EB-2013-0461
EB-2015-0079

Ontario Energy Board

Hydro One Distribution

Application for 2016 Rates

Submissions on Draft Rate Order

Energy Probe Research Foundation

December 10, 2015

Hydro One Distribution

EB-2015-0079

Application for 2016 Rates

ENERGY PROBE RESEARCH FOUNDATION

SUBMISSIONS ON DRAFT RATE ORDER

How These Matters Became before the Board

On September 30, 2015, Hydro One Networks Inc. (Hydro One) filed an application for electricity distribution rates effective January 1, 2016. Hydro One also applied to begin its transition to fully fixed residential rates, as directed in the OEB's April 2, 2015 report: *A New Distribution Rate Design for Residential Electricity Customers (EB-2012-0410).* The application was made under section 78 of the *Ontario Energy Board Act*, *1998*, S.O. 1998, c. 15, (Schedule B).

A Notice of Hearing (Notice) was issued on November 17, 2015. Each of the Horseshoe Lake Coalition (HLC), Canadian Manufacturers & Exporters (CME), the Society of Energy Professionals (SEP), the Power Workers' Union (PWU), the Balsam Lake Coalition (BLC), the School Energy Coalition (SEC), the Energy Probe Research Foundation (Energy Probe), the Consumers Council of Canada (CCC), the Vulnerable Energy Consumers Coalition (VECC) and the Federation of Ontario Cottagers' Associations (FOCA) applied for intervention status. CME, BLC, SEC, Energy Probe, CCC, VECC and FOCA also requested cost eligibility. Hydro One did not file any objections.

The OEB ordered a non-transcribed Technical Conference, held on December 4, 2015 for Hydro One to present its draft rate order to parties and answer any questions raised by parties, including by written undertaking responses.

These are the written submissions on behalf of Energy Probe Research Foundation on selected issues, listed as per Hydro One Draft Rate Order evidence.

1.0 Update to Cost of Capital

The supporting calculations in Hydro One's exhibits reflect
(a) the Board's Decision in EB-2013-0416,
(b) the Board-approved 2016 return on equity and short-term debt rates, and
(c) a long-term debt rate based on Hydro One's actual 2015 debt issuances to-date and the latest Consensus Economics 2016 forecast.

At the Technical Conference Hydro One was questioned why the updated Exhibits 1.4.1 and 1.4.2 indicate that approximately of $270 million of new Long Term Debt attributable to Hydro One distribution, scheduled for 2015, was not issued, as set out in the 2015 Draft Rate order.

Submissions

2015 is the only year that no new debt was issued since at least 2000 (evidence not available prior to 2000).

Hydro One had no real explanation for this delay in issuing debt in 2015. One can speculate that it may be related to the issuance of stock as part of the Government's Privatization plan for Hydro One, but that is simply speculation.

The implication of that delay means that $432 million of new debt attributed to Hydro One Distribution will be issued in 2016. This is the second largest amount of debt issued in a single year since 2000 – behind 2013 when the company issued $533.3 million in debt.

The cost implications of not issuing debt in 2015 are:

- The $270 million in debt that was originally to be issued in 2015 would have had an annual interest rate of 3.91% for the combined 5, 20 and 30 year terms;
- The $432 million of new debt to be issued in 2016 will have an average interest rate of 3.40% for the combined 5, 20 and 30 year terms.

It appears that delaying debt sales in 2015 was *in this case* beneficial to Hydro One and its customers, as the interest on that debt will be lower next year.

Nevertheless, Hydro One should explain why it didn't follow through on plans laid out in its 2015 rate application and why its forecast for debt issues in 2016 is plausible.

2.0 Determination of 2016 Revenue Requirement

We have reviewed Hydro One's evidence regarding OM&A Reductions, Working Capital and Tax Adjustments and have no submissions.

3.0 Cost Allocation

The CAM has been updated to reflect the Board-approved 2016 load forecast. Consistent with the Board's direction in its Order of September 30, 2015, Hydro One has also applied the Board's policy on distribution rate design for residential customers to its seasonal class, as discussed in Section 4.2, with the changes effective January 1, 2016.

Hence, the Seasonal class is not eliminated at this time, and the 2016 load forecasts for the UR, R1, R2 and Seasonal residential rate classes are unchanged from what was approved.

3.2 Street Lighting

We have reviewed Hydro One's Evidence and supporting exhibits and accept Hydro One's evidence that it has appropriately followed the Board's Direction regarding the Street Lighting Adjustment Factor (SLAF).

