

BOARD STAFF SUBMISSION

2013 ELECTRICITY DISTRIBUTION RATES

Hydro One Remote Communities Inc.

EB-2012-0137

July 12, 2013

Introduction

Hydro One Remote Communities Inc. (“Remotes”) is an integrated generation and distribution company which currently serves 21 communities that are not connected to the provincial transmission grid and has approximately 3,400 residential and general service customers. Remotes filed its application with the Board on September 17, 2012 under section 78 of the Ontario Energy Board Act, 1998, S.O. 1998, c. 15, (Schedule B), seeking approval for changes to the rates that Remotes charges for electricity distribution, to be effective May 1, 2013. Additional evidence was filed on November 12, 2012 to complete the application.

In the application Remotes requested a revenue requirement of \$52,284,000 to be recovered annually. The revenue requirement was proposed to be partially recovered through customer rates, and the residual amount of \$34,510,000 from the Rural and Remote Rate Protection program (“RRRP”). These amounts include costs and revenue related to the inclusion of the geographically remote grid-connected communities of Cat Lake and Pikangikum, which have not been included in Remotes’ previous applications. On May 28 and 29, 2013, a settlement conference was held with the assistance of a facilitator. As a result of the settlement conference, Remotes and the Parties filed a Partial Proposed Settlement Agreement (the “Partial Agreement”), dated June 17, 2013. A settlement was reached on most of the issues in the proceeding. On June 28, 2013 the Board issued its Decision accepting the Partial Agreement.

Board staff submissions are on the following unsettled issues as set out in the Decision on the Partial Settlement Agreement and Procedural Order No. 3:

- Issue # 2: Remotes’ request to increase rates by 3.45%; and
- Issue # 3 partially settled: whether the Standard A rates proposed by Remotes are applicable to certain customers in the geographically remote grid-connected communities.

Board staff is also making submissions on the implementation of 2013 rates.

Remotes request to increase rates by 3.45%

The proposed increase of 3.45% to be charged to non-Standard A customers is an unsettled issue. Board staff submits that the Board recently considered the issue of

how to determine the appropriate method of calculating rate increases for non-Standard A customers. This was set out in the Algoma Power Decision.¹ Board staff submits that the appropriate methodology to use to determine the appropriate rate increase is set out in Ontario Regulation. 442/01, *Rural or Remote Electricity Rate Protection*, (the “Regulation”). The Regulation requires the Board to calculate the average rate increase for other distributors and to base the rate increase in customer rates on that average. The Regulation stipulates that the forecast consumer revenues will be based on the most recent rate order and then that these rates shall be adjusted in line with the average increase for other distributors in the same rate year. The increase approved in the Algoma Power proceeding was 3.75%. In this case, as noted above, Remotes is seeking a 3.45% increase.

Board staff supports the Remotes’ proposed adjustment for the following reasons:

- the calculation of 3.45% is a simple average of the approved changes to Residential and General Service < 50 kW classes throughout the province, which is the same methodology as used in the Algoma Power decision.
- Remotes’ calculation reflects adjustments in the commodity and transmission costs experienced by other distributors (Exhibit I / T1 / S31), whereas the Algoma adjustment reflects distribution costs only. As a grid-connected distributor Algoma Power will experience commodity and transmission costs directly, while Remotes’ rates reflect generation costs indirectly through a calculated average of other distributors’ costs. As a result, one would not expect the increases to be identical.
- there is a difference in the time period during which the adjustments to other distributors were measured. Remotes used the most recent published increases (which are the adjustments to arrive at 2011 rates), whereas Board staff in calculating the average in the Algoma proceeding used the unpublished adjustments that yielded 2012 rates.

Board staff submits that the methodology used by Remotes is reasonable. In particular, staff submits that it is not necessary to require Remotes to recalculate the provincial average using the more recent unpublished data that was available to Board staff in the Algoma Power proceeding. In short, Board staff supports the proposed increase of 3.45%.

¹ *Algoma Power Inc. (Re)*, (2010), EB 2009-0278

Applicability of Remotes' Standard A rates to public sector customers in the extended service area

A second issue not settled by the Parties concerns the Standard A rate in the grid-connected communities. Remotes' Conditions of Service define Standard A service at Exhibit G1 / T3 / S1, Appendix A, at p. 38-9, and also on the existing and proposed tariff sheets (Exhibit G2 / T1 / Schedules 1 and 2 respectively). Standard 'A' rates are applicable to all accounts paid directly or indirectly out of Federal and/or Provincial government revenue. Remotes' Conditions of Service include as an example of indirect funding a First Nation School account paid by a First Nation through funding by Aboriginal Affairs and Northern Development Canada.

