Hydro One Networks Inc.

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April 5, 2019

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON M4P 1E4

Dear Ms. Walli:

EB-2018-0028 – Energy+ Inc. 2019 Rate Application - Reply of the intervenor Hydro One Networks Inc. to the March 29th Submissions of VECC, SEC and Board Staff

Enclosed is the Reply Argument of the intervenor Hydro One Networks Inc. to the March 29th Submissions of VECC, SEC and Board Staff.

Paper copies of this letter and the enclosed submission will be delivered to you by courier.

An electronic copy has been submitted using the Board's Regulatory Electronic Submission System.

Yours very truly,

ORIGINAL SIGNED BY MICHAEL ENGELBERG

Michael Engelberg

enc

EB-2018-0028

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, ("the Act")

AND IN THE MATTER OF an Application by Energy+ Inc. under Section 78 of the Act for an order approving just and reasonable rates and other charges for electricity distribution to be effective on January 1, 2019

REPLY ARGUMENT
OF THE INTERVENOR HYDRO ONE NETWORKS INC.
TO THE MARCH 29TH REPLY ARGUMENTS
OF THE INTERVENORS VECC, SEC and BOARD STAFF

1. Hydro One Networks Inc. ("Hydro One") submits this Reply Argument in response to the March 29, 2019, Reply Arguments of the Intervenors VECC, SEC and Board Staff.

Cost Allocation

2. 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.

3. Although the shifting of costs among a utility's various end-use customers is an accepted outcome of the cost allocation process, the potential for shifting costs to another utility's end-use customers places an increased importance on ensuring that costs are appropriately allocated to an embedded distributor rate class.

4. Hydro One submits that the use of Appendix 2-Q provides an accurate and appropriate basis for estimating the costs that should be allocated to an embedded distributor class.

5. Hydro One also submits that the allocation of costs to an embedded distributor class by using the Board's cost allocation model is reasonable, provided that the input data to the model is

carefully established to ensure that only appropriate costs are allocated to embedded distributor. Two particular situations that concern Hydro One are illustrated below:

(a) Many LDCs do not currently identify bulk line facilities within the cost allocation model. The consequence of that practice is that an embedded distributor that may be using only a host utility's higher voltage bulk distribution line assets will end up being allocated a share of all of the host utility's primary line asset costs. This was a contributing factor to an increase in allocated costs of 82% for the HONI-CND class and 122% for the HONI-BCP 1 class as compared to the costs directly allocated to those classes using Appendix 2-Q. [1]

(b) There are a number of situations where Hydro One is "virtually" embedded in a host distributor. In the case of a "virtually" embedded delivery point, the distribution facilities being used to deliver electricity across a host utility's service territory are in fact owned by Hydro One, and the host utility provides only metering and billing services: no host distributor, line, transformer, or other distribution assets are used. This is the situation with Hydro One's HONI BCP #2 embedded delivery point as clearly explained by Energy +.[2] In this instance, the $3,038 in directly allocated costs associated with metering and billing services per Energy +'s prefiled evidence [3] ballooned to $45,452 when this delivery point was included in the cost allocation model[4] , representing an increase of over 1500% in the costs allocated to that class.

6. The situations raised above clearly show how use of the Board's cost allocation model submitted in response to VECC's technical conference question[5] would have resulted in an unfair outcome for embedded distributors in this case. If the concerns raised above are addressed in a host utility's cost allocation model (which has not been the case here), Hydro One would support the use of the model for allocating costs to embedded distributors.

[1] Comparison of the costs allocated to embedded classes from Sheet O1 of the cost allocation model provided in response to VECC TCQ-69 and the costs allocated to embedded class per pre-filed evidence as shown in Table 7-6 of Exhibit 7.
[2] Response to Interrogatory 7-VECC-47.
[3] Table 7-6 of Exhibit 7.
[4] Per Sheet O1 of cost allocation model provided in response to VECC TCQ-69.
[5] Response to VECC-TCQ-69,

RTSR

7. Energy+, all intervenors and Hydro One are in agreement that it is appropriate that embedded classes pay RTSR charges, with the exception of HONI BCP #2.

LV

8. VECC argues that LV charges should apply to all embedded classes. Board Staff argues that LV charges should apply to all embedded classes except BCP #2, to align with the existing settlement arrangement whereby this embedded class does not pay RTSR.

9. Hydro One's response is that of Energy+'s 2019 forecast LV costs of $507,967, the embedded distributor classes contribute only $41,445, or less than 8.2% of that total amount.[6] As such, Hydro One submits that it is neither fair nor reasonable that all embedded distributor classes should pay for the recovery of LV costs that are 92% driven by the electricity needs of Energy+'s own end-use customers.

10. Energy+'s forecast 2019 LV costs reflect Hydro One's current settlement arrangement with Energy+, whereby none of Hydro One's load that is embedded within Energy+ contributes to the sub-transmission (ST) charges levied by Hydro One. The result is that Hydro One's current ST charges truly reflect only the costs associated with serving Energy+'s end-use customers and therefore should not be allocated to the end-use customers of embedded distributors. This echoes the concerns previously raised in the discussion of cost allocation regarding the shifting of costs to an embedded utility's customers.

11. Hydro One submits that if the Board were to accept that Energy+'s LV costs should be pooled and treated the same as Energy+'s RTSR costs, as suggested by VECC and Board Staff, the current settlement arrangement between Hydro One and Energy + regarding the treatment of Hydro One's ST charges would cease to apply for all Hydro One delivery points. Consistent with the treatment of RTSR charges, Hydro One would, of course, levy ST charges on the full

[6] Paragraph 8 of Hydro One's Reply Argument filed March 29, 2019 and also Undertaking J1.3.

load withdrawn by Energy + from Hydro One's system, including the Hydro One load embedded within Energy + (except for HONI BCP#2, as is the case for RTSR charges).

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

ORIGINAL SIGNED BY MICHAEL ENGELBERG

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Michael Engelberg
Counsel for the Intervenor Hydro One Networks Inc.