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August 9, 2018

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
26th Floor
2300 Yonge Street
Toronto, ON
M4P 1E4

DELIVERED BY EMAIL

Dear Ms. Walli,

RE: EB-2017-0049 Hydro One Networks Inc. Distribution Rates Application, 2018 - 2022

Please find enclosed the submissions filed on behalf of the Balsam Lake Coalition in the above noted proceeding.

Yours very truly,

Michael R. Buonaguro
Encl.

Hydro One Networks Inc.
EB - 2017 - 0049 Distribution Rates Application, 2018 - 2022
Balsam Lake Coalition Submissions
January 19, 2018

Introduction and Summary

These are the submissions of the Balsam Lake Coalition (BLC) with respect to Hydro One's 2018-2022 Distribution Rates Application.

BLC, as a ratepayer group, has a direct interest in virtually all aspects of the application. However, BLC relies on the review of the application by Board Staff and other intervenors with aligned interests for the bulk of the issues on the issues list.
BLC's submissions, accordingly, are focused on the narrow issues of specific concern to seasonal customers, broadly defined in the context of this proceeding as customers who are currently classified as part of Hydro One's Seasonal Rate Class.

During the course of these submissions BLC will be using the following terms to refer to specific subsets of customers currently classified as Seasonal Customers:

a) UR Seasonal Customers: this refers to seasonal customers that, but for their inclusion in the Seasonal Rate Class, would be included in the UR Rate Class based on their density classification,

b) R1 Seasonal Customers: this refers to seasonal customers that, but for their inclusion in the Seasonal Rate Class, would be included in the R1 Rate Class based on their density classification,

c) R2 Seasonal Customers: this refers to seasonal customers that, but for their inclusion in the Seasonal Rate Class, would be included in the R2 Rate Class based on their density classification.

BLC will also refer to RRRP and DRP funding, which refers to Rural or Remote Electricity Rate Protection and Distribution Rate Protection respectively, both in accordance with regulations made under the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Sched. B.

BLC respectfully submits that it would be appropriate for the Board to require Hydro One to make the following adjustments to rates in connection with the treatment of Seasonal Customers, beginning with 2018 rates:

a) Hydro One should be required to move all UR Seasonal Customers from the Seasonal Rate Class to the UR Rate Class immediately;

b) Hydro One should be required to move all R1 Seasonal Customers from the Seasonal Rate Class to the R1 Rate Class immediately;

c) Hydro One should be required to adjust the cost allocation characteristics of the Seasonal Rate Class to match the allocation characteristics of the remaining R2 Seasonal Customers, as proposed by Hydro One in Exhibit JT 3.23;

d) Hydro One should be required to set rates for the adjusted Seasonal Rate Class based on a target revenue to cost (R/C) ratio of 85%;

e) To the extent the Board is concerned that the impact of the movement of previously seasonal customers to the UR and R1 classes and the resulting adjustments to the Seasonal Rate Class to other rate classes requires mitigation, BLC submits that any reductions in the overall Revenue Requirement as a result of the Board's findings in this proceeding could be first applied to offset that impact, or alternatively Hydro One could be required to adjust the R/C ratio of the R2 Rate Class towards 100% in order to offset those impacts as the Board deems necessary so long as the R2 Seasonal Customers are to remain in an R2 specific Seasonal Class as proposed;

f) Hydro One should be required to notify and explain to its seasonal customers how Hydro One prioritizes concerns with respect to affordability and how that prioritization resulted in seasonal customers being entirely omitted from consideration from the distribution rate protection that Hydro One proposed to the Provincial Government and which the Provincial Government ultimately implemented;

g) Hydro One should be required to modify its description of residential customers to match the precise requirements under existing legislation with respect to RRRP and DRP eligibility, and explain to customers that any other "criteria" that Hydro One may ostensibly "impose", while possibly helpful in demonstrating eligibility, are not necessary conditions under the legislation, and that the only actual requirement is that:

    a. to be eligible for RRRP funding, the customer must occupy residential premises, which is defined by the legislation as "a dwelling occupied as a residence continuously for at least eight months of the year", and

    b. To be eligible for DRP funding, the customer "resides continuously at the service address to which the account relates for at least eight months of the year".

