" variable[57] provided in the PSE Report. This new variable is worthy of further consideration, yet the concept was not fully vetted in this proceeding. Further, the OEB questions its relevance to Hydro One SSM and its asset base.

5.3 Earnings Sharing Mechanism

Hydro One SSM proposed an ESM as part of its revenue cap plan, beginning in 2022.[58] The ESM would adjust Hydro One SSM's revenue requirement such that the prior year's excess earnings are shared with ratepayers on a 50:50 basis for all earnings that exceed 300 basis points above the return on equity approved by the OEB.

AMPCO, OEB staff and VECC submitted that the proposed ESM is consistent with the MAADs decision.

Findings

The OEB approves the proposed ESM. The OEB finds that starting the ESM in 2022 is aligned with the OEB's *Handbook to Electricity Distributor and Transmitter Consolidations*.[59] In addition, the ESM proposal is consistent with the MAADs decision by taking effect in the last five years of the deferred rebasing period.[60]

5.4 Incremental Capital Module

Hydro One SSM proposed that the ICM be available to it, if necessary, during the term of the proposed revenue cap plan.[61] Hydro One SSM has not identified, at this time, any

[57] PSE defines this new variable in Exhibit D, Tab 1, Schedule 1, pp. 25-26 and Appendix A. OEB staff used the term "hardening" variable, as it refers to the engineering standard to which network infrastructure must be constructed to withstand climactic conditions, such as wind and ice, in different regions (OEB staff submission, April 12, 2019, pp. 28-29).
[58] Exhibit B1, Tab 1, Schedule 1, p. 6. Also, Exhibit A, Tab 2, Schedule 1, p. 4
[59] Handbook to Electricity Distributor and Transmitter Consolidations, January 19, 2016
[60] EB-2016-0050 OEB Decision and Order, October 13, 2016
[61] Exhibit A, Tab 2, Schedule 1, p. 4

specific capital projects in its Transmission System Plan (TSP) that would qualify for ICM treatment.[62]

OEB staff and PWU acknowledged that the availability of the ICM is consistent with OEB policy, while VECC submitted that ICMs should be addressed if and when Hydro One SSM applies for such regulatory treatment in an application.

Findings

The OEB confirms that it is open to Hydro One SSM to propose an ICM during the term of the proposed revenue cap plan. This is consistent with OEB policy and provides flexibility to Hydro One SSM in the event that the need for capital investments arises during that period. The OEB's Filing Requirements require transmitters to propose all criteria and parameters for approval of any capital module. The OEB has not previously established an ICM for an electricity transmitter.

The OEB finds that Hydro One SSM has filed insufficient detail in this proceeding for the OEB to assess the details of any ICM mechanism. If Hydro One SSM proposes an ICM, it must propose the criteria and parameters, supported by the appropriate evidence.

5.5 Z-factor

Hydro One SSM proposed to establish a new Z-factor deferral Account 1572 to recover the material costs associated with any unforeseen event that is outside the control of Hydro One SSM. Hydro One SSM agreed to the criteria of causation, materiality and prudence in accordance with the Filing Requirements.[63]

OEB staff submitted that Hydro One SSM's proposal for Z-factor treatment is reasonable. Further, OEB staff submitted that the Z-factor materiality threshold would be 0.5% of the annual revenue requirement, pursuant to Sections 2.1.1 and 2.8.12 of the Filing Requirements.[64]

[62] Exhibit I, Tab 4, Schedule 1
[63] Exhibit A, Tab 2, Schedule 1, p. 4. Exhibit E, Tab 1, Schedule 1, pp. 1-2 provides few other details to augment this.
[64] OEB Staff Submission, April 12, 2019, p. 17

Energy Probe submitted that "the elements of Hydro One SSM revenue cap framework proposal are reasonable and in accordance with prior decisions and with OEB policy".[65] VECC considered it premature to deal with Z-factors in the abstract at this time; instead, these should be dealt with if and when Hydro One SSM applies seeking regulatory relief.[66]

Findings

The OEB finds that Hydro One SSM's proposal for Z-factor treatment, including the proposed materiality threshold, is consistent with OEB policy and is reasonable.

[65] Energy Probe Submission, April 12, 2019, p. 3
[66] VECC Submission, April 12, 2019, p. 5

6 CHARGE DETERMINANTS FOR UTRS

Hydro One SSM proposed to maintain its approved charge determinants for setting UTRs over the deferred rebasing period. Table 2 provides the current charge determinants.

