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VIA RESS AND COURIER

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, Suite 2700
Toronto, ON
M4P 1E4

Dear Ms. Walli:

Re: EB-2017- 0049 – Interim Rates for 2018

This letter is written on behalf of the Applicant, Hydro One Networks Inc. ("Hydro One").

This application was filed on March 31, 2017 for rates to be effective starting January 1, 2018 (the "Application").

The Application recognized the possibility that new rates would not be approved by January 1, 2018 and included a request that the Board issue an Order making Hydro One's current rates and charges effective on an interim basis as of January 1, 2018.¹

The hearing timeline for the Application has not yet been finalized and, in all likelihood, a final decision will not be made until late 2018. The consequence is that, when new rates are finalized at that time, there is a strong possibility that the gap between the effective and implementation dates of rates will result in a relatively large rate increase from customers when the new rates are implemented.

Hydro One therefore proposes that the Board issue an interim rate order aimed at minimizing unnecessary rate volatility when new rates are charged to customers and take other steps to facilitate a timely resolution of the Application. Specifically, Hydro One respectfully requests the following:

1. An order for interim rates effective January 1, 2018 that adjusts the current Board-approved rates by incorporating updated information from the 2018 load forecast;² and

¹ Exhibit A, Tab 2, Schedule 1, p. 3.

² This will result in collecting the current rate revenue requirement of \$1,414.9 million approved by the Board in EB-2016-0081.

2. Provision for a settlement conference that will permit Hydro One and the Intervenor to attempt to reduce the issues that go to hearing and, if approved by the Board, result in a more stream-lined hearing.

The basis for these requests are set out below.

The 2018 Rate Adjustment

Hydro One appreciates that the Board's practice for setting interim rates has been to declare current rates to be interim so that they can be set aside and replaced with new rates following a final decision.³ This is appropriate in many circumstances. However, taking that approach in this case is likely to create an outcome that is not in the interests of customers because expected changes in the load forecast from the load underlying current rates would impose a significant rate adjustment when those rates are charged to customers.

Assuming that new rates resulting from this application are not implemented until January 1, 2019,⁴ then the 2019 rates will include the impact of changes to *both* rates for 2018 and rates for 2019 as well as the impact of recovering the 2018 foregone revenue.

This will obviously result in a large one-time adjustment in 2019.

Hydro One submits that allowing a large one time increase is not in the interests of its customers. It therefore proposes an adjustment to rates for 2018 by way of an interim order that sets rates on the basis of current (2017) rates adjusted for the latest information of load forecast.. This would produce an interim 2018 rate adjustment of 3%. If current rates are not adjusted to take new load forecast information into account, then, even with no adjustment to take into account proposed changes to its 2018 revenue requirement, customers would be exposed to a rate increase in 2019 of 6.2% percent, followed by a reduction in rates of 3.2% in 2020.

The scenarios are illustrated in the following table:⁵

Impact	Rate Increase (with no adjustment to interim rates)	Rate Increase (with interim adjusted for load forecast only)
2018	0%	3.0%
2019	6.2%	0.2%
2020	-3.2%	-0.2%

³ It is clear that there is no legal requirement that an interim rate order can only extend a current rate as opposed to an adjustment of that rate; see, for example: *Bell Canada v. Canada (Canadian Radio-Television and Telecommunications Commission)*, [1989] 1 S.C.R. 1722.

⁴ This date is used for rounding purposes but it is not out of the realm of possibility. Hydro One's review of the time between the commencement of an oral hearing in a custom incentive rate application and the issuance of the Board's rate order has ranged from 5 to 19 months.

⁵ These changes are indicative. The actual rate adjustments would be addressed in greater precision if the Board finds this proposal acceptable.

In considering this approach, Hydro One respectfully requests the Board to take into account the following:

First, the rate adjustment is interim. Thus, no one is prejudiced in the positions they propose to take at the hearing and, regardless of the impact of the final decision, customers will be kept whole.

Second, the determination of the interim rate adjustment does not presuppose any prior approval of costs leading to Hydro One's 2018 proposed rates because rates will be derived from Hydro One's current Board approved revenue requirement. In other words, the proposed interim rate adjustment is not proposing any alteration to Hydro One's current cost structure for rate making purposes.

