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December 10, 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-2015-0079 – Hydro One Networks Inc. 2016 Distribution Rate Order
Submissions of Vulnerable Energy Consumers Coalition (VECC)**

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

Thank you.

Yours truly,

Michael Janigan
Counsel for VECC

Cc: Hydro One Networks Inc.

ONTARIO ENERGY BOARD

IN THE MATTER OF AN APPLICATION BY

HYDRO ONE NETWORKS INC.

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

SUBMISSIONS OF THE VULNERABLE ENERGY CONSUMERS COALITION

- Hydro One Networks Inc. (HONI) is applying for a 2016 Distribution Rate Order under section 78 of the Ontario Energy Board Act, 1998. HONI is also seeking approval of the beginning of its transition to fully fixed residential rates as directed by the Board.¹
- HONI updated its September 30, 2015 Draft Rate Order on December 1, 2015 to reflect the Board's latest cost of capital parameters released on October 15, 2016.
- The Draft Rate Order reflects the Board's Decision in EB-2013-0416. The 2016 Rates Revenue Requirement of \$1,473.8 million requested in Hydro One's Application has been reduced to \$1,409.8 million based on the Board's Decision in EB-2013-0416:
 - A \$21.7 million reduction in OM&A
 - An increase in LEAP funding of \$0.6 million
 - A \$1.6 million reduction in working capital allowance due to decrease in OM&A
 - A reduction in income tax
 - An increase in external revenues of \$1.8 million to correct an error in Miscellaneous Charges revenue forecast in the Application
- VECC has no issues with HONI's calculation of the 2016 revenue requirement.

Cost Allocation

- HONI's 2016 cost allocation model (CAM) includes three updates:
 - 2016 updated revenue requirement;
 - 2016 Board-approved load forecast; and
 - A new street lighting cost allocation methodology as per the Board's new policy.²
- As per the Board's new policy, HONI has calculated a Street Lighting Adjustment Factor (SLAF) of 8.7 compared to the value of 8.0 devices per connection that HONI assumed in its

¹ Board Report: "A New Rate Design for Residential Electricity Customers (EB-2012-0410) dated April 2, 2015

² New Cost Allocation Policy for Street Lighting Rate Class (EB-2012-0383)

2015 CAM.

- The SLAF results in a slight decrease in allocated costs (\$318,627) for the Street Lighting rate class from \$13,179,325 to \$12,860,698³. This change results in a minor change in the allocation of costs for HONI's other rate classes in order to make up the \$318,627 shortfall.⁴ The revenue-to-cost (R/C) ratio for the Street Lighting class increases from 0.87 to 0.89. The change in the R/C ratios for the other rate classes due to the change in allocated costs is not noticeable.
- Hydro One is also continuing to move its R/C ratios from 90-110% over 2016 to 2017.
- The UR, R1 and USL rate classes have R/C ratios above the Board's approved range and HONI proposes to move the R/C ratios for these rate classes to 110% over the 2016-2017 period.
- HONI proposes to make up the resulting revenue shortfall by a stepped increase in the R/C ratio of the rate classes with the lowest R/C ratio until the shortfall is addressed.
- VECC takes no issue with HONI's proposed cost allocation changes.

Seasonal Rates

- In its EB-2013-0416 Decision, the Board directed HONI to bring forward a plan for the elimination of its Seasonal rate class by August 4, 2015. The Board indicated that it intended that Hydro One would implement the initial rate changes by January 1, 2016. Hydro One filed its plan by the deadline.
- In a Board Order dated September 30, 2015⁵, the Board ordered that "Hydro One's application for adjustments to its 2016 rates shall include implementation of the transition toward fixed distribution rates for the seasonal class customers, consistent with the OEB's filing requirements published July 16, 2015.
- The Board indicated it will initiate a further proceeding to consider the remaining steps for the elimination of the Seasonal class.
- HONI has complied with the Board order and has not proposed any additional changes towards the elimination of its seasonal rate class in this application.
- VECC notes that other parties may propose that the Board consider some preliminary steps to eliminate the Seasonal rate class by shifting customers out of the Seasonal rate class into other residential rate classes.

³ HONI Draft Rate Order Page 3 Table 1

⁴ HONI Draft Rate Order Page 2

⁵ EB-2013-0416 & EB-2015-0257 Order dated September 30, 2015

- VECC submits that the Board, consistent with its Order dated September 30, 2015, should not approve any proposed steps towards the elimination of the Seasonal rate class, without a broader plan and in the absence of evidence on the impacts to other customer classes.

Transition to Fully Fixed Residential Rates

- Starting in 2016, the Board's new rate design policy for electricity distributors (EB-2012-0410)⁶ 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 "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."⁷
- 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 10th percentile of electricity consumption and if the bill impact is 10% or higher, the distributor must make a proposal for a rate mitigation plan.⁸
- For HONI, 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).
- HONI 's proposed mitigation plan to keep bill impacts below 10%, is to extend the phase-in period to 5 years for UR, R1 and R2 rate classes and to 7 years for the Seasonal class. The resulting annual increase in the fixed charge is as follows:
 - UR \$3.22
 - R1 \$6.52
 - R2 \$11.74
 - Seasonal \$4.40
- For non-residential rate classes, the fixed rates have been set to maintain the same fixed to variable split in revenue approved for 2015. For the DGen rate class, the variable rate has been maintained at the 2015 level and the 2016 increase has been absorbed by an increase in the fixed rate in order to move towards the fixed-to-variable split as approved by the Board's Decision.