4.0 Rate Design

4.1 Revenue-to-Cost Ratios

In accordance with the Board's Decision (p.45), Hydro One is continuing to move its revenue-to cost ("**R/C**") ratio to 90-110% over the 2016-2017 period. The three rate classes with a R/C ratio above the Board's approved range (i.e. UR, R1 and USL rate classes) are moving to a R/C ratio of 110% over the 2016-2017 period. The resulting revenue shortfall is made up via a stepped increase to the R/C ratio of the rate classes with the lowest R/C ratio until the shortfall is fully addressed. This is the same approach proposed in the Application and used to set the rates approved in the 2015 Rate Order (April 23, 2015)

As Hydro One indicates, this matter was reviewed for the 2015 Rate Order and we have no submissions.

4.2 Move to All-fixed Rates for Residential Classes

The updated *Filing Requirements for Electricity Distribution Rate Applications* issued July 17, 2015 (the "**Filing Requirements**") provide direction on the implementation of the move to all fixed rates. Section 2.8.13 of the Filing Requirements indicates that distributors are expected to implement the change in equal increments over a four-year period, but in the event that the monthly service charge rises by more than $4 as a result, distributors shall apply to extend the transition period. The Board also established that, when assessing the combined effects of the move to all-fixed rates and other bill impacts associated with changes in the cost of distribution service, a distributor shall evaluate the total bill impact for a residential customer in the distributor's 10th percentile of consumption for the class, to ensure the impact on those low-consumption customers does not exceed 10%.

Hydro One has followed the Board's Direction regarding the phase-in of the move to a fixed charge. As Exhibit 3.5 shows, a four year phase-in period results in an **increase of more than $4** to the monthly fixed charge for all Hydro One residential rate classes (UR, R1, R2 and Seasonal).

Hydro One's evidence in its proposed mitigation plan is based on not exceeding a total bill impact of 10% for low-volume consumers in any residential rate class. Using this bill impact criterion, Hydro One proposes to extend the phase-in period to 5 years for the UR, R1 and R2 rate classes and to 7 years for the Seasonal class, **using the existing 2015,** approved monthly fixed charge as the starting point for the phase-in.

Exhibit 3.1 Hydro One Proposal

Rate Class	2015 Current Fixed Charge	2016 All-Fixed Charge	Phase-in Period (Years)	Annual Increase in Fixed Charge	2016 Proposed Fixed Charge
UR	$ 19.07	$ 35.18	5	$ 3.22	$ 22.29
R1	$ 26.03	$ 58.64	5	$ 6.52	$ 32.55
R2	$ 65.52	$ 124.22	5	$ 11.74	$ 77.26
Seasonal	$ 28.62	$ 59.45	7	$ 4.40	$ 33.02

Hydro One's analysis is that the proposed phase-in periods will result in total bill impacts of less than 10% for the low volume customers in these rate classes, taking into account all other changes to distribution rates in 2016, but as directed in the Filing Requirements, using 2015 charges for other bill components.

Draft Rate Order
Attachment 1
Page 7 of 9

Table 2. 2016 Distribution and Total Bill Impacts by Rate Class

Rate Class	Consumption Level	Monthly Consumption (kWh)	Monthly Peak (kW)	Change in DX Bill	Change in DX Bill	Change in Total Bill	Change in Total Bill
UR	Low	350		$1.29	4.73%	$1.24	1.58%
	Typical	800		($0.78)	-2.13%	($0.97)	-0.64%
	High	1,400		($3.54)	-7.24%	($3.90)	-1.56%
R1	Low	350		$4.14	10.67%	$4.28	4.72%
	Typical	800		$1.48	2.76%	$1.68	0.99%
	High	1,800		($4.42)	-5.10%	($4.10)	-1.18%
R2	Low	450		$9.59	17.44%	$9.90	8.05%
	Typical	800		$8.33	11.92%	$8.74	4.61%
	High	2,400		$2.57	1.86%	$3.42	0.69%
Seasonal	Low	50		$3.88	11.53%	$3.96	9.30%
	Typical	400		$2.69	4.43%	$2.83	2.34%
	High	1,100		$0.31	0.27%	$0.56	0.20%

The discussion at the Technical Conference focussed on the definition of Total Bill Impact as it relates to the timeline in moving to a fixed distribution charge. As directed by the Board, Hydro One has used the existing 2015 bill as the basis for estimating bill impacts for 2016.