Previous Board Decisions

On March 12, 2015 the Board determined that the Seasonal Class should be eliminated, asserting as follows:

> The OEB finds the arguments of BLC to be persuasive. Hydro One has developed the technical capability to implement and maintain density-based rates for its non-seasonal residential classes. These classes are defined by

> their geographic location in relation to the amount of distribution system assets that are required to serve each customer. The OEB considers the relative use of distribution assets to be a significant and predominant cost causality driver for the establishment of residential rate classes. The OEB agrees with BLC that the existence of density-based rate classes erodes justification for the retention of the seasonal class. 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.** (Emphasis added)[1]

Further to that decision the Board ordered Hydro One to provide a plan for the immediate elimination of the Seasonal Class, a plan that Hydro One filed on August 4, 2015.[2]

The Board, in considering that plan, determined that the initial step in the elimination of the Seasonal Class was the implementation of the Board's policy with respect to fully fixed charges.[3]

Since the filing of Hydro One's plan neither the Board nor Hydro One has taken any further steps towards the elimination of the Seasonal Rate Class, with the result that UR and R1 Seasonal Customers continue to pay rates that are much higher than what they would otherwise be required to pay if they were included in a residential class according to their density.

Delay Caused by Impact on R2 Seasonal Customers, Particularly Low Volume R2 Seasonal Customers

The reticence by Hydro One to pursue the full elimination of the Seasonal Rate Class arises primarily out of concern for the material rate impacts that elimination would have on R2 Seasonal Customers. Moving R2 Seasonal Customers into the R2 Class exposes those customers to R2 rates, stripping those customers of the benefit of blending their allocated costs with the much lower costs allocated to the UR and R1 Seasonal Customers when all seasonal customers are combined within a single rate class.

BLC notes that the impact on R2 Seasonal Customers is further exacerbated by the failure of the Provincial Government to extend DRP coverage to seasonal customers (in large part, in BLC's respectful submission, as a result of the failure by Hydro One to properly advocate for DRP coverage for Seasonal Customers). The combined effect of the RRRP and DRP funding provided to non-seasonal R2 customers is that if and when R2 Seasonal Customers are included in the R2 Rate Class, R2 Seasonal Customers will not be paying the same distribution rates as their non-seasonal R2 neighbours.

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[1] EB-2013-0416, Decision and Order dated March 12, 2015, page 48.

[2] EB-2013-0146, Hydro One Report on Elimination of the Seasonal Class, August 4, 2015.

[3] EB-2013-0416/EB-2015-0257, Order, September 30, 2015, pages 1-2.

BLC has considered the current state of Hydro One's rate structure, particularly in light of the impact of DRP funding on rates, and would propose a hybrid solution (the "Hybrid Solution") that maintains the seasonal rate class in way that protects R2 Seasonal Customers from inappropriate rate impacts, while still providing UR and R1 Seasonal Customers the benefits of being included within their appropriate rate classes, as is contemplated by the Board's decision in EB-2013-0416.

The Hybrid Solution

Exhibit JT 3.23 Attachment 1, in BLC's respectful submission, sets out the framework for a hybrid solution that maintains the Seasonal Class in a way that appropriately collects revenue from all customers in accordance with the Board's Cost Allocation and Rate Design Policy, while at the same time advancing the mandate that underpins the Board's decision to eliminate the Seasonal Class.

Exhibit JT 3.23 Attachment 1 is based on the following adjustments to Hydro One's status quo proposal found at Exhibit H1, Tab 1, Schedule 2, page 1:

a) All UR Seasonal Customers are moved from the Seasonal Class to the UR Class immediately;

b) All R1 Seasonal Customers are moved from the Seasonal Class to the R1 Class immediately,

c) The cost allocation for the Seasonal Rate Class is adjusted to reflect the characteristics of the remaining R2 Seasonal Customers, and

d) The target R/C ratio for the new Seasonal Class was determined to be 86%, based on what Hydro One referred to as "normal rate design"[4];

As discussed at the hearing the original request was for Hydro One to maintain the proposed fixed and variable rates for the adjusted Seasonal Class as was proposed by Hydro One in its Application, a request that Hydro One inadvertently missed.[5] BLC has tested the impact of including its request to leave the proposed fixed and variable charges for the new Seasonal Class intact; it appears to BLC that the impact of maintaining the status quo fixed and variable charges for the newly adjusted R2 Seasonal Class is to shift the resulting R/C ratio for the adjusted R2Seasonal Class from 86% to 85%, with minimal offsetting impacts across the rest of the rate classes.[6]

[4] Transcript, Volume 11, page 67.

