

Hydro One Networks Inc.

Implementation of the Ontario Energy Board Decision to eliminate the Hydro One Networks Inc. Distribution Seasonal Rate Class

**PROCEDURAL ORDER NO. 3
September 17, 2019**

The purpose of this Procedural Order is to address how the Ontario Energy Board (OEB) intends to treat a portion of the July 19, 2019 filing (2019 Seasonal Report)¹ made by Hydro One Networks Inc. (Hydro One) in this proceeding. Specifically, and as discussed in more detail below, the OEB has determined that it will treat Section 5 of the filing entitled “Alternate Approach to Elimination of the Seasonal Class” as a motion to review part of the OEB’s decision of March 12, 2015 on Hydro One’s distribution rate application (March 2015 Decision).² For that purpose, as an initial step the OEB is inviting Hydro One to file additional material and submissions.

Given the relatively long history of this matter, and the level of interest by the public in recent weeks, the OEB considers it appropriate to provide additional context before discussing in detail the treatment of Hydro One’s 2019 Seasonal Report.

1. Hydro One’s Seasonal Rate Class

Hydro One has a residential distribution rate class known as the seasonal class. These are customers that receive electricity service at dwellings that are not occupied long enough during the year to meet the current requirements for Hydro One’s other, year-round residential distribution rate classes. The dwellings in question include cottages, chalets and camps.

¹ Hydro One Networks Inc. EB-2016-0315 “Implementation of the Ontario Energy Board Decision to Eliminate the Seasonal Rate Seasonal Class – Updated Seasonal Report,” July 19, 2019.

² EB-2013-0416/EB-2014-0247

The seasonal class is defined largely on the basis of the number of months of occupancy per year. By contrast, Hydro One's other residential classes are density-based, defined by their geographic location and the number of customers per km of distribution line.³

Although seasonal customers occupy their dwellings for less than the full year, the distribution system assets that meet their need for electricity service have to be maintained by Hydro One on a year-round basis.

2. Setting Distribution Rates

The OEB's mandate is to set rates that are just and reasonable for all of a distributor's customers. In performing that mandate, the OEB is guided by a number of objectives, including protecting the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service.

When the OEB sets distribution rates, one of the decisions that it must make is how to divide costs among different classes of customers. The OEB does this based on what it costs to serve each class. A key factor in this exercise is customer density. It costs less per customer for Hydro One to provide service to customers who live in more densely populated areas than it does for those who live in rural or remote areas that require more facilities per customer to serve them. If there are only 10 customers attached to a series of lines, poles and related transformers, rather than 100, the costs are shared by fewer customers and therefore each customer pays more. In addition, those 10 customers expect to have electricity service when they want it, and the lines, poles and related transformers that serve them need to be maintained by Hydro One year-round. Fallen trees and lines in the winter must be addressed for safety reasons.

The OEB also sets the rates for electricity consumed. The cost of electricity consumed is distinct from the cost of providing the distribution system. All customers are billed separately for the electricity they consume.

3. The March 2015 Decision to Eliminate Seasonal Rates

When Hydro One applied to the OEB to set new distribution rates for the period 2015 to 2019,⁴ Hydro One initially proposed that about 11,000 higher-use seasonal customers be moved to other residential rate classes with similar consumption patterns. Hydro One

³ Hydro One defines its density zones as follows: the high density zone is where there are more than 3000 customers and at least 60 customers per km of line; the medium density zone is where there are more than 100 customers and at least 15 customers per km of line; and the low density zone is where there are less than 15 customers per km of line.

⁴ EB-2013-0416 / EB-2014-0247

eventually withdrew that proposal and submitted that no further review of seasonal rates would be helpful.

However, during the proceeding several representatives of consumers raised concerns about the seasonal class. Balsam Lake Coalition (BLC) – a group comprised of several seasonal customers – submitted that a relatively small number of higher-use seasonal customers were subsidizing lower-use seasonal customers. In other words, relative to the costs of the service they receive, some seasonal customers were paying too much and others too little. BLC proposed that the seasonal class be eliminated. Other participants in the proceeding were opposed to the elimination of the seasonal class, some because of the estimated bill impacts for lower-use customers.

In its March 2015 Decision, the OEB determined that Hydro One's seasonal class should be eliminated and existing seasonal class customers should be moved to one of three Hydro One residential rate classes according to their density:

Given the significance and predominance of the density cost causality characteristic the OEB is not convinced that the load characteristics of seasonal customers are sufficiently different from their neighbours in the residential classes to justify the continuation of the seasonal class.⁵

The OEB was aware that the elimination of the seasonal class will cause bill impacts, particularly for lower-use seasonal customers. The OEB therefore directed Hydro One to bring forward a bill mitigation plan for the elimination of its seasonal class that would include a phase-in period for those customers expected to experience a total bill impact of greater than 10% as a result of moving to another rate class. Bill mitigation is a tool used by the OEB to protect consumers from having large bill increases at one time, for example by phasing in the increase over a number of years.

4. Developments since the March 2015 Decision

In a concurrent 2015 proceeding, the OEB issued a policy to transition all residential customers in Ontario to fully fixed distribution rates.⁶ The policy was issued three weeks after the March 2015 Decision.

Hydro One filed its "Report on Elimination of the Seasonal Class" on August 4, 2015 (2015 Seasonal Report).

⁵ EB-2013-0416/EB-2014-0247 Decision, March 12, 2015, page 48

⁶ EB-2012-0410, April 2, 2015

On September 30, 2015, the OEB ordered Hydro One to apply the OEB's policy to move to fully fixed distribution rates to customers in its seasonal class, with changes to be effective January 1, 2016. In so doing, the OEB stated that this was an initial step in implementing the OEB's direction to eliminate the seasonal class by aligning rates for these customers' premises with the density-based rate structure applicable to other residential customers.⁷

The OEB initiated a new proceeding to consider the remaining steps for the elimination of the seasonal class in November 2016 under section 78 of the *Ontario Energy Board Act, 1998*. The OEB ordered Hydro One to update its 2015 Seasonal Report, and Hydro One filed an updated report on December 1, 2016 (2016 Seasonal Report).

Shortly after that, in March of 2017, Hydro One filed an application for approval of its proposed 2018-2022 distribution rates.⁸ By letter dated September 20, 2018, the OEB informed parties that it intended to resume the current seasonal class elimination implementation proceeding at the conclusion of its review of Hydro One's proposed 2018-2022 distribution rates. The OEB indicated that an update to the 2016 Seasonal Report was expected in which Hydro One could propose a revised approach to the elimination of the seasonal class. The OEB issued its Decision and Order on Hydro One's 2018-2022 distribution rate application on March 7, 2019.

The OEB resumed the current proceeding on April 17, 2019, by issuing Procedural Order No. 2 (PO No. 2). In PO No. 2, the OEB ordered Hydro One to file an updated report on the elimination of the seasonal class, including rate and bill impacts for each of the three years of 2018, 2019 and 2020 and a proposed mitigation plan to address bill impacts higher than 10% for seasonal customers moving to Hydro One's other residential rate classes. PO No. 2 reiterated that the OEB's decision to eliminate the seasonal class had been made in a prior proceeding.

5. Hydro One's 2019 Seasonal Report

Hydro One filed its updated 2019 Seasonal Report on July 19, 2019. The 2019 Seasonal Report includes a proposed alternative that would maintain the seasonal class, but inaccurately claims that Hydro One was invited by the OEB to propose such an alternative. The OEB allowed Hydro One to propose a revised approach that would still achieve the seasonal class elimination. Maintaining the seasonal class was not an

⁷ EB-2013-0416/EB-2015-0257, Order, September 30, 2015

⁸ EB-2017-0049. Although Hydro One's earlier rate application had requested that distribution rates be set for 2015 through to the end of 2019, the OEB only approved rates for the period January 1, 2015 to December 31, 2017.

option to consider within the scope of the current proceeding. The OEB determined that the seasonal rate class should be eliminated in its March 2015 Decision, and reiterated that decision in PO No. 2 of the current proceeding.

As Hydro One is aware, requests to reconsider an earlier OEB decision are made to the OEB by means of a motion to review under Part VII of the OEB's *Rules of Practice and Procedure* (Rules). In a motion to review, the OEB considers whether there is a question as to the correctness of the decision being reviewed.

The OEB has determined that it will treat Section 5 of Hydro One's 2019 Seasonal Report, entitled "Alternate Approach to Elimination of the Seasonal Class", as a motion to review that part of the March 2015 Decision in which the OEB determined that Hydro One's seasonal class should be eliminated and existing seasonal class customers should be moved to one of three Hydro One residential rate classes according to their density.

Under Rule 43.01 the OEB may, with or without a hearing, decide a threshold question of whether the matter should be reviewed before conducting any review on the merits. The OEB intends to proceed on this basis and will establish a separate panel for the purposes of deciding the threshold question.

The OEB will allow Hydro One an opportunity to file such additional material as it considers desirable for the purposes of the motion, and to make submissions on the threshold question. Hydro One should include, at a minimum, the information set out in Rule 42.01 indicating why, in its view, there is a question as to the correctness of the March 2015 Decision. Any further procedural steps will be determined after receipt of Hydro One's material and submissions.

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. If Hydro One wishes to file additional material for the purposes of the motion to review and to make submissions on the threshold question of whether the March 2015 Decision should be reviewed, Hydro One shall file such material and submissions by **October 1, 2019** and serve them on all parties to proceeding EB-2013-0416/EB-2014-0247.

All filings to the OEB must quote the file number, EB-2016-0315, be made in searchable /unrestricted PDF format electronically through the OEB's web portal at <https://www.pes.ontarioenergyboard.ca/eservice/>. Two paper copies must also be filed

at the OEB's address provided below. Filings must clearly state the sender's name, postal address and telephone number, fax number and e-mail address. Parties must use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at <http://www.oeb.ca/Industry>. If the web portal is not available parties may email their documents to the address below. Those who do not have internet access are required to submit all filings on a CD in PDF format, along with two paper copies. Those who do not have computer access are required to file 7 paper copies.

All communications should be directed to the attention of the Board Secretary at the address below, and be received no later than 4:45 p.m. on the required date.

With respect to distribution lists for all electronic correspondence and materials related to this proceeding, parties must include the Case Manager, Martin Davies at Martin.Davies@oeb.ca and OEB Counsel, James Sidlofsky at James.Sidlofsky@oeb.ca.

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DATED at Toronto, September 17, 2019

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary