EB-2014-0055

Ontario Energy Board

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, (Schedule B);

AND IN THE MATTER OF an application by Algoma Power Inc. for an order approving just and reasonable rates and other charges for electricity distribution to be effective January 1, 2015.

ENERGY PROBE RESEARCH FOUNDATION
("ENERGY PROBE")

ARGUMENT

November 3, 2014

ALGOMA POWER INC.
2015 RATES APPLICATION

EB-2014-0055

ARGUMENT OF ENERGY PROBE RESEARCH FOUNDATION

A- INTRODUCTION

Algoma Power Inc. ("Algoma") filed a proposed partial settlement agreement in this proceeding with the Board on October 10, 2014.

The Ontario Energy Board ("Board") indicated at the hearing (Tr. Vol. 1, page 134) that submissions would be made on the premise that the settlement proposal would be accepted by the Board. The Board noted that some issues in the proposed partial settlement agreement could be impacted by the decisions on the remaining unsettled issues.

This is the Argument of the Energy Probe Research Foundation ("Energy Probe") related to the unsettled issues in this proceeding. These submissions are made on the premise that the Board accepts the proposed partial settlement agreement, adjusted as necessary to incorporate any impacts that arise from the Board's decisions on the unsettled issues. These unsettled issues are as follows:

a. Is the applicant's proposal to recover the RRRP funding variance from the 2002 to 2007 period appropriate?
b. Are the proposed revenue-to-cost ratios appropriate?
c. Are the proposed fixed/variable splits appropriate?

B - SUBMISSIONS

a) Is the applicant's proposal to recover the RRRP funding variance from the 2002 to 2007 period appropriate?

Energy Probe submits that the proposal to recover $173,534 RRRP funding variance from the 2002 to 2007 period is not appropriate.

Algoma has tried to characterize this as a simple transfer from Hydro One to Algoma. There would be no changes to rates charged to Algoma ratepayers and the money coming from Hydro One would come out of the RRRP funding pool that Hydro One administers. As a result, there would be no impact on Hydro One customers either.

Energy Probe submits that this is not the full story. It omits the point that the RRRP funding pool would be reduced by $173,534 and in order to true up the funding pool, this amount would need to be recovered from ratepayers across the province in the future.

Energy Probe submits that Hydro One provided the appropriate payment to Algoma (then Great Lakes Power) of $194,484 per month, or $2,333,808 per year (Exhibit 9, Tab 8, Schedule 1).

Algoma showed the calculation of the variance of $173,534 in the response to Technical Conference Undertaking J1.4. This table was also included on page 19 of Exhibit K1.1.

The calculation showed an amount of $188,001 recoverable by Algoma related to the pro-rated days variance and an amount payable by Algoma of $14,467, due to the variance in customer counts.

During cross-examination on this topic, it became apparent that the pro-rated days variance was the source of the variance of the $188,001 noted above. Algoma explained that it billed on the basis of a 30-day month. In order to accommodate this billing period, Algoma had to make a billing assumption with respect to the $28.50 per month credit.

The reason that Algoma was in a deficit position with regards to the pro-rated days is that it prorated the $28.50 per month by dividing by 30 days in the month. This results in a credit amount of $0.95 per month ($28.50 / 30). Over the course of a year, this means that Algoma refunded $346.75 ($0.95 x 365) per customer. On the other hand, the credit they received was $28.50 per month, or $342.00 ($28.50 x 12) per customer per year. This resulted in the source of the claimed shortfall, being $4.75 per customer per year. These figures were discussed at the hearing and confirmed by Algoma (Tr. Vol. 1, page 54).

Algoma further confirmed that if it had calculated the rebate per day based on the correct calculation of $28.50 per month time 12 months divided by 365 days, the amount would have been $0.937 per day (Tr. Vol. 1, page 54) and that this would have resulted in no variance over the 2002 through 2007 period. Energy Probe notes that the $0.937 per day is also the result of dividing the $28.50 per month credit by the average number of days in a month of 30.4167 (365 / 12).

Energy Probe submits that it is clear that the only reason Algoma has a variance of $188,001 related to the prorated days is that it gave back too much money based on the assumption and use of a 30 day month, rather than the correct approach that would have ensured that the amount of the credit refunded to customers was equal to the amount received by Algoma.

