



Ontario Energy Board Commission de l'énergie de l'Ontario

DECISION AND ORDER

EB-2013-0416/EB-2015-0079

HYDRO ONE NETWORKS INC.

**Application for electricity distribution rates and other charges
beginning January 1, 2016**

BEFORE: Allison Duff
Presiding Member

Ken Quesnelle
Member

December 22, 2015

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1. INTRODUCTION AND SUMMARY

This is a Decision of the Ontario Energy Board (OEB) on an application filed by Hydro One Networks Inc. (Hydro One) to change certain distribution rates to its customers in 2016. The Application included a draft rate order for 2016.

Hydro One owns and operates the largest electricity transmission and distribution system in Ontario. The transmission system is made up of a high voltage network of transmission lines, steel towers and equipment. The distribution system consists of a lower voltage network of distribution lines, poles and equipment throughout Ontario, primarily serving rural and remote areas. Its 122,000 km distribution system serves about 1.25 million customers and smaller electricity distributors. Hydro One applies for transmission rates and distribution rates separately.

The Application for new distribution rates in 2016 was made pursuant to an earlier OEB decision¹ (the 2015 decision) regarding a multi-year rate plan for Hydro One distribution. In the 2015 decision, the OEB approved distribution rates for 2015 and a framework for setting rates in 2016 and 2017, subject to specific annual adjustments. The annual adjustments include: cost of capital updates, cost allocation model updates, revenue-to-cost ratio changes, certain rate rider and service rate updates.

In addition to the annual adjustments, Hydro One proposed changes to its 2016 rates to comply with new OEB policies: the Cost Allocation Policy for the Street Lighting Rate Class and the Distribution Rate Design for Residential Electricity Customers.

The OEB approves Hydro One's proposed 2016 draft rate order, except for rate design proposed for the R1, R2 and Seasonal customer classes. The OEB approves Hydro One's request for interim rates as of January 1, 2016

The overall impact of this Decision is a reduction of the proposed 2016 revenue requirement from \$1,473.8 million to \$1,409.8 million.

¹ Decision and Order EB-2013-0416, March 12, 2015

2. THE PROCESS

A Notice of Application (Notice) was issued on November 17, 2015. The Notice indicated that anyone interested in participating in the application process should apply for intervenor status.

Ten parties, who each represented different groups of customers affected by the Application, participated in the proceeding (the intervenors) :

- Horseshoe Lake Coalition
- Canadian Manufacturers & Exporters
- Society of Energy Professionals
- Power Workers' Union
- Balsam Lake Coalition
- School Energy Coalition
- Energy Probe Research Foundation (Energy Probe)
- Consumers Council of Canada
- Vulnerable Energy Consumers Coalition
- Federation of Ontario Cottagers' Associations

OEB staff also participated in the proceeding.

The OEB received five Letters of Comment on the draft rate order. The OEB provided intervenors and OEB staff the opportunity to ask Hydro One questions about its evidence in person at a technical conference. Hydro One responded in writing to a number of undertakings from the technical conference.

On December 1, 2015, Hydro One filed an updated application which included the OEB's approved 2016 return on equity and short term debt rates and an update on its long term debt issuances and forecast interest rates. Intervenors and OEB staff filed written submissions and Hydro One filed a reply submission.

3. STRUCTURE OF THE DECISION

This Decision into sections, reflecting the issues as presented in Hydro One's Application. The OEB's reasons for approving or denying Hydro One's proposals are included in each section. The last section addresses the steps to implement the 2016 rates resulting from this Decision.

4. ANNUAL ADJUSTMENTS

The OEB's 2015 decision ordered the following annual adjustments to Hydro One's distribution rates in 2016 and 2017.

Changes in the Cost of Capital

The 2015 decision provided for an update to the cost of capital parameters based on the OEB's revised parameters. On October 15, 2015, the OEB issued cost of capital parameters for 2016 and Hydro One updated its revenue requirement for the revised parameters.

