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December 15, 2016

BY EMAIL & BY COURIER

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge St, Suite 2701
Toronto ON M4P 1E4

Ms. Walli:

Board File No. EB-2016-0081
Hydro One Distribution 2017 Rates Application
Energy Probe – Comments Regarding Updated Draft Rate Order Application

Pursuant to Procedural Order No. 1, issued December 14, 2016, attached please find the Comments of Energy Probe Research Foundation (Energy Probe) in respect of the Updated Draft Rate Order Application as contemplated by the Energy Board.

Should you require additional information, please do not hesitate to contact me.

Yours truly,

David S. MacIntosh
Case Manager

cc. Oded Hubert, Hydro One Networks Inc. (By email)
Erin Henderson, Hydro One Networks Inc. (By email)
Gordon Nettleton, McCarthy Tetrault LLP (By email)
Brady Yauch, Consultant to Energy Probe (By email)
Roger Higgin, Consultant to Energy Probe (By email)
Parties of Interest (By email)

Energy Probe Research Foundation 225 BRUNSWICK AVE., TORONTO, ONTARIO M5S 2M6

Phone: (416) 964-9223 Fax: (416) 964-8239 E-mail: EnergyProbe@nextcity.com Internet: www.EnergyProbe.org

EB-2013-0461
EB-2016-0081

Ontario Energy Board

Hydro One Distribution

Application for 2017 Rates.

Submissions on Draft Rate Order

Energy Probe Research Foundation

December 14, 2016

Hydro One Distribution

Application for 2016 Rates.

EB-2016-0081

ENERGY PROBE RESEARCH FOUNDATION SUBMISSIONS

How these matters came before the Board:

On October 17, 2016, Hydro One Networks Inc. (Hydro One) filed an application and Draft Rate Order for electricity distribution rates effective January 1, 2017. Hydro One also continues its transition to fully fixed residential rates, as directed in the OEB's April 2, 2016 report: *A New Distribution Rate Design for Residential Electricity Customers (EB-2012-0410)*.

The application was made under section 78 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15, (Schedule B).

A Notice of Hearing (Notice) was issued on November 17, 2016. Each of the Society and Energy Probe Intervened.

Procedural Order #1 was Issued on December 14, 2016 providing an opportunity for parties to file submissions on Thursday December 15, 2016 and for Hydro One to reply on December 16, 2016

These are written submissions on behalf of Energy Probe Research Foundation ("Energy Probe) focusing on issues highlighted in Procedural Order #1.

1.0 Cost of Capital

Hydro One submitted its 2017 Draft Rate Order in advance of the Board's cost of capital update so as to maximize the review period for stakeholders.

On November 18, 2016, Hydro One submitted an updated Draft Rate Order and all supporting Exhibits and Rate Schedules. The update reflects (a) the Board's 2017 cost of capital parameters, including the Board-approved 2017 return on equity and short-term debt rates, and (b) the long-term debt rate based on Hydro One's actual 2016 debt issuances to-date and the latest Consensus Economics 2017 forecast. The Draft Rate Order has also been updated to reflect the current draft Ontario government regulation for further funding for the Rural or Remote Electricity Rate Protection (RRRP) program, beginning January 1, 2017.

Submissions on the Update to Cost of Capital

Cost of Debt

The update reduces the ROE by \$6.8 million and Return on Debt by \$10.1 million relative to the October filing. Energy Probe has examined the updated Draft Rate Order Exhibit 1.4.1 and the proposed debt issues for 2017.

The cost of capital updates in Exhibit 1.4.1 for Hydro One Distribution appear to mirror the updates filed in EB-2016-0160 transmission rates case at *Exhibit D1 Tab 5 Schedule 1*:

Table 2: Forecast Debt Issues for 2017 and 2018

2017		
Principal Amount (\$Millions)	Term (Years)	Coupon
219.1	30	3.67%
109.6	10	2.61%
109.6	30	3.67%
219.1	10	2.61%
2018		
Principal Amount (\$Millions)	Term (Years)	Coupon
296.6	30	4.37%
296.6	10	3.31%
296.6	5	2.54%

As Energy Probe noted our submissions in EB-2015-0079, Hydro One Networks deferred debt issues in 2015. Therefore, in 2016 it issued \$445 million in long-term debt, \$245 million of medium-term debt and \$250 million of short-term debt.