Table 2 – Current OEB-Approved Charge Determinants[67]

Current Approved Charge Determinants	MW
Network	3,498.236
Line Connection	2,734.624
Transformation Connection	635.252

The charge determinants in Table 2 are based on the last OEB-approved load forecast for GLPT. Although Hydro One SSM provided an updated load forecast in response to an interrogatory request, it did not propose to use the updated forecast to update the charge determinants. Hydro One SSM explained that as this was not a rebasing application, and it was still under the 10-year deferred rebasing period, [68] it was not necessary or permissible to update its charge determinants in a mechanistic application.

OEB staff submitted that it is satisfied with the load forecast material and the proposal to retain existing charge determinants. OEB staff indicated that the updated load forecast supported the capital and operating plan and budget in the TSP.[69]

VECC submitted that there was little value in updating the load forecast given that Hydro One Networks is the largest transmitter in the province and dominates the calculation of the UTRs.[70]

[67] Exhibit D, Tab 2, Schedule 1, p. 4, Table 2
[68] Exhibit A, Tab 2, Schedule 2, pp. 2-3
[69] OEB Staff Submission, April 12, 2019 pp. 13, 36
[70] VECC Submission, April 12, 2019, pp. 5-6

Findings

In the Decision and Interim Rate Order, the OEB made the charge determinants proposed by Hydro One SSM, which are equivalent to those approved for 2016,[71] to be interim pending a determination in this proceeding.[72]

The OEB finds it appropriate to maintain the current charge determinants for the deferred rebasing period. The OEB has considered the load forecast evidence, the application type and the deferred basing period and approves the charge determinants in Table 2 for 2019 to 2026 on a final basis.

[71] Decision and Order EB-2015-0337, January 14, 2016
[72] Decision and Interim Rate Order, December 6, 2018, p. 3

7 TRANSMISSION SYSTEM PLAN

Hydro One SSM filed a TSP and an asset condition assessment report (ACA). Although no capital funding requests were included in the application, Hydro One SSM indicated that it was fulfilling certain regulatory requirements and commitments.

The filing of the TSP addressed a requirement of the OEB's *Handbook for Utility Rate Applications*[73] (Rate Handbook); a TSP is to be filed every five years.[74] The filing of the ACA fulfilled an outstanding commitment made by Hydro One SSM in its 2015-2016 rates proceeding.[75]

Hydro One SSM explained that it planned to manage its 2018-2026 capital expenditures within the funding envelope provided by the depreciation expense embedded in its current rates, adjusted by the annual revenue cap index.

Intervenors generally accepted the TSP and ACA although cautioned the OEB against approving the documents. While some criticisms were made, some intervenors submitted that the documents were of little, or no, significance to the application given no funding was requested.

In particular, AMPCO and VECC took issue with the ACA, citing differences in the 2018-2026 capital plan compared to an asset report filed in 2016. Some intervenors submitted that the investment decisions of Hydro One SSM were not fully explained, and did not appear to have been guided by the TSP or the ACA.

Some intervenors indicated that a new, consolidated TSP should be filed with the OEB once the operations of Hydro One SSM and Hydro One Networks are fully integrated. AMPCO and SEC submitted that the OEB should provide a directive in this proceeding regarding the timing of a filed, consolidated TSP. Hydro One SSM reiterated that it is being integrated into Hydro One Networks Transmission and that the investments will be included and reported on at great depth and detail in future Hydro One Networks Transmission filings.[76]

[73] October 13, 2016
[74] Rate Handbook, p. 13
[75] EB-2016-0356, Decision and Order, September 28, 2017, p. 10
[76] Hydro One SSM Reply Submission, April 26, 2018, p. 21

Findings

The OEB accepts the TSP and ACA as filed, and finds that Hydro One SSM's regulatory requirements and commitments have been fulfilled for the purpose of this proceeding. The purpose of these documents is to provide information to the OEB to demonstrate a utility's capital planning and prioritization process for the next period, in support of its revenue requirement. OEB approval of these documents is not required.

Hydro One SSM indicated that the existing funding envelope, provided by its base rates adjusted by the annual cap index, would be sufficient for its 2018-2026 capital plan. If that situation were to change, and if Hydro One SSM requested funding through an incremental capital module application, the OEB finds that further scrutiny of the TSP and ACA would be required. The OEB guided its review of these documents in this proceeding based on the scope of Hydro One SSM's 2019 application.

