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BY E-MAIL

December 10, 2015

Oded Hubert
Vice President – Regulatory Affairs
Hydro One Networks Inc.
7th Floor, South Tower
483 Bay Street
Toronto ON M5G 2P5

Oded.Hubert@HydroOne.com

Dear Mr. Hubert:

**Re: Hydro One Networks Inc. (Hydro One)
Application for 2016 Distribution Rate Order
Ontario Energy Board File Number: EB-2015-0079
OEB Staff Submissions on Draft Rate Order**

Please find attached the OEB staff submission on Hydro One's draft rate order for this proceeding.

Yours Sincerely,

Harold Thiessen
Ontario Energy Board staff
Case Manager, EB-2015-0079

2016 ELECTRICITY DISTRIBUTION RATES

Hydro One Networks Inc.

EB-2015-0079

**OEB Staff Submission
Draft Rate Order**

December 10, 2015

**OEB Staff Submission
Hydro One Networks Inc.
EB-2015-0079
Draft Rate Order**

Introduction

Hydro One Networks Inc.'s (Hydro One) draft rate order (DRO) was filed on September 30, 2015 and updated on December 1, 2015. The DRO implements the OEB's decision in the EB-2013-0416 proceeding for the 2016 rate year and also implements the OEB's new residential rate design policy.

Ontario Energy Board (OEB) staff has reviewed Hydro One's draft rate order (DRO). In addition, OEB staff took part in the DRO technical conference on December 4, 2015 and has also reviewed Hydro One's undertaking responses which were filed with the OEB on December 7, 2015.

As set out in Procedural Order No. 1 for this proceeding, OEB staff and intervenors may file any written submissions regarding the DRO by December 10, 2015.

Implementation of the EB-2013-0416 Decision

In the implementation of the OEB's EB-2013-0416 decision, Hydro One adjusted 2016 revenue requirement and rates in a number of areas including operating, maintenance and administration costs, cost allocation, cost of capital and rate design, as per the Decision. Staff submits that these changes were made appropriately.

Implementation of the New Rate Design for Residential Classes (EB-2012-0410)

In accordance with its policy regarding residential rate design, issued on April 2, 2015¹, the OEB expects that all distributors will transition to fixed rates in equal increments over a four-year period. The OEB has established two main tests for considering whether a deviation from this expectation is warranted.

The first is if the increase to the monthly fixed charge would need to be greater than \$4 to achieve the transition within four years. As Hydro One reports in its application, a four year phase-in period would result in an increase of significantly more than \$4 to the monthly fixed charge for all Hydro One residential rate classes.

¹ EB-2012-0410 Board Policy : A New Distribution Rate Design for Residential Electricity Customers

Table 1: Transition to Fixed Rates Under Standard Approach²

Rate Class	Annual Increment to Fixed Charge under 4 year transition
Urban	\$4.09
R1	\$8.04
R2	\$13.61
Seasonal	\$7.29

The values in Table 1 also demonstrate that if Hydro One were to apply the basic increase of \$4 per year, the transition to a fully fixed residential rate would be unreasonably long -- especially for the residential R2 class. Consequently, OEB staff acknowledges that the fixed rate increase will need to be a value greater than \$4 to complete the implementation of fully fixed rates in an acceptable timeframe. The issue, then, in staff's view, is how best to "balanc[e] considerations of customer impact with achieving the objectives of the policy and maintaining a similar timeline for all distributors"³.

Hydro One's proposed mitigation plan for the transition to fully fixed rates is shown below. Hydro One has chosen a blend of increments and transition years longer than 4 years in all cases and greater than \$4 for three of the four residential classes, as follows:

Table 2: Hydro One's Proposed Transition to Fixed Rates For Residential Customers⁴

Rate Class	Annual Increment to Fixed Charge	Number of Transition Years
Urban	\$3.22	5
R1	\$6.52	5
R2	\$11.74	5
Seasonal	\$4.40	7

OEB staff submits that the proposal in respect of the Urban residential class is consistent with the OEB's expectation of extending the transition for a fifth year to bring the fixed increase below \$4, as several other distributors have done.

To evaluate the remainder Hydro One's proposal, OEB staff submits that the second test developed for evaluating the transition to fixed rates should be assessed. Because the move to fixed rates will impact customers who consume less energy in a billing period, the OEB established that bill impacts of the transition would be evaluated for a residential customer at the distributor's 10th percentile of consumption, which in Hydro One's case is 350kWh for UR and R1 customers, 450kWh for R2 customers, and 50kWh for seasonal customers.

