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April 11, 2019 **VIA E-Mail**

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

Dear Ms. Walli:

Re: EB-2017-0049 –Hydro One Distribution – Draft Rate Order

As counsel for Vulnerable Energy Consumers Coalition (VECC), I am writing with respect to the correspondence that has taken place between Mr. Shepherd (counsel for the School Energy Coalition) and Mr. Nettleton (counsel for Hydro One Networks) on March 12th and 13th respectively and more recently with the Board Secretary on April 8th and April 9th regarding Hydro One Networks Draft Rate Order (DRO) for EB-2017-0049.

In its Decision the Board determined that:

1) "The Acquired Utilities will not be integrated into the revenue requirement of the rest of Hydro One during the plan term" (page 39),
2) "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" (page 164), and
3) "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" (page 164).

As result the Decision clearly set out the basis for the rates to be charged to customers of the Acquired Utilities during the five-year Custom IR period.

In VECC's view, the issue that must be dealt with as part of the DRO is the determination of the "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" so as to ensure that it is not included in the revenue requirement and resulting rates for the legacy customers of Hydro One Networks. More specifically, the question becomes one of what are Hydro One Networks' "costs" of serving the Acquired Utilities' customers.

The DRO filed on April 5th (page 7) is premised on the view that the "costs" of serving the Acquired Utilities customers that the Board is referring to are the incremental costs that Hydro One Networks has incurred as a result of the acquisitions. However, in VECC's view, this interpretation is problematic in that:

1) It is inconsistent with the Board's rationale for denying Hydro One's rates proposals with respect to the Acquired Utilities. This rationale was based, in part, on "Hydro One's cost allocation evidence indicates that in the absence of adjustment factors, Hydro One's long term costs to serve the Acquired Utilities are higher than the costs of those previous utilities" (page 162), and
2) It is inconsistent with claims made by Hydro One in its initial MAAD applications for these utilities that "in the long term, because fixed costs of operations will be spread over a wider customer base, HONI Distribution's customers will see a small price benefit" (EB-2013-0187, Exhibit A, Tab 2, Schedule 1, page 2). Under Hydro One Networks' interpretation legacy customers would see no benefit from the transactions. In VECC's view such a result is also inconsistent with the Board's Decision in that it is not "equitable to all customers" (page 162).

In VECC's view a reasonable interpretation of the Board's Decision requires that the costs/revenue requirement deemed to be associated with the Acquired Utilities include an allocated portion of Hydro One Networks' shared costs and that SEC's request that Hydro One identify such costs is appropriate.

VECC acknowledges that the Board did not "approve" a cost allocation methodology that includes the Acquired Utilities nor a load forecast for the Acquired Utilities' customers. However, this does not preclude Hydro One Networks from using the information provided in the proceeding to provide a reasonable estimate as to the costs (including shared costs) associated with its Acquired Utilities as part of its DRO.

Ultimately how the "costs" of serving the Acquired Utilities should be defined for purposes of the DRO and establishing the revenue requirement and rates associated with Hydro One Networks' legacy customers is something for the Board to determine. However, in VECC's view, without the information requested by SEC the debate is both uninformed and one-sided. As a result, VECC supports SEC's letters of March 12th and April 8th.

Yours truly,

Original Signed

John Lawford
Counsel for VECC

Cc: All Parties – EB-2017-0049 –via email