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**Stephen Vetsis**  
Director Pricing and Regulatory Policy

BY EMAIL AND RESS

September 29, 2021

Ms. Christine E. Long  
Registrar  
Ontario Energy Board  
Suite 2700, 2300 Yonge Street  
P.O. Box 2319  
Toronto, ON M4P 1E4

Dear Ms. Long:

**EB-2020-0246 – Implementing the Ontario Energy Board’s Decision to Eliminate the Hydro One Networks Inc. Distribution Seasonal Rate Class – Reply Submission**

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In accordance with Procedural Order No. 3 please find enclosed Hydro One’s reply submission on Implementing the Ontario Energy Board’s Decision to Eliminate the Hydro One Networks Inc. Distribution Seasonal Rate Class.

An electronic copy of this submission has been filed through the OEB’s Regulatory Electronic Submission System and served on all intervenors of record in this proceeding.

Sincerely,

A handwritten signature in blue ink, appearing to read "Stephen Vetsis". The signature is stylized and cursive.

Stephen Vetsis



1 2027 rate framework filed in Hydro One's Joint Rate Application ("JRAP") in EB-2021-0110.  
2 Aligning with Hydro One's rebasing allows for a more accurate reflection of the impact of  
3 eliminating the Seasonal class, given that the JRAP includes a more current run of the Cost  
4 Allocation Model ("CAM") and rate design which reflects the latest load forecast. Hydro One  
5 notes, that the majority of parties have supported this request.

6

7 2. The use of Option 2B (Phase-In of Rates over 8 Years), outlined in the 2020 Seasonal Report  
8 as the preferred method of mitigation

9 As stated in the interrogatory response at Exhibit I-1-17, Option 2 (phasing in the rates for  
10 Seasonal customers moving to R2 class) is much simpler to implement and communicate to the  
11 customers than Option 1 (i.e. the credit approach). In addition, year-round R2 customers would  
12 not see the impact of any rate increases due to Distribution Rate Protection (DRP).

13

14 While parties have different views regarding the appropriate length of the phase-in period, the  
15 majority have agreed that Hydro One's preferred approach of phasing in the fixed charge for  
16 Seasonal customers entering the R2 class is the superior approach. Some parties (e.g. CCC, VECC<sup>2</sup>)  
17 have submitted that the OEB should approve only a phase-in approach to mitigation at this time  
18 and leave the determination of the length of the phase-in period to JRAP so that the magnitude  
19 of the impacts reflect more recent information. Hydro One submits that this is not necessary. The  
20 bill impacts provided in Hydro One's interrogatory response at Exhibit I-1-8 are based on the latest  
21 information that is consistent with JRAP and are reasonably indicative to support the OEB's  
22 decision making in this proceeding.

23

24 Only one party, TTCBLA, preferred Option 1. As stated in Hydro One's interrogatory response at  
25 Exhibit I-1-13, the credit-based approach poses implementation problems because of the manual  
26 nature of calculating the credit amounts that would vary by customer. This option would also  
27 require additional changes to Hydro One's billing system, since the current solution is built to  
28 apply rates/riders on a customer-class basis. Hydro One therefore submits that the OEB should

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<sup>2</sup> CCC submission, page 3 and VECC submission, page 22.

1 approve Option 2B as the preferred approach to mitigation as it best balances a practical and  
2 timely approach to implementation with the impact on affected customers.

3  
4 While VECC agreed that phase-in approach is preferred for bill impact mitigation, they also  
5 submitted that *“should the OEB choose the phase-in approach the decision should make note that  
6 it is linked to the continued availability of the DRP”*. Hydro One proposes that if the Government  
7 decides to eliminate the DRP before the phase-in period expires, Hydro One will file an alternative  
8 approach to mitigation with the OEB.

9  
10 **3. That all adjustments be made on a prospective basis only, with no retroactive adjustments**

11 As stated in Section 8.2 of the Seasonal Report, and further reinforced in Hydro One’s  
12 interrogatory response at Exhibit I-1-23, given the number of changes to rates and rate riders  
13 since the 2015 decision to eliminate the Seasonal class, Hydro One does not believe it is possible  
14 to accurately calculate the retroactive adjustments for over 1.3 million Hydro One customers.  
15 Even if it were possible to do so, Hydro One’s billing system is not designed to conduct such large  
16 scale retroactive billing adjustments. Building this kind of capability would require a significant  
17 financial investment and would also result in a billing system that is no longer fully supported by  
18 the vendor. Hydro One notes that no parties objected to its proposal that there be no  
19 retroactivity.