[5] Transcript, Volume 11, page 67.

[6] Changing the proposed fixed and variable charges for the Seasonal Class in Exhibit JT 3.23 Attachment 1 to the status quo fixed and variable charges in Exhibit H1, Tab 1, Schedule 2, page 1 slightly decreased the revenue to be collected from what Hydro One calls the "R2 Seasonal Class", reducing the resulting Revenue to Cost ratio to 85%.

In BLC's respectful submission calculating the resulting R/C ratio based on the status quo proposed fixed and variable charges is appropriate when reviewing the proposed Hybrid Solution, as it results in a R/C ratio that holds R2 Seasonal Class customers, the subclass of residential customers with the highest effective rates of all residential customers whether under the status quo or hybrid proposal, harmless as a result of moving the UR and R1 Seasonal customers out of the Seasonal Rate Class.

Immediate Impact on UR Seasonal Customers

The immediate impact on the UR seasonal customers of the proposed Hybrid Solution is a material rate decrease, as UR seasonal customers are charged rates that much more closely match the costs to actually serve them. Based on a comparison between the status quo proposed seasonal rates and the UR rates that result from the Hybrid Solution, the average UR Seasonal Customer would experience an annual rate reduction of approximately $333.36 or 45%; for high volume UR Seasonal Customers the immediate annual rate reduction is $776.28 or 64%.[7]

Hydro One's analysis in Exhibit JT 3.23 Attachment 1 is based on a forecast of only 248 UR Seasonal Customers; accordingly, BLC submits, moving UR Seasonal Customers does not in and of itself have a material impact on the overall cost allocation and rate design process for any other customer group. Accordingly it would appear to BLC that there is simply no reason, theoretical or practical, to continue to keep UR seasonal customers in the Seasonal Rate Class, particularly in light of the Board's decision in EB-2013-0416.

Immediate Impact on R1 Seasonal Customers

The immediate impact on the R1 Seasonal Customers of implementing the Hybrid Solution is a material rate decrease, as R1 Seasonal Customers are charged rates that more closely match the costs to actually serve them. Based on a comparison between the status quo proposed seasonal rates and the R1 rates that result from the Hybrid Solution, the average R1 Seasonal Customer will experience an annual rate reduction of approximately $62.52 or 8.4%; for high volume R1 customers the immediate annual rate reduction is $486.72 or 40%.[8]

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[7] BLC calculated these impacts by comparing the fixed and variable rates in Exhibit JT 3.23 Attachment 1 for the UR Class against the status quo fixed and variable charges in Exhibit H1, Tab 1, Schedule 2, page 1 for the Seasonal Class; for the average customer BLC used the "2018 All Fixed Charge" amounts in both documents as a proxy for the average customer, and for the high volume customers BLC assumed a monthly consumption of 1000 kWh in accordance with Hydro One's assumption regarding high consumption for the Seasonal Class in Exhibit H1, Tab 1, Schedule 1, page 16.

[8] BLC calculated these impacts by comparing the fixed and variable rates in Exhibit JT 3.23 Attachment 1 for the R1 Class against the status quo fixed and variable charges in Exhibit H1, Tab 1, Schedule 2, page 1 for the Seasonal Class; for the average customer BLC used the "2018 All Fixed Charge" amounts in both documents as a proxy for the average customer, and for the high volume customers BLC assumed a monthly

Hydro One's analysis in Exhibit JT 3.23 Attachment 1 is based on a forecast of 70,692 R1 Seasonal Customers. Accordingly, to the extend that there is a material impact on the overall cost allocation and rate design exercise as a result of the Hybrid framework, it is caused largely by the movement of these customers from the Seasonal Class to the R1 Class, and in particular the elimination of the blending of costs to serve R1 Seasonal Customers and R2 Seasonal Customers while at the same time maintaining status quo rates for the remaining R2 Seasonal Class customers. In BLC's respectful submission the resulting impact on other rate classes, discussed in more detail below, is appropriate, in that it is largely the result of a re-allocation of costs that is the natural result of the Board's decision in EB-2013-0416 and can be easily mitigated if the Board determines mitigation is required.