The total debt issue of \$940 million in 2016 is the largest in the company's history. The amount mapped to distribution appears to be ~\$670 million

In 2017 HON is proposing to issue a further \$328.7 million of long-term debt and \$328.7 in medium-term debt for a total of \$757.4 million. The amount mapped to Distribution appears to be \$432 million.

The coupon rate outlook of ~3.7% for 2017/18 is much lower than 5.48% in the original Draft Rate Order.

Hydro One should indicate in reply how much of the embedded and 2016/17 new debt is mapped to the Company's Distribution and Transmission businesses in the 2017 test year to provide support for the respective Returns on Debt in the DX and TX revenue requirements and rates.

Capital Structure and Debt-to-Equity Ratio

The Update filed in EB-2016-0160 Exhibit D2, Tab 4, Schedule 1, shows the HONI (average) deemed cost of capital for regulatory purposes for 2017:

HYDRO ONE NETWORKS INC.						
Utility Capital Structure						
Line No.	Particulars			2017		
		(\$M)	%	Cost Rate (%)	Return (\$M)	
		(a)	(b)	(c)	(d)	-
1	Long-term debt	5,910.4	56.0%	4.67%	275.8	
2	Short-term debt	422.2	4.0%	1.76%	7.4	
4	Total debt	6,332.6	60.0%	4.47%	283.2	
5	Common equity	4,221.7	40.0%	8.78%	370.7	
6	Total rate base	10,554.4	100.0%	6.20%	653.9	=

2.0 Determination of 2016 Revenue Requirement

Submission

Energy Probe has reviewed Hydro One's evidence and supporting exhibits regarding OM&A Reductions, Working Capital Additional Revenue from Pole Rentals. We have no comments on these amounts.

With regard to tax adjustments shown in Schedule 1.5, Energy Probe is unable to verify these due to lack of supporting information. For example, the basis of the corporate tax rate of 26.5% and the \$111.8 million tax reduction due to "timing differences". (Note 1 is missing and no other Schedules/Working Papers have been provided).

Given the requirement for HO to update the appropriate exhibits to reflect the major cost of capital update and revise the 2017 revenue requirement Energy Probe leaves it to Board Staff to satisfy themselves regarding updated 2017 rates revenue requirement and supporting tax calculations.

3.0 Cost Allocation

Hydro One notes the CAM has been updated to reflect the Board-approved 2017 load forecast.

Hydro One notes it has not assumed the elimination of the seasonal rate class, as it is expected the Board will initiate a further proceeding so the Seasonal Class is not eliminated at this time, and the 2017 load forecasts for the UR, R1, R2 and Seasonal residential rate classes are unchanged from what was approved.

We accept Hydro One's evidence that it has appropriately followed the Board's Direction regarding the Street Lighting Adjustment Factor (SLAF).

4.0 Rate Design

4.1 Revenue-to-Cost Ratios

"In accordance with the Board's Decision (p.45), Hydro One is continuing to move its revenue-to cost ("R/C") ratio to 90-110% over the 2016-2017 period. The three rate classes with an R/C ratio above the Board's approved range (i.e. UR, R1 and USL rate classes) are moving to an R/C ratio of 110% over the 2016-2017 period. The resulting revenue shortfall is made up via a stepped increase to the R/C ratio of the rate classes with the lowest R/C ratio until the shortfall is fully addressed. This is the same approach proposed in the Application and used to set the rates approved in the 2015 Rate Order (April 23, 2015)."

As Hydro One indicates, this matter was reviewed for the 2015 Rate Order and Energy Probe has no submissions.

