

## **EB-2015-0079 - HONI Distribution Rates 2015-2017**

### **Draft Rate Order 2016**

### **Submissions on Behalf of the Balsam Lake Coalition**

#### **INTRODUCTION**

These are the submissions of the Balsam Lake Coalition (“BLC”) with respect to Hydro One Networks Inc.’s (“HONI”) application to have rates fixed effective January 1, 2016 in accordance with the Board’s decision in EB-2013-0416.

The Board’s decision in EB-2013-0416 (the “Decision”) was released on March 12, 2015, and sets out the parameters for HONI’s rates for 2015, 2016 and 2017.

BLC’s primary interest in the Decision relates to the Seasonal Class.

With respect to the Seasonal Class the Decision determined as follows:

The OEB finds that the seasonal class should be eliminated for rate setting purposes. Existing seasonal class customers shall be placed in a residential class according to their density.<sup>1</sup>

The OEB is aware that the elimination of the seasonal class will cause rate impacts, particularly for lower volume seasonal customers. At the same time, the OEB is mindful of BLC’s submission that this group of customers is not paying the full costs of the service they receive. That said, the OEB wishes to mitigate any large impacts to seasonal customers.<sup>2</sup>

The OEB requires Hydro One to bring forward a plan for the elimination of the seasonal class. **The plan should propose a phase-in period for those customers expected to experience a total bill impact of greater than 10% as a result of migrating to another class.** The Board will conduct a hearing to examine the rate mitigation issues in the plan with the intent to implement the initial rate changes January 1st 2016. Hydro One should submit its plan to the OEB and

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<sup>1</sup> EB-2013-0416, Decision released March 12, 2015, page 48.

<sup>2</sup> EB-2013-0416, Decision released March 12, 2015, page 48-49.

the intervenors of record in this case by August 4, 2015. (Emphasis added)<sup>3</sup>

In accordance with the Decision HONI filed a plan for the elimination of the seasonal class on August 4, 2015.<sup>4</sup>

On September 30, 2015, the Board released an Order in file numbers EB-2013-0416 and EB-215-0257, (the “Order”) which:

- a) acknowledged that HONI had filed the required plan for the elimination of the Seasonal Class,
- b) required HONI to file its application for 2016 rates including rates for the Seasonal Class applying the Board’s new policy with respect to distribution rate design to the Seasonal Class, referring to application of the policy to the Seasonal Class as “the initial steps in the execution of the OEB’s direction to eliminate the seasonal class by aligning rates for these customers’ premises with the density-based rate structure applicable to other residential customers”, and
- c) asserted that the Board will initiate a further proceeding to consider the remaining steps for the elimination of the seasonal class.<sup>5</sup>

HONI filed a Draft Rate Order on September 30, 2015 that maintained the existing Seasonal Class and applied the Board’s policy with respect to the transition toward fixed distribution rates for residential customers to that and all other residential rate classes. HONI filed an updated Draft Rate Order on December 1, 2015 that incorporated the applicable cost of capital parameters for HONI’s 2016 rate year, those parameters having been released by the Board on October 15, 2015.<sup>6</sup>

It is in this context that BLC makes the following submissions.

## **NOTICE OF RATE CHANGES TO CUSTOMERS**

BLC respectfully submits that the current notice provided to customers with respect to impact of the rate changes proposed by HONI is inadequate and potentially misleading.

In the Ontario Energy Board Notice to Customers of Hydro One Networks Inc. that was distributed by HONI in accordance with the Board’s letter of direction dated

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<sup>3</sup> EB-2013-0416, Decision released March 12, 2015, page 49.

<sup>4</sup> EB-2013-0416, Hydro One Report on Elimination of the Seasonal Class, August 4, 2015.

<sup>5</sup> EB-2013-0416/EB-2015-0257, Order dated September 30, 2015.

<sup>6</sup> EB-2015-0079, Draft Rate Order filed December 1, 2015, page 1.

November 13, 2015 in EB-2015-0079, the impact of the proposed new rates was characterized in the following manner:

Hydro One Networks Inc. has applied to the Ontario Energy Board to increase the amount it charges by approximately \$1.57 each month for the typical residential customer beginning on January 1, 2016. Other customers, including businesses, may be affected as well.