² DRO December 1, 2015 Update Exhibit 3.5

³ EB-2012-0410 Board Policy : A New Distribution Rate Design for Residential Electricity Customers, p. 25

⁴ DRO December 1, 2015 Update Exhibit 3.1

Using the figures presented in Attachment 1 of the DRO TC3 undertaking response, staff has calculated total bill impacts of less than 10% for these low volume customers in each rate class including all changes to 2016 distribution rates and the effects of changes to regulatory charges established by the OEB, when compared to the total 2015 bill amount before the application of the Ontario Clean Energy Benefit and debt retirement charge.

OEB staff acknowledges that these changes do not reflect all of the changes in costs that customers face. Given the removal of the Ontario Clean Energy Benefit and the Debt Retirement Charge from residential customer bills starting in 2016, total bill impacts for low volume customers, reflecting all changes, will exceed 10% in many instances.

However, OEB staff submits that, as the OEB's policy paper notes, the assessment of the need to mitigate the effects of the transition to fixed rates for low volume customers is designed to consider whether "other rate changes being made as a result of other OEB decisions, which together with the policy change, could result in unusually large bill impacts"⁵. Changes to the bill resulting from the provincial government's decision to phase out the OCEB and the DRC are not within scope of the impact evaluation. While these impacts may be appreciable, the OEB's test recognizes that these changes are neither an OEB decision nor of a magnitude that the OEB typically has tools to mitigate in an annual update application such as this one. On this basis, Hydro One's proposal appears reasonable on the basis of the evaluation framework that the OEB has established.

Therefore, OEB staff agrees that Hydro One's proposal passes the second test. Nevertheless, OEB staff is of the view that further consideration of the adequacy of the mitigation plan is necessary given that the combined bill impacts of Hydro One's proposal and the implementation of the EB-2013-0416 decision remain significant, especially for the residential R2 class.

A core consideration from OEB staff's perspective is that the current size of a typical bill for a Hydro One R2 low volume customer is already sufficiently large that evaluation of the bill by reference to a proportional increase alone may not be the most appropriate tool. In staff's view, dollar impacts should factor into the evaluation in this instance.

Table 3 summarizes the overall impact of Hydro One's proposed rate changes on low volume customers, the group which will most acutely experience the combined effects of both the rate transition and the other changes being implemented through this Decision.

⁵ EB-2012-0410 Board Policy : A New Distribution Rate Design for Residential Electricity Customers, p.26

Table 3: Impacts of Changes in Distribution Charges Only – Low Volume Customers

Rate Class	Impact Before Fixed Rate Change	Impact Inclusive of Change to Fixed Rates	Typical Total Monthly Bill (2016, including tax)
Urban	-\$0.64	\$1.29	\$85.92
R1	\$0.30	\$4.14	\$102.95
R2	\$4.72	\$9.59	\$144.26
Seasonal	\$1.32	\$3.88	\$51.27

Source: Tables 2 and 3, DRO Update p7-8 and DRO TC3 Exhibit 6.0

In staff's view, the cost to low volume R2 customers of a five year implementation is too high. In staff's view, Hydro One should adopt a transition period for R2 customers that is at least as long as the seasonal class's transition of seven years. OEB staff has calculated that this would diminish the annual increase to the fixed rate by \$3.36, to \$8.38 from the proposed \$11.74. The increase to the fixed rate will be offset by a decrease to the variable rate so the net effect of the change will be dependent on each customer's consumption.

OEB staff further notes that the cost levels involved in this circumstance may also prompt consideration for varying from the expectation that the transition to fixed rates take place in equal increments as contemplated in OEB policy. OEB staff notes that Hydro One is expected to rebase at least once during the five year transition it has proposed. Staff submits that while five- (for UR and R1) and seven-year (for R2 and seasonal) transitions could be adopted for the two remaining years of its current rate term, it should be open to Hydro One to re-evaluate whether a different pace of change could be undertaken at its next rebasing. This may further smooth impacts for customers or enable faster achievement of the transition if conditions warrant.

OEB staff further notes that any proposal change to the pace of the transition to fixed rates for the seasonal class should consider any plans for the elimination of that class as contemplated in the EB-2013-0416 decision, including any schedule developed to transition customers into their respective density-based residential classes.