Hydro One also updated its long term debt rate based on its actual 2015 debt issuances to-date and the September Consensus Economics 2016 forecast.

Energy Probe indicated that \$270 million of new long-term debt scheduled for 2015 and attributable to Hydro One distribution, was not issued as proposed. Energy Probe requested that Hydro One explain the change and confirm its 2016 forecast for debt issues.

In reply submission, Hydro One indicated that its debt financing strategy considers cost effectiveness, debt maturities and the term of its debt portfolio compared to the life of its assets. In addition, Hydro One indicated that the actual timing of a debt issuance depends on a number of factors, including cost effectiveness and market receptivity.

Findings

The OEB finds that Hydro One has appropriately updated its interest rates for the latest cost of capital parameters. Hydro One has also appropriately updated its long-term debt rate, correctly included its actual debt issuances and applied the updated 2016 forecast to its overall cost of capital calculation.

5. Other Changes

Hydro One proposed other changes to the 2016 revenue requirement, consistent with the 2015 decision:

- reduced operations, maintenance and administration (OM&A) costs by \$21.9 million.

- increased LEAP funding by \$0.6 million consistent with the prescribed 0.12% of 2016 revenue requirement.
- reduced working capital allowance by \$1.6 million to reflect lower OM&A costs.
- reduced income taxes for 2016.

Hydro One also increased external revenues by \$1.8 million to correct for an error in a previous forecast².

Other changes from the 2015 decision included an adjustment to revenue-to-cost ratios, updating the Hopper Foundry, Transformer Cost Allowance and Regulatory Assets Rate Riders, and updating the Retail Transmission Service Rates.

In addition, Hydro One updated costs allocated to the Street Lighting class consistent with the new Street Lighting Adjustment Factor approved by the OEB.

Findings

The OEB finds that Hydro One has appropriately updated its 2016 revenue requirement consistent with the 2015 decision and the application of the new Street Lighting Adjustment Factor.

6. RESIDENTIAL DISTRIBUTION RATE DESIGN

Hydro One applied to change the composition of its residential distribution service rates. Currently, residential distribution rates include a fixed monthly charge and a variable usage charge. However, the OEB issued a new policy to change residential rates to a fully fixed rate structure, transitioning over a four-year period beginning in 2016³ (the rate design policy). Accordingly, Hydro One proposed to start the transition in 2016 for its four residential customer classes (UR, R1, R2 and Seasonal). As a result, the fixed monthly rates for 2016 will be higher than 2015 and the variable-usage rates will be commensurately lower.

The amount of revenue a distributor is expected to collect from residential customers will not be affected by the new rate design policy, only the proportion of revenue collected through variable and fixed charges.

² Exhibit I/Tab2.6/Schedule2/SIA 21

³ Board Policy: A New Distribution Rate Design for Residential Electricity Customers, EB-2012-0410, April 2, 2015

Distributors are expected to transition to fully fixed residential rates in equal increments over a four year period. A distributor may propose a transition period longer than four years if the required fixed rate increase exceeds \$4 in any year, or if bill impact exceeded 10% for customers consuming at the 10% percentile within the rate class. Hydro One defined this 10th percentile of consumption as 350kWh for UR and R1 customers, 450kWh for R2 customers, and 50kWh for Seasonal customers.

Hydro One indicated that a four-year phase-in period would require fixed rates to increase by more than \$4 for all four residential customer classes. Hydro One proposed a mitigation plan extending the phase-in period to 5 years for the UR, R1 and R2 customer classes and to 7 years for the Seasonal class. Hydro One indicated that the proposed phase-in periods would result in total bill impacts of less than 10% for the low volume customers in UR, R1 and R2; however, the bill increase would be 10.4% for Seasonal class customers after taking into account all other changes to distribution rates in 2016.

While many intervenors supported Hydro One's proposals to transition to fully fixed residential rates, many considered the bill impacts to be too high, warranting further mitigation or a delay in the start of transition until 2017. In addition, some intervenors indicated that the removal of the Ontario Clean Energy Benefit would impact residential customer bills in 2016.

