



PUBLIC INTEREST ADVOCACY CENTRE  
LE CENTRE POUR LA DÉFENSE DE L'INTÉRÊT PUBLIC

November 16, 2015

VIA E-MAIL

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
P.O. Box 2319  
2300 Yonge St.  
Toronto, ON  
M4P 1E4

Dear Ms. Walli:

**Re: EB-2015-0051 –Algoma Power Inc.  
Final Submissions of Vulnerable Energy Consumers Coalition (VECC)**

Please find enclosed the submissions of VECC in the above-noted proceeding.

VECC's submissions reflect an understanding that the Board is satisfied that implementation of the Board's new fixed rate design policy is consistent with O. Reg. 442/01 Rural or Remote Electricity Rate Protection, that currently applies to the setting of Algoma's rates for its Residential R1 and R2 customer class.

Thank you.

Yours truly,

A handwritten signature in black ink, appearing to be 'Michael Janigan', written in a cursive style.

Michael Janigan  
Counsel for VECC

Cc: Algoma Power Inc.

**EB-2015-0051**

**Algoma Power Inc. (API)**

**Application for electricity distribution rates and other charges  
effective January 1, 2016.**

**Submissions of the Vulnerable Energy Consumers Coalition**

Proposal for Applying the Change in Rate Design

- Starting in 2016, the Board's new rate design policy for electricity distributors (EB-2012-0410)<sup>1</sup> expects distributors to begin to shift the rate design for residential customers toward fully fixed rates with a four-year implementation phase-in period.
- The Board's policy states that "In the event that the monthly service charge would have to rise more than \$4 per year in order to effect this change, distributors shall apply to extend the transition period. It is expected that in most cases, only a fifth transition year would be required to make the changes within the \$4 impact threshold identified in the policy. A distributor shall propose an alternative or additional strategy in the event that an additional transition year is insufficient. Consistent with OEB policy regarding mitigation, a distributor may propose as part of its application that no extension is necessary; such a position must be substantiated with reasons."<sup>2</sup>
- The Board's implementation approach for the new rate design explained in a July 16, 2015 letter, requires that the 10% bill impact test be applied to customers at the lowest 10<sup>th</sup> percentile of electricity consumption and if the bill impact is 10% or higher, the distributor must make a proposal for a rate mitigation plan.<sup>3</sup>
- The Board indicates it wants consistency in implementation but will consider applications for exceptions to the four-year transition in two situations:
  - The monthly fixed charge will need to rise by more than \$4 in each year of the transition.
  - If there are other rate changes being made as a result of other OEB decisions, which together with the policy change could result in unusually large bill impacts.

---

<sup>1</sup> EB-2012-0410 A New Distribution Rate Design for Residential Electricity Customers dated April 2, 2015

<sup>2</sup> Filing Requirements For Electricity Distribution Rate Applications-2015 Edition for 2016 Rate Applications -Chapter 3 Incentive Rate-Setting Applications July 16, 2015, Page 8

<sup>3</sup> EB-2012-0410 A New Distribution Rate Design for Residential Electricity Customers dated April 2, 2015 Page 26

- API has four customer classifications: Residential, Seasonal, Street lighting and microFIT Generator.
- The Residential classification consists of R1 and R2 customers. The Residential R1 customer class has three subpopulations of customer types that API notes are commonly classified separately in the vast majority, if not all, of rate regulated distributors in Ontario. The three subpopulations of customers are:
  1. Residential
  2. General Service less than 50 kW
  3. Unmetered Scattered Load
- API's Residential R2 customer class consists of customers with a demand equal to or greater than 50 kW.
- Since 2007, API's rates for its Residential customer class, R1 and R2, are adjusted in accordance with O. Reg.442/01 based on a Rural or Remote Electricity Rate Protection (RRRP) adjustment factor. API has estimated an RRRP adjustment factor of 0.79% for 2016 noting that the Board will determine the actual RRRP adjustment factor to be used.
- The Seasonal and Street Lighting customer classes are not subject to O. Reg. 442/01.<sup>4</sup>
- In order to comply with the Board's new policy, API's proposed approach takes into consideration its unique customer classifications and unique rate setting approach. To accommodate what API has interpreted as the intent of the Board's Policy, API has segregated a subpopulation of the Residential R1 classification of customers, i.e. API is not extending the Board's Policy to all three of its Residential R1 classified customers noted above. Rather, API will segregate the Residential – R1 class into two subclasses in order to accommodate revenue decoupling for a sub-class of generic residential customers.
- API indicates that this proposal is based on the outcome of discussions with Board staff where the agreed approach to decoupling of residential, non-seasonal customer's electricity distribution rates was to create a sub-class of generic residential customers within API's Residential – R1 customer class. In the API proposal, the subpopulation described as Residential has been isolated from the remainder of the Residential – R1 classification for the purpose of rate design.
- API is seeking Board approval of this segregation proposal within the Residential – R1 customer class in the context of Ontario Regulation 445/07.<sup>5</sup>