It appears to BLC that the reference to the \$1.57 impact relates to the approximate impact that would be experienced by an R1 customer using 800 kWhs per month.<sup>7</sup>

By contrast, the impact on other residential customers varies wildly from the noted impact on R1 customers. By way of example, the impact on R2 customers using 800 kWhs is \$8.33 per month, a difference of approximately 562%.<sup>8</sup>

The issue may be unique to HONI, in that it has several residential rate classes with material variances in rates between those classes. Accordingly while BLC is fairly certain that HONI is sending out the Notices as required, the effect is that HONI is generalizing the impact of its proposed rates with reference to a typical customer that does not, it appears to BLC, properly represent the experience of most of its residential customers. According to the Draft Rate Order HONI has a total of 1,137,444 residential customers, yet only 439,437, well under half of them, are charged rates as R1 customers, and even fewer of those experience rates as 800 kWhs per month customers.<sup>9</sup>

Accordingly BLC respectfully submits that in future rate proceedings in which HONI is required to provide notice of the impacts of its proposals on its residential customers, HONI should be required to more specifically indicate the impacts on the different types of residential customer classes within its rate structure, either by specifying the impact on the typical customer within each residential class, or by providing the range of impact from lowest to highest that its residential customers can expect to experience.

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<sup>7</sup> EB-2015-0079, Draft Rate Order filed September 30, 2015, Exhibit 6.0, page 5. BLC notes that in the Updated Draft Rate Order filed December 1, 2015 the impact on the same customer has been reduced to \$1.48 per month, presumably as a result of the adjustments to the cost of capital parameters.

<sup>8</sup> EB-2015-0079, Draft Rate Order filed December 1, 2015, Exhibit 6.0 page 8; note that to calculate the percentage difference BLC used the December 1, 2015 impacts for both the R1 and R2 class, rather than the original placeholder impacts in the September 30, 2015 Draft Rate Order.

<sup>9</sup> EB-2015-0079 Draft Rate Order, filed December 1, 2015 Exhibit 4.0 page 1.

## TRANSITION TO FIXED RATES

BLC accepts that HONI has properly implemented the Board's direction as set out in section 2.8.13 of the Filing Requirements with respect to the transition to a 100% fixed charge with one exception, that exception being the proposal to extend the transition period for the Seasonal Class from the default 4 year period to a 7 year period, a full two years longer than what HONI proposes for all its other residential classes.

The relevant part of section 2.8.13 is as follows:

Starting in 2016, distributors will begin to shift rate design for residential customers toward fully fixed rates. This change introduces some new considerations for the issue of mitigation.

As discussed above, at 2.8.2, distributors will be expected to implement the change in equal increments over a four-year period. 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.** (emphasis added)

In BLC's view the fact that, beyond transitioning all residential classes to the fixed charge pursuant Board Policy, the Board has additionally decided that the Seasonal Class is to be eliminated entirely is reason to not extend the transition period used for the calculation of the related 2016 seasonal class fixed charge beyond 5 years.

It is BLC's respectful view that the proposed 2016 increase in the Seasonal Class fixed charge of only \$4.40 inadequately assists the Board in preparing the Seasonal Class for elimination in a timely fashion. In BLC's view the Board should take into consideration the dual purpose of the increase in the fixed charge for the Seasonal Class, and require HONI to calculate the increase on the basis of a 5-year increment rather than a 7-year increment.

To be clear, it is not BLC's understanding or expectation that the Seasonal Class will persist for either 7 or 5 years, without transitioning Seasonal Class members to the appropriate density based residential classes. As noted in the following section of its argument, BLC believes that a material number of Seasonal Class members could and should be transitioned to the appropriate density based classes either

immediately or at the next possibly opportunity, with only those members requiring mitigation remaining in the Seasonal Class as part of the mitigation strategy. It is simply BLC's view that the rate at which the fixed charge for customers that will eventually move from the Seasonal Class to the R2 class should reflect the dual purpose of the increase in the fixed charge in 2016.

### **ELIMINATION OF SEASONAL CLASS-PROPOSAL TO MOVE MEMBERS NOT REQUIRING MITIGATION**

In BLC's view there appears to be an opportunity to give effect to the Board's decision to eliminate the Seasonal Class for many of the existing Seasonal Class members, if not all of them, either immediately or within short order, without unmanageable impacts.