Hybrid Solution for R2 Seasonal Customers based on Acceptable Cost Allocation and Rate Design Principles

As noted earlier re-allocation of costs to the remaining R2 Seasonal Customers within the Seasonal Class, coupled with the use of Hydro One's status quo rates for Seasonal Customers, results in a R/C ratio is 85%. At a R/C ratio of 85% the Hybrid Solution produces rates for the Seasonal Class that fall within the Board's existing Cost Allocation and Rate Design Policies.[9] Accordingly, unless and until the Board changes the applicable cost allocation principles or changes the acceptable range of R/C ratios for the residential rate classes, there is no general reason for the Board to require further changes to the adjusted R2 Seasonal Rate Class. The 78,644 customers in the adjusted R2 Seasonal Rate Class are being allocated costs based on their common characteristics, most notably their density weighting of 4.8, and the resulting R/C ratio is within the Board's acceptable range. Even at a R/C ratio of 85%, the R2 Seasonal Customers will still, as a result of the availability of RRRP and DRP funding for non-seasonal customers in the R1 and R2 classes, pay the highest rates for distribution of any of Hydro One's residential customers.

R1 and R2 Customers unaffected as a result of Distribution Rate Protection

Although there are ostensibly changes to the amounts allocated to the R1 and R2 customers as a result of the Hybrid Solution, the impact is entirely negated by operation of the DRP (and, for R2 customers, the RRRP)[10]. While there are impacts on UR and R1

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consumption of 1000 kWh in accordance with Hydro One's assumption regarding high consumption for the Seasonal Class in Exhibit H1, Tab 1, Schedule 1, page 16.

[9] Exhibit H1, Tab 1, Schedule 1, page 9 confirms that the Board's R/C ratio range for all residential rate classes is 85%-115%; similarly Hydro One confirmed in Exhibit JT 3.23 that the adjusted R2 Seasonal Class was constructed in accordance with existing cost allocation principles.

[10] Transcript, Volume 11, page 72, Hydro One confirms that because the proposed fixed charge for the R1 and R2 classes is already above the cap imposed by the DRP, further increases in the recovery attributed to the R1 and R2 classes for non-seasonal customers will not affect those customers.

Seasonal Customers moving to the UR and R1 classes (since UR and R1 Seasonal Customers do not qualify for either RRRP or DRP funding) those impacts are more than offset by the savings experienced by UR and R1 customers in moving to the UR and R1 Rate Classes.

Impact of Hybrid Solution on Non-Residential Classes

Based on Hydro One's re-allocation of revenue recovery in Exhibit JT 3.23 Attachment 1 it appears that the impact of the Hybrid framework on the UR class and all the non-residential classes is a rate increase of 1.02% relative to the status quo proposal, representing a total increase in revenue allocated to those rate classes of approximately $5.3M.[11]

In BLC's respectful submission the impact on the UR class and the non residential rate classes is appropriate given the Board's outstanding directions to Hydro One with respect to the Seasonal Rate Class and given that:

a) of the 8 non residential rate classes, 5 of those classes remain below a R/C ratio of 1.0, suggesting that those classes have been benefitting and will continue to benefit from the Board's policy with respect to the acceptable range of revenue to cost ratios;

b) of the remaining 3 non residential classes that are not below a R/C ratio of 1.0, all 3 are at or below the same R/C ratio of 1.11 for the proposed R1 Rate Class, such that the R1 Seasonal Customers that are moving to the R1 Rate Class are being asked to pay an as high or higher percentage of their allocated costs as all other rate classes;

c) The UR class is proposed at a R/C ratio of 1.06, still below the R1 Class, and continues to include the lowest rates of the residential rate classes; and

d) Approximately $2.5M of the total $5.3M impact is a result of the re-allocation of costs to those classes, an impact that is a natural, persisting, and appropriate consequence of the inclusion of UR and R1 Seasonal Customers in more appropriate rate classes based on density.[12]

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[11] BLC calculated this amount by comparing the revenue to be collected from rates from each non residential class in the status quo proposal in Exhibit H1, Tab 1, Schedule 2, page 1 against the revenue to be collected in the Hybrid Solution in Exhibit JT 3.23 Attachment 1, except for the UR class where the comparison was done on a revenue per customer basis as a result of the increase in the number of UR customers.

