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Oct. 15, 2014

Ontario Energy Board
2300 Yonge St., 27th Floor
Toronto, ON
M4P 1E4

Attn: Ms Kirsten Walli
Board Secretary

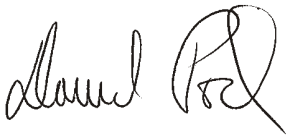
By electronic filing and e-mail

Dear Ms Walli:

Re: EB-2013-0416 – HONI Dx Rates – GEC Argument

Attached please find our submissions in this matter.

Sincerely,



David Poch
Cc: all parties

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THE ONTARIO ENERGY BOARD

IN THE MATTER OF the Ontario Energy Board Act, 1998, S.O. 1998, c. 15, Sched. B, as amended;

AND IN THE MATTER OF an application by Hydro One Networks Inc. for an order approving just and reasonable rates and other charges for electricity distribution to be effective January 1, 2015, each year to December 31, 2019.

GEC FINAL ARGUMENT

Introduction and Summary

The Green Energy Coalition (GEC) represents over 125,000 Ontario residents who are members or supporters of its member organizations: the David Suzuki Foundation, Greenpeace Canada, Sierra Club Canada Foundation and WWF-Canada. All of the GEC's member groups are charitable or non-profit organizations active on environmental and energy policy matters.

GEC's submissions are limited to the fixed charge issue and a related correction to cost allocation (Issue 7.7).

GEC submits that it is undesirable for the Board to consider the HONI proposal to increase fixed charges and reduce variable charges at this time given the Board's generic process on rate design and decoupling (EB-2012-0410) which we trust will entail a broader review of the issues surrounding fixed charges and decoupling.

GEC's concerns with the HONI proposal are summarized as follows:

- Higher fixed charges reduce the customer incentive to conserve contrary to clear government policy and directives, with a significant estimated impact of 75% of HONIs 2011-14 CDM targeted conservation (38% if HONI's elasticity values are utilized).
- HONI's rationale for the change is flawed due to its failure to consider broader cost and fairness impacts.
- Alternative approaches to decoupling can achieve revenue certainty and other policy goals without sacrificing conservation achievement and wasting smart meter investment, and are best considered in the broader generic process.
- Changing the fixed charges now when further changes are likely imminent due to the Board's generic review will amplify customer concern, needlessly increasing customer dissatisfaction and increase call centre burdens for both HONI and the Board.
- Changes to the fixed charge methodology to implement decoupling will likely require further changes to HONI fixed changes to accommodate a province-wide approach.
- A province-wide approach is desirable to enable customer education efforts and to enable complimentary bill presentation adjustments.
- HONI's proposal has higher impact for lower volume customers who are likely to be lower income customers, risking hardship, and contrary to government policy direction.
- HONI's proposal will exacerbate seasonal customer concerns about unfair classification based upon occupancy.

The HONI proposal is anti-conservation and contrary to government policy direction

GEC filed the evidence of Mr. William Marcus, an expert in both rate design and CDM[1]. In his pre-filed evidence Mr. Marcus modelled the anti-conservation impact of HONI's proposed shift of costs from variable to fixed charges. Based on elasticity values provided by studies in a number of jurisdictions, Mr. Marcus estimated the impact as equivalent to 40% to 150% of the 2011-14 residential energy efficiency goal for Hydro One. His point estimate of 75% of the

[1] Mr. Marcus' full CV appears at Attachment E to his pre-filed evidence (Ex. K8.1). In response to the Panel's request for information on his expertise in rate design Mr. Marcus lists his experience as an expert witness on rate design in his rebuttal evidence (K8.2) where he lists 11 jurisdictions in Canada and the U.S. including two appearances before the OEB as a rate design expert.

2011-14 goal was based on the 0.15 mid-point elasticity from the studies available. HONI witnesses offered an elasticity value of 0.06 – 0.07 taken from a transmission system analysis which was untested in this proceeding[2]. HONI witnesses did not dispute that even this lower elasticity value would still imply a conservation impact of roughly half the value Mr. Marcus suggested, or approximately 38% of HONI's 2011-14 CDM goal[3]. HONI's witnesses, ponting to the *average* change, nevertheless maintain that the change in rates is small and would have little impact. Given the undisputed evidence that HONI's lower proposed price elasticity still predicts a loss of over a third of the four year conservation gains, HONI's dismissal of the anti-conservation concern is simply unsupported by the evidence.

Indeed, HONI's submissions in the decoupling review commenting on the 100% fixed charge option include the following statement:

"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."[4]

Mr. André agreed that the same is true of the current proposal – just in lesser degree.[5]

In that same submission HONI noted:

"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."

Again, Mr. André agreed that the same is true of the current proposal – just in lesser degree[6].

Mr. But responded to Mr. Marcus' evidence by suggesting that the share of revenue to be collected by fixed charge was only increasing by 40% to 42%. This averaging obscures the more significant impact in particular rate classes and for particular use groups (especially low users) as seen in the tabular presentation below[7].

[2] GEC requested all available elasticity studies or studies of the impact of fixed charges on use and CDM in I-7.07-Sched. 13, GEC 29,30, 31 & 32. HONI interpreted the IRs as somehow excluding the analysis they referred to in oral evidence as it did not in their view amount to a 'study'. It was not practical to test the HONI elasticity analysis at that late stage of the proceeding when it was referenced.
[3] Vol. 6, p. 166
[4] K. 6.2, p. 4
[5] Vol. 6, p. 161
[6] ibid
[7] K.6.2, p. 10

Fixed Charge % of Total Bill 2015 vs 2014[8]

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

Thus the only evidence before the Board is that the proposal will dis-incent customer conservation and erode conservation achievement to the extent of at least 38% of HONI's 2011-14 CDM goal.

Given that alternative rate designs can address policy goals such as cost tracking and utility revenue certainty, the proposal flies squarely in the face of the government's 'Conservation First' policy and the Board's statutory objective:

> 1(1). 3. To promote electricity conservation and demand management in a manner consistent with the policies of the Government of Ontario, including having regard to the consumer's economic circumstances.

HONI's rationale for the change is flawed due to its failure to consider broader cost and fairness impacts

HONI appears to base its proposal on the idea that higher fixed charges are fairer because they better reflect the cost of service and this will encourage efficient use of the system. As Mr. Marcus discusses in his report and his rebuttal evidence, cost tracking for customer class cost allocation should not dictate rate design within the class. (Indeed HONI acknowledges that and deviates from the minimum system modelling result when it adjusts its seasonal rates proposal in this very case.) Rate design should consider a broader range of policy objectives including conservation impact, societal economic efficiency and, as discussed below, the disproportionate impact of higher fixed charges on low use customers which leads to a concern about the impact on low income customers.

Mr. Marcus addresses the idea of the efficient use of system assets in his June 4th report (attached to his pre-filed evidence) where he points out the accepted reality that markets are inefficient (hence the need for CDM) and that rate design cannot be simply predicated on

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

perfect market allocative efficiency, ignoring that reality[9]. Indeed, it is almost inconceivable in 2014 that a utility would propose to lower variable rates to 'better signal costs', which can only increase utilization, at the same time that the government has explicitly encouraged conservation including a billion dollar investment in smart meters!

Mr. Marcus also discusses how the increase in gas consumption due to higher fixed charges (and lower variable rates) increases commodity costs for all customers and is thus societally inefficient overall.[10] HONI's witnesses did not take issue with these observations about broader economic implications. HONI's principal response was to suggest that these and Mr.Marcus' concerns about conservation impact are broader policy considerations best dealt with in the generic process. GEC agrees, but submits that what is sauce for the goose must be so for the gander. The Board should not consider HONI's proposed changes without looking at the broader context. If, as all agree, that is best done in the generic process, then any change to HONI's fixed/variable split (apart from the mathematical correction Mr. Marcus suggests and HONI accepts) should await that broader review.

HONI's proposal will hurt low users and risk hardship for low income customers

HONI's proposal has higher impact for lower volume customers. This is not in dispute – as evident in the table below, there is a clear pattern where lower use customers in each of the main residential classes will see a higher percentage total bill change than higher use customers.

Percent change 2015 vs 2014 Total Bill[11]

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

Mr. Marcus provides data from a variety of sources including Ontario data from Statistics Canada that clearly correlates lower income with lower electricity use.

[9] K8.1 Attachment C, Page 9
[10] K8.1 Page 11
[11] Ex. K 6.2, p. 10

In the IR process GEC asked HONI for any studies it had relating these two variables and HONI responded that it had none[12]. In reply to Mr. Marcus, HONI witnesses then seemed to assert that HONI customer data shows no such correlation. When pressed, Mr. But seemed to be equivocal[13]:

> MR. POCH: Okay. So you're not disputing his point that there seems to be a correlation between income and electricity use level?
>
> MR. BUT: I'm not disputing -- since we have not done any detailed analysis, I'm not disputing his study per se.

As a matter of common sense one would expect there to be some correlation between lower income and lower use. Lower income customers would not be expected to have the same incidence of such electricity intensive uses as larger homes or central air conditioning, and it is not clear why HONI's customer base would differ substantially from the pattern that StatsCan reports for Ontario as a whole. GEC submits that there remains a serious concern that higher fixed charges will adversely impact lower income customers and work against the government policy direction to ease rate pressure on very low income customers.

HONI's proposal will exacerbate seasonal customer concerns about unfair classification

In this proceeding the Board will have heard the concern of seasonal customers that they are unfairly being treated differently than low density R2 customers based solely on occupancy. The fixed charge component of rates is at the heart of this perception. Alternative rate designs such as those proposed by GEC in the decoupling review would shift costs to a time of use differentiated variable charge which would largely eliminate the need for a distinct seasonal rate class while ensuring that the seasonal users pay a fair share because their use would correlate with the system's seasonal peak periods. An increased emphasis on rates reflecting use would presumably increase customer understanding and therefor acceptability. HONI's proposal pushes in the opposite direction.

[12] I-7.07, Sched. 13, GEC 24 & 25
[13] Vol. 6., p. 171

Any change to fixed charges should await the conclusion of the Board's generic review

In light of the generic decoupling/rate design proceeding, GEC does not expect this panel to delve into a full consideration of the competing methods for balancing cost allocation, rate design, decoupling, low income rate mitigation, and conservation objectives. Our primary concern is that there can be little doubt that the HONI proposal sacrifices conservation and the Board should not tolerate that outcome before fully considering competing alternatives that can balance these various policy objectives.

Alternative approaches to decoupling can achieve revenue certainty and other rate design policy goals without sacrificing conservation achievement and without wasting smart meter investment, and are best considered in the broader generic process.

HONI witnesses agreed that a province-wide approach to decoupling and rate re-design is desirable to enable any Board led customer education efforts and to enable complimentary bill presentation adjustments[14]. A province-wide approach to the fixed charge methodology to implement decoupling will likely require a further alteration to HONI's fixed changes. This will exacerbate the level of customer concern and will increase call centre burdens for both HONI and the Board.

As discussed above, in GEC's submission the Board should not consider HONI's proposed change without a consideration of the broader accompanying issues, best accomplished in the generic context.

The impact of the cost allocation correction

In the course of analysing HONI's fixed charge proposal, Mr. Marcus uncovered a double counting error in HONI's minimum system analysis supporting cost allocation. In J6.4 HONI provides the correcting values for the fixed charge but only does so assuming that its proposal to increase the fixed charge is accepted. GEC submits that the correction is appropriate whether or not HONI's proposed increase to fixed charges is accepted. The appropriate downward correction to the current fixed charge levels can be calculated as the difference between the '2015 as-filed' values and the 'update to as-filed' values that HONI has provided in J6.4.

[14] Vol. 6, pp. 153 and 154

ALL OF WHICH IS RESPECTFULLY SUBMITTED THIS 15th DAY OF OCTOBER, 2014

David Poch
Counsel to GEC