HONI's Report on the Elimination of the Season Class, filed on August 4<sup>th</sup>, 2015 in EB-2013-0416 (the "Report") at page 4 provides a summary of the seasonal class members by their respective densities:

Table 1  
Breakout of Seasonal Customers among Residential Classes

Target Class	R2	R1	UR	Total
# of seasonal customers	83,925	70,295	270	154,490

Accordingly, in order to fully eliminate the Seasonal Class, 154,490 customers will have to be moved into their appropriate density based classes.

The Decision raised a concern about the impact of moving certain customers. The primary issue with the transition, as set out in the Report at page 11, is the need to mitigate the impact on seasonal customers moving to the R2 class, particularly in the context of a rate design that is based on a 100% fixed charge. There is no such concern, however, for the Seasonal Customers that will be moved to the R1 and UR classes. As set out at Table 6, page 8 of the Report, the impacts on all classes other than the seasonal customers entering the R2 class appear, BLC's view, to be manageable without mitigation. As noted above, the Decision only required HONI to propose "...a phase-in period **for those customers expected to experience a total bill impact of greater than 10% as a result of migrating to another class.**..."<sup>10</sup> **(emphasis added)** Accordingly, in BLC's view, it is appropriate for the Board to consider immediately moving customers to the R1 and UR classes as appropriate, if, as BLC expects, no mitigation is required for those customers.

The evidence of HONI within the Report leads BLC to believe that the partial elimination of the Seasonal Class could be initiated immediately without unmanageable impacts.

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<sup>10</sup> EB-2013-0416, Decision released March 12, 2015, page 48.

The seasonal customers that need to be moved to the UR class are *de minimus*; there are so few of them (only 270) that BLC is confident that there is no appreciable rate impact on any of the classes if those customers were to be moved immediately.

It is not so clear that the movement of 70,295 seasonal customers to R1, while leaving the remaining 83,925 customers in the Seasonal Class until a mitigation strategy to move them to R2 could be determined and implemented, could be done with manageable impacts.

BLC asked HONI, at the technical conference on December 4, 2015, to provide a calculation that showed the impact of moving the “R1” and “UR” seasonal customers to the appropriate classes while leaving the “R2” seasonal customers in the seasonal class as currently designed, in order to test whether such movement could be done without unmanageable impacts. HONI refused to provide such a calculation. Accordingly BLC can only infer from the evidence on the record what the likely impact will be.

BLC notes that the Report details the spread of the “R1” and “R2” customers across the different average monthly consumption profiles at Table 2 on page 4. That table demonstrates that, in BLC’s view, there is no material difference in the spread of “R1” customers and “R2” customers across the different consumption profiles.

As such, it seems to BLC, the impact of moving the “R1” and “UR” customers out of the Seasonal Class immediately and into the R1 and UR classes should not have an unmanageable impact on the remaining “R2” seasonal customers, so long as they remain in the existing Seasonal Class.

BLC notes that the initial direction from the Board in the Decision was the elimination of the Seasonal Class effective January 1, 2016. HONI’s Report provided a plan that would have transferred all seasonal customers to the appropriate residential classes immediately, implementing a mitigation plan to ease in the impact on certain customers being moved to the R2 class while still effecting the immediate move (and related impacts) for all other seasonal customers.

Accordingly BLC would respectfully ask the Board to consider requiring HONI to move all non “R2” seasonal customers to their appropriate non-seasonal class immediately; in the alternative BLC would ask the Board to require such a move as soon as is practicable, as the next step in the elimination of the seasonal class.

## **RESIDENTIAL SERVICE CLASSIFICATIONS**

BLC notes that the draft order seeks approval of a Tariff of Rates and Charges that includes Residential Service Classifications that include the following:

## RESIDENTIAL SERVICE CLASSIFICATIONS

A year-round residential customer classification applies to a customer's main place of abode and may include additional buildings served through the same meter, provided they are not rental income units. All of the following criteria must be met:

1. Occupant represents and warrants to Hydro One Networks Inc. that for so long as he/she has year-round residential rate status for the identified dwelling, he/she will not designate another property that he/she owns as a year-round residence for purposes of Hydro One rate classification.
2. Occupier must live in this residence for at least four (4) days of the week for eight (8) months of the year and the Occupier must not reside anywhere else for more than three (3) days a week during eight (8) months of the year.
3. The address of this residence must appear on documents such as the occupant's electric bill, driver's licence, credit card invoice, property tax bill, etc.
4. Occupants who are eligible to vote in Provincial or Federal elections must be enumerated for this purpose at the address of this residence.