The OEB's Renewed Regulatory Framework requires a five-year TSP document. Hydro One SSM filed a nine-year document, to coincide with its planned integration with Hydro One Networks. The OEB has determined that any ICM requests for 2022 rates and beyond need to be supported by an updated TSP with planning integrated with Hydro One Networks Transmission.

8 PERFORMANCE SCORECARD

Hydro One SSM proposed a performance scorecard for the 2019 to 2026 deferred rebasing period.

Hydro One SSM stated that its proposed scorecard is substantially aligned with that of Hydro One Networks Transmission, which is responsible and efficient given the integration of operations of the two utilities.[77] More than 70% of the proposed scorecard metrics for Hydro One SSM were aligned with the current Hydro One Networks Transmission's scorecard.

Hydro One SSM submitted that its scorecard measures have been influenced by internal and external sources that include past performance management measures, benchmarking studies, and scorecards and measures of other utilities in the public domain. Hydro One SSM also indicated that its measures were informed by the OEB's guidance in the Rate Handbook and the Filing Requirements.[78]

Hydro One SSM indicated that it is prepared to submit an updated scorecard with the anticipated Hydro One Networks Transmission filing for 2023 rates.[79]

AMPCO agreed with Hydro One SSM that the filing of an updated scorecard in 2023 is appropriate.[80] VECC submitted that Hydro One SSM had improved its prior scorecard, and that updating the scorecard during the deferred rebasing period would be in the public interest.[81] AMPCO, PWU, and VECC also supported the migration of the Hydro One SSM scorecard to a common standard shared scorecard with Hydro One Networks given the operational integration of the utilities.[82]

VECC submitted[83] that Customer Delivery Point Performance standards (CDPP) should be incorporated into transmission scorecards and that these standards should be updated with more recent data. VECC stated that the lack of meaningful changes made by Hydro One Networks Transmission regarding the CDPP is a significant flaw in both

[77] Argument-in-Chief, March 29, 2019, page 17
[78] Argument-in-Chief, March 29, 2019, page 17
[79] Hydro One SSM Reply Submission, April 26, 2019, page 21 & 22
[80] AMPCO Submission, April 12, 2019, page 7
[81] VECC Submission, April 12, 2019, page 8
[82] VECC Submission, April 12, 2019, page 8
[83] VECC Submission, April 12, 2019, page 8

the scorecards, given the central nature of this metric to the meaningfulness of transmission reliability statistics.

AMPCO submitted that the frequency of momentary outages has a significant impact on AMPCO members.[84] AMPCO submitted that given that Hydro One SSM currently has the data and Hydro One SSM tracks this data, the T-SAIFI[85] reliability metric should be divided immediately into momentary (T-SAIFI-M) and sustained outages (T-SAIFI-S). AMPCO stated this should be done now, without waiting for the integration of the two utilities.

Energy Probe submitted that the proposed scorecard met the OEB requirements but was not complete.[86]

OEB staff submitted that aspects of the scorecard did not meet OEB requirements and should be addressed by Hydro One SSM in its next revenue requirement application. OEB staff indicated that there was a lack of compliance with a previous decision and other OEB requirements, such as some of Hydro One SSM's implementation timelines for metrics were not described in the scorecard.[87]

Further, OEB staff submitted that the targets were insufficient as no benchmarking was performed against Hydro One SSM's peers and no industry targets were set, even after considering Hydro One SSM's integration with Hydro One Networks. As well, OEB staff noted that targets should be sufficiently challenging relative to past performance to incent continuous improvement. In addition, OEB staff submitted that Hydro One SSM's consultations with its customers were inadequate and unclear.

Hydro One SSM did not revise its scorecard to include a separate Management Discussion and Analysis (MD&A) section.

Findings

The OEB approves the proposed scorecard as updated in response to SEC interrogatory #14, with the following amendments.

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[84] AMPCO Submission, April 12, 2019, page 7
[85] SAIFI refers to System Average Interruption Frequency Index
[86] Energy Probe Submission, April 12, 2019, page 18
[87] Technical Conference Transcript, January 15, 2019, page 167, 168, 169

1. A separate MD&A section

2. Actual values for each historical year and targets for 2020 and beyond for each measure (or an explanation why the data was not provided)

3. CDPP standards

4. T-SAIFI reliability metric divided into momentary and sustained outages

As proposed by Hydro One SSM, a scorecard must be filed with the OEB each year, starting in 2020 with 2019 results. The timing of that filing is expected to coincide with deadlines established for electricity distributors.