[12] These observations are all from Exhibit JT 3.23 Attachment 1; the calculation of the $2.5M in re allocated costs is based on a comparison of the costs allocated to the affected classes between Exhibit H1, Tab 1, Schedule 2, page 1 and Exhibit JT 3.23 Attachment 1, with the comparison being done on a per customer basis for the UR Rate Class to account for the increase in customers in the class.

In the event the Board accepts that the $5.3M impact on the UR and non-residential customers should be mitigated, BLC would respectfully submit that:

a) The $5.3M impact amount could be prioritized for reduction when considering any cost reductions in the overall revenue requirement, and

b) As discussed below, the $5.3M impact could be offset by increasing the revenue to cost ratio for the R2 class above the current target of 95%, given that no members of the R2 Class (assuming the R2 Seasonal Customers remain in an adjusted Seasonal Class as proposed by BLC under the Hybrid Solution) will directly bear the impact of such an increase.

The Existing R2 Class

As noted earlier, the reason that Hydro One has not proposed and the Board has yet to provide for the immediate elimination of the Seasonal Rate Class is the impact of moving R2 Seasonal Class Customers to the R2 Rate Class when those Seasonal Customers do not qualify for either RRRP or DRP subsidies.

On its face the difference between the average status quo Seasonal Class monthly distribution cost ($61.70) and the average status quo R2 monthly distribution cost ($130.07) is $58.37 or a 210% rate increase.[13]

The R2 Rate Class is the single largest Hydro One Rate Class in terms of allocated distribution revenue requirement and subsequent distribution revenue recovery; at the same time it is the most heavily subsidized Rate Class, given the impact of RRRP and DRP funding.

One of the main reasons for including Seasonal R2 customers in the R2 class was so customers with virtually identical cost allocation characteristics would be charged the same rates for distribution service. This goal was already partially frustrated by the existence of the RRRP and its exclusion of seasonal customers at the time of the Board's decision in EB-2013-0416; it has become essentially impossible with the freezing of R2 distribution rates for qualifying non-seasonal customers as a result of DRP funding.

Accordingly BLC has proposed the Hybrid Solution for at least the near term, since it protects R2 Seasonal Customers from the rate impacts of a full elimination of the Seasonal Class that relies on moving R2 Seasonal Class members into the R2 Rate Class as long as complete rate equity between R2 Customers and R2 Seasonal Customers remains impossible, while at the same time allocating costs to and setting rates for R2 Seasonal Customers that fall within the Board's existing Cost Allocation and Rate Design parameters.[14]

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[13] These numbers are from Exhibit H1, Tab 1, Schedule 2, page 1

Mitigation for Affected Classes

In BLC's respectful submission there is no need to mitigate any impacts of the Hybrid Solution on the affected classes; a material portion of the impact is a result of a re-allocation of cost that are the natural impacts flowing from the Board's decision in EBEB-2013-0416, and the remaining impact is relatively modest. However, in the event the Board believes mitigation is necessary, BLC believes there are at least two options available for mitigation.

One of the by-products of keeping the R2 Seasonal Customers separate from the R2 Class in the manner suggested by the Hybrid Solution is that the Board has at its disposal, so long as the R2 Seasonal Customers remain separate from the R2 Class, a unique mechanism for mitigating rate impacts.

As already noted, because of the impact of RRRP and DRP funding shifting the R2 R/C Ratio has no effect on non-seasonal R2 Customers; while historically there may have reasons to maintain a low R/C ratio for the R2 rate class, currently set at 95% under both the Status Quo and Hybrid Solution, out of a concern about the total cost to R2 Customers even with RRRP funding, the addition of DRP funding has essentially eliminated any rate impact concerns for the R2 class so long as it only includes customers that qualify for DRP and RRRP funding. As confirmed by Hydro One, increasing the costs allocated to the R2 class has no impact on the bill impacts to R2 customers that qualify for DRP funding.