Seasonal Residential customer classification is defined as any residential service that does not meet residential year-round criteria. It includes dwellings such as cottages, chalets and camps.<sup>11</sup>

Accordingly, it seems to BLC, HONI divides its customers into two groups; year-round residential customers and seasonal customers. Aside from lumping together "seasonal" customers despite their density based characteristics, and as a result of the Board's Decision to eliminate the Seasonal Class altogether, the only legitimate reason to maintain a distinction between groups of customers based on their occupancy characteristics is for the purposes of eligibility for the RRRP credit; with the elimination of the Seasonal Class the only concern left is the difference between R2 customers that qualify for RRRP and R2 customers that do not.

RRRP eligibility is circumscribed by regulation 442/01; as HONI sets out in their Report at page 19, aside from the necessity that the premises be located in an R2 area, eligibility for RRRP funding is dependent on the customer occupying a residential premises, which is defined by 442/01 as follows:

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<sup>11</sup>EB-2015-0079, Draft Rate Order filed December 1, 2015, Exhibit 5.0 page 1.

“residential premises” means 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

Despite this clear, concise wording, HONI continues to add criteria for RRRP funding, both implicitly and explicitly.

In BLC’s view HONI is implicitly imposing something more than what is required of regulation 442/01 by continuing to refer to “year-round residential customers” and “year-round residential status”, when in fact the regulation only requires occupancy for 8 months of the year. BLC is concerned that HONI, in continuing to use the term “year-round” in its residency criteria, may be discouraging certain customers from claiming their eligibility for RRRP funding. BLC can contemplate a scenario where someone who resides in an R2 located premise for 8 months of the year but who then lives elsewhere for 4 months of the year would be misled by the constant use of the term “year-round” to describe the required behavior. Accordingly BLC submits that HONI should be required to remove all uses of the term “year-round” as it relates to residential customers classifications.

In BLC’s view HONI is explicitly adding inappropriate criteria when it dictates that a customer must live in the premises for at least four (4) days of the week for eight (8) months of the year and that the customer must not reside anywhere else for more than three (3) days a week during eight (8) months of the year. The regulation is quite clear on its face that the only requirement is that the premises be occupied continuously for 8 months of the year, which in BLC’s view is more permissive than the additional requirements imposed unilaterally by HONI. Accordingly BLC submits that HONI should replace criteria 2 with the specific wording of regulation 442/01.

In BLC’s view HONI is explicitly imposing something more than what is required of regulation 442/01 when it requires the address of the premises to appear on documents; there is no requirement in 442/01 that the customer do anything other than occupy the premises, and respectfully submits that requiring customers to use the premises in any other way is an inappropriate extension of the requirements of 442/01. Similarly, requiring occupants to enumerate in Provincial or Federal elections using the address of the premises in order to qualify for RRRP funding inappropriately adds criteria to the requirements of 442/01. Accordingly BLC respectfully submits that criteria 3 and 4 in the customer classification requirements in the Tariff should be deleted.

BLC notes that in the EB-2013-0416 proceeding HONI attempted to move approximately 11,000 customers from the Seasonal Class to their equivalent non seasonal classes, including moving 6,265 customers from the Seasonal Class to the R2 class based on the fact that their consumption patterns closely matched what



HONI would expect from a so called “year-round” customer.<sup>12</sup> While BLC agrees that simply inferring from the consumption pattern that a customer meets the actual criteria of regulation 442/01 would be inappropriate, since 442/01 does not, in any way, impose consumption criteria as part of the eligibility for RRRP, the fact that over 6,265 customers appear to be using electricity over the course of 8 months of the year in a way that would underpin the type of continuous occupancy that HONI would accept as qualifying under 442/01 suggests strongly to BLC that there are material numbers of “R2” seasonal customers who meet the actual requirements of regulation 442/01 but who have been discouraged from applying for RRRP eligibility as a result of HONI’s use of misleading language or who will be denied RRRP funding by HONI as a result of HONI’s use of inappropriate criteria.

For all these reasons BLC respectfully submits that the Residential Service Classifications used by HONI in its Tariff sheets be modified to conform to the actual requirements of regulation 442/01.

### **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 10<sup>th</sup> DAY OF DECEMBER 2015**

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<sup>12</sup> EB-2013-0416, Exhibit I, Tab 7.02, Schedule 6, VECC 93, part d).