As a result of this calculation error or oversight on the behalf of Algoma, Energy Probe submits that the Board should deny their request related to the 2002 through 2007 RRRP funding variance. This variance only existed because of the actions of Algoma. Had the proper calculations been done, there would, by definition, have been no variance associated with the proration of days.

Energy Probe notes that this issue of the 30 day month proration has uncovered another issue with respect to Algoma adhering to the rate schedules. In part C below, Energy Probe submits that Algoma has been over collecting from customers because of the prorating of the monthly fixed charge since at least 2002. The amount of this over recovery, on an annual basis is at least $22,700.

b) Are the proposed revenue-to-cost ratios appropriate?

Energy Probe submits that the proposed revenue-to-cost ratios are not appropriate for the 2015 test year or for the 2016 through 2019 IRM period.

Algoma proposes to maintain the status quo ratios from the cost allocation model in 2015. These ratios are 111.63% for Residential - R1, 111.71% for Residential - R2, 54.97% for Seasonal and 25.04% for Street Lighting. These figures around in Appendix 2-P attached to the October 10, 2014 Settlement Proposal. Further, as shown in the same Appendix 2-P, Algoma is not proposing, as part of this proceeding, to make any adjustments to the revenue-to-cost ratios in 2016 or 2017, or any year under the IRM period.

i) Cost Allocation Review

Algoma has proposed a one year grace period from adjusting the revenue-to-cost ratios in the test year (Tr. Vol. 1, page 39) and that it will file a comprehensive review as part of its IRM application for 2016 rates. The results of that study would then be used to set revenue-to-cost ratios over the 2016 through 2019 period.

Energy Probe has significant concerns about this proposal. There is no guarantee that Algoma will be able to file a comprehensive review of the cost allocation model adapted to its circumstances, or that it will have updated load profile information. While Algoma may have the best of intentions, it may simply not be able to complete such a comprehensive and detailed study in time for application to the 2016 rates.

Any delay in filing a comprehensive review of the cost allocation model, including proposed changes, could result in the revenue to cost ratios remaining at the status quo level for more than just the 2015 test year.

There is also no guarantee that the Board will approve the proposed changed to the cost allocation model that would be specific to Algoma at the time of its review.

Finally, Energy Probe notes that Algoma has not provided any evidence in this proceeding to quantify the magnitude, or even the direction, of any changes in revenue-to-cost ratios that may come out of the review. At this point there is only speculation.

ii) Test Year Adjustments

Section 2.10.3 of the Filing Requirements For Electricity Distribution Rate Applications - 2014 Edition for 2015 Rates Applications dated July 18, 2014 ("Filing Requirements") deals with revenue-to-cost ratios. In particular, the Filing Requirements state:

> *"Results flowing from the updated cost allocation model may show some ratios being outside of the Board-approved ranges. In these cases, distributors must ensure that their cost allocation proposals include adjustments to bring them into the Board approved ranges. In making any such adjustments, distributors should address potential mitigation measures if the impact of the adjustments on the rate burden of any particular class or classes is significant."* (page 52)

As shown in Appendix 2-P to the settlement proposal, the Seasonal and Street Lighting classes have revenue-to-cost ratios that are well below the bottom of the Board approved ranges. It should be noted that the appropriate range of ratios for the Seasonal class is 85% to 115%, as noted in the response to interrogatory 7-Staff-32 (Tr. Vol. 1, pages 39-40).

Algoma has not made any changes to the proposed revenue-to-cost ratios to bring them closer in line with the ranges, as required by the Filing Guidelines.

The Filing Requirements indicate that in the movement to the Board approved ranges, distributors may need to address potential mitigation measures if the impact of the adjustments on the rate burden of any particular class or classes is significant. Clearly this would be the case for both the Seasonal and Street Lighting classes.

As shown in Table 12 in the Settlement Proposal, the impact on the total bill for the Street Lighting customers is just over 9% based on the status quo ratios. Given the significant impact on these customers in the test year already, Energy Probe is not suggesting any further change in the ratio for this class in the test year.

However, the total bill impact of the status quo ratios is significantly less for the Seasonal class, ranging from a decrease of 0.33% for a small customer to an increase of only 1.63% for a large customer.

Energy Probe submits that there is room for a significant increase in the revenue-to cost ratio for this class in 2015. The response to Undertaking J1.2 indicates that moving the revenue-to-cost ratio from 54.97% to 60.21% would result in a bill impact of 10% and increase revenue requirement collected from this class by $195,299.