Based on the cost allocation and rate design proposed in the Hybrid Solution, Hydro One would recover revenue from the R2 rate class at a R/C ratio of 95%; the difference between the R/C ratio of 95% and a R/C ratio of 100% is approximately $25M, or $5M per percentage point.[15]

In BLC's view it would be reasonable for the Board to increase the revenue to cost ratio for the R2 class (as long as the R2 Seasonal Customers are excluded from the R2 class) given that the R2 customers would not bear the impact of that increase, and use the resulting revenue to offset the impact of the Hybrid Solution on the rate classes experiencing increases as a result of the Hybrid Solution.

To be clear, such an increase could be modest; an increase from 95% to 96% would likely generate enough revenue to completely offset the impacts of the Hybrid solution on the UR Class and the non-residential classes.[16] Additionally, the increase could be temporary, in order to phase in the impact of the Hybrid Solution, with the intent to return the R2 Class to a R/C ratio of 95% within a reasonable time frame.

Alternatively, to the extent that the Board makes any material revenue requirement reductions to the proposed Revenue Requirement for Hydro One in this application, the

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[15] Exhibit JT 3.23 Attachment 1, the calculation is based on the difference between the allocated costs and the costs to be recovered from the R2 Seasonal Class.

Board could use those reductions to offset the impact of the Hybrid Solution in the first instance by recognizing reductions in the target R/C ratio for affected classes to offset the total $5.3M impact, and then allocate the remaining impact of any reductions in the normal course.

Hydro One's Approach to Advocacy on Behalf of Seasonal Customers

The Proposal to the Provincial Government for Distribution Rate Protection was premised on Rate Inequity, not Affordability

BLC spent some time in this proceeding exploring Hydro One's role in advocating on behalf of its customers before the Provincial Government. Of particular interest to BLC was the effort by Hydro One, if any, in relation to what became Distribution Rate Protection and the exclusion of seasonal customers from that protection. While BLC is aware that the OEB does not have any direct or unilateral ability to change the Province's policies with respect to such things as the availability of DRP funding, the OEB does have, in BLC's respectful submission, a role in terms of assessing the appropriateness of a distributor's advocacy on behalf of its customers, particular given the unique ability of a distributor to engage the provincial government on behalf of its customers.

In response to BLC's initial interrogatories Hydro One produced its paper entitled Addressing Affordability ("Hydro One's Proposal"), which it says it provided to the Provincial Government in response to a request from the Provincial Government for input from Hydro One and other stakeholders with respect to "affordability" issues.[17] Hydro One specified that the request was made in January, 2017, with the proposal being provided to the Provincial Government on January 30, 2017. Hydro One confirmed that there were no particular constraints on the submissions to be made; the question posed to Hydro One was open ended.[18]

The Hydro One submission describes several proposals devised by Hydro One intended to respond to the Provincial Government's request. BLC briefly reviewed each of the proposals at the hearing and does not propose to make submissions on most of them.[19] For the purposes of these submissions BLC is primarily concerned with Hydro One's proposal with respect to what eventually became the provincial Government's Distribution Rate Protection plan.

Hydro One's DRP proposal was quite simple, and in BLC's view clearly based on the notion of rate "equity". The proposal to the government, in its entirety, was as follows:

> **RURAL DELIVERY RATES**
>
> Hydro One's customers pay considerably higher delivery charges as a result of the OEB's cost allocation principles. The principles have created an

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[17] Exhibit I-5-BLC-4 Attachment 1
[18] Technical Conference Transcript, Volume 2, page 144.
[19] Transcript Volume 4, pages 133-137.

> obvious urban-rural divide over delivery charges. The delivery charge is predominately comprised of two components, transmission charges and distribution charges. The distribution charges vary between LDCs and are the driver of the **rate inequity** between urban and rural consumers. For example, some LDCs can charge their customers $15/month for distribution charges, while Hydro One must charge its average residential customer $58/month based on the cost-to-serve model. Hydro One's costs are driven by servicing rural and remote Ontario, where our customer density is very low compared to other LDCs, which serve regions with higher customer densities. If distribution charges were applied equally among all consumers in Ontario, the average charge would be approximately $38/ month, which would require many consumers to pay more; clearly not the intent of the Government of Ontario at this time. Recognizing that $38/month is the average distribution charge, Hydro One recommends providing additional rate relief to rural and Northern customers to bring their distribution charges in line with the average in Ontario. This would require an additional $200M in rate subsidy for Hydro One's rural **non-seasonal** customers. (Emphasis added)[20]

In essence, Hydro One explains to the Provincial Government, the main driver for Hydro One's high distribution rates compared to other distributors is the OEB's cost allocation principles, which, compels Hydro One to charge higher distribution rates to low density customers and lower rates to high density customer based on the cost-to-serve model, a model that, in Hydro One's words, creates rate inequity between low density customers and high density customers.

While Hydro One sets out the groundwork for a proposal to set distribution rates on a province-wide basis without regard for density based rate differences, it does not propose (nor does BLC necessarily believe it would have been appropriate for Hydro One to propose) that the Provincial Government directly change the applicable rate setting principles to be used by the OEB. Instead, Hydro One proposed that the Provincial Government replicate the effect of setting province wide rates for its low and medium density residential customers using a provincial subsidy. In doing so, Hydro One specifically but without explanation excludes its seasonal customers from its proposal.

BLC followed up with Hydro One, first at the technical conference and then again at the hearing to have Hydro One explain why it excluded seasonal customers from its proposal. Generally speaking Hydro One's response was that in making the distribution rate proposal it was focused on other rate classes, but could not or refused to explain what it was about seasonal customers that caused Hydro One to exclude them from the proposal. When asked if the exclusion was related to a concern about the level of additional funding that would be required, Hydro One asserted it was not.[21]

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[20] Exhibit I-5-BLC-4 Attachment 1, page 7
[21] Transcript Volume 4, pages 144-148

Eventually Hydro One asserted that in January of 2017, in preparation of its proposal, it did an analysis of the overdue accounts receivable as of December 31, 2016 (the "Affordability Analysis') and concluded from that analysis that in terms of "affordability" there was a larger concern with respect to R1 and R2 customers based on the relative overdue amounts owing at the end of the year, and (presumably) insufficient concern with respect to the seasonal customers to warrant including those customers in the proposal.[22]

In BLC's view the analysis provided by Hydro One is materially flawed, as is the apparent role it had in Hydro One's proposal to the Provincial Government, for several reasons:

a) While it is true that the Provincial Government was seeking proposals specific to affordability, Hydro One's proposal with respect to subsidizing distribution rates was not based on any analysis concerning affordability; instead, it was based on the notion that the OEB's cost allocation principles and cost based rate model produced inequities in the rates that had to be charged to low density customers; Hydro One did not submit to the Provincial Government that rural and remote rates were unaffordable, Hydro One submitted to the Provincial Government that rural and remote rates were unfair;

b) BLC notes that there is no indication that Hydro One produced the Affordability Analysis to the Provincial Government, nor is it mentioned in any way in the Hydro One's Proposal,

c) The Affordability Analysis was crude, in that it included amounts that were overdue due to inadvertence that may have been paid shortly after the due date;

d) The Affordability Analysis made no attempt normalize the results for the different classes based on their different billing characteristics, i.e. the fact that many Seasonal customers are billed quarterly instead of monthly, which could skew the results of the analysis at certain times of the year;

e) The Affordability Analysis did not capture the proposed impact of the more than doubling of the distribution rates to be paid by R2 Seasonal Customers on the elimination of the Seasonal Class (since it was performed based on 2016 data), or the concerns raised by stakeholders about affordability in that context[23]; yet Hydro One was careful to explain to government staff that the Seasonal Class was to be eliminated in order to ensure that the legislation did not unintentionally extend funding to Seasonal Customers once included in the R1 and R2 class[24];

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[22] Undertaking J4.5; Undertaking J11.3
[23] Hydro One Report on Elimination of the Seasonal Class, EB-2013-0416, December 1, 2016 Update, EB-2016-0315
[24] Exhibit I-5-BLC-4, part d)

f) The Affordability Analysis, at best, established that certain percentages of customers within each rate group struggled with the affordability of rates; yet Hydro One suggests that it relied on that analysis (without mentioning it to the provincial government) to seek out (successfully) a government subsidy for **all** of the non seasonal customers in the R1 and R2 Rate Classes, whether or not affordability was an issue for any particular customer, and exclude all seasonal customers from the proposal, again without regard as to whether at least some of those customers were confronted with affordability issues. Accordingly in BLC's respectful submission Hydro One's Proposal, which was implemented by the Provincial Government as Distribution Rate Protection, was not based on affordability concerns at all.

