CUSTOMER CLASSIFICATION

1.0 RATE CLASS REVIEW

In accordance with the Board Decision on Hydro One’s IRM application EB-2012-0136 with respect to issue #13 of the settlement agreement, Hydro One has reviewed its customer rate classification to ensure that all customers are classified in accordance with the Company’s currently approved density-based rate classes.

The rate class review leveraged the new functionality available through Hydro One’s Geographic Information System (“GIS”) to identify clusters of customers and the circuit-kilometers (“cct-km”) of distribution line required to serve those customers to verify that the density zone criteria for Hydro One’s density-based rate classes are being satisfied. Hydro One’s residential and general service rate classes are tied to the identification of the following density zones:

- High (Urban) Density Zone: \( \geq 3000 \) customers and \( \geq 60 \) cust/cct-km
- Medium Density Zone: \( \geq 100 \) customers and \( \geq 15 \) cust/cct-km
- Low Density Zone: Areas that are not Medium or High Density

The rate class review used the following methodology to define density zones:

1. GIS system used to identify core clusters of contiguous customers
2. Density zone boundary extended out from core cluster of contiguous customers in all directions to:
   - easily identifiable and communicated physical boundaries (e.g. highways/roads, railways, rivers, lakes)
• non-physical boundaries identifiable within the GIS system (e.g. property lines)
  where physical boundaries are remotely located from customer clusters
3. Combined customer clusters that are located close to each other into a larger, single
density zone, where it helped to mitigate negative impacts to existing customer
classifications
4. Determined the circuit-km of distribution line within a proposed density zone
boundary and calculated the number of customers per cct-km of line
5. Confirmed the density zone definition applicable to the total number of customers and
  customers/cct-km for a proposed density zone boundary

In a few situations, a (-10%) deadband was applied to the density zone definition where a
majority of customers within a proposed density zone boundary would be negatively
impacted as a result of moving to a lower-density rate class.

While the density zone definition always applies to a core cluster of contiguous
customers, extending the density zone boundary out from a core cluster per the criteria
noted does result in a density zone value below the 10% deadband for a limited number
of density zone boundaries.

As shown in Table 1, the rate class review results in 11% of Hydro One customers being
reclassified, with the vast majority of those moving to a higher-density rate class with
lower rates. The customer reclassifications identified by the rate class review have been
incorporated into the customer load forecast included with this application for the 2015-
2019 Custom COS period.
Table 1. Summary of Rate Class Review Results

<table>
<thead>
<tr>
<th>Category</th>
<th># of Customers</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>1,222,548</td>
<td>100.0%</td>
</tr>
<tr>
<td>No Change</td>
<td>1,087,980</td>
<td>89.0%</td>
</tr>
<tr>
<td>Total Changing</td>
<td>134,568</td>
<td>11.0%</td>
</tr>
<tr>
<td><strong>Lower Rates</strong></td>
<td><strong>112,019</strong></td>
<td><strong>9.2%</strong></td>
</tr>
<tr>
<td>R1 to UR</td>
<td>40,023</td>
<td>3.3%</td>
</tr>
<tr>
<td>R2 to UR</td>
<td>1,815</td>
<td>0.1%</td>
</tr>
<tr>
<td>R2 to R1</td>
<td>63,670</td>
<td>5.2%</td>
</tr>
<tr>
<td>GSe to UGe</td>
<td>5,733</td>
<td>0.5%</td>
</tr>
<tr>
<td>GSd to UGd</td>
<td>778</td>
<td>0.1%</td>
</tr>
<tr>
<td><strong>Higher Rates</strong></td>
<td><strong>22,549</strong></td>
<td><strong>1.8%</strong></td>
</tr>
<tr>
<td>UR to R1</td>
<td>5,704</td>
<td>0.5%</td>
</tr>
<tr>
<td>UR to R2</td>
<td>439</td>
<td>&lt;0.1%</td>
</tr>
<tr>
<td>R1 to R2</td>
<td>16,028</td>
<td>1.3%</td>
</tr>
<tr>
<td>UGe to GSe</td>
<td>311</td>
<td>&lt;0.1%</td>
</tr>
<tr>
<td>UGd to GSd</td>
<td>67</td>
<td>&lt;0.1%</td>
</tr>
</tbody>
</table>

The net impact of the rate class review is a drop of about $40M in revenue at current rates. While many customers will see lower bills as a result of implementing the rate class review findings, customers will experience about a 3.4% increase on average across all rate classes to make up for the revenue deficiency resulting from the large number of customers moving to rate classes with lower rates.

The rate class review has resulted in a tool that has been incorporated into Hydro One’s customer service processes to ensure that all new and existing customers are classified in their correct rate classes on a going forward basis.