In DRO TC2 Hydro One was asked to provide the Customer Notice that has been or will be sent to customers informing them of the proposed 2016 increases to their bill. The Notice includes the following Impacts for a typical customer in the R1 Medium Density Rate Class:

What's changing?	When will it change?		What this means to your bill?*
The Ontario Energy Board (OEB) increased the price of electricity. Please see page 3 for new Time-of-Use prices.	Nov. 1, 2015	↑	An increase of **4.4%** for customers on Time-of-Use prices
The Province is ending the Ontario Clean Energy Benefit that provides a 10% rebate on your total bill. This rebate was introduced five years ago to help customers through the transition to a cleaner, modern electricity system.	Dec. 31, 2015	↑	An increase of **10%**
The Debt Retirement Charge will be removed from residential bills by the Province. Most customers currently pay 0.7¢ per kWh for the Debt Retirement Charge. A typical customer using 800 kWh a month will see a savings of $5.60 per month.	Dec. 31, 2015	↓	A decrease of **3.4%**
The OEB is moving to fixed distribution rates. Right now, distribution rates (included under the Delivery line on your bill) are a blend of fixed and variable rates. Over the next five years (seven years for seasonal customers), the rates will gradually change to an all-fixed monthly service charge. We expect final OEB approval this December.	Starts Jan. 1, 2016	↑	An increase of **0.7%** for 2016
Hydro One is increasing distribution rates. Earlier this year, the OEB approved our rate application for 2015-17. We're increasing rates for most customers in accordance with this approval. This increase will help replace and maintain equipment nearing its end-of-life or damaged by storms as well as building and upgrading stations, transformers, lines, and poles to meet customer growth.	Jan. 1, 2016	↑	An increase of **0.4%**

Undertaking response DRO TC3 provides a summary table of distribution and total bill impacts that includes all of the changes provided as part of Hydro One's Draft Rate Order submitted on December 16 1, 2015 plus as requested, the following expected changes for 2016:

1) elimination of Debt Retirement Charge for the residential classes,
2) elimination of the Ontario Clean Energy Benefit,
3) introduction of the Ontario Energy Support Program charge of $0.0011/kWh, and
4) an updated Wholesale Market Service Rate of $0.0036/kWh.

DRO TC3 2016 Distribution and Total Bill Impacts

Rate Class	Consumption Level	Monthly Consumption (kWh)	Monthly Peak (kW)	Change in DX Bill	Change in DX Bill	Change in Total Bill	Change in Total Bill
UR	Low	350		$1.29	4.73%	$7.45	9.49%
	Typical	800		($0.78)	-2.13%	$9.75	6.42%
	High	1,400		($3.54)	-7.24%	$12.81	5.13%
R1	Low	350		$4.14	10.67%	$12.20	13.44%
	Typical	800		$1.48	2.76%	$14.78	8.67%
	High	1,800		($4.42)	-5.10%	$20.51	5.90%
R2	Low	450		$9.59	17.44%	$21.28	17.30%
	Typical	800		$8.33	11.92%	$24.73	13.06%
	High	2,400		$2.57	1.86%	$40.52	8.22%
Seasonal	Low	50		$3.88	11.53%	$8.75	20.56%
	Typical	400		$2.69	4.43%	$13.55	11.21%
	High	1,100		$0.31	0.27%	$23.16	8.35%

Submissions

Hydro One’s Customer Notice (DRO TC2) shows that the bill for a typical, medium density customer, consuming 800 kwh per month will increase by more than 12% at the start of next year. The details of that increase are as follows:

- A 4.4% increase as a result of Board-approved Time-of-Use (TOU) rates (already in place as of November 1 2015)
- A 10% increase from the end of the Ontario Clean Energy Benefit (OCEB)
- A 0.7% increase as a result of the move to a fixed distribution charge
- A 0.4% increase from Hydro One’s Board-approved rate application
- A 3.4% reduction for residential ratepayers due to the end of the Debt Retirement Charge (DRC)

In total, hydro bills for a typical, medium density customer will increase 12.1%, according to Hydro One’s insert to its customers. Yet, if we consider that eliminating a 10% credit to ratepayers actually raises rates by 11.1%, then the total increase is actually 13.2%.

For low volume customers in that same rate class, bill increases will be significantly higher as a result of the new, fixed distribution charge – though Hydro One doesn’t address this in its bill insert.

The “as filed” 2016 total bill impacts shown in Table 2 of Hydro One’s evidence *show a 1% increase for the typical R1 customer*. As noted above, the assumption and analysis behind that figure are based upon 2015 bills and meet the Board’s July 2015 Filing Requirements. Yet, we suggest that while this analysis meets the Board’s filing requirements, it’s misleading and isn’t in line with the company’s Notice to its own Customers.

The revised 2016 Total Bill impacts (DRO TC3) show that a typical R1 residential customer consuming 800 kwh per month will see a total bill increase of 8.7%, which more accurately corresponds to the impacts shown in the Company’s Notice to its customers.

Nonetheless, the overarching issue is how, in this situation, the Company intends to mitigate the significant bill increases that will occur as a result distributors moving to a fixed distribution charge. This issue is particularly important for low-volume customers in the R1, R2 and Seasonal classes, which are facing bill increases of as much as 20%. (DRO TCO3).