---

<sup>4</sup> Rural or Remote Electricity Rate Protection

<sup>5</sup> Reclassifying Certain Classes of customers as Residential Rate Class Customers: Section 78 of the Act

- API's rate design plan for this sub-class is to implement a strategy which limits the change in the fixed monthly charge, arising from the decoupling initiative, to not more than \$4.00 per month.
- A four-year transition to fully fixed rates as suggested by the Board's report was rejected by API because of the more volatile rate outcome. API determined that in order to fully decouple rates in four years, an annual change of \$7.35 in the fixed component would be required. Thus, API has proposed to cap the change at \$4.00 for 2016, thereby extending the transition period.
- If the Board approves API's proposal to increase the fixed charge by \$4.00 each rate year, decoupling would be 97% implemented in the 2022 rate year and full transition would not occur until the 2023 rate year.<sup>6</sup> Thus, API's proposal extends the transition period from four years to seven years.
- API's proposed 2016 Tariff Sheet for the Residential R1 class indicates a fixed service charge and volumetric rate for each sub-class.

**MONTHLY RATES AND CHARGES – Delivery Component**

Service Charge	\$	27.52
Service Charge – General Service	\$	23.52
Rate Rider for Smart Metering Entity Change – effective until October 31, 2018	\$	0.79
Distribution Volumetric Rate	\$/kWh	0.0286
Distribution Volumetric Rate – General Service	\$/kWh	0.0331

- In principle, VECC supports API's proposal to create two sub-classes within the Residential class, with two sets of rates for the purpose of implementing the Board's new rate design policy. API has determined the number of customers that would fall into each sub-class (residential and non-residential) based on the average number of Residential R1 customers between 2014 and 2015 of 8,496, as 7,531 residential and 965 non-residential customers.
- As noted above, the Board's implementation approach requires that the 10% bill impact test be applied to customers at the lowest 10<sup>th</sup> percentile of electricity consumption.
- API has determined, based on 2014 data, that 10% of its residential customers consume 320 KWh or less on a monthly basis. Using Excel's percentile function, the twelve month consumption at the tenth percentile was 3821.4 kWh per year or 320 kWh per month.
- In response to VECC IR#5(a), API provided the calculation of the 2016 total bill impact of 6.9% for the residential customer consuming 320 kWh.

---

<sup>6</sup> Board Staff IR#2(a)

- VECC notes the total bill impact calculation does not take into consideration the impact of the removal of the Debt Retirement Charge (DRC) and Ontario Clean Energy Benefit (OCEB) in 2016. Also, the bill impact does not include the new Ontario Clean Energy Support Program (OESP) charge starting January 1, 2016 that will be funded by all electricity ratepayers with a cost of about \$1 per month for the typical residential electricity consumer.<sup>7</sup>
- In response to VECC IR#5(b), API recalculated the total bill impact for the residential customer consuming 320 kWh, to include the effects of changes related to the DRC, OCEB and OESP in 2016. Under this scenario, which in VECC's view accurately reflects the actual cost changes in 2016, the total bill impact is 19.47%. VECC notes that API assumed an OESP charge for 2016 at \$.0035 which in VECC's view is overstated.
- In the Horizon Utilities 2016 rate application, EB-2015-0075, the planned OESP charge to be implemented in 2016 is estimated at \$0.00145/kWh.<sup>8</sup> VECC calculates that when the OESP charge is estimated at \$0.00145/kWh, the total bill impacts are 18.6%.<sup>9</sup>
- The Board's Filing Requirements states "If the total bill impact for these customers is 10% or greater, a distributor must file a plan to mitigate the impact for the whole residential class or indicate why such a plan is not required. The distributor will have the ability to propose the approach to mitigation, including, but not limited to, the option to extend the transition to fixed rates over a longer period. A detailed rationale must be provided. Where the evaluation of bill impacts indicates that rate mitigation is only required for the residential class, it is the OEB's expectation that distributors will propose mitigation strategies that target only the residential class and that any associated cost consequences of any revenue deferral (e.g. additional carrying charges due to longer dispositions periods for DVAs) will be borne by that class.<sup>10</sup> Given the significant and unusually large bill impacts that customers will see in API's case (i.e., almost double the level established by the Board), VECC submits a mitigation plan is required.
- VECC agrees that API is unable to transition to fully fixed rates over four years given that the annual increase in the fixed charge would have to increase by \$7.35. However, keeping the annual increase in the fixed charge at \$4.00 means a transition period of seven years, almost twice the four year implementation period suggested by the Board. Given the unique circumstances of API with respect to classification of customers and rate-setting principles, VECC supports API's proposal to extend the transition period. VECC submits API has adequately explained how it is a winter peaking utility and its customers are exposed to

---

<sup>7</sup> OEB News Release November 2, 2015 New Program Helps Low-Income Ontarians with Electricity Bills

<sup>8</sup> EB-2015-0075 Tab 2 Page 3

<sup>9</sup>  $\$1.12 - (0.00145 * 320) = \$0.656$ ; total change  $\$14.76 - \$0656 = \$14.104 / \$75.78 = 18.6\%$

<sup>10</sup> Filing Requirements For Electricity Distribution Rate Applications-2015 Edition for 2016 Rate Applications -Chapter 3 Incentive Rate-Setting Applications July 16, 2015, Page 9

higher costs given the need to use higher cost on-peak energy, primarily for electrical space heating. VECC is sensitive to the needs of vulnerable customers faced with increasing energy costs and supports API's proposal to extend the transition period. However, VECC submits the final increase in the monthly fixed charge and the corresponding transition period needs to be adjusted to account for a mitigation plan to address the total bill impact which is significantly greater than 10% for the lowest 10<sup>th</sup> percentile customer when the impacts of the DC, OCEB and OESP are realized in 2016. To achieve this outcome, API will have to smooth the amount and transition period.

