Shepherd Rubenstein

BY EMAIL and RESS

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Our File No. 20170049

McCarthy Tetrault LLP
Toronto Dominion Bank Tower
66 Wellington Street West
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Attn: Gordon Nettleton

Dear Mr. Nettleton:

Re: EB-2017-0049 – Hydro One Distribution – Information for DRO

We are writing on behalf of our clients in this matter, the School Energy Coalition to provide input on the information your client Hydro One is to provide in its draft rate order package, due to be filed April 11, 2019.

In its Decision, the Board commented as follows (at page 177):

> *"The OEB directs Hydro One to file a draft rate order reflecting the OEB's findings in this Decision and Order complete with supporting material, including [various items specified, and]… any other documentation that would assist intervenors, OEB staff and the OEB in consideration of the proposed draft rate order."*

We are writing this letter to request that you provide specific types of information and calculations in the draft rate order with respect to two aspects of the Decision.

Capital Expenditures to In-Service Additions

In the Decision, the Board said (at page 77) Hydro One was:

> *"…directed to propose a preliminary annual distribution of the capital reduction over the term of the Custom IR plan as part of the draft rate order process of this proceeding."*

SEC requests that Hydro One ensure that it provides with the draft rate order a detailed explanation of how the proposed distribution of the capital expenditure reductions has been then translated into in-service addition reductions for each year. That is, for each category of capital expenditures, what has been adjusted, and how has that flowed through to in-service additions (for that or any other year) and therefore revenue requirement?

In proving this information, it would helpful if Hydro One could reconcile the reductions with the capital expenditure/in-service additions ratios provided in Undertaking JT 3.4.

Providing this information will help avoid much of the confusion that occurred during the draft rate order process for Hydro One's most recent Hydro One Transmission proceeding (EB-2016-0160).

Cost Allocation and Acquired Utilities

The Board ordered, with respect to the Acquired Utilities, that Hydro One set their rates at the end of their respective deferred rebasing periods using the Price Cap IR method.

The Board went on to say (at page 164):

> *"The OEB finds that any shortfall in revenue requirement that results from Hydro One's costs being higher than its current and future approved revenues associated with the Acquired Utilities shall be absorbed by Hydro One and not form any part of the overall revenue requirement.*
>
> *Hydro One may apply to the OEB for a rate adjustment mechanism under the Price Cap IR approach to be applied to the current base rates for the Acquired Utilities, to take effect at the end of the respective deferred rebasing periods.*
>
> *The determination that Hydro One is to absorb revenue shortfalls associated with its cost to operate the Acquired Utilities eliminates the negative impact that Hydro One's rate proposal would have had on its customers."*

Since the Board has not approved the various adjustments proposed by Hydro One for the end of deferred rebasing, it appears to us that the rates for all customers will be set for those years (2020-2022) in this DRO process.

Of course, in order to do this costs related to serving the customers of the Acquired Utilities must be excluded from the cost allocation model applicable to the legacy customers for the years after deferred rebasing. Although the rates themselves are decoupled from costs, the Board contemplates that the costs to serve them will still be allocated to them. If those costs exceed the revenue from the formula rates, the difference will be borne by the shareholders.

Prior to the end of the deferred rebasing period, the costs excluded from allocation to the legacy customers are just the incremental costs to serve the Acquired Utilities. This provides Hydro One with a benefit under the MAADs policy. That will, of course, change when the deferred rebasing periods end.

As Hydro One has pointed out in its evidence (and in many other proceedings), there are two categories of costs to serve the Acquired Utilities: incremental costs, and shared costs. That is, there are the costs that Hydro One would not have were it not for the Acquired Utilities, and then there is the Acquired Utilities' normal share of the costs incurred to serve all customers.

Clearly the costs allocated to the Acquired Utilities (i.e. excluded from costs allocable to legacy customer classes) will be of some importance in establishing both the rates for legacy customers, and the amount of shortfall to be borne by the shareholders.

To assist SEC, the Board, and others, in reviewing the DRO and the proposed rates for the later years, we request you provide the following:

- A full cost allocation model for each of the five years rates are being set, showing the amounts allocated to the Acquired Utilities as a group, and details of the basis of that allocation. For the deferred rebasing years, that will be incremental costs, and for the later years that will include their share of shared costs.

- To the extent, if any, that the allocation to the customers of the Acquired Utilities is done on a different basis from the allocation to the legacy customers (other than in the deferred rebasing years), full details on the difference, including the impact, and the rationale for that difference. While we believe that the Board expects the cost allocation for customers in the Acquired Utilities after deferred rebasing to be identical to that for the legacy customers, if Hydro One believes otherwise we are requesting that any deviations be flagged, quantified, and fully explained.

- A full calculation of the amount of its distribution revenue requirement that Hydro One expects will be borne by shareholders in each of 2020, 2021 and 2022 as a result of setting the rates for the Acquired Utilities on the basis of Price Cap IR. This should include the forecast rates and revenues for each of the current rate classes of each of the Acquired Utilities, the costs allocated to them, and the calculated difference for each class in each year. If it is possible to calculate the forecast impact on Hydro One's annual ROE for each year, that would also be helpful.

As with all models, we would ask that all calculations be provided in live Excel spreadsheets, to save time in the DRO review process.

Conclusion

SEC believes that, if Hydro One provides the above categories of information, that will greatly assist the Board and the parties in reviewing the draft rate order in a timely and efficient manner.

We have copied this to all parties, and to the Board, in case others wish to provide input on aspects of the DRO package that Hydro One should consider.

Thank you for your assistance.

Yours very truly,
SHEPHERD RUBENSTEIN PROFESSIONAL CORPORATION

Jay Shepherd

cc: Ontario Energy Board (RESS)
OEB Staff (email)
Wayne McNally, SEC (email)
Interested Parties (email)