Jay Shepherd
Professional Corporation
2200 Yonge Street,
Suite 1302
Toronto, Ontario M4S 2C6

BY EMAIL and RESS

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Our File No. 20160276

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

Attn: Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: EB-2016-0276 – Hydro One/Orillia MAADs

We are counsel for the School Energy Coalition. Pursuant to Procedural Order #5 in this matter, this letter represents our Final Argument in this proceeding.

This Final Argument is based on the evidence in this proceeding. However, it is also informed by the Application of Hydro One for distribution rates for the period 2018-2022, EB-2017-0049, which was filed on March 31, 2017. That application includes rates for three previous acquired service territories, Norfolk, Haldimand, and Woodstock.

Denial of Approval for the Transaction

Hydro One, among the least productive electricity distributors in the province, continues to throw bags of money at local councils, convincing them to sell their local distribution companies. In their pitch to local councils, and to this Board, Hydro One says that costs and rates will go down because of efficiencies arising out of these transactions. Everyone will be better off, they say.

Tel: (416) 483-3300 Cell: (416) 804-2767 Fax: (416) 483-3305
jay.shepherd@canadianenergylawyers.com
www.canadianenergylawyers.com

Hydro One has now filed a rate application – EB-2017-0049 - that proposes new rates for the customers in the last three of its acquired territories. As some predicted, rates are proposed to skyrocket, because costs have gone through the roof.

SEC has just done the calculation of the increases for local schools. In Norfolk, the distribution rates for schools are proposed to increase by 39%. In Haldimand, the schools face a proposed 87% rate increase. In Woodstock, Hydro One seeks to increase rates for schools by 104%.

And, there is more to come, because the proposed increases still get those customers only part of the way to Hydro One's rates for their other customers. The revenue to cost ratios for those new acquired classes are still low. To get all the way, as has been the case with all past acquired customers, would require further increases of 124% for Norfolk and Haldimand, and 48% for Woodstock.

Where are the savings promised to the acquired customers? Where are the benefits of the transactions to those customers that the Board believed – and said - would arise?

The more important question is: At what point will the Board stop believing what Hydro One says, and start believing that Hydro One's actions are more indicative of the real truth?

SEC submits that it is no longer possible for the Board to believe that the customers in acquired service territories "will be just fine", and the Board can leave ratepayer protection to future rate cases. They won't be just fine. They will be victimized by being "sold off" to an inefficient behemoth that cannot get its costs under control.

SEC submits that the Board has a mandate to protect ratepayers, and that the "no harm" test should be interpreted as an expression of that mandate. The last three acquisitions approved for Hydro One have now demonstrated conclusively that the ratepayers are in fact going to be harmed by the transactions. Hydro One has provided no evidence that this acquisition would be any different.

Therefore, SEC submits that approval for this transaction should be denied.

Further, SEC submits that the Board should make clear to Hydro One that, unless they take significant steps to get their own costs and productivity under control, they should not bother to come back to the Board for approval to acquire any more lower cost, more productive LDCs.

<u>Cost Savings</u>

In this proceeding, Hydro One argues that the cost to serve the customers in Orillia will go down as a result of the proposed transaction. This is summarized in the final arguments, where for example Hydro One says (at page 3):

> *"Hydro One has provided evidence that the ongoing OM&A cost savings expected to result from the transaction are approximately $3.9 million per year – a 60% reduction in OPDC's 2015 OM&A costs. Capital expenditures are also expected to be reduced by roughly $0.6 million per year."*

This is the same argument that Hydro One made in the Norfolk, Haldimand, and Woodstock cases, and in each case the Board ultimately accepted the submissions of Hydro One.

Those submissions turned out to be incorrect, just as SEC and, in two of the cases, local residents, predicted would be the case. Now the ratepayers in those acquired territories are being asked to pay the price.

And the price? A total increase in allocated costs of 54%, which is a 46% increase on a per customer basis (about 5% per year). For the GS>50 class, such as the schools, it is even worse: a 110% increase in allocated costs, or 94% per customer (about 9% per year).

SEC notes that, in Exhibit A/2/2 of the EB-2017-0049 application, Hydro One says that, aside from the directives given to it in EB-2013-0321 (its last rate case), "There are no other outstanding OEB directives or undertakings from prior proceedings that are relevant to this Application."