### Seasonal Customer Class

- API has not proposed any change in rate design for its seasonal customer class.
- The Board's Filing Requirements state "Distributors with a seasonal residential class must propose identical rate design treatment for such a class."<sup>11</sup>

- API's description of its Seasonal Customer Service Classification is as follows:

"This classification includes all services supplied to single-family dwelling units for domestic purposes, which are occupied on a seasonal/intermittent basis. A service is defined as Seasonal if occupancy is for a period of less than eight months of the year."<sup>12</sup>

- API's description of its Residential Customer Service Classification is as follows:

"For the purposes of rates and charges, a residential service is defined in two ways: i) a dwelling occupied as a residence continuously for at least eight months of the year and, where the residential premises is located on a farm, includes other farm premises associated with the residential electricity meter, and ii) consumers who are treated as residential-rate class customers under Ontario Regulation 445/07 (Reclassifying Certain Classes of Consumers as Residential-Rate Class Customers: Section 78 of the Ontario Energy Board Act, 1998) made under the Ontario Energy Board Act, 1998."<sup>13</sup>

- API indicates that since September 1, 2007 its seasonal customers have purposely not been treated as residential customers (not adjusted in accordance with O. Reg. 442/01) and for this reason API has not proposed a change in the rate design for its seasonal rate

---

<sup>11</sup> Filing Requirements For Electricity Distribution Rate Applications-2015 Edition for 2016 Rate Applications -Chapter 3 Incentive Rate-Setting Applications July 16, 2015, Page 8

<sup>12</sup> Application Page 7

<sup>13</sup> Ibid.

classification. In VECC's view, eligibility for rate protection under O. Reg. 442/01 is a different and separate issue from the Board's new rate design policy as it applies to residential customers.

- VECC's interpretation of the Board's new rate design policy (EB-2012-0410) is that based on API's description of Seasonal customers, this class is also subject to the Board's policy. VECC submits the proposed rate design methodology for the Residential R1 sub-class should also apply to API's Seasonal class.
- In response to Board Staff IR#3(c), API calculated the impact of increasing the fixed charge by \$4.00 per year in order to implement the Board's new policy, and determined that it would take 9 years to fully transition to a fixed charge.
- API indicates the average consumption for a Seasonal class customer at the lowest 10<sup>th</sup> percentile of electricity consumption is 205 kWh per month. At this consumption, the total bill impact is 7.31%.<sup>14</sup> The calculation provided is (7,731,144/3138/12).
- VECC submits the 205 kWh per month is an average consumption calculation for the Seasonal class and does not represent the lowest 10<sup>th</sup> percentile of electricity consumption.
- VECC asks that API provide the lowest 10<sup>th</sup> percentile of electricity consumption for the Seasonal class in its reply submission along with the resulting bill impacts at this consumption, subject to the comments below.
- The total bill impact calculation provided by API for 205 kWh per month of electricity consumption does not include the impact of the removal of the DRC and OCEB in 2016 or the estimated impact of the OSEP. If these three changes were implemented, VECC estimates the impact is now greater than 10%. VECC submits the total bill impact calculation needs to consider the impact of these additional costs that will be fully realized by the customer. Accordingly, VECC submits the actual total bill impacts to be calculated for the lowest 10<sup>th</sup> percentile of electricity consumption for the Seasonal class as requested above, needs to consider the impact of the above noted additional costs.
- API also calculated the impact for a Seasonal customer consuming 50 kWh per month and the impact is 10.56% again excluding the impacts of the change in the DRC, OCEB and OESP which have the combined effect of making the total impact worse.<sup>15</sup>
- API offers a possible mitigation plan for the 50 kWh with a bill impact greater than 10% to smooth the transition amount over 9 years. At a transition amount of \$4.00 per year the final

---

<sup>14</sup> Board Staff IR#3(c)

<sup>15</sup> Ibid.

year would require a transition amount of only \$1.45. By smoothing the amount to \$3.72 including the ninth year the total impact will be mitigated to 10%.

- VECC submits if the bill impact calculated by API in its reply submission, for the lowest 10<sup>th</sup> percentile of electricity consumption for the Seasonal class, including the impacts of the change in the DRC, OCEB and OESP, is greater than 10%, a mitigation plan should also be provided.

All of which is respectfully submitted this 16<sup>th</sup> day of November 2015.