EB-2013- 0416

GEC CROSS MATERIALS FOR HONI PANEL 4

asking me out -- my low-use neighbours are saying: I didn't use any power and they're still charging me. That said, I don't know if I -- does that reflect reality, I mean, that you would expect this change is going to lead to a lot of work for your customer service group?

MR. ANDRE: I would hope that a lot of these issues would come out during the proceeding, and that Hydro One would be providing its comments on what it sees as potential issues if any of these options are adopted.

I can certainly speak anecdotally as well, that when I deal with customer care issues, when I help our customer care folks deal with customer issues, certainly a lot of those are related to, you know, the amount of the fixed charge.

But I think there is a lot of issues associated with -- that need to be explored with the Board's proposal.

QUESTIONS BY MS. GIRVAN:

MS. GIRVAN: Have you done, in terms of just your proposed fix charge increases, have you done any focus groups, customer surveys or anything in terms of customer reaction to that?

Because certainly my experience in the past -- let's say, for example, with the gas utilities -- is moving that dramatically in one year will definitely get a lot of adverse customer reaction.

I know in the past what the Board has done is phased things like this in. So I am just asking you -- I guess my question, really, is: Have you done any --

Ontario Energy Board

Application of Cost Allocation for Electricity Distributors

Report of the Board

EB-2007-0667

November 28, 2007

4 Other Rate Matters

4.1 Other Rate Matters

The review of the informational cost allocation filings considered other rate design matters. This section discusses the treatment of the fixed rate component (Monthly Service Charge ("MSC")) of the distribution rate as well as metering credits for the USL Class, transformer credits for customer-owned transformers, and charges for the provision of standby power for customers with load displacement generation.

4.2 The Monthly Service Charge

4.2.1 Lower Bound for the Monthly Service Charge

The Discussion Paper proposed that the floor for the MSC be the avoided costs. Staff's rationale for this proposal was that these costs are not subject to other cost allocation judgments (such as the minimum plant) and therefore there can be a higher level of confidence in the associated outcomes. These are costs defined as meter-related, billing, and collection costs. Many participants agreed with this proposal. One participant commented that the costs associated with a service drop should also be included in the avoided cost calculation. The Methodology was specific about the definition of avoided costs and the Board is not persuaded to depart from that definition at this time. The Board remains of the view that the use of avoided costs, as defined in the Methodology, is an appropriate basis for establishing the minimum or floor amount for the MSC at this time.

4.2.2 Upper Bound for the Monthly Service Charge

The Methodology set a ceiling for the MSC based on the avoided costs plus the allocated customer costs. The Discussion Paper proposed that the ceiling for the MSC be 120% of this level. Some participants believed that the results of the sensitivity analysis were not an appropriate basis for setting an upper bound.

The Board considers it to be inappropriate to make significant changes to the ceiling for the MSC at this time, given the number of issues that remain to be examined. The appropriateness of the methodologies cited above, used to set the MSC is an issue that will be examined within the scope of the Rate Review. The Rate Review will also examine the role of rate design in achieving various objectives, including conservation of energy. Both of these undertakings will have determinative impacts on the fixed/variable ratio policy.

In the interim, the Board does not expect distributors to make changes to the MSC that result in a charge that is greater than the ceiling as defined in the Methodology for the MSC. Distributors that are currently above this value are not

2.6 Regulatory Costs

Hydro One does not believe there will be any net savings in regulatory costs as a result of adopting any of the proposed options, and in fact, the additional complexity associated with Option 3 will increase a Distributor's costs.

While the need for load forecasting from a rates perspective is eliminated by the proposed rate design changes, load forecasting activities will still need to be carried out for asset management, regional planning and business planning purposes.

Regulatory filings under the Board's IRM approach already minimizes the rates related work, so fixing distribution does nothing to change the efforts required under IRM. Option 1 does make the rate design aspect of a rates filing simpler, while Option 3 makes rate design more complex and more difficult to support in a rates filing. Most importantly, neither Options 1 nor 3 would eliminate the need for running a cost allocation model to establish the costs to be collected for each rate class, which represents the bulk of the rates-related work for a rates filing.