20  
21 **FURTHER SUBMISSIONS**

22 **Decision Timeline**

23 To enable implementation, Hydro One requires a decision from the OEB on the above matters by  
24 the end of 2021 for a number of reasons.

25  
26 The elimination of the Seasonal class requires significant Customer Information System changes  
27 to fold the Seasonal customers into the various residential rate classes while maintaining the  
28 nuances related to ineligibility for Rural and Remote Rate Protection (RRRP) and DRP. Hydro One  
29 is currently undergoing upgrades to its IT systems (SAP) and is limited on the opportunities in  
30 which additional changes can be accommodated. There is also be a significant effort to develop

1 and roll out the required training and change management to Hydro One staff involved in various  
2 customer interactions such as new customer connections, service upgrades, move ins/move outs  
3 and billing-related customer enquiries. Additionally, Hydro One requires adequate time to  
4 develop and roll out the supporting customer communication/education plans, given the impacts  
5 on customer bills, particularly for those customers moving to the R2 rate class.

6

7 Therefore, Hydro One requires prompt certainty on the methodology for mitigation in order to  
8 fully design and be able to implement the necessary changes to its billing system. A minimum lead  
9 time of twelve months is needed to ensure that sufficient time is available.

10

#### 11 Intervenors' Suggestions for Delay and Transfer to Another Proceeding

12 Some parties have argued that the OEB should defer its decision on various matters in this  
13 proceeding to Hydro One's JRAP Application to the Board. Hydro One disagrees.

14

15 The record for this proceeding is sufficiently robust for the OEB to make its decision, and the Board  
16 should make its decision in this proceeding. Hydro One's submissions on the issues above would  
17 be the same even if a transfer to JRAP would not create the problem that Hydro One would be  
18 unable to proceed with implementation due to a lack of sufficient clarity. The bill impacts  
19 provided in Hydro One's interrogatory response at Exhibit I-1-8 are based on the latest  
20 information that is consistent with JRAP and are reasonably indicative to support the OEB's  
21 decision making in this proceeding.

22

23 CCC and VECC have submitted that certain aspects of the cost allocation must be tested by using  
24 the updated information in JRAP before the OEB makes its decision. Hydro One does not believe  
25 that this is necessary. Hydro One expects that final rates for former Seasonal customers will be  
26 determined as part of JRAP and notes that the necessary information requested by the various  
27 parties<sup>3</sup> has already been provided on the record in that proceeding<sup>4</sup>.

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<sup>3</sup> For example, VECC submission, pages 8 – 13.

<sup>4</sup> EB-2021-0110, Exhibit L, Tab 1, Schedule 3.

1 **HYDRO ONE'S RESPONSES TO OTHER SUBMISSIONS BY INTERVENORS**

2 Billing Frequency

3 As per the OEB's guidance, the 2020 Seasonal Report included recommendations regarding the  
4 billing and metering frequency of Seasonal customers. In its 2020 Seasonal Report, Hydro One  
5 presented several options and recommended Option C. Board Staff submitted that Hydro One  
6 should maintain its existing billing frequency until such time it can stakeholder its proposed  
7 alternative options with customers and incorporate feedback, and Staff suggested that this  
8 engagement, and the results, could take place as part of JRAP.

9

10 Hydro One has no problem with maintaining its current billing and metering frequency as  
11 proposed by OEB staff; but an engagement of the nature and scope proposed by Staff would be a  
12 large undertaking that cannot be completed in time for the JRAP proceeding.

13

14 Hydro One is planning an investment in a major upgrade/replacement of its smart meter  
15 infrastructure, which has the potential to enhance more frequent and more reliable meter  
16 reading capabilities in the more rural/more rugged terrain areas in which Seasonal customers are  
17 often located. Hydro One therefore submits that any changes to the billing and metering  
18 frequency of former Seasonal customers be considered at Hydro One's next rebasing proceeding  
19 after JRAP, when the full capabilities of its new Advance Metering Infrastructure (AMI) will be  
20 better known.

21

22 Maintaining the existing billing frequency for Seasonal customers also simplifies the education of  
23 customers regarding the elimination of the Seasonal class, as it will allow messaging to focus solely  
24 on bill/rate changes without the additional complication of explaining changes to billing  
25 frequency.

1 BLC Proposal to Maintain Sub-Classes

2 In its submission, BLC is proposing that the OEB should require Hydro One to explore an  
3 alternative where the R1 and R2 classes are split into two sub-classes based on DRP eligibility  
4 which are then allocated costs based on the consumption/load characteristics of each subclass.