The provision of an MD&A section is an OEB requirement in accordance with the *Report of the Board Performance Measurement for Electricity Distributors: A Scorecard Approach*.[88] Further, the inclusion of an MD&A would provide context for readers of the scorecard.

The provision of actual values for each measure is necessary to analyze the data and identify annual trends.

The OEB finds the addition of CDPP standards as proposed by VECC to be reasonable given the importance of this metric to customers and transmission reliability statistics.

The OEB appreciates that Hydro One SSM included the T-SAIFI reliability metric, yet this metric should be divided into momentary (T-SAIFI-M) and sustained outages (T-SAIFI-S) as proposed by AMPCO. The OEB finds AMPCO's suggestion reasonable given the data is available and it is an important factor for AMPCO's members.

[88] EB-2010-0379, March 5, 2014, page 36

9 DEFERRAL AND VARIANCE ACCOUNTS

DVA balances in Accounts 1508 and 1595 were addressed in the “Calculations of the 2019 Revenue Requirement” section of this Decision and Order. Specifically, the OEB directed Hydro One SSM to provide audited DVA balances for 2018 and update its 2019 total revenue requirement if necessary, in its draft Revenue Requirement and Charge Determinant Order. Hydro One SSM’s other DVA proposals are addressed in this section.

Continuation and Discontinuation of Existing DVAs

Hydro One SSM has applied to continue and discontinue certain DVAs.

OEB staff took no issue[89] with the proposed continuance and discontinuance of DVAs.

VECC submitted that the OEB should close the OEB Cost Assessment Account. VECC stated that this account was established to temporarily keep whole those utilities whose OEB costs were premised on a prior cost assessment methodology. VECC also submitted that since the allocation of transmitter costs fall almost exclusively to Hydro One Networks or its affiliates, it is only inter-class allocations that should be considered for recovery during the deferred rebasing period.[90]

Proposed New Deferral Account to Capture Revenue Deficiencies

Hydro One SSM requested[91] the establishment of a sub-account within Account 1574 to record revenue deficiencies incurred from January 1, 2019 until its proposed 2019 rates are implemented. Hydro One SSM provided a draft accounting order reflecting its request.[92]

OEB staff submitted[93] that Hydro One SSM’s request was reasonable as there are precedents. OEB staff also submitted that the deferral account should not incorporate

[89] OEB Staff Submission, April 12, 2019, page 66
[90] VECC Submission, April 12, 2019, page 9
[91] Exhibit A, Tab 2, Schedule 1, Page 3
[92] Exhibit I, Tab 1, Schedule 2 (OEB Staff Interrogatory # 2)
[93] OEB Staff Submission, April 12, 2019, page 66 & 67

Hydro One SSM's "proposed" rates, but should incorporate "actual" OEB-approved rates. OEB staff was also of the view that if the OEB approves a later effective date than January 1, 2019, the deferral account should only capture the foregone revenue from the OEB-approved effective date until its rates are implemented.

PWU submitted that the proposed new deferral account is appropriate and necessary in order to allow Hydro One SSM to recover its prudently incurred costs.[94]

Findings

The OEB finds Hydro One SSM's request to continue and discontinue certain DVAs to be appropriate.

The OEB will not order the closure of the OEB Cost Assessment Account as suggested by VECC. DVA accounts are typically closed in a rebasing year, not during the incentive ratemaking term. Further, there is a credit balance in the account to the benefit of customers, and credits could continue in subsequent years. The closure of this account should be further examined when Hydro One SSM next rebases.

The OEB expects a 2019 UTRs decision to be issued in July, with an implementation date of July 1, 2019. Given the dates in the Order section of this Decision and Order, the OEB does not find it necessary to establish an account to record the foregone revenue between the effective date of February 1, 2019 and the July 1, 2019 implementation date for 2019 UTRs. The amount of the foregone revenue can be incorporated in the derivation of the 2019 UTRs. As a result, Hydro One SSM is directed to calculate the 2019 foregone revenue as part of the draft Revenue Requirement and Charge Determinant Order. The OEB appreciates some estimates may be required in the foregone revenue calculation.

[94] PWU Submission, April 12, 2019, page 9

10 COST ALLOCATION

In the past, Hydro One SSM has used the overall provincial rate pool to allocate its revenue requirement. This allocation is dominated by Hydro One Networks Transmission because of its size.

