Hydro One Networks Inc.

483 Bay Street, South Tower,
8th Floor Toronto, Ontario,
Canada
M5G 2P5

LAW
Michael Engelberg, Assistant General
Counsel Telephone: (416) 345-6305
Fax: (416) 345-6972
E-mail: mengelberg@HydroOne.com

May 15, 2020

Ms. Christine Long
Board Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge St.
Toronto, ON M4P 1E4

Dear Ms. Long:

Re: EB-2019-0234/EB-2016-0315 – Motion to Review and Revise OEB Decision to eliminate the Hydro One Networks Inc. Distribution Seasonal Rate Class

In Procedural Order No. 3 dated May 1, 2020, the Board determined that Hydro One Networks Inc. ("Hydro One") had met the threshold test for Hydro One's motion to review part of the Board's decision of March 12, 2015 ("the March 2015 Decision") in Hydro One's 2015-2019 distribution rate application in proceeding EB-2013-0416.

In the said Procedural Order, the Board gave Hydro One the right to make additional submissions on the merits of the motion and to forward those submissions to all parties no later than May 15, 2020. The Board determined that the submissions should be restricted to the change in circumstances as a consequence of the Board's subsequent decision to move to all-fixed residential rates and the subsequent introduction of Distribution Rate Protection.

Pursuant to Procedural Order No. 3, the attached document provides Hydro One's submission for the motion.

Yours very truly,

ORIGINAL SIGNED BY MICHAEL ENGELBERG

Michael Engelberg

ONTARIO ENERGY BOARD

In the matter of the MOTION BY HYDRO ONE NETWORKS INC. TO REVIEW AND REVISE THE OEB DECISION TO ELIMINATE THE HYDRO ONE NETWORKS INC. DISTRIBUTION SEASONAL RATE CLASS

and in the Matter of P. O. NO. 2, DATED MAY 1, 2020

SUBMISSION OF HYDRO ONE NETWORKS INC.

1. In Procedural Order No. 2 ("PO #2") issued by the Board in the above-noted matter on May 1, 2020, the Board determined that Hydro One Networks Inc. ("Hydro One") had met the threshold test for Hydro One's July 19, 2019, motion to review part of the Board's decision of March 12, 2015 ("the March 2015 Decision") in Hydro One's 2015-2019 distribution rate application in proceeding EB-2013-0416 ("the Original Proceeding").

2. In PO #2, the Board provided Hydro One with the right to make submissions regarding the change in circumstances as a consequence of the Board's subsequent decision to move to all-fixed residential rates and as a consequence of the subsequent introduction of Distribution Rate Protection.

A. The Board's Subsequent Decision to Move to All-Fixed Residential Rates

3. On April 2, 2015, several weeks after the March 2015 Decision, the Board issued its policy on a new distribution rate design for residential electricity customers. Then, on July 16, 2015, the Board issued a letter to all licensed electricity distributors establishing how it would implement its new policy of moving to all-fixed residential

distribution rates ("all-fixed rates"). On September 30, 2015, the Board ordered that the move to all-fixed rates would apply to customers in Hydro One's Seasonal Class ("the September 2015 Order"). The September 2015 Order had a significant and dramatic impact on the evidence led in the Original Proceeding that resulted in the March 2015 Decision and in the assessment of that evidence by Hydro One, intervenors and the Board.

4. The changes to Seasonal Class distribution rates resulting from the September 2015 Order largely addressed the concerns raised by the Balsam Lake Coalition ("BLC"), the intervenor whose concerns were relied upon by the Board in the March 2015 Decision. At page 48 of the March 2015 Decision, the Board wrote:

> *The OEB is aware that the elimination of the seasonal class will cause rate impacts, particularly for lower volume seasonal customers. At the same time, the OEB is mindful of BLC's submission that this group of customers is not paying the full costs of the service they receive.*

5. In making that statement, the Board was voicing its concern that low-volume seasonal customers were not paying the full costs of serving them, and the Board was relying on that fact as a ground to eliminate the Seasonal Class. Understandably, it was not in anyone's knowledge at that time that the soon-to-follow policy decision and September 2015 Order would fully address that problem by requiring the move to all-fixed residential distribution rates which, when completed, would result in low and high volume seasonal customers paying the same charge for distribution service. The significance of that decision was, and remains, that both low and high volume customers will be paying an equal and fair share of their costs, which was the major driver for the elimination of the Seasonal Class.