This statement omits the Board directions in EB-2013-0087/96/98 (Norfolk), EB-2014-0244 (Haldimand), and EB-2014-0213 (Woodstock). In each of those decisions, the Board ordered Hydro One to file a comprehensive report showing how the costs to serve the acquired customers had declined over time, and quantifying the savings from the transaction. The report was to be filed "at such time as Hydro One applies for future rates for the existing customers of" the acquired utility.

A summary of the results that should have been reported to the Board in EB-2017-0049 is contained in Appendix A to this Final Argument

The case of Woodstock is instructive, although the other two tell the same story. Hydro One said that annual cost savings from the transaction would be at least $3 million per year, or around $200 per customer. This would have represented a drop in cost per customer of about 40%. Instead, costs from 2014 to the new 2022 cost allocation model in EB-2017-0049 for the AU classes go up from $7.8 million to $12.4 million, about 60%, and on a cost per customer basis they go up by $236 per customer, around 48%. **No savings are in fact being delivered to the former customers of Woodstock Hydro.**

For Norfolk and Haldimand, they were also promised cost savings, around $9 million per annum, more than $200 per customer, but instead their cost per customer for the AR and related classes go up from $565 to $824, a 46% increase. Total costs for those customers go from $23.1 million in 2014 to $35.2 million in 2022, about 52%. **No savings are in fact being delivered to the former customers of either Norfolk Power or Haldimand County Hydro.**

To a reasonable observer, the $47.6 million of costs currently allocated to those 59,700 customers of three acquired distributors is at least $22 million too high (assuming a 2% annual increase in costs, plus customer growth, less forecast cost savings from the acquisitions). Instead of being $12 million lower because of the transactions, the costs are $10 million higher. Hydro One's evidence in those cases was wrong.

But, of course, the costs are not "too high". This is Hydro One. Hydro One cannot control its costs, and the fact that all of the forecast savings, and more, have dissipated over the five years is not surprising.

Bottom line? There were no cost savings. There will be no cost savings for the ratepayers in Orillia, either. Indeed, Hydro One proposes in this case to have ten years to generate "savings" which, as here, will go in the wrong direction and end up with even higher rate increases at the end of the line. Orillia ratepayers will simply be the latest ones to be victimized by being handed over to Hydro One.

SEC submits that Hydro One has shown no credible evidence that it will be able to generate any savings by acquiring Orillia Power. The only credible evidence the Board has is that of the last three transactions: on the one hand, claims that paint a picture of cost savings, and on the other hand, a reality that is huge cost increases.

It is therefore submitted that, on the evidence, the Board cannot conclude that there will be cost savings from this proposed transaction. There will be cost increases. The "no harm" test will not be met.

Specific Rate Impacts for Orillia Power Customers

In EB-2017-0049, Hydro One has proposed that the two new sets of rate classes, Acquired Urban and Acquired General, apply to all acquisitions going forward. It is thus possible to calculate, with a fair degree of accuracy, the rates that are being proposed for the Orillia Power customers in 2027, when the deferral period is complete.

The 2016 distribution bills for average load customers in each of the three general service classes are shown in SEC #5 in this proceeding: $324.33 for residential, $988.19 for small commercial, and $11,438.49 for larger commercial, such as schools.

Appendix A to this Final Argument shows the costs per customer in 2022 for each of the same classes, as calculated from the evidence in EB-2017-0049. Assuming that costs escalate from 2022 at only 2% a year after that (which would be a first for Hydro One), the amount to be recovered from the average customer in each class in 2027 would be: $494.34 for residential, $1,555.35 for small commercial, and $20,310.20 for larger commercial. The increases in cost per customer for each class, and by implication the increases in rates, are therefore the following:

Residential	-	52.4%
Small commercial	-	57.4%
Larger commercial	-	77.6%

Of course, if Hydro One cost increases follow its normal pattern, these percentages would be much higher.

To put that in perspective, the total value of the 1% rate reduction, the freeze for five years, and the value of all "guaranteed" ESM savings, is about $14,000 over ten years for a school at the average for the GS>50 class, 171 kW. Hydro One then proposes that in 2027 it will increase that school's rates by about $8,900 per year (or more), thus recovering all of Hydro One's accumulated largesse over the next 19 months. After that, it will be all pain for the school: distribution bills significantly higher every year after that, and going up at a rapid rate because they will be served by a utility that has demonstrated its inability to control its costs.

Another way to look at that is the school saves $14,000 over ten years. Then it pays Hydro One an incremental $100,000 or more for the next ten years. Not really the greatest deal.