2.7 Public Policy (CDM)

Hydro One does not see the current rate design as a disincentive to develop and implement CDM programs. Hydro One responds and participates in all OPA programs available to our customers, and the move to a fixed charge approach will not change that commitment.

A fixed charge approach would reduce the motivation for customers responding to CDM programs because it would reduce the magnitude of the bill savings and extend the payback period for CDM initiatives. Admittedly Distribution charges represent only about 1/3 of a typical Hydro One residential customers' total bill, but customers will understand that this approach reduces the variable component of the bill, which in turn reduces the incentive to adopt CDM programs. The motivation for customers to save will be limited to commodity cost savings as well as to other aspirational objectives, such as helping the environment or using better tools to improve comfort and convenience.

A reduced need from customers to invest in CDM will make it increasingly more expensive for Distributors to market CDM programs as they will have to increase incentives for customer participation. As a result, it will be more challenging to meet the new CDM target set by the government for 2015-2020.

Option 3 does, on the surface, appear to provide a better alignment to the governments LTEP goals by encouraging customers to use more energy off-peak in order to shift to a "lower use" fixed distribution charge. However, the one-year time-lag between customer actions and potential changes to distribution charges, as discussed earlier, will mute this benefit.

Filed: 2014-07-04
EB-2013-0416
Exhibit I
Tab 7.07
Schedule 13 GEC 29
Page 1 of 1

Green Energy Coalition (GEC) INTERROGATORY #29

Issue 7.7 Is an increase in the fixed charges revenue appropriate?

Interrogatory

Please provide all studies that HONI has conducted in the last 10 years regarding the impact of changes to the customer charge on (a) cost-effectiveness of energy efficiency programs and measures to customers, and (b) total consumption of electricity in HONI's service area.

Response

Hydro One is not aware of any studies.

Filed: 2014-07-04
EB-2013-0416
Exhibit I
Tab 7.07
Schedule 13 GEC 30
Page 1 of 1

Green Energy Coalition (GEC) INTERROGATORY #30

Issue 7.7 Is an increase in the fixed charges revenue appropriate?

Interrogatory

Please provide all studies in HONI's possession undertaken in the last 10 years (regardless of who conducted the study) regarding the impact of changes to the customer charges in Ontario on (a) cost-effectiveness of energy efficiency programs and measures to customers, and (b) total consumption of electricity.

Response

Hydro One is not aware of any studies.

Filed: 2014-07-04
EB-2013-0416
Exhibit I
Tab 7.07
Schedule 13 GEC 31
Page 1 of 1

Green Energy Coalition (GEC) INTERROGATORY #31

Issue 7.7 Is an increase in the fixed charges revenue appropriate?

Interrogatory

Please provide all studies that HONI has conducted in the last 10 years regarding the elasticity of demand of its system or any of its customer classes.

Response

Hydro One has not done any studies.

Green Energy Coalition (GEC) INTERROGATORY #32

Issue 7.7 Is an increase in the fixed charges revenue appropriate?

Interrogatory

Please provide all studies in HONI's possession undertaken in the last 10 years (regardless of who conducted the study) regarding the elasticity of demand in Ontario of any customer classes.

Response

Hydro One is not aware of any studies.

general.[10] Quite apart from the added cost of this energy use, a move toward increased fixed charges risks sending a message to customers that conservation has less value, undermining the Government's key Long Term Energy Plan objective.

Q Have you compared the increases in energy use by residential customers due to increased fixed charges that you have calculated above to Hydro One's conservation and demand management goals for residential customers?

A Yes. The Board allocated a cumulative savings level over four years of 1,130 million kWh to Hydro One for 2011-2014.[11] In Hydro One Networks' application for Board Approved CDM programs in 2010, it identified a slightly lower amount of energy savings (1,073 million kWh)[12] Of this amount 42% came from residential programs.[13] If this percentage held with the Board's energy savings estimates, there would be 475 GWh of residential savings. The cumulative extra consumption from raising the customer charges would amount to 40% to 150% of the 2011-14 residential energy efficiency goal from Hydro One. In that context, fixed charge rate design has a significant effect. Higher usage due to elasticity of demand, as a rough mid-case estimate of 0.15 could essentially negate over three-fourths of Hydro One's 2011-14 energy conservation programs. Essentially ratepayers

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[10] Michael Li, Ren Orans, Jenya Kahn-Lang, and C. K. Woo,"Are Residential Customers Price-Responsive to an Inclining Block Rate? Evidence from British Columbia, Canada," June, 2014. See especially Tables 6 and 7 (pp. 12-13).