OEB staff submitted[95] that a revised revenue requirement allocation by rate pool will be determined in Hydro One Networks Transmission's 2019 transmission revenue requirement decision.[96] OEB staff submitted that this allocation should be used for allocating Hydro One SSM's 2019 revenue requirement to the rate pools, and can also be calculated at the time of the draft Revenue Requirement and Charge Determinant Order process for this proceeding.

Hydro One SSM agreed with OEB staff's suggestion.[97]

Findings

The OEB agrees that Hydro One SSM's revenue requirement should be allocated on the same basis as is used for Hydro One Networks Transmission 2019 revenue requirement.[98] Hydro One SSM shall provide this calculation as part of the draft Revenue Requirement and Charge Determinant Order.

[95] OEB Staff Submission, April 12, 2019, page 69
[96] EB-2018-0130
[97] Hydro One SSM Reply Submission, April 26, 2019, page 22
[98] EB-2018-0130 Decision and Rate Order, June 13, 2019

11 EFFECTIVE DATE

Hydro One SSM requested that the proposed 2019 revenue requirement be reflected in rates effective January 1, 2019.[99]

Hydro One SSM considered a five-month turnaround between the filing of its application on July 26, 2018 and its proposed effective date of January 1, 2019 was reasonable. In Hydro One SSM's view, the request for relief is simply for an adjustment and the formula is constructed according to the OEB guidelines and policies.

Hydro One SSM acknowledged that the TFP study was a key piece of evidence.[100] Hydro One SSM stated that the OEB, and its consultant, PEG, had previously participated in proceedings that included this type of study from the same author, and as a result, this study is not new or novel. Hydro One SSM stated that it proactively filed working papers prepared by its consultant, PSE, in confidence on August 29, 2018, which, in its view, provided OEB staff and intervenors with additional time to review the study. Hydro One SSM submitted that it should not be "punished monetarily"[101] since it took steps to support the other parties in a timely review of the TFP study.

AMPCO, PWU, and VECC either supported or took no issue with an effective date of January 1, 2019.

SEC recommended an effective date of February 2019. SEC regarded the complexity of Hydro One SSM's application as being between a cost of service and a mechanistic rate adjustment application.

OEB staff supported an effective date of March 1, 2019.[102] OEB staff submitted that a significant amount of lead time was required for this application as it contained the first transmission TFP study received by the OEB, and that the July 26, 2018 application filing date may not have provided enough lead time. OEB staff acknowledged that there may have been some uncertainty as to how much effort the OEB would apply to this proceeding given that it is not a cost-based application, yet on balance, an effective date of March 1, 2019 is fair.

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[99] Exhibit A, Tab 2, Schedule 1, Page 3
[100] Hydro One SSM Reply Submission, April 26, 2019, page 23
[101] Hydro One SSM Reply Submission, April 26, 2019, page 24
[102] OEB Staff Submission, April 12, 2019, page 70

Findings

The OEB approves an effective date of February 1, 2019. The OEB finds that the application sought more than a mechanistic adjustment to Hydro One SSM's current revenue requirement. The application included a proposed revenue cap framework for an eight-year period. Further, Hydro One SSM filed the PSE Report in support of its proposed framework and input parameters. Given the complexity of the evidence, Hydro One SSM should have anticipated additional time for the proceeding when filing its application.

Hydro One SSM shall provide its 2019 foregone revenue calculation based on a February 1, 2019 effective date in its draft Revenue Requirement and Charge Determinant Order.

12 IMPLEMENTATION

Hydro One SSM stated[103] that when its updated revenue cap adjustment of approximately $550,000 to its current base revenue requirement is added to the UTRs, this represents an increase in a typical customer's monthly bill of less than one cent and is sufficiently immaterial that it does not cause any actual increase in UTRs for 2019. Hydro One SSM estimated that the proposed increase of $550,000 would impact the total revenue requirement of the UTRs by less than 0.04%.[104]

OEB staff submitted that it had no concerns with the manner in which Hydro One SSM had calculated the bill impacts nor with the marginal increase to customer bills for 2019.[105]

PWU submitted that Hydro One SSM revenue requirement is small relative to the total provincial transmission revenue requirements used to calculate the UTRs. PWU noted that the total bill impact is negligible, less than one cent on a typical residential bill, and that Hydro One SSM's revenue requirement has not increased since 2016[106].