Hydro One proposes to update the rate class review on a province-wide basis every 5 years to coincide with the resetting of rates as part of a rates application. Individual
density zones will be updated in the interim period between rates applications if there are property developments within or adjacent to a density zone that result in a material change to the rate classification of affected customers.

2.0 NEW UNMETERED SCATTERED LOAD (USL) RATE CLASS

Per the direction of the Board in its report *Review of Electricity Distribution Cost Allocation Policy* issued March 31, 2011, Hydro One has created a separate USL rate class.

Hydro One proactively undertook a study to measure the hourly load profiles of cable boxes starting in late 2010 in anticipation of the need to create a separate USL rate class. Three cable companies (Rogers, Cogeco and East Link) provided site specific information of their equipment to Hydro One for sample selection purposes. A total of 35 interval meters were installed across Ontario to measure the hourly load. Cable equipment monitored included cable boxes with and without battery heating mats. Hourly load data was collected for a period of a year. Regression analysis was performed and weather normalized load profiles were generated. The results of this study, combined with profiles of other types of non-weather sensitive USL loads, were used to produce the USL hourly load profiles for this application.

USL customers were previously treated as General Service energy (“GSe”) customers, with a reduced monthly fixed charge to reflect that USL customers do not have any metering related costs. The number of USL customers and forecast kWh represented only a small portion of the GSe customers and load, and as such, the separation of this class has resulted in a negligible impact to the allocation of GSe costs. The creation of a separate USL rate class will have a small impact on other rate classes given that the USL
class’ R/C ratio, as discussed in Exhibit G1, Tab 3, Schedule 1, is above the Board approved range and Hydro One plans to bring the R/C ratios for all its rate classes to a range of 98% to 102%.

A new USL rate class has been created in the Board’s Cost Allocation Model (“CAM”) and populated with all required inputs. The CAM results for the USL rate class are included in the discussion of cost allocation in Exhibit G1, Tab 3, Schedule 1.

### 3.0 REVIEW OF SEASONAL RATE CLASS

In accordance with the Board Decision on Hydro One’s IRM application EB-2012-0136 with respect to issue #17 of the settlement agreement, Hydro One has consulted with interested stakeholders to review the rates for Seasonal customers. The intent of the review was to ensure that Seasonal rates are fair and equitable, and in accordance with rate making principles.

Hydro One consulted with stakeholders on three occasions as part of the broader stakeholder sessions for the Custom COS period, described in Exhibit A, Tab 20, Schedule 1. Hydro One also engaged the consulting firm Citizen Optimum to conduct a series of focus groups with Seasonal customers. The report on the focus group findings is provided in Exhibit G1, Tab 2, Schedule 2. The focus groups were used to gather participant opinions on fair rate designs for Seasonal customers, and to solicit and present options for revising the existing Seasonal rate structure. The option preferred by focus group participants was to move Seasonal customers that have consumption characteristics similar to year-round residential customers to the residential customer classes. Hydro One had received similar feedback during the stakeholder sessions.

A review of Hydro One’s historical consumption data indicates that there are a number of Seasonal customers that have annual consumption and monthly load profile
characteristics very similar to that of year-round residential customers. To better align with cost causality and fairness rate principles, Hydro One proposes to treat as year-round residential customers those Seasonal customers that i) consume at least 9,600 kWh annually and ii) consume at least 600 kWh monthly for a minimum of 10 months of the year. The definition of Seasonal rate class included in the proposed rate schedules provided at Exhibit G2, Tab 2, Schedule 1 have been revised to reflect the proposed change.

Hydro One’s proposal will result in moving approximately 11,000 Hydro One Seasonal customers, or 7%, of the total number of Seasonal customers to the medium density residential (R1) and low density residential (R2) rate classes. This change has been incorporated into the customer load forecast included with this application for the 2015-2019 Custom COS period.

The net impact of the proposed Seasonal customer change is a drop of about $7M in revenue at current rates. While those Seasonal customers moving to year-round residential classes will see lower bills as a result of implementing the proposed definition change, all customer classes will experience an average increase of about 0.5% to make up for the revenue deficiency resulting from this proposed change.

Hydro One believes that its consultation efforts and proposed changes to the definition of the Seasonal rate class, combined with the proposed changes to the fixed charges for the Seasonal class as discussed at Exhibit G1, Tab 4, Schedule 1, satisfies the requirement of issue #17 in the settlement agreement for the 2013 IRM application EB-2012-0136.

A number of potential options discussed with stakeholders were not evaluated further as they received very limited stakeholder support. Hydro One has not provided the results
associated with eliminating the Seasonal class and moving all seasonal customers into year-round residential classes as the company believes this option is less consistent with the rate-making principle of cost causality and increases the cross-subsidization among customers in the amalgamated residential rate classes.