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February 28, 2019

Ms Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge St., 27th Floor
Toronto, ON M4P 1E4

Dear Ms Walli:

**Re: Energy+ Inc. ("Energy+") 2019 Cost of Service Application – EB-2018-0028**

Hydro One Networks Inc. ("Hydro One") has reviewed the February 22nd letter of Board Staff, the February 25th letter of the Vulnerable Energy Consumers Coalition ("VECC"), and the February 27th letters of Energy+ and Waterloo North Hydro ("WNH").

Hydro One agrees with the concerns raised by Board Staff, Energy+ and WHN. As Board Staff states in the first paragraph of their letter, a new "issue regarding embedded distributor cost allocation methodology was raised well into the discovery stage…in questions filed before the technical conference held on January 23-24, 2019."

The Board's policy concerning the allocation of host distributor costs to embedded distributors is set out in the Board's 2011 Report (EB-2010-0219). That proceeding explicitly examined the direct allocation of costs to embedded distributors. The Board's decision was that the use of Schedule 10.7 of the 2006 Electricity Distribution Rates Handbook, as updated in the 2008 Cambridge and North Dumfries Hydro IRM application (EB-2007-0900), provided an appropriate basis for estimating the costs to be allocated to an embedded distributor customer class.

In the present Cost of Service Application before the Board, Energy+ has remained consistent with Board direction and its past applications as the basis to allocate costs to its embedded distributors. As such, and contrary to what VECC wrote in its February 25th letter, it would not have been visible from the Application that LDCs could be affected, negatively or positively, by a request that the Board depart from previous, well-settled practice. Embedded distributors would have had no reason to believe that their participation was necessary, or the prudent thing to do.

While cost allocation typically shifts costs among an LDC's different end-use customers (i.e. a zero-sum game for the LDC), the outcome is different in the case of LDCs with embedded distributors: any allocation of costs to the embedded distributor class actually shifts costs to the end-use customers of another LDC. The Board's approved approach for estimating the costs to be directly allocated to embedded distributors is a recognition of the importance of ensuring that costs appropriately borne by a host utility's end-use customers not be transferred to another (embedded) LDC's end-use customers. As WNH wrote in its February 27th letter, "The original methodology that was utilized by Energy+ using Appendix 2-Q from the [OEB's] Chapter 2 Appendices – Filing Requirements for…Rate Applications has been collectively understood and accepted through the Cost of Service process; any proposal…to move away from this may set a precedence (sic) for future rate applications on a broader scale."

At page 1 of its February 25th letter, VECC faults stakeholders, including LDCs, for "not…[having]...chosen to…formally participate in the process." VECC goes on, at page 2 of its letter, to further fault such stakeholders by asserting that there is no rule, nor should there be a rule, that stakeholders who may be "indirectly affected by a proceeding or [who are] directly affected but… [have] chosen to ignore, to that point, a relevant and related public proceeding" need not be brought into the proceeding.

VECC's letter specifically singles out Waterloo North Hydro as an LDC "who chose not to participate," but Hydro One submits that there are other LDCs whose ratepayers could also be harmed, e.g. Brantford Power Inc. But as Hydro One wrote above, embedded distributors would have had no reason to believe that their participation was necessary, or the prudent thing to do.

With respect to the issue of notification of Waterloo North Hydro, Hydro One responds that in the Application now before the Board, a widening of the scope to consider an alternative approach to cost allocation for embedded distributors would not only be a significant departure from previous Board decisions and the Board's 2011 Report but would affect other host LDCs' end-use customers "directly," and such LDCs cannot be said to have chosen to ignore a relevant and related public proceeding. Although Hydro One does not dispute that Board panels may depart from previous decisions, Hydro One submits that the Board should not be taking a step that would be administratively unfair to stakeholders and that would introduce administrative unfairness and lack of transparency in the Board's process.

It is also important to note that had the alternative proposal been raised early in the Application process, it would possibly have provided some notice to stakeholders outside the proceeding. On the contrary, as pointed out by Board Staff in its letter, VECC raised its proposal for the new approach "well into the discovery stage of the above-noted proceeding, in questions filed before the technical conference held on January 23-24, 2019," when "…VECC requested that Energy+ run a scenario analysis in which costs would be allocated to embedded distributors differently from Energy+'s previous rates applications…". VECC raised the matter on January 23, 2019, some 225 days after filing its application for intervenor status on June 13, 2018.

Hydro One rejects the idea that the Board would be fettering its discretion if it chose to deny what Hydro One submits is a widening of the scope of the hearing at this very late stage of the Application. If the Board chooses not to consider, in the context of Energy+'s Application, an alternative proposal on generic matters that have been previously approved by the Board, it would be displaying administrative and procedural fairness, not a fettering of its discretion.

Hydro One's ratepayers would be negatively affected if the scope of the Energy+ Application were broadened, at this point in the proceeding, by an alternative embedded distributor cost allocation methodology, different from similar Board applications and decisions to date. And Hydro One shares Board Staff's concern that embedded distributors that could be affected by an alternative cost allocation methodology have not received sufficient notice: in fact, Hydro One submits that such embedded distributors have not received <u>any notice at all</u>, of that possibility.

Therefore, Hydro One, like Board Staff, asks the Board to determine now whether the alternative embedded distributor cost allocation raised by VECC is within the scope of the oral hearing scheduled to begin on March 7th; and Hydro One asks that the Board determine now that such alternative embedded distributor cost allocation is out of scope.

Hydro One concludes by suggesting that any exploration of changes to the allocation of costs for embedded distributors should be part of a broader Board consultation on Cost Allocation Policy, to allow all impacted stakeholders, including embedded distributors, a chance to be heard.

Yours very truly,

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Michael Engelberg