⁶ EB-2012-0410 A New Distribution Rate Design for Residential Electricity Customers dated April 2, 2015

⁷ Filing Requirements For Electricity Distribution Rate Applications -2015 Edition for 2016 Rate Applications - Chapter 2 Page 63

⁸ EB-2012-0410 A New Distribution Rate Design for Residential Electricity Customers dated April 2, 2015 Page 26

- HONI calculates the average monthly kWhs at the 10th consumption percentile as follows:
 - UR – 355 kWh
 - R1 – 385 kWh
 - R2 – 486 kWh
 - Seasonal – 46 kWh
- HONI indicates the proposed phase-in periods will result in total bill impacts of less than 10% for the low volume customers as well as the typical and high volume customers, taking into account all other changes to distribution rates in 2016.⁹
- VECC notes that HONI's bill impact calculations at Exhibit 6 include the Debt Retirement Charge (DRC) and the Ontario Clean Energy Benefit (OCEB) for 2015 and 2016 even though both will be eliminated in 2016. In addition, the bill impact calculation does not include the new Ontario Clean Energy Support Program (OESP) charge of \$0.0011 effective January 1, 2016 or the change in the Wholesale Market Service (WMS) Rate from \$0.0044 to \$0.0036/kWh.¹⁰ VECC submits the bill impact calculations need to take all of these changes into consideration.
- In response to Technical Conference Undertaking TC3¹¹ HONI provides the bill impact calculations for all rate classes including the removal of the DRC and OCEB, the addition of the OESP and the change in the WMS Rate. For the lowest 10th percentile of electricity consumption, the bill impacts for the R1, R2 and Seasonal rate classes are above 10% at 13.44%, 17.3% and 20.56%, respectively. The bill impacts for the UR class are below 10%.
- HONI explained at the technical conference that its bill impact analysis is consistent with the Board's Chapter 3 Filing Requirements where the OEB has established that bill impacts associated with changes in the cost of distribution service are considered when assessing the combined effects of the shift to fixed rates.
- VECC submits the combined effects of all of the proposed rate changes in 2016, beyond just the distribution service component of the bill, should be included in the impact analysis as it provides the full picture and more accurately reflects the true costs and bill impacts that customers will actually see. Furthermore, based on the response to TC3, VECC submits that the real bill impacts in 2016 are significant and given these increases a departure from the Board's Filing Requirements is needed.
- The Board contemplated the impact of other rate changes in its Report on the new rate design.

⁹ Draft Rate Order Attachment 1 Page 7 Table 2

¹⁰ EB-2015-0294

¹¹ Undertaking DRO TC3

- The Report indicates the Board 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. Examples could include the clearance of deferral and variances accounts, increases resulting from a Custom IR or a re-basing application, or increases resulting from other rate design changes.¹²
- VECC submits the removal of the OCEB in 2016 and the addition of the OESP puts upward pressure on the bill and together with beginning the transition to fully fixed rates results in unusually large bill impacts which in VECC's view warrants a mitigation plan.
- Given the significant bill impacts in 2016, when all of the rate changes are taken into consideration, VECC submits that the Board should direct HONI to develop a plan to mitigate the impact for the whole R1, R2 and Seasonal rate classes. Options include HONI extending its transition to fixed rates over a longer period and/or varying the annual incremental increases in order to keep bill impacts below 10%. Alternatively, the Board could consider delaying the implementation of the move to a fixed rate design for one year, particularly for the R2 and Seasonal classes.

Customer Notification

- In response to Technical Conference Undertaking DRO TC2, HONI provided a copy of its Fall/Winter 2015 customer newsletter "*Connected*".
- The Newsletter appropriately provides a summary of the individual changes to the bill effective Nov 1, 2015 to January 1, 2016 and what it means to the customer's bill. However the total sum of the individual changes is not provided. In VECC's view total bill impact information is valuable to customers and needs to be communicated and should not be left to the customer to calculate.
- VECC notes that other changes such as the addition of the OESP on January 1, 2016 and change in the WMS Rate are not listed under "What's Changing?" Now that this information is available, VECC expects that HONI's future correspondence to customers would include the bill impacts of these changes; along with total bill impacts.
- The new OESP is highlighted on Page 2 of the newsletter under "We're Here to Help", a section where Hydro One highlights how it can help customers reduce the amount of electricity used as well as help customers manage their accounts to help offset some of the changes on the bill.

¹² Board Report: "A New Rate Design for Residential Electricity Customers (EB-2012-0410) dated April 2, 2015 Page 26

- Given the recent media coverage regarding low sign up rates for the OESP program, VECC submits HONI should take any additional steps as required to improve its promotion and outreach approach to achieve better customer uptake in this program in order to benefit low income households.

All of which is respectfully submitted this 10th day of December 2015.