[11] Ontario Energy Board, revised order in EB-2010-0215/0216. March 14, 2011, Appendix A.

[12] Hydro One Networks, Inc. Filing of CDM Strategy and Application for Board-Approved CDM Programs (November 1, 2010), Exhibit B, Tab 1, Schedule 1,, p. 2.

[13] 366 GWh of OPA programs (Id., Exhibit B, Tab 1, Schedule 2, p. 8) plus 81 GWh of Board-approved residential programs (Id., Exhibit B, Tab 1, Schedule 2, p. 11) equals 447 GWh divided by 1,073 GWh equals 42%.

Impact of HONI Proposed Charges on Total Bill

Low Income/Low Use vs High Income/High Use Customers

Percent change 2015 vs 2014 Total Bill

Use Level	Rate Class		
(kWh/month)	UR	R1	R2
	209,573 cust.	438,731 cust.	335,388 cust.
Low (100)	6.41	6.30	5.82
Medium (800)	-4.40	-1.54	4.03
High (2000)	-6.30	-3.14	3.61

Fixed Charge % of Total Bill 2015 vs 2014

Use Level	Rate Class					
(kWh/month)	UR		R1		R2	
	2014 %	2015 %	2014 %	2015 %	2014 %	2015 %
Low (100)	38	57.5	48	63	56	69
Medium (800)	9	15	13	18	17	21
High (2000)	4	7	6	8	8	10

Sources: Impacts from Ex. G2-4-1, Attachment 1, pp. 1-9, customer numbers from G1-5-2, Att. 1. P.1

2015 Bill Impacts (Typical Consumption Level)

Rate Class	UR
Monthly Consumption (kWh)	800
Peak (kW)	0
Loss factor-Current	1.078
Loss factor-Proposed	1.057
Commodity Threshold	600
Monthly Consumption (kWh) - Uplifted - Current	862.4
Monthly Consumption (kWh) - Uplifted - Proposed	845.6
Charge determinant	kWh

	Volume	Current Rate ($)	Current Charge ($)	Volume	Proposed Rate ($)	Proposed Charge ($)	Change ($)	Change (%)	% of Total Bill on RPP	% of Total Bill on TOU
Energy First Tier (kWh)	600	0.086	51.60	600	0.086	51.60	0.00	0.00%	38.67%	
Energy Second Tier (kWh)	200	0.101	20.20	200	0.101	20.20	0.00	0.00%	15.14%	
Sub-Total: Energy (RPP)			**71.80**			**71.80**	**0.00**	**0.00%**	**53.81%**	
TOU-Off Peak	512	0.075	38.40	512	0.075	38.40	0.00	0.00%		28.39%
TOU-Mid Peak	144	0.112	16.13	144	0.112	16.13	0.00	0.00%		11.93%
TOU-On Peak	144	0.135	19.44	144	0.135	19.44	0.00	0.00%		14.37%
Sub-Total: Energy (TOU)			**73.97**			**73.97**	0.00	0.00%	**55.43%**	**54.69%**
Service Charge	1	12.72	12.72	1	20.45	20.45	7.73	60.77%	15.33%	15.12%
Smart Meter Adder	1	3.92	3.92	1	0	0.00	-3.92	-100.00%	0.00%	0.00%
Fixed Smoothing Rider	1	0	0.00	1	-0.78	-0.78	-0.78	0.00%	-0.58%	-0.58%
Fixed Deferral/Variance Account Rider	1	0	0.00	1	0.25	0.25	0.25	0.00%	0.19%	0.18%
Distribution Volumetric Rate	800	0.02557	20.46	800	0.0176	14.08	-6.38	-31.17%	10.55%	10.41%
Volumetric Smoothing Rider	800	0	0.00	800	-0.0007	-0.56	-0.56	0.00%	-0.42%	-0.41%
Volumetric Deferral/Variance Account Rider	800	0.00061	0.49	800	-0.0001	-0.08	-0.57	-116.39%	-0.06%	-0.06%
Sub-Total: Distribution (excluding pass through)			**37.58**			**33.36**	**-4.22**	**-11.24%**	**25.00%**	**24.67%**
Smart Metering Entity Charge	1	0.79	0.79	1	0.79	0.79	0.00	0.00%	0.59%	0.58%
Line Losses on Cost of Power (based on two-tier RPP prices)	62	0.10	6.30	46	0.10	4.61	-1.70	-26.92%	3.45%	3.41%
Line Losses on Cost of Power (based on TOU prices)	62	0.09	5.77	46	0.09	4.22	-1.55	-26.92%	3.16%	3.12%
Sub-Total: Distribution (based on two-tier RPP prices)			**44.68**			**38.76**	**-5.92**	**-13.25%**	**29.04%**	**28.66%**
Sub-Total: Distribution (based on TOU prices)			**44.14**			**38.37**	**-5.78**	**-13.09%**	**28.75%**	**28.37%**
Retail Transmission Rate – Network Service Rate	862	0.00707	6.10	846	0.0071	6.00	-0.09	-1.53%	4.50%	4.44%
Retail Transmission Rate – Line and Transformation Connection S	862	0.00489	4.22	846	0.0048	4.06	-0.16	-3.75%	3.04%	3.00%
Sub-Total: Retail Transmission			**10.31**			**10.06**	**-0.25**	**-2.44%**	**7.54%**	**7.44%**
Sub-Total: Delivery (based on two-tier RPP prices)			**54.99**			**48.82**	**-6.17**	**-11.22%**	**36.59%**	**36.10%**
Sub-Total: Delivery (based on TOU prices)			**54.46**			**48.43**	**-6.03**	**-11.07%**	**36.29%**	**35.81%**
Wholesale Market Service Rate	862	0.0044	3.79	846	0.0044	3.72	-0.07	-1.95%	2.79%	2.75%
Rural Rate Protection Charge	862	0.0012	1.03	846	0.0012	1.01	-0.02	-1.95%	0.76%	0.75%
Standard Supply Service – Administration Charge (if applicable)	1	0.25	0.25	1	0.25	0.25	0.00	0.00%	0.19%	0.18%
Sub-Total: Regulatory			**5.08**			**4.99**	**-0.09**	**-1.85%**	**3.74%**	**3.69%**
Debt Retirement Charge (DRC)	800	0.007	**5.60**	800	0.007	**5.60**	**0.00**	**0.00%**	**4.20%**	**4.14%**
Total Bill on Two-Tier RPP (before Taxes)			**137.47**			**131.20**	**-6.27**	**-4.56%**	**98.33%**	
HST		0.13	17.87		0.13	17.06	-0.81	-4.56%	12.78%	
Total Bill (including HST)			**155.34**			**148.26**	**-7.08**	**-4.56%**	**111.11%**	
Ontario Clean Energy Benefit (OCEB)		-0.10	-15.53		-0.10	-14.83	0.71	-4.56%	-11.11%	
Total Bill on Two-Tier RPP (including HSTand OCEB)			**139.81**			**133.43**	**-6.37**	**-4.56%**	**100.00%**	
Total Bill on TOU (before Taxes)			**139.11**			**132.98**	**-6.12**	**-4.40%**		**98.33%**
HST		0.13	18.08		0.13	17.29	-0.80	-4.40%		12.78%
Total Bill (including HST)			**157.19**			**150.27**	**-6.92**	**-4.40%**		**111.11%**
Ontario Clean Energy Benefit (OCEB)		-0.10	-15.72		-0.10	-15.03	0.69	-4.40%		-11.11%
Total Bill on TOU (including HST and OCEB)			**141.47**			**135.24**	**-6.23**	**-4.40%**		**100.00%**