Energy Probe submits that a 10% increase in the Seasonal class is a reasonable outcome in the test year.

The increase proposed by Energy Probe results in a revenue to cost ratio for the Seasonal class (60.21%) that is still significantly below the bottom of the approved range (85%). Any changes in the cost allocation model are not likely to result in the change in the ratios by this more than this quantum. In other words, the increase in 2015 would not be reversed in subsequent years as a result of any changes in the cost allocation methodology. In the meantime, it is a step in the right direction that will reduce rate changes in the future for this class.

Furthermore, Energy Probe notes that for each dollar of increased revenues from the Seasonal (and the Street Lighting) class, the RRRP to be received by Algoma falls by the same amount (Tr. Vol. 1, pages 32-33).

The calculation of the RRRP is such that approximately $2.2 million of the $13.9 total that is shown in Table 11 in the response to Undertaking J1.1 is used to subsidize the Seasonal and Street Lighting classes, both of which do not qualify for RRRP funding (Tr. Vol. 1, pages 33-34).

Energy Probe submits that it is inappropriate for provincial ratepayers to subsidize the Seasonal and Street Lighting rate classes. The proposed increased in the revenue-to-cost ratio based on a 10% total bill impact for the Seasonal class is the first step, in the view of Energy Probe, to eliminating, or at least reducing this subsidization by the ratepayers in Ontario.

<u>iii) Re-Balancing After the Test Year</u>
In addition to the increase in the proposed revenue-to-cost ratio for the 2015 test year discussed above, Energy Probe submits that the Board should direct Algoma to increase the revenue-to-cost ratios over the 2016 through 2019 period so as to move closer to the Board approved ranges. This would apply to both the Seasonal and Street Lighting classes.

Again, this is part of the Filing Requirements:

> *"If the distributor proposes to continue re-balancing after the test year, the ratios proposed for subsequent year(s) must be provided. The fourth table in Appendix 2-P provides a format for presentation. In particular, if the proposed ratios are outside the Board's policy range in the test year, the distributor must show the proposed ratios in subsequent years that would move the ratios into the policy range."* (page 52)

Algoma has not proposed any such adjustments, but proposes to adjust the ratios based on the new cost allocation model it promises to file as part of its application for an IRM mechanism beginning with 2016 rates.

Again, Energy Probe has concerns with this, as described earlier. As a result, Energy Probe submits that the Board should direct Algoma to increase the revenue-to-cost ratio for the Seasonal customer class by an amount that results in a 10% total bill impact in each of 2016 through 2019, <u>***unless***</u>, the Board in a subsequent decision alters the increases needed based on the results of a new cost allocation model that is accepted by the Board as part of an IRM or stand alone application by Algoma. This would effectively put a default position in place until it was modified by the Board. This approach would cover any delays in the filing and approval of a new cost allocation model and methodology beyond the 2016 rates year.

Energy Probe notes that Algoma indicated that it did not have any evidence to suggest that moving the Street Lighting class towards the bottom of the Board approved range would result in any reversing as a result of the new cost allocation study (Tr. Vol. 1, pages 129-131). In fact, Mr. Bradbury indicated that he had not seen anything that would affect the revenue-to-cost ratios for the street lighting class in a material way.

Based on this, Energy Probe submits that the Board should direct Algoma to increase the revenue-to-cost ratio for this class based on a 10% total bill impact in each of 2016 through 2019. Even at this rate, the revenue-to-cost ratio will not hit the lower end of the range by 2019. Increasing it by the maximum allowed without resulting in undue bill impacts over the current IRM period will result in lower increases in the future and provide predictable cost increases to the street lighting customers for the next five years. At the same time, the amount of RRRP funding will decrease by an equivalent amount, slowly reducing the subsidy that is currently in place for this class.

c) Are the proposed fixed/variable splits appropriate?

Energy Probe submits that the Board should direct Algoma to maintain the fixed/variable splits for the Seasonal and Street Lighting classes.

The Filing Requirements (page 53) indicate that an explanation for any changes from the current proportions is required if there is a proposal to deviate from the current proportions. Algoma's proposal is to maintain the current fixed charges for these classes. That results in larger increases in the variable rates associated with these classes (Tr. Vol. 1, pages 80-84).

Algoma states that their proposal is in part, related to what their customers are telling them. However, Energy Probe notes that the Algoma proposal results in more variability in the total costs paid by these customers because of the increase in the variable distribution charges. Customers value stability in rates and costs. Energy Probe submits that by maintaining the current fixed charges, the variability in costs has increased. Maintaining the fixed/variable split provides a balance in both rates and costs.