OEB staff submitted that Hydro One's proposals passed the bill impact test, yet further mitigation was required given the combined bill impacts for the R2 class. OEB staff proposed that Hydro One should extend the transition period for R2 customers to seven year, at least as long as the Seasonal customer class' transition period. The fixed rate would increase by \$8.38 per month with a seven year transition period, a reduction from the proposed \$11.74 with a five year transition period.

Staff also submitted that Hydro One could re-evaluate the pace of transition at its next rebasing if conditions warrant.

In its reply submission, Hydro One indicated that it would defer to the OEB whether to delay the implementation of the new rate design policy until 2017 to manage the total bill impacts. Hydro One also indicated that it saw merit in exercising the discretion contemplated by the OEB policy to extend the implementation for the R2 class to seven years, in accordance with OEB staff's suggestion.

Findings

The OEB approves Hydro One's proposed five-year transition plan for the UR customer class as it is consistent with the new rate design policy.

The OEB does not approve Hydro One's proposed transition periods for the R1, R2 and Seasonal customer classes. The rate design policy indicates that the fixed rate increase should not exceed \$4 per month. Accordingly, the OEB finds that an eight-year transition period is required for the R1 and Seasonal customer classes. The OEB has verified that the combined bill impact of the fixed rate increase and other charges in the cost of distribution service associated with this Decision will be less than 10% for low volume customers at the 10th percentile of consumption in both classes.

For the R2 customer class, the transition period required given a \$4 annual fixed rate increase would be 15 years. The OEB finds 15 years to be an unreasonable time period to transition to fully fixed rates for this customer class. The OEB directs Hydro One to transition the R2 class over an eight year period, consistent with the R1 and Seasonal customer classes. The OEB has verified that the combined bill impact of the fixed rate increase and other charges in the cost of distribution service associated with this Decision will be less than 10% for low volume R2 customers at the 10th percentile of consumption.

Changes to the bill resulting from the provincial government's decision to phase out the Ontario Clean Energy Benefit and the Debt Retirement Charge are not within the scope of the evaluation.

7. ELIMINATION OF THE SEASONAL CLASS

In the 2015 decision, the OEB ordered Hydro One to submit a plan for the elimination of its Seasonal customer class. Hydro One complied with the OEB's order and filed a report on August 4, 2015.

The OEB issued an Order on September 30, 2015, indicating that Hydro One should apply the OEB's rate design policy to its residential customers, including the Seasonal customer class starting January 1, 2016. The OEB's indicated that the rate design transition steps for the Seasonal customer class would constitute the initial step of the OEB's direction to eliminate the seasonal class by aligning rates for Seasonal and other residential customers. The OEB also stated that it will initiate a further proceeding to consider the remaining steps for the elimination of the Seasonal class.

Many intervenors made submissions regarding the elimination of Hydro One's Seasonal class in this proceeding. The majority of intervenors submitted that it was not appropriate to consider the elimination of the Seasonal class in this proceeding. The Balsam Lake Coalition took issue with Hydro One's Seasonal and R2 customer class criteria and the criteria for Rural and Remote Electricity Rate Protection (RRRP) funding.

Findings

The OEB confirms the statement in its Order of September 30, 2015, that a further proceeding to consider the remaining steps for the elimination of Seasonal class will be undertaken. The OEB does not require any further steps to be taken in this proceeding, through this Rate Order.

The OEB has reviewed the submissions of the Balsam Lake Coalition regarding the RRRP funding criteria and Hydro One's customer class criteria. To the extent there is a compliance issue regarding Hydro One's application of the RRRP funding criteria as established in Regulation 442/01, a rates proceeding, such as this one, is not the appropriate forum. To the extent that there is an issue with Hydro One's customer class criteria, it could be addressed in the subsequent proceeding dealing with the elimination of the Seasonal class.

Regulatory Charges

On November 19, 2015, the OEB issued a decision approving three regulatory charges. These regulatory charges are established annually by the OEB through a separate order. These charges are paid for by electricity consumers.