6. During the rates proceeding that resulted in the March 2015 Decision, neither Hydro One, intervenors, nor the Board could have contemplated the customer impacts resulting from the combined effect of moving to all-fixed rates and eliminating the Seasonal Class.

7. While some customer bill impact information was provided in Exhibit I, Tab 7.02, Schedule 1 Staff 94 of the Original Proceeding, that information demonstrated only the impacts of moving seasonal customers to the year-round residential classes at the fixed and variable rates that existed at the time. In fact, as it is now known, those bill impacts are not an accurate reflection of what we now know will happen to seasonal customers as a result of eliminating the Seasonal Class.

8. With the new knowledge that the move to all-fixed rates applies to the Seasonal Class, Hydro One is now able to determine and evaluate the bill impact on seasonal customers resulting from both the move to all-fixed residential rates and the elimination of the Seasonal Class. In particular, it is now possible to demonstrate the incremental impact on seasonal customers as a result of eliminating the Seasonal Class and moving to the applicable all-fixed year-round residential class rates, as compared to the impact on seasonal customers as a result of moving to all-fixed Seasonal Class rates.

9. The information summarized in Table 10 of the updated Seasonal Report filed with the Board on July 19, 2019 ("2019 Seasonal Report"), reproduced below, breaks out the end-state impacts on seasonal customers into two components: (a) the impact of just moving to all-fixed Seasonal Class distribution rates (columns 3 and 4); and (b) the incremental impact resulting from eliminating the Seasonal Class per the Board's Decision (e.g. columns 5 and 6 show the impact on seasonal customers moving to the R2 residential class all-fixed distribution rates, and columns 7 and 8 show the impact on seasonal customers moving to the R1 residential class all-fixed distribution rates).

Table 10
Break Out of End State Impacts Resulting from the Seasonal Class Moving to All-Fixed Rates and the Elimination of the Seasonal Class

Monthly Consumption (kWh)	2021 Seasonal Status Quo Total Bill	2021 Impact of Seasonal Class Moving to All-Fixed Rates		2021 Impact of Eliminating Seasonal Class					
				Seasonal-R2		Seasonal-R1		Seasonal-UR	
	($/month)	$	%	$	%	$	%	$	%
50	61.44	11.94	19%	67.47	110%	-6.66	-11%	-30.18	-49%
350	109.31	-1.76	-2%	68.09	62%	-6.61	-6%	-30.37	-28%
1000	213.03	-31.45	-15%	69.44	33%	-6.51	-3%	-30.78	-14%

10. The breakout of bill impacts provided in Table 10 demonstrates that the bulk of the benefit for high volume seasonal customers comes from the move to all-fixed rates, which results in a 15% ($31.45) reduction in the total bill for a 1000 kWh customer. The *incremental* impact from elimination of the Seasonal Class results in a relatively minor additional reduction of 3% ($6.51) in the bill for high volume seasonal customers moving to the R1 residential class but an increase of 33% ($69.44) in the bill for high volume seasonal customers moving to the R2 residential class. This information about the small incremental bill reductions for the subset of seasonal customers moving to the R1 residential class being at the expense of large incremental bill increases for those seasonal customers moving to the R2 residential class was not available to the Board at the time of the March 2015 Decision.

11. The bill impacts presented in the evidence available to the Board at the time of its March 2015 Decision (per Table 2 in Exhibit I, Tab 7.02, Schedule 1 Staff 94, reproduced below) were based on seasonal customers paying the fixed and variable rates that existed at the time for the year-round residential classes (i.e. <u>not</u> the all-fixed rates to which we now know the year-round residential classes are moving). The evidence in Table 2 showed that the low volume seasonal customers moving to the R2 residential class (and not eligible for RRRP) would experience a significant bill increase of 111.4%, but it also showed that a typical volume customer would see only

a moderate increase of 21.4% and a high volume customer would actually see a reduction of 1.5% in their bills.

Table 2
Distribution and Total Bill Impacts for Seasonal Customers Moving to R1 and R2 Residential Rate Classes

Rate Class	Consumption Level	Monthly Consumption (kWh)	Change in Distribution Bill		Change in Total Bill	
			$	%	$	%
Seasonal to R1	Low	50	$0.79	2.8%	$0.72	2.0%
	Typical	400	($18.50)	-31.9%	($19.40)	-17.4%
	High	1,000	($51.55)	-47.0%	($53.91)	-22.4%
Seasonal to R2 (no RRRP)	Low	50	$39.25	140.5%	$39.97	111.4%
	Typical	400	$23.04	39.7%	$23.87	21.4%
	High	1,000	($4.73)	-4.3%	($3.74)	-1.5%

12. In fact, as it is now known, but could not have been known during the Original Proceeding that led to the March 2015 Decision, those bill impacts are not an accurate reflection of what will happen. The combined impact on seasonal customers moving to the R2 residential class as a result of the move to all-fixed rates *and* the elimination of the Seasonal Class, demonstrated by combining the impacts shown in Table 10, will be a 129% increase for low volume seasonal customers, a not-so-moderate 60% increase for typical consumption seasonal customers, and an 18% increase for high volume seasonal customers.

13. The significantly higher bill impacts (from 21% to 60%) for a typical seasonal customer moving to the R2 class, and the complete reversal in benefits (from a bill reduction of 1.5% to a bill increase of 18%) for high volume seasonal customers moving to the R2 class, represents new information not available to the Board in reaching its March 2015 Decision.

14. While the combined impact on seasonal customers moving to the R1 residential class as a result of the move to all-fixed rates and the elimination of the Seasonal Class is

not as dramatically different from the information available to the Board at the time of the March 2015 Decision and what we now know to be the case, there are still notable differences, as can be seen by comparing the total bill impacts in Table 2 to what we now know the impacts to be as shown in Table 10. The most notable of those differences is that instead of the 22% bill reduction that the Board would have anticipated for high volume seasonal customers moving to the R1 residential class, those customers will see only an 18% bill reduction. While those two numbers are not very different, what is *significantly different* from the information available to the Board at the time of its March 2015 Decision is that most of the bill reduction (i.e. 15%) results from the move to all-fixed rates, while the elimination of the Seasonal Class results in only a small additional bill reduction (i.e. 3%).

15. As illustrated in Table 10, the move to all-fixed rates largely addresses the concern expressed by the Board regarding the disparity in distribution charges between high and low volume seasonal customers and results in a significant bill reduction for all high volume seasonal customers. The incremental impact from eliminating the Seasonal Class is only a small bill reduction of about $7 per month for the subset of seasonal customers moving to the R1 residential class, but a large incremental bill increase of about $68 per month for those seasonal customers moving to the R2 residential class, including any high volume seasonal customers moving to the R2 residential class.

16. Therefore, high volume seasonal customers moving to the R2 residential class will not benefit from the March 2015 Decision, contrary to the evidence available to the Board at the time of that Decision (i.e., Table 2) and contrary to the objective stated in the March 2015 Decision that the elimination of the Seasonal Class would address the concern of high volume seasonal customers.

17. Information on the impact to seasonal customers resulting from the move to all-fixed distribution rates, and the combined impact of both moving to all-fixed distribution

rates *and* eliminating the Seasonal Class as discussed above, was not available to the Board at the time of the March 2015 Decision.