5

6 Hydro One disagrees and submits that the OEB should reject this proposal for the reasons put  
7 forward by Hydro One in its reply submission during the Motion to Review and Vary proceeding  
8 (EB-2019-0234), namely:

- 9       ○ The current approach of moving Seasonal customers to the UR, R1, and R2 residential  
10       classes was, in fact, proposed by BLC in the EB-2013-0416 proceeding, in which the OEB  
11       made the decision to eliminate the Seasonal class (“the Original Proceeding”).
- 12       ○ The matter of moving Seasonal customers to new, separate, density-based seasonal  
13       classes was never considered in the Original Proceeding.
- 14       ○ BLC’s latest proposal is essentially the same as that which was in place for Seasonal  
15       customers from at least the mid-1990s to 2008<sup>5</sup>. The Board reviewed and approved the  
16       merging of the two density-based seasonal classes into a single Seasonal Class as part of  
17       proceeding EB-2007-0681. This matter was not raised in the Original Proceeding because,  
18       as mentioned earlier, this alternative was never considered at the time. Hydro One  
19       submits that there would be no merit in returning to a rate structure that the OEB  
20       reviewed and then decided to eliminate.

21

22 Hydro One notes that BLC’s proposal is not in the spirit of the OEB’s original decision, as it would  
23 effectively maintain separate classes for Seasonal customers and allocate costs to those  
24 customers in a manner that is not uniform with that of the peers in their respective R1 and R2  
25 classes. As noted above, Hydro One requires timely clarity from the OEB in order to implement  
26 the elimination of the Seasonal class. If the OEB were to entertain exploration of the option  
27 proposed by BLC, it would prevent Hydro One from having that clarity on the approach to the  
28 elimination of the Seasonal class and would consequently delay the implementation.

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<sup>5</sup> Seasonal Residential customers were divided into R3 (higher density) and R4 (lower density) rate classes.

1 DRP/RRRP Eligibility Evidence

2 Several intervenors, e.g. BLC and CCC, have submitted that the Board should order the review of,  
3 or impose certain requirements on, Hydro One's processes for determining primary residence  
4 designation and therefore the eligibility for DRP and RRRP subsidies.

5

6 Hydro One strongly disagrees with these submissions. The Government created a Regulation to  
7 exclude from these subsidies dwellings that are not continuously occupied for the majority of the  
8 year. Hydro One's reliance of proxy proof of permanent residency through evidence such as  
9 drivers' licence addresses, voter registration and/or other documentation are a well-established,  
10 common practice to establish primary residence. Hydro One's practices related to customer  
11 classification have been subject to OEB reviews and approvals in multiple prior rate applications,  
12 the latest being EB-2017-0049, for 2018-2022 rates. Board Staff and VECC have submitted that  
13 Hydro One's current practices are appropriate. Hydro One submits that no orders are required  
14 from the OEB and notes that this matter is out of scope of this proceeding.

15

16 OEB Staff Submission Re: Deferral Account

17 In its submission, Board Staff suggests that a deferral account is not required for the recovery of  
18 costs associated with the implementation of the elimination of the seasonal.<sup>6</sup>

19

20 Hydro One disagrees. As noted above, Hydro One has proposed, and all parties have agreed that  
21 no retroactive adjustments be made to account for the elimination of the Seasonal class in order  
22 to simplify the implementation. A deferral account is the most practical approach for recovering  
23 the incremental costs associated with the implementation of the elimination of the seasonal class.  
24 Though final implementation costs are not known, current estimates provided in the 2020  
25 Seasonal Report indicate that amounts are expected to be material.

26

27 Board staff submits that recovery of any costs would be subject to a prudence review by the  
28 Board. Hydro One agrees and submits that the easiest way to facilitate this review is through the

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<sup>6</sup> OEB staff submission, page 5.



1 approval of a deferral account and that the OEB should not make any determinations preventing  
2 such an account at this time. If the OEB does not wish to approve such an account in this  
3 proceeding, Hydro One will be required, subsequent to this proceeding, to file a request to seek  
4 any necessary exemptions from the Distribution System Code noted in the 2020 Seasonal Report  
5 and could include a request for a deferral account at that time.

6

7 Update to the Density Factors

8 VECC has submitted that Hydro One should be required to: i) demonstrate that neither the  
9 relative costs nor the relative number of customers have changed sufficiently to warrant an  
10 update to the density factors; and ii) update the factors if circumstances have changed sufficiently  
11 to warrant doing so.

