



April 10, 2019

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VIA RESS AND COURIER

Ontario Energy Board
2300 Yonge Street
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Attn: Kirsten Walli, Board Secretary

Dear Ms. Walli:

**RE: Hydro One Networks Inc. ("Hydro One")
EB-2017-0049 - Hydro One 2018-2022 Distribution Rates Application
Information for Draft Rate Order ("DRO")**

We are counsel for Hydro One and write further to the School Energy Coalition ("SEC")'s letter of April 8, 2019 wherein it requests that the Board order that Hydro One produce certain additional information as part of the DRO process.

SEC's request is at odds with the Board's findings in its March 7, 2019 decision (the "**Decision**"). Specifically:

1. The Board approved a Custom IR framework based on a revenue cap index ("RCI") approach (Issue 7) and at page 24 stated "*Although the OEB has found (under Issue 56) that the revenue requirement for the Acquired Utilities will not be consolidated with the rest of Hydro One's revenue requirement in 2021, the OEB accepts Hydro One's proposed approach to RCI*". Hydro One's authorized approach to RCI, sets the non-capital portion of the revenue requirement for 2018 based on a prescribed "going in" amount. This amount is then adjusted for each of the years 2019-2022 using an approved inflation factor, a productivity factor of zero, and a stretch factor of 0.45%. For the capital portion of the revenue requirement, the Board approved use of a capital factor that includes the 0.45% stretch factor plus an additional 0.15% stretch factor. No adjustment to the annual revenue requirements, calculated under the approved RCI approach, is contemplated or made in relation to the Acquired Utilities. Given this, Hydro One has applied the approved RCI methodology in determining the revenue requirements for 2018-2022 as part of the DRO. In so doing, the resulting revenue requirement amounts (a) meet the just and reasonable standard (since they result from the approved RCI methodology and take into account the Board's directions regarding reductions) and (b) are amounts determined to be recoverable from legacy customers and not Acquired Utility customers because the Acquired Utilities revenue requirement has not and will not be consolidated with the rest of Hydro One's revenue requirement during any part of the test period.

2. SEC appears to suggest that the 2021 and 2022 RCI approved and determined revenue requirements are to be reduced by an amount resulting from any allocated amounts Hydro One originally intended to recover from Acquired Utility customers. In so doing, SEC suggests that cost responsibility for such amounts would, mid-period, change and be borne by Hydro One's shareholders as opposed to its ratepayers. Yet, nowhere in the Decision is there any reference to an adjustment that further reduces the revenue requirement for the 2021 and 2022 test periods. Instead, the revenue requirements have been approved and are intended to be calculated in the same manner over the entire test period using the RCI approach which establishes the approved revenue requirement to be recovered from legacy customers alone. Furthermore, if the Board had intended to alter cost responsibility midway through the test period such that shareholders suddenly assume responsibility for costs previously recovered from legacy ratepayers, express findings would be required justifying why the impugned amounts no longer relate to the provision of distribution service and recoverable from ratepayers. This type of mid-period change in cost responsibility is simply not found in the Decision.
3. SEC's letter suggest that cost allocation models need to be rerun for all years of the test period in order to implement the Board's Decision. Contrary to this suggestion, in its findings with respect to Annual Updates (Issue 14) at page 38 the Board states "*Given that the load forecast and cost of capital will not be updated, and the revenue requirement for the Acquired utilities will not be consolidated in 2021, there is no need to update the cost allocation model during the plan term.*" Consistent with this finding, Hydro One has updated its 2018 cost allocation model to reflect the Board's Decision and will not make any further updates to the cost allocation model during the 2018-2022 rate period.
4. In its findings on the integration of acquired utilities (Issue 14) at page 39 the Board states: "*Under Issue 56, the OEB has determined that the Acquired Utilities will not be integrated into the revenue requirement of the rest of Hydro One during the plan term.*" Consistent with that finding, the Draft Rate Order keeps Hydro One's revenue requirement separate from the impact of integrating the Acquired Utilities and determines Hydro One's revenue requirement using the RCI approach framework approved by the Board
5. SEC's request would necessitate an approved load forecast for the Acquired Utilities for all years of the test period as an input to running the requested cost allocation models. Contrary to this suggestion, in its findings on the adjustment to load forecast for Acquired Utilities (Issue 48) the Board states at page 131 "*The OEB has determined that rates will be set for the Acquired Utilities based on the Price Cap IR approach when the deferred rebasing period concludes. For this reason, no load forecast is required for the Acquired Utilities during the plan term. Hydro One shall remove the load for the Acquired Utilities from its load forecast for 2021 and 2022.*" Consistent with this finding, the load forecast for the Acquired Utilities has not been approved as part of this Application and has been removed from Hydro One's load forecast for 2021 and 2022.

Furthermore, aside from the incorrect interpretation of the Decision advanced by SEC, the information sought by SEC does not exist. There is no evidence on the record in this case concerning the allocation of costs to the Acquired Utilities customers, other than the proposal for integration to occur in 2021 that has not been approved by the Board. The request from the SEC would necessitate the creation of new evidence, based on information that was not on the record in the proceeding. This would in turn necessitate a further hearing to review and test the evidence put forward. However, none of this new evidence would impact (a) the justness and reasonableness of the underlying costs derived from the approved RCI methodology; or (b) the

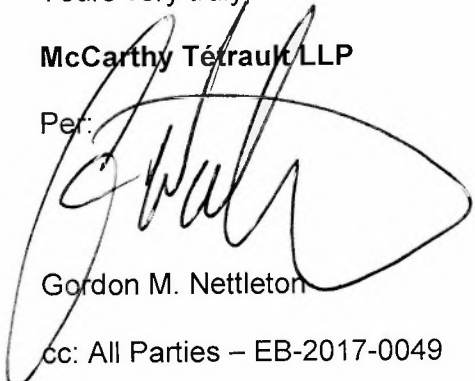
Board's findings that for rate design purposes, such amounts may not be allocated to Acquired Utility customers in any part of the test period. As such, even if the new evidence were created, and a further hearing held, it would not have an impact on the DRO, and therefore the Board should not make the order requested by SEC.

Finally, as noted by Hydro One in its covering letter to the DRO, rates for the Acquired Utilities will be set on a Price Cap basis at the end of the rebasing period ensuring that the rates paid by Acquired Utilities' customers are not impacted by Hydro One's costs over the Custom IR plan term. To the extent that the revenues collected from the Acquired Utilities' customers based on rates adjusted by the Price Cap do not cover Hydro One's costs of serving the Acquired Utilities, then as noted in the Board's Decision, any shortfall in revenue will be absorbed by Hydro One.

Yours very truly,

McCarthy Tétrault LLP

Per:



Gordon M. Nettleton

cc: All Parties – EB-2017-0049