For a residential customer with a typical load in Orillia (736 kwh per month), the results are not as bad. In the first ten years, the customer gets just under $400 of cumulative savings. In the next ten years, the customer pays Hydro One an incremental $2,000.

For the small commercial customer at typical load (2,723 kwh per month) the results are $1,200 of savings in the first ten years, then incremental payments to Hydro One in the next ten years of more than $6,000.

The Board no longer has to guess at how much the ratepayers will be harmed from this transaction. Hydro One has finally been forced to disclose its plans for future rates for acquired customers, after resisting in all of the previous cases, and even in this one. Now we know.

And it is not pretty. Everyone gets whacked, and whacked hard.

SEC invites Hydro One, in its Reply Argument, to show where in its presentations to the Town of Orillia, or to Orillia residents, it disclosed the impacts of these future rate plans that have now been revealed in EB-2017-0049. SEC believes that, if the Town of Orillia had known how bad a deal this was for its residents, it could not have approved this transaction. Who would, faced with a small benefit over ten years, followed by a 52% to 78% rate increase, forever?

Conclusion

Prior to seeing the EB-2017-0049 application, SEC planned to provide submissions in this case focusing on the details of this Application. There are a lot of concerns about the individual components of this proposal. However, those concerns only arise on the assumption that the transaction will be approved, and the remaining issues thus relate to the shape of that approval, rather than the “whether”.

That is no longer, in our submission, a tenable result under the Board’s mandate.

As with the last three transactions, there will be no cost savings. Costs will go up, as they have already for 59,000 other acquired customers. Rates will go up, and go up a lot.

These customers in Orillia will be harmed. This is no longer theory, or speculation. There is no doubt. The Board can see it.

Therefore, in our submission, the “no harm” test has not been satisfied, and the Board should deny approval of this transaction.

All of which is respectfully submitted.

Yours very truly,
JAY SHEPHERD P. C.

Jay Shepherd

cc: Wayne McNally, SEC (email)
Interested Parties

Cost Changes over Time - Woodstock, Norfolk and Haldimand

Woodstock (now AU classes)									
	2014			2022			Increases		
	Customers	Cost (Rev.)	Cost/Cust	Customers	Alloc. Cost	Cost/Cust	Customers	Cost (Rev.)	Cost/Cust
Residential (AUR)	14,299	4,840,407	$338.51	15,467	6,925,144	$447.74	8.17%	43.07%	32.27%
Small Commercial (AUGe)	1,247	1,147,887	$920.52	1,352	1,904,734	$1,408.83	8.42%	65.93%	53.05%
Larger Commercial (AUGd)	199	1,767,892	$8,883.88	194	3,569,003	$18,396.92	-2.51%	101.88%	107.08%
Totals	15,745	7,756,186	$492.61	17,013	12,398,881	$728.79	8.05%	59.86%	47.94%

Norfolk and Haldimand (now A classes)									
	2014			2022			Increases		
	Customers	Cost (Rev.)	Cost/Cust	Customers	Alloc. Cost	Cost/Cust	Customers	Cost (Rev.)	Cost/Cust
Residential (AR)	36,212	15,906,216	$439.25	38,018	22,899,733	$602.34	4.99%	43.97%	37.13%
Small Commercial (AGSe)	4,407	4,085,385	$927.02	4,337	5,527,086	$1,274.40	-1.59%	35.29%	37.47%
Larger Commercial (AGSd)	321	3,134,690	$9,765.39	371	6,774,560	$18,260.27	15.58%	116.12%	86.99%
Totals	40,940	23,126,291	$564.88	42,726	35,201,379	$823.89	4.36%	52.21%	45.85%

Aggregate of Three Acquired Distributors									
	2014			2022			Increases		
	Customers	Cost (Rev.)	Cost/Cust	Customers	Alloc. Cost	Cost/Cust	Customers	Cost (Rev.)	Cost/Cust
Residential	50,511	20,746,623	$410.73	53,485	29,824,877	$557.63	5.89%	43.76%	35.76%
Small Commercial	5,654	5,233,272	$925.59	5,689	7,431,820	$1,306.35	0.62%	42.01%	41.14%
Larger Commercial	520	4,902,582	$9,428.04	565	10,343,563	$18,307.19	8.65%	110.98%	94.18%
Totals	56,685	30,882,477	$544.81	59,739	47,600,260	$796.80	5.39%	54.13%	46.25%