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Hydro One Sault Ste. Marie LP
EB-2018-0218
Application for Transmission Revenue Requirement

Submission
of the
Vulnerable Energy Consumers Coalition
(VECC)

April 12, 2019

Vulnerable Energy Consumers Coalition

Public Interest Advocacy Centre
613-562-4002
piac@piac.ca

1.0 Summary

1.1 In general we found the relief sought to be reasonable with the following exceptions:

- the revenue cap adjustment formula should include a stretch factor of between 0.30% and 0.10%;
- Hydro One/SSM should update its CCDP standards and compressively include reporting on these standards in its metrics and Scorecared
- SSM should migrate to the Hydro One Scorecard over the rebasing deferment period;
- The OEB cost assessment variance account should not be disposed of, should be closed and not continued during the deferment period.

1.2 Our detailed submissions follow below.

2.0 General

1. Has Hydro One SSM responded appropriately to all relevant OEB directions from previous proceedings?

2. Has the 2019 revenue requirement been calculated appropriately, in accordance with OEB policies and practices?

3. Are the associated 2019 total bill impacts reasonable?

2.1 In our assessment Hydro One SSM has not met two of the past OEB directions. It has not completed a lead-lag study and it has not provided a detailed update of its load forecast.

2.2 The reason given for not producing a new forecast is that need for this was superseded by the Board's decision in the MAADs decision EB-2016-0050 granting SSM a ten year rebasing deferment. We can find no direction specifically releasing SSM from the requirement to update its load forecast in the MAADs decision. However, due to the characteristics of calculating the Uniform Transmission Rate the absence of a forecast update by SSM is unlikely to be material to the relief sought. We address this issue in detail later.

2.3 SSM also did not complete a new lead-lag study. As pointed out by the Applicant such a study became moot upon the approval of deferred rebasing and the direction to adjust its revenue requirement by an incentive based methodology. We accept this as a reasonable explanation for not completing this commitment.

3.0 Revenue Cap Proposal

4. Are the elements of Hydro One SSM's revenue cap framework proposal reasonable and in accordance with prior decisions and with OEB policy, including its proposed future earnings sharing mechanism, incremental capital funding options, Z-factors, and any other mechanisms?

5. Are the parameters of Hydro One SSM's proposed revenue cap plan, and more specifically, the inflation factor with transmission sector-specific weightings, and the proposed base productivity and stretch factors, as supported by Power System Engineering's Total Cost Benchmarking and Total Factor Productivity Study reasonable?

6. Is the Power System Engineering's sample of comparator utilities for Total Cost Benchmarking and Total Factor Productivity appropriate for Hydro One SSM?

7. Is Hydro One SSM's proposal to maintain the current approved load forecast and resulting charge determinants for the purposes of setting Uniform Transmission Rates over the entirety of the deferred rebasing period appropriate?

3.1 SSM proposes a standard form revenue cap index where *Revenue Adjustment = i –X.* The inflation factor is calculated at 86% of the GDP-IPI FFDD plus 14% of the Average Weekly Earnings index both calculated by Statistics Canada.

3.2 While the reasoning differs both the expert consultant engaged by the Applicant (PSE) and Board Staff (PEG) agree on a total X factor of 0%.[1]

3.3 VECC submits that there is spurious accuracy implied by both consultants Total Factor Productivity studies. These studies inherently suffer from data issues including data collection error, classification errors as well as debates on the appropriate data period. In any event by definition a TFP study shows only the portion of output not explained by the amount of inputs used. TFP's ultimately are nothing more than a measure of what we don't know[2]." And benchmarking that focuses largely on like- industry comparisons or non-industry companies that share monopolistic characteristics make such exercise circular in nature.

3.4 The simple measure of the wage index of utility workers vis-à-vis other sectors would show, we submit a long-run trend for employees of regulated monopoly firms to exceed that of the vast majority of the workforce. The price of the delivered product as compared to other commodities would, we think, would show a similar long-run trend from the most of the economic activity of Ontarians. The facts are that Hydro One's costs have increased at

[1] See L1-VECC-1

[2] For a consideration of the many difficulties in measuring TFP see Diewert, The Challenge of Total Factor Productivity Measurement, http://www.csls.ca/ipm/1/diewert-e.pdf

greater than the rate of inflation and its productivity has improved on a benchmarking basis only because the costs of U.S. utilities have increased by a rate that is even higher relative to inflation[3].