Remotes has pointed out that its "Standard A rates, like those in most communities in the far north, are set slightly above the average cost of service"². The unsettled issue is whether certain customers such as schools would be classified as Standard A by Remotes, by virtue of being funded indirectly by the federal government. A customer that is classified as Standard A will have a considerably higher bill for a given amount of consumption than it would have if classified as General Service. Board staff notes that the evidence shows that customers who are currently defined as General Service customers (i.e. not Standard A) in one of the grid-connected communities but would become Standard A customers under Remotes' definition would experience an increase in their electricity bill. For example, a General Service customer using 3,000 kWh has a current monthly bill of \$285.71 in Cat Lake, and \$660.02 in Pikangikum (if non-native Commercial) or \$370.25 (if native Commercial). The monthly bill would increase to \$783.54 as Standard A, whereas the bill would decrease to \$292.23 if the same customer were classified as General Service by Remotes.³

Board staff submits that, while acknowledging the impact on the customers as set out in the above paragraph, there is no evidence on the record to support deviating from applying Remotes' Standard A rates to public sector customers in the extended service area. The Regulation defines eligibility for RRRP as a residential customer or a consumer that is treated as a residential customer under Ontario Regulation 445/07 (*Reclassifying Certain Classes of Consumers as Residential-Rate Class Customers: Section 78 of the Act*), and who does not occupy government premises. If a party were to challenge the definition of "indirect funding" or other aspects of the Regulation Board staff submits it would require proper Notice of such an application to all interested parties.

² Exhibit G1 / T1 / S2 / p. 2

³ Responses to staff IR #35(b) and VECC IR 5-S

The above submission concerns the permanent customer classification of customers that receive government support in some form, in Cat Lake and other service areas that may have customers that would become Standard A for the first time. Board staff submits that it would be reasonable to phase in the Standard A rate over a number of steps rather than immediately in a single step. Because these customers do depend on government funding, it may take some time for the funding to be adjusted to cover additional cost entailed in the Standard A tariff. Staff notes that if there were a period of phasing in, there would be a corresponding increase in the required revenue from RRRP, over and above the estimated amount which is based on immediate implementation. The effect would be to mitigate the bill impact when the Standard A classification becomes effective, and the phase-in period could provide a bridge to an adjustment in the funding support.

Implementation of 2013 rates

The effective date of the rate change approved by the Board is May 1, 2013. As a result of the timing difference between the effective date and the implementation date of the new rates, there will be a need for foregone revenue rate riders. Board staff submits that the foregone revenue rate riders should be in place from the implementation date of the new rates through to April 30, 2014.

Implementation in the Grid-connected Communities

Remotes stated in its application that it intends to apply for approval to serve the grid-connected communities of Cat Lake and Pikangikum at a future date (Exhibit A / T2 / S1, item # 8). Board staff suggests that it be made explicit that the existing rates in the grid-connected communities will remain at their current amounts until the relevant approval or approvals become effective. Remotes has provided a copy of correspondence from the Pikangikum First Nation to the Minister of Energy requesting that Remotes enter negotiations to assume operation of its distribution system when the connection to the grid is completed (Exhibit A / [I7](#) / [S2](#)). Remotes has provided copies of correspondence dated June 7, 2012 related to negotiations toward a permanent servicing agreement with the Cat Lake Band Council. (Exhibit A / [I7](#) / [S3](#)).

Board staff submits that the effective date in the new service territory be determined by the Board when Remotes applies for approval to serve the grid-connected communities. Any foregone revenue rate riders should not be charged to the consumers in these communities, because there will be no reason for their implementation date to differ from their effective date at that time.

Board staff notes that there will be a variety of bill impacts with a change from existing rates to the proposed rates, depending on the customer's consumption level and the existing rate class definitions and rate structure. The bill impacts that would be experienced by representative customers are provided in the response to Board staff interrogatory # 35(b). Using a 10% increase as a reference point, residential customers in Cat Lake using less than 500 kWh per month or 2000 kWh would experience high impacts. For example customers now in the Pikangikum Residential Old Age class would experience very high impacts. Board staff submits that Remotes should phase in harmonized uniform rates over a period of several years, in line with the Board's policy on rate mitigation which requires consideration of a mitigation plan when bill impacts exceed 10%.

- All of which is respectfully submitted -