4.2 Move to All-fixed Rates for Residential Classes

In its Decision on Hydro One's 2016 Draft Rate Order (EB-2013-0416/EB-2015-0079), the Board approved Hydro One's proposed mitigation plan to extend the phase-in period to 5 years for the UR class and ordered an 8-year phase-in period for the R1, R2 and Seasonal rate classes.

On November 6, 2016, the Board initiated a new proceeding (EB-2016-0315) to consider the remaining steps for the elimination of Hydro One's seasonal class. While the outcome of this new proceeding could potentially impact the 2017 load forecast and cost allocation, at this time Hydro One has not assumed the elimination of the seasonal rate class. As such, the 2017 load forecast for the UR, R1, R2 and Seasonal residential rate classes are unchanged from what was approved.

The fixed rates for all non-residential rate classes have been set to maintain the same fixed-to-variable split in revenue approved for 2015 and 2016, as proposed in the Application and approved by the Board's Decision. For the DGen rate class, consistent with the approach adopted for all other non-residential rate classes in 2015, the 2017 fixed rate will be set at the level calculated for Scenario 3 in Tab O2 of the CAM.

4.3 2017 Rates

The changes to cost allocation and rate design described above have resulted in changes to the fixed charges and volumetric rates by rate class. Exhibit 3.0 provides the proposed 2017 fixed and variable charges including the second year of the phase-in to all-fixed rates for the residential classes.

Energy Probe Submission on Fixed Charge

Energy Probe has reviewed the updated fixed charge phase-in set out at Exhibit 3.0 for the UR, R1, R2 and seasonal classes and finds the movement towards the goal and 2017 increases appears to be calculated appropriately.

However, Energy Probe notes that elimination of the seasonal class will have consequences for these classes in the future, though we expect the Board to deal with this matter in another proceeding.

5.0 Determination of Rate Riders

Deferral and Variance Accounts

Exhibit 1.7 shows Hydro One's forecast 2016 year-end balances for disposition.

Energy Probe leaves it to Board Staff to check the Balances

7.0 RRRP Credit (updated)

"The Ontario government has recently announced its intention to introduce further funding for the Rural or Remote Electricity Rate Protection (RRRP) program. Through regulation, the current funding of \$125.4 million for Hydro One's R2 customers (per O.Reg 442/01) will increase by \$116.4 million. This additional funding will increase the monthly RRRP fixed charge credit for R2 customers from \$31.50 to \$60.50. The additional credit amount of \$29.00 is based on the additional funding of \$110 million divided by the forecast number of R2 customers in 2017 of 334,551 ($\$116.4 \text{ million} / 334,551 / 12 = \29.00)."

Submission:

Hydro One plans on leaving the current RRRP charge at \$0.0013 per kWh, but is intending to revise this figure once the Board announces its Decision. Hydro One should provide an estimate on what this new, higher charge for the RRRP will have on other ratepayer classes and average customers in those rate classes. If, as Hydro One proposes, the charge is adjusted afterwards, ratepayers won't get a clear picture on what the province's legislation will cost them each month on their hydro bill. Furthermore, the higher RRRP charge will likely have an impact on the bill estimates that Hydro One presented in its public notice.

8.0 2016 Rate Schedules and Bill Impacts

Hydro One's evidence, under Rate Design, Attachment 1 Table 2 provides the proposed rate 2016 distribution and total bill impacts. This shows modest Total Bill reductions for average use customers in the R1 Class but increases of over 5% for some Seasonal class customers.

Submission:

As Energy Probe has noted in the past, we suggest that, while the analysis provided by Hydro One corresponds to the Board's Filing Requirements, it is misleading and does

not correspond to the **reduction** of \$1.55 for a Typical R1 Mid-Density Customer, or \$0.17/month for a Seasonal Customer (as indicated in the Hydro One Notice). Many consumers may, rightly, be confused when their bill impacts don't match the company's public notice.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

December 14, 2016



**Roger M.R. Higgin P.Eng; MBA; PhD.
SPA Inc. - Consultants to Energy Probe**

&

**Brady Yauch: MA; MSc
Consultant to Energy Probe**