The charges include the RRRP, Wholesale Market Service Rate (WMS) and the Ontario Electricity Support Program (OESP) charge.

The RRRP program is designed to provide financial assistance to eligible customers located in rural or remote areas where the costs of providing electricity service to these customers greatly exceeds the costs of providing electricity to customers located elsewhere in the province of Ontario. The RRRP program cost is recovered from all electricity customers in the province through a charge that is reviewed annually and approved by the OEB.

WMS charges recover the cost of the services provided by the Independent Electricity System Operator (IESO) to operate the electricity system and administer the wholesale market. These charges may include costs associated with: operating reserve, system congestion and imports, and losses on the IESO-controlled grid. Individual electricity distributors recover the WMS charges from their customers through the WMS rate.

The OESP is a new rate assistance program for low-income electricity customers. Starting January 1, 2016, eligible low-income customers will receive a monthly credit on their bills. At the same time, all electricity customers in the province will begin paying a charge to fund the program, which will be referred to as the OESP charge.

The proposed Tariff of Rates and Charges flowing from this Decision should reflect these new charges as well as the OESP credits to be provided to enrolled low income customers.

The OEB expects Hydro One to implement these changes in their existing billings as of January 1, 2016 and that they will appear on the revised draft rate order to be filed.

8. IMPLEMENTATION

Interim Rates

New rates are to be effective January 1, 2016. Hydro One requested the OEB declare current rates interim, as Hydro One was unable to implement a new set of distribution rates for January 1, 2016.

Hydro One also requested that the current 2015 deferral and variance account rate riders continue until new deferral and variance account rate riders are approved for 2016. Hydro One indicated that without the extension, the 2015 deferral and variance account riders will expire at the end of 2015, providing customers with a temporary reduction in their bills only to have an increase when the new 2016 riders are implemented. Any differences in account recoveries would be captured in Account 1595 – Disposition and Recovery/Refund of Regulatory Balances.

The OEB approves the request to declare Hydro One's distribution rates interim as of January 1, 2016. The OEB expects Hydro One to file a revised draft rate order in January 2016 to enable the implementation of new rates by February 1, 2016 and to include a proposal for the recovery of lost revenue for the month of January.

The OEB approves the continuation of the 2015 deferral and variance account rate riders until the 2016 rates are approved.

Hydro One's revised draft rate order should reflect the findings of this Decision. The OEB expects Hydro One to file supporting material, including all relevant calculations, showing the determination of the final rates, including final bill impacts related to the changes on the bill from this Decision alone, and as well as a scenario that shows final bill impacts from all changes in the cost of electricity service, including the elimination of the OCEB and DRC.

A Final Rate Order will be issued after Hydro One files its revised rate order, reflecting this Decision.

9. ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. Hydro One Networks Inc. shall file with the OEB, and shall also forward to the intervenors, a revised draft rate order with a proposed Tariff of Rates and Charges, with supporting material, reflecting the OEB's findings in this Decision and Order no later than January 8, 2016.
2. Intervenors shall file with the OEB and forward to Hydro One Networks Inc. their respective cost claims within **14 days** from the date of issuance of this Rate Order.
3. Hydro One Networks Inc. shall file with the OEB and forward to intervenors any objections to the claimed costs within **21 days** from the date of issuance of this Rate Order.
4. Intervenors shall file with the OEB and forward to Hydro One Networks Inc. any responses to any objections for cost claims within **27 days** of the date of issuance of this Rate Order.
5. Hydro One Networks Inc. shall pay the OEB's costs incidental to this proceeding upon receipt of the OEB's invoice.

All filings to the OEB must quote the file number, EB-2015-0079, 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.ontarioenergyboard.ca/OEB/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, Harold Thiessen at

Harold.Thiessen@ontarioenergyboard.ca and OEB Counsel, Jennifer Lea at Jennifer.Lea@ontarioenergyboard.ca.

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DATED at Toronto, **December 22, 2015**

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary