**HYDRO ONE NETWORKS INC.**

**5 Year Custom Distribution Rate Application**

**EB-2013-0416**

**Balsam Lake Coalition Submission**

**October 14, 2014**

**INTRODUCTION**

These are the submissions of the Balsam Lake Coalition (BLC) with respect to the application put forward by Hydro One Networks Inc. (HONI).

BLC’s submissions are limited to two issues:

the appropriate rate treatment of customers currently charged for electricity distribution within HONI’s Seasonal Rate Class designation, and

the appropriate criteria for RRRP funding eligibility.

**SUMMARY OF BLC’s RECOMMENDATIONS**

In BLC’s respectful submission it would be most appropriate for the Board to require HONI to collapse the current Seasonal Rate Class customer classification, migrating all such customers into the proposed UR, R1, and R2 rate class designations as appropriate based on their known location based density characteristics. BLC respectfully submits that the original and primary justification for establishing a separate rate class for so called “seasonal” customers is obsolete given the development of density based rate classes.

With respect to the allocation of RRRP funding, BLC submits that this is a consideration separate from initial rate class determinations that should not be used to justify the gathering of so-called “seasonal” customers into one generic rate class as a way to properly administer RRRP funding. BLC respectfully submits that HONI has the ability to properly allocate RRRP funding to the subset of customers that qualify for such funding as a result of meeting the requisite criteria without creating a rate design that separates those customers out into a separate rate class. Furthermore BLC respectfully submits that entitlement to RRRP funding is strictly governed by the legislation that creates that funding and as such is not subject to manipulation by HONI to expand or contract the pool of customers that should receive that funding. To that end BLC submits that the criteria for receiving any such funding should be strictly based on the criteria set out in the legislation, such that HONI should be permitted only to require that customers within a qualifying R2 location that are seeking a RRRP credit against their distribution rates confirm that they are occupying “residential premises", which, pursuant to the governing legislation, means a dwelling occupied as a residence continuously for at least eight months of the year.

**THE PROPOSED CONTINUATION OF THE SEASONAL RATE CLASS**

***THE FOCUS GROUP REPORT***

Pursuant to the settlement agreement in EB-2012-0136, the parties agreed as follows:

H1 agrees to carry out a consultation with the interested stakeholders to review the rates for Seasonal Customers, to identify options (which could incl. changes in rate design, classification, or otherwise) to ensure that those rates are as fair and equitable as possible and in accordance with rate-making principles.[[1]](#footnote-1)

Webster’s Dictionary defines “consultation” as the act of considering or asking the opinion of participants. BLC respectfully submits that the manner in which HONI sought the opinion of existing Seasonal Rate Class members with respect to identifying options to ensure that rates for Seasonal Customers are as fair and equitable as possible was inadequate.

Rather than a sincere attempt by HONI to consult with participants, in BLC’s submission the Focus Group sessions more closely resembled a lecture by the third party facilitator (HONI staff not having made themselves available[[2]](#footnote-2)) advising how HONI calculates Seasonal rates, along with the reasons that Seasonal rates are higher than other residential rates. Only 4 possible alternative options were proposed by HONI through the facilitator; no other options were permitted for discussion, even though some participants suggested that a possible option was to eliminate the Seasonal Rate Class and merge those customers with the other residential rate classes.

The only 4 options considered were as follows:

1. maintain the status quo,
2. raise the fixed charge,
3. split into high volume & low volume sub clases, and
4. move high volume customers to the other residential rate classes.

Option iv) was voted as preferable by the majority of participants, however if other viable options were identified as available it was obvious from the Focus Group discussions, BLC respectfully submits, that this option may not have received a majority of votes by participants.

BLC submits that HONI did not adequately satisfy its obligation under the EB-2012-0136 settlement agreement to carry out a sincere consultation with interested stakeholders to review the rates for seasonal customers. Accordingly BLC does not believe it would be appropriate for the Board to rely on the apparent results of the Focus Group sessions as properly supporting a conclusion with respect to Season Rate class options.

***ISSUES WITH THE PROPOSED SEASONAL RATE CLASS***

BLC notes that within the context of the Focus Group HONI identifies what it calls 2 general reasons as to why Seasonal property owners pay (and presumably should pay) higher rates for the delivery of electricity:

The higher costs of supplying energy to seasonal homes (as a rate class group), and

A typical seasonal rate payer annually uses less electricity than a typical residential rate payer.[[3]](#footnote-3)

With respect to reason number 1, the higher costs of supplying energy to seasonal homes, HONI expanded on this primary reason for maintaining separate Seasonal rates, asserting that these higher costs were caused by:

Higher infrastructure costs (poles, conductors, submarine cables, etc.)

Geography (forestry, lake service, remote access)

Environment (storm recovery, wind) and

Maintenance (all factors above and customer service)[[4]](#footnote-4)

With respect to reason number 2, HONI asserted that since the average seasonal rate payers uses less electricity per month then the average residential home, and since the costs allocated to the Seasonal Rate Class are split between fixed and volumetric charges, the volumetric charge levied against Seasonal customers will necessarily be higher.[[5]](#footnote-5)

BLC notes that while HONI mentions “energy demand” or “load profile” as one of the various features of the 12 different rate classes,[[6]](#footnote-6) in the context of Seasonal Rate Classes load profile is only discussed in the context of the lower average monthly use of the “average” seasonal rate payer with a corresponding impact on the necessary volumetric charge to recover the costs of serving the class; there is no suggestion that, for the Seasonal Rate Class, the primary reason for maintaining such a class separate from other residential rate classes relates to a material difference in in either costs or rate design considerations related to, for example, a different load profile.

Accordingly, in BLC’s view, HONI identified as the primary reason for maintaining a separate rate class the higher cost of serving that class, relating to the typical locations associated with seasonal customers, along with the impact of the lower average monthly consumption that happened to be associated with the customers that were placed in the Seasonal Rate Class on the necessary volumetric charge to recover the costs allocated to the class.

In doing so HONI proceeded with the consultation by identifying why it believed a separate Seasonal Rate Class was justified; however HONI did not go on to properly identify the problems with the existing Seasonal Rate Class. In BLC’s view the next step, after identifying the historical basis for the status quo Seasonal Rate Class, should have been to identify what was unfair and inequitable about the status quo rates, something BLC suggests was not adequately done.

The problems with the status quo rates are, in BLC’s view, numerous:

Membership in the class is not actually based on factors directly relevant to cost allocation principles, specifically it is not dependent on location based costs to serve the members despite HONI’s explanation that it is location based considerations that drive the creation of the class in the first instance.

More particularly, as a result of the additional work done by HONI on identifying density based cost considerations, the status quo seasonal class results in customers with identical density based cost realities falling within disparate rate classes; put more simply, neighbours with similar annual consumption pay different fixed and variable rates for no easily discernable reason, even when they have similar consumption patterns.[[7]](#footnote-7)

Also as a result of the seasonal class membership rules, the class lumps together customers whose annual consumption highlights the inequities associated with volumetric based rate recovery[[8]](#footnote-8), with a relatively small number of high volume consumers subsidizing the costs incurred on behalf of the lower volume consumers, more so then what happens in other residential rate classes.[[9]](#footnote-9)

The task for the focus group should have been to consider what steps should be taken to rectify these issues without causing newer, more material ones.

The answer cannot be “status quo”, since there are options that, while material subsidies would no doubt remain, serve to lessen the gap between the cost incurred by customers for distribution and what most customers are actually paying without creating new, material subsidy issues.

With respect to the options discussed in the focus group BLC has the following observations:

Raising the fixed charge would serve to lessen the subsidy inherent in volumetric based rate recovery, but does not do anything to address the issues concerning over-allocating costs to high density customers and under-allocating costs to low density customers when those customers are lumped together in a single class, nor does it address the serious issue of providing different rates for neighbouring customers who have similar average monthly consumption based on factors that are either irrelevant or, relatively speaking, immaterial to the issue of cost allocation and rate design.

Option 2, splitting the class into high and low volume sub classes, would also help to alleviate the inequities inherent in volumetric based rate design, however again none of the cost allocation issues are resolved, particularly in light of HONI’s work on density based rates, plus neighbours will still have different rates for essentially the same distribution service.

The proposal put forward by HONI, moving 11,000 or so high volume seasonal customer to their "assigned" density based residential rates, comes closest of the 4 proposals to solving the problems inherent in the status quo seasonal rate, but only does so for a fraction of the customers. While those few customers will be allocated costs based on their actual location based characteristics, be charged the same rates as the majority of their neighbours, and benefit from less of a burden with respect to providing a subsidy to lower volume customers within their new rate class through the volumetric charge, the remaining seasonal customers will not have benefitted at all from the redesign. In fact, the remaining high volume customers will likely have to shoulder an even greater burden of the subsidy to the low volume users as a result of the removal of the 11,000 or so higher volume customers from the class.

In BLC’s view the issues that need to be rectified in order to eliminate the inappropriate subsidies within the status quo Seasonal Rate Class are:

the proper reflection of the the density weightings with respect to each seasonal class member, and

the lessening (if not elimination) of the subsidy associated with the volumetric rate design.