Energy Probe notes that there is no issue with respect to the setting of the fixed charge for the Residential - R1 class, as the fixed charge is increased at the same rate as is the variable charge. Mr. Bradbury indicated that the regulation says that the customers in this class shall see a rate increase equal to the average rate increases of all other LDCs that rebased in the most recent year (Tr. Vol. 1, pages 29-30). Mr. Bradbury further clarified that if the fixed or variable charge were varied from the same increase, then not all customers would get the same rate increase.

Energy Probe agrees with this interpretation. By holding the fixed charge at its current level, smaller customers in the rate class would get smaller percentage increases than large customers in the same class.

However, Algoma is not applying the same approach for the Residential - R2 class, where it proposes to keep the fixed charge at the current level, based on the previous cost of service application settlement agreement.

Energy Probe submits that this results in winners and losers in the Residential - R2 class. The winners are the small volume customers in this class, while the losers are the large volume users. Energy Probe agrees with Mr. Bradbury's comment that:

> *"From a true view of the regulation, both the fixed and variable ought to increase by the RRRP adjustment factor, in my view."*
> (Tr. Vol. 1, page 29, lines 9-11)

Energy Probe submits that the fixed charge should be set for both the Residential - R1 and Residential - R2 class on the same basis, and that this basis is that both the fixed and variable rates should be increased by the RRRP adjustment factor. This ensures equal distribution rate increases for all customers in each of those classes.

C - OVER COLLETION OF FIXED CHARGES

As noted in part B above, the analysis of the variance associated with the RRRP funding pool over the 2002 to 2007 period has unearthed the issue of whether or not Algoma has been collecting the appropriate amounts from its customers from 2002 up to and including the current time. Energy Probe notes that Algoma has confirmed that it is still using the same proration methodology in current rates as it did back in 2002 through 2007 (Tr. Vol. 1, pages 50-51).

It became apparent that Algoma used the same proration of the monthly fixed charge as it did for the rebate amount. Energy Probe submits that this has resulted in Algoma collecting more from ratepayers than they are allowed to collect based on the Board's rate schedules.

Algoma justifies this over collection by stating that their position was that the used a 30-day equivalent and that many utilities have used this approach throughout the province.

Energy Probe submits that the Board should reject this rationale because it is clear than Algoma has not followed the Board approved rate schedules, which clearly state that the fixed charges are on a monthly basis, not on the basis of a 30 day cycle.

Appendix A to the RP-2003-0149 rate schedule clearly states that the Monthly Service Charge for the Residential rate class is $19.97 per month (Exhibit 9, Tab 8, Schedule 1, Appendix A).

Using a conservative approach, Energy Probe estimates that Algoma has over collected the monthly fixed charge from its customers by $22,700 per year. This figure is based on the residential monthly fixed charge of $19.97 as noted above divided by 30 and multiplied by $365, the same approach Algoma agreed it used to calculate the reduction to customers for the RRRP funding. This yields a recovery of $242.97 per year, while the $19.97 per month charge means the recovery should have been $239.64. The extra recovery of $3.33 per year, times the 6,824 customers totals just over $22,700 per year. This is a conservative amount because the monthly fixed charges for non-residential rate classes is higher than $19.97.

Energy Probe is not proposing any rebate of this over recovery, assuming the Board denies the recovery of the RRRP variance amount. However, Energy Probe does submit that the Board direct Algoma to calculate the proration factor for all of the fixed charges on a correct basis to ensure that the monthly fixed charges are appropriately recovered on an annual basis, no more or less for the 2015 test year and future years.

However, if the Board were to determine that Algoma should receive the $173,534 from the RRRP funding pool, then Energy Probe submits that Algoma should return to its customers the over collection of the fixed charge revenues, not just from the 2002 through 2007 period, but also from the 2008 period up to and including the current year. At the conservative estimate of $22,700 per year noted above, this would amount to approximately $280,000 through to the end of 2014. The basis for this is that the cause of the over refund of the RRRP funding is exactly the same as the over collection of the monthly fixed charges.

D - COSTS

Energy Probe requests that it be awarded 100% of its reasonably incurred costs. Energy Probe worked with other intervenors in this proceeding to ensure complete coverage of the issues with a minimum of duplication.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

November 3, 2014

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