B. The Subsequent Introduction of Distribution Rate Protection

18. The *Ontario Energy Board Act, 1998* was amended in 2019, two years after the March 2015 Decision, to add a new section 79.3, which established the Distribution Rate Protection plan ("the DRP"). The DRP, as subsequently detailed in Regulation 198/17, applies to residential customers of certain specified electricity distributors, including Hydro One's R1 and R2 residential customers. Regulation 198/17 further specifies that the DRP applies to a Hydro One R1 and R2 residential customer only "if he or she resides continuously at the service address to which the account relates for at least eight months of the year." This is the same criterion used in the Rural and Remote Rate Protection ("RRRP") Regulation 442/01, which the Board has previously ruled makes seasonal customers ineligible to receive the RRRP subsidy and therefore means that seasonal customers are also not eligible for DRP. That new fact means that even if the Seasonal Class is eliminated, customers in the same rate class will still be paying vastly different distribution charges because seasonal customers moving to the R1 and R2 residential classes will not get DRP, whereas existing R1 and R2 year-round residential customers will.

19. While the Board had information about the disparity in what seasonal customers moving to the R2 residential class ("seasonal-R2 customers") would pay in the context of the RRRP subsidy, introduction of the DRP subsidy has significantly exacerbated the problem in the R2 residential class, where existing year-round customers will get both the RRRP and DRP subsidies.

20. Table 3 compares what seasonal R2 and year-round customers in the R2 residential class would pay as a result of eliminating the Seasonal Class, with and without the RRRP and DRP subsidies.

Table 3. Comparison of 2021 Charges for R2 Residential Customers Assuming Elimination of Seasonal Class

Customers	Monthly Consumption (kWh)	Without RRRP or DRP		With RRRP		With RRRP and DRP	
		Dx Charges	Total Bill	Dx Charges	Total Bill	Dx Charges	Total Bill
Year-round R2	50	$106.92	$118.92	$46.42	$55.40	$36.86	$45.36
	350	$114.21	$161.36	$53.71	$97.84	$36.86	$80.15
	1000	$130.00	$253.33	$69.50	$189.80	$36.86	$155.53
R2-Seasonal	50	$106.92	$118.92	$106.92	$118.92	$106.92	$118.92
	350	$114.21	$161.36	$114.21	$161.36	$114.21	$161.36
	1000	$130.00	$253.33	$130.00	$253.33	$130.00	$253.33
% Increase for Seasonal vs year-round customers	50	0%	0%	130%	115%	190%	162%
	350	0%	0%	113%	65%	210%	101%
	1000	0%	0%	87%	33%	253%	63%

21. The Board would have understood the disparity between what seasonal R2 and year-round customers would pay as a result of the RRRP subsidy, as shown in the "With RRRP" columns of Table 3 (i.e., differences in Dx charges ranging from 130% to 87%).

22. The introduction of the DRP, the impact of which is illustrated in the "With RRRP and DRP" columns of Table 3, significantly increased the disparity between what seasonal R2 customers and year-round R2 customers pay. The result is that the introduction of the DRP means that seasonal R2 customers would now be paying distribution charges between 190% to 253% more than the year-round R2 customers (for low and high volume customers respectively), which represents a significant increase in the differences the Board would have understood the impacts to be under RRRP alone.

23. The issue of the disparity in distribution charges between seasonal customers moving to the R1 residential class ("seasonal R1 customers") and the year-round R1 residential customers is even more significant because the Board and parties to the Original Proceeding would have believed that seasonal R1 customers would pay

exactly the same rates as year-round R1 customers; but that anticipated result changed completely when the DRP subsidy came into effect and seasonal customers were not eligible to receive the subsidy.

24. Table 4 compares what seasonal-R1 and year-round customers in the R1 residential class would pay, with and without the DRP subsidy, as a result of eliminating the Seasonal Class.[1]

Table 4. Comparison of 2021 Charges for R1 Residential Customers Assuming Elimination of Seasonal Class

Customers	Monthly Consumption (kWh)	Without DRP		With DRP	
		Dx Charges	Total Bill	Dx Charges	Total Bill
Year-round R1	50	$46.94	$55.85	$36.86	$45.27
	350	$51.32	$94.67	$36.86	$79.48
	1000	$60.81	$178.76	$36.86	$153.62
R1-Seasonal	50	$46.94	$55.85	$46.94	$55.85
	350	$51.32	$94.67	$51.32	$94.67
	1000	$60.81	$178.76	$60.81	$178.76
% Increase for Seasonal vs year-round customers	50	0%	0%	27%	23%
	350	0%	0%	39%	19%
	1000	0%	0%	65%	16%

25. In the case of seasonal customers moving to the R1 residential class, the Board would have based its decision in the Original Proceeding on the understanding that seasonal R1 and year-round R1 customers would be paying the ***same*** distribution charges as a result of the elimination of the seasonal class (i.e., 0% difference, as shown in the "Without DRP" columns in Table 4).

[1] The RRRP does not apply to the R1 residential class.

26. In fact, with the introduction of the DRP, seasonal R1 customers will be paying distribution charges ranging from 27% to 65% more than the year-round R1 customers (for low and high volume customers respectively).

27. The result is that, while the Seasonal Class would be technically eliminated by the March 2015 Decision, in practice, and in fact, seasonal customers moving to the R1 and R2 residential classes would continue to be distinctly identified for billing purposes and would continue to pay distinctly different distribution charges from those paid by the R1 and R2 year-round residential customers in the same classes. Hydro One submits that this is contrary to the outcome anticipated by the Board in the March 2015 Decision.

C. Conclusion

28. Hydro One therefore submits that Seasonal Class customers should be maintained in their own rate class and that their distribution rates should continue the transition to a fully-fixed charge, in accordance with the existing schedule approved by the Board. The currently approved schedule for transition to fully-fixed distribution charges will result in seasonal customers being at a fully-fixed charge starting January 1, 2023.

29. This approach is recommended for the reasons stated above in this Submission, and for the following reasons, which are fully detailed in the July 19, 2019, updated report on the elimination of the Seasonal Class:

i. It fully addresses the concerns identified in the March 2015 Decision, which were the disparity in costs paid by high and low volume seasonal customers and ensuring that seasonal customers' rates reflect cost causality.

ii. It provides the ~70,000 seasonal customers that would move to the R1 residential class with benefits similar to what they would receive under the approach contemplated by the March 2015 Decision.

iii. It avoids the very large negative impacts to the ~78,000 seasonal customers that would move to the R2 residential class under the approach contemplated by the March 2015 Decision.

iv. It keeps seasonal customers together as a group, which allows them to benefit from a lower allocated cost-to-serve consistent with cost causality principles and the cost allocation methodology approved by the Board for Hydro One.

v. It avoids a likely increase in customer confusion and customer complaints under the approach contemplated by the March 2015 Decision resulting from "seasonal" customers paying significantly different rates than year-round customers within the "same" R1 and R2 residential classes, as a result of existing RRRP and DRP regulations that exclude seasonal customers from receiving those subsidies.

vi. It does not incur any seasonal customer impact mitigation costs. Any mitigation costs would eventually have to be recovered from all non-Seasonal Class customers, and they are estimated to be significant: totalling $209M if the Seasonal Class were eliminated per the approach contemplated by the March 2015 Decision, or totalling $30M if the transition to fully-fixed charges for the Seasonal class were advanced to be completed by January 1, 2021.[2]

[2] A discussion and calculation of mitigation costs is provided in Section 4.3 and Section 5.2 of the 2019 Seasonal Report.

ORDER REQUESTED

30. Hydro One therefore requests that the Board rely on this submission, as well as on the evidence in the proceeding that led to the March 2015 Decision, to find that:

i. the March 2015 Decision should be revised so as not to eliminate the Seasonal Class; and
ii. Hydro One should proceed with the Board's move to all-fixed residential distribution rates for the Seasonal Class, as previously approved by the Board in its September 2015 Order.

All of which is respectfully submitted.

ORIGINAL SIGNED BY MICHAEL ENGELBERG

Michael Engelberg

Counsel to Hydro One Networks Inc.