November 20, 2020

Christine Long
Registrar
Ontario Energy Board
2300 Yonge Street
P.O. Box 2319
Toronto, Ontario
M4P 1E4

Dear Ms. Long:

EB-2020-0030 – Hydro One Networks Inc. – 2021 Distribution Rates

Please find, attached, the Final Argument of the Consumers Council of Canada in the above-reference proceeding. We apologize for the late filing of our argument.

Yours truly,

Julie E. Girvan

Julie E. Girvan

CC: All Parties
HON, Regulatory Affairs

FINAL SUBMISSIONS OF THE CONSUMERS COUNCIL OF CANADA

RE: 2020-0030

HYDRO ONE DISTRIBUTION INC. – 2021 RATES

On August 30, 2020, Hydro One Networks Inc. ("HON") filed an Application to the Ontario Energy Board ("OEB") for approval of its 2021 rate adjustment. The Application seeks approval of the following:

1. Approval of 2021 rates and charges effective January 1, 2021, by way of an update to i) the revenue requirement curtly approved by the OEB; ii) the associated customer and load forecast by rate class as approved by the OEB for 2021; and iii) the disposition of deferral and variance accounts;

2. Approval of the 2021 Retail Transmission Service Rates ("RTSR") effective January 1, 2021;

3. Approval of updated Specific Service Charges for 2021[1];

In addition, HON is seeking to credit to customers an amount of $21.7 million related to its 2018 and 2019 Earnings Sharing Mechanism ("ESM").

The Council has very few submissions to make regarding HON's Application. The Council's submissions relate to the clearance of the deferral and variance accounts ("DVAs") and HON's calculation of the Capital Factor for 2021.

Deferral and Variance Accounts:

HON is proposing to dispose of a $48 million credit balance to customers. This is comprised of 2019 Group 1 DVA audited balances of $26.2 million and an ESM amount of $21.7 million[2]. HON's proposal is to clear these accounts on a final basis.[3] The Council submits that the accounts should be cleared at this time, but only on an interim basis. OEB Staff has raised a number of concerns with the way the balances have been calculated. Unless those concerns are resolved the disposition should be deemed interim.

Capital Factor:

[1] 2021 Rate Application, p. 4
[2] 2021 Rate Application, p. 10
[3] OEB Staff- 1

HON applied for a revenue cap adjustment for its rates for the period 2018-2022. In its Decision the OEB approved a stretch factor, applicable to capital of .6%. The stretch factor is intended to incent productivity improvements throughout the term, and to provide customers the benefit from these additional improvements up front.[4]

The Council is of the view that HON's application of the stretch factor for capital is inconsistent with the OEB's Decision approving the revenue cap index. The Council has reviewed the analysis undertaken by the School Energy Coalition ("SEC") which clearly demonstrates that HON's application of stretch factor provides a very small upfront benefit to customers in the years 2020-2022. It is only in the first year that the .6% stretch factor, approved by the OEB is applied. In the years 2020-2022 the effective annual stretch factor is .02%. In effect, HON has failed to apply the stretch factor on a cumulative basis. The capital related revenue requirement used for years 3-5 of the plan term does not take into account the stretch factor in the prior years of the plan. The capital related revenue requirement resets each year to the higher amount, as if there had been no stretch factor in prior years.[5]

SEC has estimated that the impact of failing to apply the stretch factor properly is approximately $11.4 million in 2021 and $17.3 million in 2021.[6] The Council submits that in order to ensure that the rates for 2021 and 2022 are consistent with the OEB's previous Decision, HON's methodology and proposed capital factor for 2021 should not be approved. Instead, the stretch factor should be applied on a cumulative basis resulting in a lower Capital Factor than the 1.95% set out in the Application. In order to ensure customers are provided with a meaningful upfront benefit with respect to capital, and to ensure HON is incented to look for further productivity in the last two years of its plan this change to the methodology used by HON must be made.

---

[4] EB-2017-0049 – Decision and Order, March 7, 2019, p. 32
[5] SEC Submissions dated November 18, 2020, pp. 3-4
[6] Ibid, p. 2