12

13 VECC made the same comments in their argument in proceeding EB-2017-0049 for Hydro One's  
14 2018-2022 distribution rates. In its Decision, the OEB stated, "*The OEB will not order Hydro One  
15 to undertake another density study for its next rebasing rate application, unless one is required to  
16 support any changes to customer classes. The OEB is satisfied with Hydro One's response that  
17 there have been no material changes to the drivers of costs.*" As mentioned in Hydro One's  
18 interrogatory response at Exhibit I-1-10, the density of the Seasonal customers moving to their  
19 new residential classes already matched the density of the customers currently in that class, and  
20 hence, Hydro One submits, and is confident, that this does not constitute a change in customer  
21 classes as contemplated in the OEB Decision quoted above.

22

23 Additionally, Hydro One does not believe that it is possible to review the density factors in time  
24 to inform the OEB's Decision in the JRAP given the significant nature of the undertaking.

25

26 Hydro One's Rate Class Review Process

27 Various parties, such as VECC and SSPA, have submitted that the OEB should order a review of  
28 Hydro One's annual rate class review process in JRAP. VECC also submitted that Hydro One should  
29 be ordered to notify all unaffected customers that are located within "reasonable proximity of

1 other Residential customers that are in a higher density zone and explain the basis for their  
2 density classification”.<sup>7</sup>

3  
4 Hydro One submits that these suggestions should be rejected, including SSPA’s assertion that  
5 Hydro One is not following Board published guidelines on density zone determination, as their  
6 argument and example did not include the “contiguous cluster of customers” criteria in the  
7 determination of boundary between rate classes. Hydro One’s review process is standardized and  
8 involves notification of all customers directly impacted by changes in density classification. Hydro  
9 One has a well-established process to address individual customer requests for a density review  
10 of their property as well as an escalation path to deal with any customer complaints. The process  
11 has been tested by the OEB in prior proceedings and been deemed appropriate.

12  
13 Customer Education Plans

14 CCC has suggested that Hydro One’s customer education plans should be filed by Hydro One in  
15 JRAP and approved by the OEB. Hydro One disagrees, because effective customer communication  
16 and customer education are key objectives of Hydro One’s service delivery and have been  
17 recognized as such. In this regard, Hydro One does not rely simply on its past practices but also  
18 ensures that effective customer communication is fluid and evolving.

19  
20 Customer communication and education is an ongoing activity that is intertwined in Hydro One’s  
21 everyday business activity and is typically not just a one-time standalone effort. Hydro One’s plans  
22 and methodology to communicate and educate customers on the implications of Seasonal class  
23 elimination will include multiple tactics and will evolve as implementation proceeds. This  
24 evolution will be driven by customer interest, customer awareness and customer understanding  
25 of the information presented. Hydro One notes that, on September 17, 2021, the OEB issued  
26 Procedural Order No. 1 for Hydro One’s JRAP. Hydro One notes that, as a practical matter, it would  
27 be extremely difficult to prepare, finalize and file final customer education plans in time with the  
28 procedural steps provided by the OEB. This is further challenged by the fact that customer  
29 education plans would be dependent on the specific findings in this proceeding. Hydro One

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<sup>7</sup> VECC submission, page 7.

1 submits that is it simply not necessary for the OEB to directly review and approve operational  
2 matters such as these.

3

4 Additional Requests for Clarity

5 The following provides additional clarity from Hydro One on certain matters Intervenors have  
6 requested.

7

8 a) *OEB staff requested a discussion as to why, if Hydro One was able to use the credit-*  
9 *based approach to mitigation in 2015 in EB-2013-0416 (rate class review mitigation credit for*  
10 *customers reclassified from higher density rate classes to lower density rate classes), Option 1*  
11 *proposed in the 2020 Seasonal Report cannot now be used.*<sup>8</sup>

12

13 Hydro One notes that in the 2015 implementation, the mitigation credit was applied to  
14 affected customers for 12 months only, as contrasted with the seven-year time period in  
15 Option 1. Additionally, the total credit amount for 2015 implementation was about \$1 million,  
16 compared to \$120 million in Option 1; and the number of customers receiving mitigation  
17 credit in 2015 was about 15,000, compared to more than 70,000 in Option 1. Implementation  
18 of Option 1 would therefore be far greater and far more complicated than the 2015 credit-  
19 based approach. Additionally, another major complexity in implementing option 1 is due to  
20 the fact that the credit amount would not be the same value for all Seasonal customers within  
21 a rate class and that the amount would change from one year to the next. This is different  
22 from mitigation credits in the past. Hydro One's billing system is designed to have rates apply  
23 to all customers within a rate class and does do not currently have the capability to subdivide  
24 a rate class into sub-categories to allow rates/credits to be different between the sub-classes.  
25 Building this capability would be a major undertaking and would incur significant costs.