Energy Probe submitted that despite the small impact on the UTRs, Hydro One SSM's impact is not reasonable on its own and the assessment of the reasonableness of bill impacts requires that their method of calculation also be considered.[107]

Findings

The OEB finds that with the adjustments approved in this Decision and Order, the revenue requirement for Hydro One SSM to provide transmission service in 2019 as well as the corresponding bill impacts are reasonable.

The OEB approves a 2019 revenue requirement with an effective date of February 1, 2019 and an implementation date of July 1, 2019. Hydro One SSM is permitted to capture the 2019 foregone revenue from February 1, 2019 to July 1, 2019 based on its approved revenue requirement. The calculated foregone revenue is to be provided as part of the draft Revenue Requirement and Charge Determinant Order.

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[103] Argument-in-Chief, Page 9, March 29, 2019
[104] Argument-in-Chief, March 29, 2019, page 22
[105] OEB Staff Submission, April 12, 2019, page 12
[106] PWU Submission, April 12, 2019, page 2
[107] Energy Probe Submission, April 12, 2019, page 2

The OEB directs Hydro One SSM to file a draft Revenue Requirement and Charge Determinant Order reflecting the OEB's findings in this Decision and Order complete with detailed supporting material. Supporting material shall include any other documentation that would assist OEB staff and the OEB in their consideration of the proposed draft Revenue Requirement and Charge Determinant Order, including:

- A revenue requirement summary with supporting detail, bill impacts, revenue requirement by rate pool, summary of charge determinants
- Deferral and variance account information as determined in this Decision and Order

AMPCO, Energy Probe, SEC, and VECC are eligible for cost awards in this proceeding. The OEB has made provision in this Decision and Order for these intervenors to file their cost claims. The OEB will issue its cost awards decision after the following steps are completed.

13 ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. Hydro One SSM shall file with the OEB and forward to intervenors a draft Revenue Requirement and Charge Determinant Order and supporting schedules that reflects the OEB's findings in this Decision and Order, no later than **June 27, 2019**. Hydro One SSM shall also include customer bill impacts and detailed information in support of the calculation of the final revenue requirement in the draft Revenue Requirement and Charge Determinant Order.

2. OEB staff and intervenors may file any comments on the draft Revenue Requirement and Charge Determinant Order with the OEB, and forward to Hydro One SSM, no later than **July 5, 2019**. Costs will not be awarded for the review of the draft Revenue Requirement and Charge Determinant Order or for the filing of any comments on the draft Revenue Requirement and Charge Determinant Order.

3. Hydro One SSM shall file with the OEB responses to any comments on its draft Revenue Requirement and Charge Determinant Order no later than **July 11, 2019**.

4. The Association of Major Power Consumers in Ontario, Energy Probe Research Foundation, School Energy Coalition, and Vulnerable Energy Consumers Coalition shall submit their cost claims no later than **July 11, 2019.**

5. Hydro One SSM shall file with the OEB and forward to intervenors any objections to the claimed costs no later than **July 22, 2019**.

6. Intervenors shall file with the OEB and forward to Hydro One SSM any response to any objections for cost claims no later than **July 29, 2019**.

7. Hydro One SSM shall pay the OEB's costs incidental to this proceeding upon receipt of the OEB's invoice.

All filings to the OEB must quote the file number, EB-2018-0218, be made in searchable / unrestricted PDF format electronically through the OEB's web portal at https://pes.ontarioenergyboard.ca/eservice/. Two paper copies must also be filed at the OEB's address provided below. Filings must clearly state the sender's name, postal address and telephone number, fax number and e-mail address. Parties must use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at http://www.oeb.ca/OEB/Industry. If the web portal is not available parties may email their documents to the address below. Those who do not have internet access are required to submit all filings on a CD in PDF format, along with two paper copies. Those who do not have computer access are required to file 7 paper copies.

All communications should be directed to the attention of the Board Secretary at the address below, and be received no later than 4:45 p.m. on the required date.

With respect to distribution lists for all electronic correspondence and materials related to this proceeding, parties must include the Case Manager, Fiona O'Connell at Fiona.OConnell@oeb.ca and OEB Counsel, James Sidlofsky, at James.Sidlofsky@oeb.ca.

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DATED at Toronto June 20, 2019

ONTARIO ENERGY BOARD

Original Signed By

Kirsten Walli
Board Secretary