Third, the only factor involved in the interim adjustment is the load forecast which is exogenous to Hydro One's activities. The load forecast is produced by a methodology that has been consistently approved by the Board since 2005.⁶ In the Board's most recent approval of Hydro One's load forecasting methodology, it observed that "Hydro One's history of accurate load forecasting was noted by staff and several intervenors."⁷

Fourth, although Hydro One's load forecast will be reviewed again in this Application, given that the methodology is tried and tested, it is reasonable to conclude that any final adjustment to the proposed load forecast as a result of the Board's final decision (resulting in an adjustment to the rates derived from that forecast) will be substantially less than the adjustment that would have to be made to rates that are based on the continuation of 2017 rates on an interim basis. In this way, customers' rates can be smoothed to reflect actual load conditions.

Fifth, there is some precedent for the Board making an interim rate adjustment for the purposes of rate mitigation. In its RPP Report for the period November 1, 2014 to October 31, 2015, the Board adjusted the RPP price to take into account the application for increased payment amounts by Ontario Power Generation. The Board noted that it had not made a decision in that application, but concluded "that it is prudent to take into account some effect of the application for increased payment amounts."⁸

Like the proposal here, the OEB's determination was subject to a final review "and should in no way be taken as predictive of the outcome of that proceeding."⁹ In this regard, Hydro One acknowledges that the use of the current load forecast should not be taken as predictive of the outcome of the Application nor an attempt to limit in any way the review of the load forecast by OEB staff and intervenors.

While recognizing that there are differences between RPP pricing and distribution rates, the common concern is that customers should not be exposed to unnecessary volatility in electricity prices based on regulatory practice and procedure. In the RPP Report, the Board took a pragmatic approach to rate-making based on impacts on customers. This pragmatism is consistent with the Board's Report on the Renewed Regulatory Framework where it stated that

⁶ See EB-2005-0317; EB-2005-0020/EB-2005-0378; EB-2009-0096; and EB-2013-0416/EB-2014-247).

⁷ EB-2013-0416/EB-2014-247, p. 42.

⁸ OEB, Regulated Price Plan Price Report November 1, 2014 to October 31, 2015, October 16, 2014, p. 14.

⁹ OEB, Regulated Price Plan Price Report November 1, 2014 to October 31, 2015, October 16, 2014, p. 14.

“The Board believes that emphasizing results rather than activities, will better respond to customer preferences, enhance distributor productivity and promote innovation.”¹⁰

Hydro One therefore respectfully submits that interim distribution rates that go into effect on January 1, 2018 would be more just and more reasonable when adjusted for current load forecast information.

Settlement/Scoping Opportunities

Hydro One submits that, given the schedule of the proceedings, customers and the process would benefit from a more narrowly focused hearing process. An effective way to bring this about would be for Hydro One and the intervenors to have the opportunity to explore ways to reduce the scope and time of the hearing either by settling issues or by identifying issues where facts are not in dispute and can be addressed through written submissions only. If this opportunity results in a settlement proposal, the Board can determine whether to approve settled/scoped items and thus proceed with a more stream-lined hearing process.

Given that some issues in this application have been addressed in previous proceedings, Hydro One believes that there are candidates for settlement/scoping discussions. A preliminary list of these issues from Hydro One's perspective could include:

- OM&A costs;
- the proposed Revenue Cap Index formula (or components of the formula);
- load forecast;
- cost allocation and rate design methodology (potentially excluding the issue of the integration of the Acquired Utilities in 2021); and
- external revenues and miscellaneous charges (given that the OEB will likely be issuing a report on telecom wireline attachments in 2017).

Other parties and Board staff may have additional views on what candidate issues may be settled/scoped.

Hydro One therefore respectfully requests that the Board make provision for settlement discussions when setting the procedural schedule for the Application.

¹⁰ Report of the Board: Renewed Regulatory Framework for Electricity Distributors: A Performance Based Approach, October 18, 2012, p. 2. The Board also recognized the importance of mitigating volatility, see p. 16

Other Issues

Hydro One also observes out that, while there is some overlap in the issues in this proceeding and in the recently decided transmission rates decision,¹¹ some portions of that decision are subject to an application to the Board to review and vary the decision and to an appeal to the Divisional Court. Given this, Hydro One proposes that there should be no re-litigation (i.e. discovery or submissions) of these matters while they are subject to these proceedings.

All of which is respectfully submitted.



George Vegh

¹¹ EB-2016-0160.