3.5 We are not arguing there is no benefit to the TFP exercise. We are suggesting that its results be viewed critically and with some skepticism. An econometric study is unlikely to accurately predict the future. And the Board's role is to establish incentives which lead to better future outcomes to the benefit of both ratepayers and shareholders. Keeping the Utility whole for inflation over the deferment period does none of this.

3.6 Unfortunately we think that because both consultants come to the same conclusion the Board will be swayed by the convergence of results. In our submission the fact that the two consultants can arrive at an identical results but by different measures is demonstrative of the weakness of these studies and not their veracity. The Board can, and should use its discretion to provide a benefit to ratepayers in lieu of having SSM's revenue requirement reviewed in a timely way. In the most recent proceeding dealing with an amalgamation the Board recognized this very point[4]:

> 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.

3.7 It is clear that the acquisition by Hydro One of SSM will lead to both capital and OM&A savings. These were set out in EB-2016-0050 and are updated in response to SEC interrogatory number 8[5]. How consumers share in this benefit is left to the Board.

3.8 In our submission over the 10 year period a stretch factor of between .30 and .10% would be reasonable. If any undue burden were to arise the Utility could exercise its right to seek a rebased revenue requirement.

3.9 With respect to the inflation factor our observation is that much time is expended on the nuance to be found as between different measurements which we show in the table below:[6]

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[3] Exhibit I, Tab 5, Schedule 36
[4] EB-2017-0306/307 Union Gas Limited and Enbridge Gas Distribution Inc., Decision and Order, August 30, 2018, pg.27.
[5] Exhibit I, Tab 5, Schedule 8
[6] See Exhibit I, Tab 1, Schedule 57 and Tab 6, Schedule 9

Year	Inflation Factor OEB Weighting	Inflation Factor PSE Weighting	Ontario CPI Inflation Rate[1]
2015	1.6%	1.6%	1.2%
2016	2.1%	2.2%	1.8%
2017	1.9%	1.8%	1.7%
2018	1.2%	1.2%	2.4%
2019	1.5%	1.4%	1.8%

[1] Source: HIS Global Insight, November 2018

3.10 There is a problem with using any of the above inflation factors. All are records of the past and not indicative of the future. Using measures which incorporate factors facing the Utility suffer from being circular in logic. Given that the variation as between consumer oriented inflation indices like CPI and other measure or hybrid measures are not over the longer term significant we think use of the proposed inflation index sufficient for the adjustment formula.

Earning Sharings

3.11 The Board stated in its Decision EB-2016-0050 that "*it was prepared to accept Hydro One's proposal to defer the rebasing of rates for GLPT for a 10 year period as well as its proposed earning sharing…*"[7] That proposal was for earnings on a 50:50 basis where that portion of the achieved return on equity is more than 300 basis points above the ROE.[8] This is the same as SSM now is seeking. The matter therefore seems settled notwithstanding VECC's view that such treatment is overly generous to the regulated monopoly.

ICM and Z-Factors

3.12 The evidence discusses establishing a Z-Factor account and the possible seeking of an ICM. It is not clear to us that either of these matters need to be addressed at this time and in this application. Rather than discuss or deal with the matter in the abstract the Applicant should apply if and when necessary for the appropriate regulatory relief.

Load Forecast

3.13 SSM did file a system load forecast for 2017-2018. This is not updated for 2019. Due to the way in which the UTR is calculated it was SSM's position that adjusting the load forecast is not necessary[9]. Revenues from the UTR are largely driven by the load of Hydro One Networks. In sum the other smaller licensed transmitters make only a marginal impact on the calculation of the UTR.

[7] Decision and Order EB-2016-0050, October 13, 2016, pg.24
[8] EB-2016-0050 Exhibit A, Tab 1, Schedule 1, pg.9
[9] Exhibit I-1-4, Attachment 1

3.14 In our view there is little value in updating the load forecast not only for the reasons articulated by SSM.

4.0 Transmission System Plan

8. Does the Transmission System Plan adequately address the OEB's Renewed Regulatory Framework objectives?

9. Is the level of planned 2019 to 2026 expenditures appropriate and is the rationale for planning and pacing choices appropriate and adequately explained in the Transmission System Plan? Is Hydro One SSM's asset management process reasonable and has it been adequately supported by its Transmission System Plan?

10.Do the proposed expenditures include the consideration of factors such as customer preferences, system reliability and asset condition?

