April 29, 2019

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

Dear Ms. Walli:

<u>Re: EB-2017-0049 – Hydro One Networks Inc. – Distribution Draft Rate Order</u>

We are representing the Consumers Council of Canada ("Council") in the above-referenced proceeding. We are writing to express our concerns about the Draft Rate Order and supporting evidence filed by Hydro One Networks Inc. ("HON") regarding its Distribution rates for the period 2018-2022. We have concerns regarding the capital expenditure reductions and HON's treatment of its Acquired Utilities. We have a few brief comments regarding both of those issues.

The Council has reviewed the submissions of the School Energy Coalition ("SEC") and the Ontario Energy Board Staff ("Staff").

With respect to the capital expenditure reductions the Council agrees with both SEC and Staff that the information provided by HON in the Draft Rate Order materials is not adequate in terms of assessing whether HON has complied with the Ontario Energy Board's ("OEB") Decision. Of particular concern to the Council is the fact that HON has provided little information to support the rate base adjustments flowing from the OEB's capital expenditure reductions. As noted by Staff although HON has reduced its System Renewal investments over the five-year rate plan period, System Service investments have increased significantly over the same period.[1] This does constitute new evidence that has not been tested or approved by the OEB. Effectively, HON does not have approval from the OEB of this increase in System Service expenditures.

In addition, HON has not provided the relevant in-service addition evidence required by the OEB to ensure compliance with its Decision. As noted by SEC there is an inconsistency between how the capital expenditure numbers and the in-service addition numbers are reported.[2] The Council submits that until there is more complete evidence filed By HON regarding how the OEB reductions were translated into in-service additions and rate base, the OEB cannot approve the rates as proposed by HON. Clearly more detailed information is needed.

In its submission SEC has noted that HON is, with respect to the Acquired Utilities, extending the deferred rebasing periods until December 31, 2022. This is counter to what is in the OEB's Decision in which the OEB explicitly stated, "The rates for the Acquired Utilities will be based on the Price Cap IR

[1] OEB Staff Submission, dated April 25, 2019, p. 14
[2] SEC Submission, dated April 25, 2019, p. 6

approach once the deferred rebasing period concludes."[3] The end result of HON's proposals will be that the legacy customers will be cross-subsidizing the Acquired customers. The OEB's Decision explicitly stated:

> The OEB finds that any shortfall in the 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[4].

HON's proposals do not result in HON's shareholders bearing the difference between the revenues received from the Acquired customers and the higher costs to serve them. The Council submits that HON's legacy customers should not be required to subsidize the Acquired customers. The Council submits that HON should be required to provide more detailed evidence to justify its proposals regarding the Acquired utilities. HON's current proposals appear to be providing its shareholders a net benefit by extending the deferred rebasing period for the Acquired customers (as set out in SEC's submission). In addition, HON's proposals result in the legacy customers bearing costs related to serving the Acquired customers, costs that should be excluded from their revenue requirement, which is used to derive rates.

Yours truly,

Julie E. Girvan

Julie E. Girvan

CC: All parties
HON, Regulatory Affairs

[3] EB-2017-0049 – OEB Decision, p. 39
[4] Decision, p. 162