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<sup>8</sup> OEB staff submission, page 11.

1 b) *OEB staff requested a discussion as to why it would take 12 to 18 months to implement Option*  
2 *1, which Hydro One has stated would result in the inability to implement Option 1 for January*  
3 *1, 2023. OEB Staff have asked Hydro One to clarify whether a January 1, 2023, implementation*  
4 *date would be possible if the Board selects Option 1, and, if so, what steps and additional costs*  
5 *would be necessary to accomplish that date.*<sup>9</sup>  
6

7 As stated above, implementation of Option 1 would require Hydro One to make major billing  
8 system changes to support customer credit amounts that in essence vary by customer and  
9 change on an annual basis. This would be a major departure in how our billing system is  
10 designed today. Most, if not all, vendor supported billing systems used in the electricity sector  
11 are designed to support tariff/credit application at a rate class level and not on a customer  
12 specific basis. The scope of work and the level of complexity involved is of such magnitude  
13 that it would not be possible to implement within a 12-month timeframe. Hydro One notes  
14 that the majority of parties have not made submissions in support of Option 1.  
15 Implementation of Option 2, while still significant in scope and complexity, needs to be  
16 properly integrated and resourced with other inflight and planned work. Hydro One is  
17 confident that if it receives, before the end of 2021, the decisions requested at the beginning  
18 of this Reply Submission (i.e. including approval to utilize Option 2), it will be able to carry out  
19 the necessary implementation in time for a January 1, 2023, effective date.  
20

21 c) *OEB staff asked that Hydro One clarify whether or not the estimated \$5 to \$8 million in costs*  
22 *to implement Option 1 are inclusive of the \$3 to \$4 million that Hydro One referenced in the*  
23 *2020 Seasonal Report.*<sup>10</sup>  
24

25 Hydro One confirms that the \$5 to \$8 million of costs cited as related to Option 1 are inclusive  
26 of the \$3 to \$4 million that Hydro One referenced in the 2020 Seasonal Report as the overall  
27 costs of implementation.

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<sup>9</sup> Ibid.

<sup>10</sup> Ibid.

1 d) OEB staff requested that Hydro One clarify whether its mitigation efforts related to low  
2 consumption R2 customers under Option 1 and the two Option 2 approaches would also be  
3 applicable to any low consumption R1 customers that are expected to experience increases  
4 greater than 10%.<sup>11</sup>

5

6 As confirmed in its interrogatory response at Exhibit I-5-11(d), Hydro One believes that there  
7 are no customers in the Seasonal-R1 category that could exceed the 10% bill impact limit.

8

9 e) Clarity requested by VECC as to whether the updated impacts provided in the response VECC  
10 1 f) (I-5-1) are based on the corrected calculation of 2022 revenues at current rates for the  
11 Seasonal eliminated scenario.<sup>12</sup>

12

13 Hydro One responds that the impacts provided in the interrogatory response at Exhibit I-5-  
14 1(f) do not reflect the correction in revenue at current rates calculation. Hydro One notes that  
15 it has provided updated bill impacts in Exhibit I-1-8 which reflect the most recent information  
16 filed in JRAP.

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<sup>11</sup> OEB staff submission, page 12.

<sup>12</sup> VECC submission, page 26.

1 **CONCLUSION**

2 Hydro One submits that at the beginning of this Reply Submission, Hydro One has made clear the  
3 Decision that it is seeking from the Board and has, throughout this Submission and the record in  
4 this proceeding, not only justified the reasons for the Decision being requested but has also  
5 evaluated the other proposals and the reasons for their rejection.

6

7 The elements of the Decision being sought by Hydro One to implement the Board's Decision to  
8 eliminate the Seasonal Rate Class and move existing Seasonal customers to one of three Hydro  
9 One residential rate classes, according to their density, include the implementation date and the  
10 manner of mitigation. These requests result from the attempt to achieve the goals sought by the  
11 Board, as those goals are informed by the practical challenges of technological implementation  
12 and the practical challenges of mitigating large rate increases for existing Seasonal customers.  
13 Hydro One submits that it has arrived at a proposal that balances the goals with the practical tasks  
14 and the effects on customers.

15

16

17

ALL OF WHICH IS RESPECTFULLY SUBMITTED