11.Has Hydro One SSM adequately addressed operational synergies and savings in the Transmission System Plan, including with respect to its operational integration with Hydro One Networks Inc.? Is Hydro One SSM's continuous improvement adequate?

12.Were Hydro One SSM's customer engagement activities adequate to enable customer needs and preferences to be considered in the formulation of its proposed spending?

4.1 SSM has stated in the application that its TSP is distinct from most Transmission and Distribution System Plans submitted to the OEB in that it is not being filed to support any additional capital funding. Furthermore the Board has repeatedly stated in other applications that it does not specifically approve utility system plans. If both of these statements are true (and we believe they are) then the matter of a transmission plan is of no significance to this Application.

4.2 In any event, because SSM's assets have been operationally integrated into those of Hydro One Networks there is little, if any, risk of insufficient capital investment to maintain the reliability of the SSM assets[10]. If anything the acquisition of SSM by Hydro One will benefit users as integration will lead to the standardization of equipment and practices[11]. This is probably good since, as shown below, SSM's reliability statistics are far inferior to those of Hydro One.[12]

		2010	2011	2012	2013	2014	2015	2016	2017	2018
HONI	SAIDI	28.1	39.6	75.9	184.3	40.7	66.1	34.4	246.1	21.3
HOSSM	SAIDI	150.7	296.7	176.8	861.1	25.4	79.8	10.0	30.9	252.5
HONI	SAIFI	0.76	0.50	0.86	0.97	2.23	0.81	0.84	2.14	0.69
HOSSM	SAIFI	1.33	2.14	2.24	1.37	0.47	0.89	0.37	0.42	0.22

[10] Exhibit I, Tab 1, Schedule 8
[11] See Exhibit I, Tab 4, Schedule 3
[12] JT 1.6

4.3 Hydro One has updated the Condition Assessment Plan of SSM.[13] We would note in passing that the apparent difference as between the METSCO asset condition assessment undertaken by Hydro One and the Hatch Study undertake by Great Lakes Power Transmission should cause one to ponder the suggested pinpoint accuracy of any of these studies. They may be directionally correct but they do not, in and of themselves, provide non contestable evidence of the need for future capital spending.[14]

4.4 Finally we note that SSM has completed some customer engagement and integrated its learning into its capital planning.[15]

5.0 Performance Scorecard

13.Are Hydro One SSM's proposed key performance indicators and scorecard complete, including adequate performance measure metrics, each with specific performance outcomes and implementation timelines? Do the outcomes adequately reflect customer expectations? Does Hydro One SSM's proposed scorecard reflect the OEB's requirements?

5.1 SSM was directed in its last revenue requirement proceeding to improve its Scorecard. The proposed scorecard is similar to that used by Hydro One Networks. However, SSM did not consult with external stakeholders or customers in the development of its proposed Scorecard.

5.2 Hydro One states that currently 70% of the metrics are aligned with Hydro One Network's transmission score card.[16] SSM also stated that "[T]*he only difference between these scorecards is the inclusion on HONI's scorecards of two measurements related to NERC/NPCC compliance. Discussions are on-going on the whether they will be included in HOSSM's scorecard going forward*." Yet in response to an AMPCO interrogatory SSM listed the following measures that are in Hydro One Network's scorecard but not included in SSM's proposed scorecard:[17]

- T-SAIFI-M (Ave. # of Momentary interruptions per Delivery Point)
- OM&A Program Accomplishment (composite index)
- Capital Program Accomplishment (composite index)
- O&M Expenditure per Gross Book Value of In-Service Assets (%)
- Line Clearing Cost per kilometer ($/km)
- Brush Control Cost per Hectare ($/Ha)
- End-of-Life Right-Sizing Assessment Expectation

[13] See Exhibit I, Tab 4, Schedule 2
[14] See Exhibit I, Tab 4, Schedule 8 for a comparison of the Hatch vis-à-vis Metsco studies
[15] See for example Exhibit I, Tab 1, Schedule 33 & 38
[16] Exhibit I, Tab 1, Schedule 44
[17] Exhibit I, Tab 4, Schedule 32

5.3 VECC supports the migration of SSM Scorecard to a common standard shared with Hydro One Networks. This appears to be the policy of Hydro One. We however reiterate submissions we have made in Hydro One transmission proceedings that Customer Delivery Point Performance standards (CDPP) should be incorporated into transmission scorecards, and that these standards should be updated with more recent data. Hydro One continues to resist making meaningful changes to the CDPP.[18] This is a significant flaw in both the scorecard given the central nature of this metric to the meaningfulness of transmission reliability statistics[19].