Were it necessary for some reason to maintain a separate Seasonal Rate Class for some overarching reason (assuming "seasonal" customers could be properly identified as an appropriate class for the purpose of cost allocation and rate design) seasonal customers would need to be split into three groups based on density (UR, R1, and R2) and then those three groups either charged rates with a suitably high fixed to charge to eliminate any undue volumetric charge, or split again into high and low volume subclasses so that the spread between the low volume and high volume users, within each subclass, would be small enough to avoid undue subsidies.

However, in the opinion of BLC, there is no remaining, overarching reason to maintain the Seasonal Rate Class, let alone split the existing class into three classes and possibly split those classes again into high volume and low volume subclasses.

In BLC's view the original justification for the seasonal class, as expressed to stakeholders by HONI in its Focus Group discussions, was the recognition of location based differences in costs to serve seasonal customers, a justification that has become obsolete with the specification of density based rates. By eliminating the Seasonal Rate Class and collapsing the seasonal customers into their respective density based rates HONI will have, as precisely as it has suggested is appropriate, reflected the location-based costs not only for what it traditionally referred to as Seasonal customers, but for all its customers.

At the same time the large subsidy paid by high use Seasonal customers to low use Seasonal customers, although not eliminated, would be materially reduced by accessing the more even distribution of high and low users within the much larger residential classes.

The only other material reason there appeared to be to maintain a separate Seasonal Rate Class was to separate out customers who, although living in a geographic area that would qualify them for RRRP relief, did not meet the associated residency criteria. As pointed out at the hearing, that distinction could easily be maintained by separating out R2 customers that did not qualify for RRRP relief and simply not apply the RRRP fixed credit against their rates.[[10]](#footnote-10)

***IMPACT OF THE PROPOSAL TO ELIMINATE THE SEASONAL RATE CLASS***

BLC recognizes that there are material impacts with the proposal to eliminate the Seasonal Rate Class and migrate all customers to the other three residential classes. Board Staff, in its submission on seasonal rates, cites those impacts as a reason (the only reason cited by Board Staff) to refrain from eliminating the Seasonal Rate Class and allocating those customers to the other three residential rate classes. In particular the concern is raised with respect to low volume R2 seasonal customers experiencing a materially high rate impact as a result of moving to the R2 rate class.

With all due respect to Board Staff, the reason there is a material impact on some customers as a result of the elimination of the Seasonal Rate Class is because those customers have been materially subsidized in the rates they have been paying for distribution service under the status quo rate structure. It cannot be the case that the impact on customers of raising their rates because they have been, according to cost allocation and rate design principles, paying materially less then their allocated costs, in this case as a result of:

what are properly R2 customers from a cost based perspective being allocated costs based on a less costly density based factor[[11]](#footnote-11), while at the same time

 having what are properly R1 and UR customers from a cost based perspective included in their rate class and have costs allocated to them based on a more costly density based factor,[[12]](#footnote-12) and

 those properly classified R2 customers benefitting from their low consumption as a result of the disproportionately high volumetric charge within the class, made necessary by the relatively low level of consumption by the class as a whole,

is a bar to correcting the unjustifiable subsidy. At best the customer impact of correcting the subsidy would be a reason to phase in the correction over time, although BLC would point out that for the lower volume customers, while the percentage impact relative to what they have been paying may seem high, the dollar impact is obviously more modest.

***LOAD PROFILE ISSUES***

BLC notes that HONI, in cross examination, appeared to raise the issue of the differing average load profile associated with the customers that ended up in the Seasonal Rate Class as opposed to the load profile associated with the other residential rate classes, and held those differences up as a reason to maintain a separate rate class, despite the fact that the class was built upon residency criteria rather then any consumption based criteria at all.[[13]](#footnote-13) It seemed to BLC, at the hearing stage, that HONI was suggesting that the timing of energy use by Seasonal Customers over the year may be a reason to maintain a separate Seasonal Rate Class.

In response, as has already been detailed, BLC notes that in explaining to Seasonal rate customers the reasons why Seasonal rates were higher then other residential rates, HONI did not suggest, in any of its Focus Group material, that there was a specific load profile associated with Seasonal rate customers that caused there to be materially different costs allocated to the Seasonal Rate Class. The only differences in costs noted by HONI related to the differences which have now been quantified and captured by the proposed density factors, which BLC has suggested eliminates the need for a separate Seasonal Rate Class. In terms of “load profile”, HONI only mentioned the lower average monthly consumption related to seasonal customers as a driver for the higher volumetric charge within the Seasonal Rate Class.

In BLC’s view, if there were material considerations in the rate design associated with the Seasonal Rate Class that were based on specific load profile analysis, that analysis would have been specifically performed and detailed in both the Focus Group discussions and in the Application. The fact that such was not done in this case suggests to BLC that differing load profiles were not the reasons driving the isolation of Seasonal customers from other residential customers, and that continuing the maintain a separation based on differing load profiles alone would be unjustified.