Hydro One has provided no discussion on the impact of such increases on hydro bills that are set to occur as a result of moving to a fixed distribution charge when combined with other bill increases. We suggest that since low-consumption R1, R2 and Seasonal customers will experience bill increases well above 10% and as high as 20%, more steps should be taken to mitigate these increases.

Given the updated information provided by Hydro One on overall hydro bill increases starting in 2016, Energy Probe suggests that if the Board wishes to begin implementing the move to a fixed distribution charge next year, the phase-in should be modified to keep bill increases below 10% for all Hydro One residential customer classes at all consumption levels.

Rather than a 4-year transition to the end state fixed distribution charge – comprising of a 25% increase each year – the Board should instead consider a step-wise implementation, beginning with a with a lesser percentage in 2016 and more in later years. Alternatively part of the increase could be deferred (Deferral Account) to future years in order to keep bill increases related to the transition and other costs below 10%.

Managing Hydro One Rates and Bills

The bottom line is that the 2016 total bill increases under either a four or five year – or even longer period – transition as proposed by Hydro One must be managed under direction from the Board.

Elimination of the Seasonal Class

As noted above, Hydro One is awaiting direction from the Board on how to move forward with eliminating the Seasonal Rate Class.

Questions regarding the impact of that move on UR, R1 and R2 rate classes, including when such impacts occur with the phase-in to a fixed charge, were posed at the Technical Conference.

Hydro One declined to provide any additional information other than that provided in its August 2015 Report to the Board.

Submission

Energy Probe remains concerned that any move to eliminate the Seasonal class in whole or part will have major impacts on other rate classes, especially when combined with the projected impacts of the move to a fixed charge.

5.0 Determination of Rate Riders

Deferral and Variance Accounts

Exhibit 1.7 shows Hydro One's forecast 2015 year end Balances for disposition.

Energy Probe leaves it to Board Staff to check the Balances.

Rate Riders

At the Technical Conference, Hydro One acknowledged that if the Phase-in to an all fixed rate was modified, the 2016 Rate Riders would need to be recalculated.

Submission

Energy Probe has already expressed its concerns about the bill impacts of the proposed fixed charge phase-in, particularly in regards to the impact on R1 and R2 classes. Accordingly, we note the Board should consider this collateral change to 2016 Rate Riders as part of its decision on the Fixed Charge Phase-in.

8.0 2016 Rate Schedules and Bill Impacts

Hydro One's evidence, under Rate Design, Attachment Table 2 provides the proposed rate 2016 distribution and total bill impacts. This shows Total bill impacts of from 5-10% for the low volume customers in the R1, R2 and Seasonal classes. However DRO TC shows with revised assumptions the increases will be from 10-20%

Submissions

The Board should consider the bill impacts of the proposed move to a fixed charge in the context of the total bill impacts shown in Undertaking DRO TC3 and provide direction to Hydro One regarding how to mitigate those – significant for many customers – impacts.

Hydro One may or may not be a special case requiring modification of the Board's Direction in its July 2015 "Filing Requirements".

We suggest that, at a minimum, the Board should grant Hydro One either a longer time to phase in a fixed distribution charge – for example, 7 years for the R1 and R2 classes – or a step-wise approach with a lower increase in 2016. Any change to the phase-in period will require amendments to variable rates and rate riders in 2016.

As part of its considerations, we also hope the Board will provide direction to Hydro One regarding the elimination of the Seasonal Class in whole or part – for example, only moving R1 Seasonal customers.

Summary

Energy Probe finds that Hydro One has correctly implemented the Board's EB-2013-0416 Decision and directions, as well as the Board's direction on Residential Rate Design.

But our concern is that electricity bills in Ontario continue to increase at a rate well above inflation. While Energy Probe is on record in supporting the Board's move to a fixed distribution charge – on the basis that a fixed charge better eliminates cross subsidies between ratepayers – we do so on the premise that the short-term impact of that policy is mitigated to the greatest extent possible.

Given the updated information provided by Hydro One in Undertakings DRO TC2 and DRO TC3 on the total increase to hydro bills in 2016, Energy Probe suggests that if the Board wishes to implement the first step of the move to a fixed charge in 2016, the phase-in should be significantly modified to keep rate impacts below 10% for all Hydro One residential customers at all consumption levels.

Accordingly we request that the Board provide Hydro One direction in how to implement the fixed rate charge, but do so with as little impact on ratepayers as possible. We understand that there will be bill impacts of that policy, but we also believe that Hydro one – under direction for the Board – can take the necessary steps to ensure those impacts are below the Board-prescribed threshold of 10% annually. Considering the many other bill increases facing ratepayers, we argue that it's important the Board look for ways to mitigate the impacts of its new policies.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

December 10, 2015

Roger M.R. Higgin P.Eng; MBA; PhD.

SPA Inc. - Consultant to Energy Probe

&

Brady Yauch, MA

Consultant to Energy Probe