5.4 SSM also stated that it would be prepared to submit an updated Scorecard in 2023[20]. Given the progression the Utility is making on improving the prior scorecard we believe an updating the scorecard during the deferment period would be in the public interest.

5.5 HOSSM does not forecast and track data on the planned number of scheduled outages and length of planned outages compared to actuals[21]. This is one area we believe should and can be improved. While we are not suggesting it be added as a metric to the Utility's scorecard at this time. We do believe it is very important for the Utility (and the Board should it ask) to understand the ability of the transmitter to minimize planned outage time.

6.0 Accounting

14. Have all impacts of any changes in accounting standards, policies, estimates and adjustments been properly identified and recorded, and is the rate-making treatment of each of these impacts appropriate?

6.1 The total amount HOSSM is seeking to disburse in deferral and variance accounts is a credit balance of $94,909[22].

Table 5- Deferral and Variance Account Balances

Account Number	Account Description	Dec 31, 2018 Balance Sought for
1508	Cumulative Asymmetrical Variance	(148,110)
1508	OEB Cost Assessment Variances	(84,866)
1508	Legal Claim (Comstock)	99,338
1508	Property Tax Variances	17,974
1508	BES	20,755
	Total Deferral Accounts	**(94,909)**

[18] See Exhibit I, Tab 1, Schedule 53
[19] See Exhibit I, Tab 6, Schedule 6 & 7 / JT 1.13
[20] Exhibit I, Tab 1, Schedule 51
[21] Exhibit I, Tab 4, Schedule 11
[22] Exhibit E, Tab 1, Schedule 3

6.2 SSM states that in the event it encounters unforeseen events which meet the three defined eligibility criteria of causation, materiality and prudence, it intends to book such amounts into a newly approved Z-factor deferral account We think this is incorrect. SSM should seek at the time of any material event to have a specific account established. Even on those rare occasions when time is of the essence the Utility is in the position to provide the Board with sufficient information to determine prima facie whether such an account should be established. Certainly if the Utility knows that it can meet the criteria for booking into an account it knows and can provide this to the Board by way of an application to establish the account. We see no need to establish such an account in advance of an as yet to be discovered crisis.

6.3 The Board should also eliminate the OEB Assessment Account. This account was established to temporarily hold whole utilities whose OEB costs were premised on a prior cost assessment methodology. As we have noted in other proceedings these variance accounts capture all variances, including those not related to the change in the Board's assessment methodology. For example, they capture changes in the Board's cost budget which would otherwise be to the benefit or cost of a utility during an IRM period. This is presumably why the Board established a materiality threshold with respect to these accounts.[23]

Table 4 - OEB Cost Assessment Variances

Year	Opening Balance	Costs Incurred	Cumulative Costs	Carrying Charges	Cumulative Carrying Charges	Closing Account Balance
2016	$0	($32,776)	($32,776)	($120)	($120)	($32,896)
2017	(32,896)	(49,806)	(82,582)	(685)	(805)	($83,386)
2018	(83,386)	-	(82,582)	(1,480)	(2,285)	($84,866)
			($82,582)		**($2,285)**	**($84,866)**

6.4 In any event since the allocation of transmitter costs fall almost exclusively to Hydro One or its affiliates it is only inter class allocations that should even be considered for recovery.

6.5 In our submission a utility, like SSM which voluntarily chooses to make a prolonged deferral of its rebasing inherits both the benefits and the risks of that choice. One risk is that it will have to absorb changes in cost that occur during the deferred rebasing – like OEB cost assessment. Alternatively it may benefit should these costs decrease.

[23] Exhibit E, Tab 1, Schedule 2, pg.8

7.0 Cost Allocation

17. Is the transmission cost allocation proposed by Hydro One SSM appropriate?

7.1 VECC has no submissions with respect to the cost allocation of SSM.

8.0 Effective Date

8.1 SSM filed its application on July 26, 2018 seeking rates effective January 1, 2019. We note that IRM applications generally required filing no later than August 1 of the year prior to a January 1 implementation date. SSM appears to have met that timeline and so in our view should be allowed revenue requirement adjustments beginning January 1, 2019.

9.0 Reasonably Incurred Costs

9.1 VECC respectfully submits that it has acted responsibly and efficiently during the course of this proceeding and requests that it be allowed to recover 100% of its reasonably incurred cost.

ALL OF WHICH IS RESPECTFULLY SUBMITTED