***CONCLUSION***

For all these reasons BLC respectfully submits that the Board should require HONI to eliminate the proposed Seasonal Rate Class, migrating all customers currently in the Seasonal Rate Class to the UR, R1 and R2 rate classes as appropriate.

BLC recognizes that the Board may be concerned about the immediate bill impact of such a migration, in which case BLC would respectfully suggest the migration could be phased in over the 5 years of the proposed Custom IR period in order to smooth the impact. The precise details of how such phasing could and should occur will necessary depend on the results of all the other issues before the Board, as they will determine the ultimate bill impacts, such that BLC would suggest that the Board should require HONI to design a phase in approach after the Board has determined the rest of the issues before it with respect to HONI’s application.

**RRRP FUNDING ELIGIBILITY**

The applicable definition for customers to qualify for RRRP is set out in Ontario Regulation 442/01. It requires, in addition to the location based criteria that BLC accepts is captured by the definition associated with the R2 rate class, that a customer must occupy a “residential premises”, defined by section 1. (1) of the regulation as “a dwelling occupied as a residence continuously for at least 8 months of the year”.

In BLC’s respectful submission the eligibility criteria for RRRP funding is a matter of legislative direction that is not subject to the discretion of either HONI or the Board to either widen or narrow. BLC respectfully submits that the criteria that has been to date required by HONI has been too narrow. By way of example there is no criteria under the legislation that suggests that customers are not permitted to occupy multiple residences at essentially the same time, or that the definition of “continuously” turns on such criteria as living in a residence 4 days of the week rather then some other proportion.

BLC respectfully submits that the only criteria that HONI can legitimately apply is to require customers seeking RRRP funding to confirm that they are occupying a dwelling as a residence continuously for at least 8 months of the year; adding criteria is not, in BLC’s, within the power of either HONI or the Board. Accordingly BLC submit that any additional criteria ostensibly imposed by HONI in order for customers to receive RRRP funding must be rejected.

**COSTS**

BLC respectfully submits that it has acted responsibly and efficiently with respect to its participation in this proceeding, and that accordingly it should be allowed to recover its reasonably incurred costs of doing so.

**ALL OF WHICH IS RESPECTFULLY SUBMITTED THIS 14th DAY OF OCTOBER 2014**

1. Exhibit G1, Tab 2, Schedule 2 [↑](#footnote-ref-1)
2. Transcript Volume 6 page 16 [↑](#footnote-ref-2)
3. Exhibit G1, Tab 02, Schedule 02, page 19 (slide 9) [↑](#footnote-ref-3)
4. Exhibit G1, Tab 02, Schedule 02, page 20 (slide 10) [↑](#footnote-ref-4)
5. Exhibit G1, Tab 02, Schedule 02, pages 21 and 22 (slides 11 and 12) [↑](#footnote-ref-5)
6. Exhibit G1, Tab 02, Schedule 02, page 14(slide 14) [↑](#footnote-ref-6)
7. Exhibit I, Tab 7.01 Schedule 7 BLC 1 page 1 illustrates how the proposed Seasonal Rate class members have been identified as falling into three disparate density zones, yet are proposed to be lumped together. [↑](#footnote-ref-7)
8. Transcript Volume 7, pages 24-25, HONI agrees with the proposition that as long as rates continue to be recovered on at least a partially volumetric basis low-volume customers are subsidized by high-volume customers. [↑](#footnote-ref-8)
9. Exhibit I, Tab 7.01, Schedule 8 FOCA 3 page 1 illustrates how, compared to the other residential classes, the Seasonal rate class has a membership which is heavily weighted towards customers with lower average monthly consumption, which, when combined with a rate design that features a volumetric charge, means that high volume consumers within the class are bearing a disproportionate burden of the total costs allocated to class relative to customers in the other residential rate classes using the same volumes. [↑](#footnote-ref-9)
10. Transcript Volume 7 pages 19-21 [↑](#footnote-ref-10)
11. Exhibit G1 Tab 3 Schedule 1 page 11 shows that Seasonal rate class members that actually live in R2 areas are benefitting from the interpolated Seasonal density factor of 3.6 when, were they properly allocated costs as R2 customers, would attract a density factor of 4.8. [↑](#footnote-ref-11)
12. Exhibit G1 Tab 3 Schedule 1 page 11 shows that Seasonal rate class members that actually live in UR and R1 areas are being inappropriately burdened by the interpolated Seasonal density factor of 3.6 when, were they properly allocated costs as UR and R1 customers, they would benefit from density factors of 1.0 and 1.9 respectively. [↑](#footnote-ref-12)
13. Transcript, Volume 7 pages 28-30 [↑](#footnote-ref-13)