In BLC's view Hydro One failed to adequately advance the interests of its seasonal customers when given the opportunity to do so in consultation with the Provincial Government, particularly given that the proposal that was advanced by Hydro One and ultimately transformed into DRP funding for Hydro One customers excluding seasonal customers was based specifically on the notion that there was a rate inequity between low density and high density ratepayers, an inequity that by definition is experienced by seasonal and non seasonal customers alike.

BLC understands and accepts there is no direct way for the Board to change the results of Hydro One's advocacy. However, BLC believes that it is important for the Board to acknowledge Hydro One's responsibility to advocate for all its customers and consider the failure to do so in this case with respect to seasonal customers as part of the context of this proceeding and any relief that is sought in this proceeding as it relates to seasonal customers.

In BLC's view Hydro One should be required to notify and explain to its seasonal customers how Hydro One prioritized concerns with respect to Affordability and how that prioritization resulted in seasonal customers being entirely omitted from consideration from the distribution rate protection that Hydro One proposed to the Provincial Government and which the Provincial Government ultimately implemented.

Application of Statutory RRRP and DRP Requirements by Hydro One

In BLC's respectful submission the single most important reason to distinguish seasonal customers from non-seasonal residential customers, particularly if the Board agrees to implement BLC's proposed Hybrid Solution, is the fact that "non-seasonal" customers qualify for certain provincial subsidies, while "seasonal" customers do not.[25] This has become particularly important given the availability of DRP funding as of 2017, funding that is available to both R2 customers and R1 customers. While BLC has raised this issue in the past, most recently in EB-2015-0079, the Board has to date deferred consideration

[25] While BLC may not necessarily agree that seasonal customers should have been excluded from certain government subsidies, BLC recognizes that Hydro One and the OEB have to respect that exclusion and make appropriate distinctions between eligible and non-eligible customers when implementing provincial subsidies.

of the issue; in BLC's respectful submission it is appropriate for the Board to consider this issue in this proceeding, as this proceeding will determine rates for the next 5 year, and in consideration of the increased importance of the issue given the eligibility of not only R2 but also R1 customers for DRP funding, eligibility that the Board has yet to consider given its recent implementation.[26]

To qualify for RRRP and/or DRP funding requires a customer to meet criteria set out in the relevant legislation.

To be eligible for RRRP funding, the operative aspect of the qualifying criteria is that the customer occupy residential premises, which is defined by the legislation as "a dwelling occupied as a residence continuously for at least eight months of the year".[27]

To be eligible for DRP funding, the operative aspect of the qualifying criteria is that the customer "resides continuously at the service address to which the account relates for at least eight months of the year".[28]

In both cases the most important aspect of the criteria is clearly defined; yet Hydro One, in determining whether or not a customer qualifies for RRRP and/or DRP funding, not only fails to communicate the specific criteria to the customer, but also adds criteria not specified by the legislation.

The following is the full excerpt from the portion of Hydro One's rate schedule that purports to advise customers of the criteria for inclusion in the non-seasonal residential rate classification, which, combined with the relevant density designation for the service location, determines eligibility for RRRP and/or DRP funding:

> **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.

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[26] EB-2015-0079, Order dated December 22, 2015, page 8. BLC submits that the Board, in large part, did not consider the issue in the context of that proceeding, as that proceeding was generally limited to a consideration of annual adjustments to Hydro One's rates as part of the previous multi year rate decision in EB-2013-0416/

[27] O. Reg. 442/01: RURAL OR REMOTE ELECTRICITY RATE PROTECTION, section 1(1).

[28] O. Reg. 198/17: DISTRIBUTION RATE-PROTECTED RESIDENTIAL CONSUMERS, section 2(1) 3.

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.

   Class B consumers are defined in accordance with O. Reg. 429/04. Further servicing details are available in the distributor's Conditions of Service. [29]

Reviewing the criteria to be classified as a "year round" (a term that is not used in any legislation as criteria for RRRP or DRP funding) residential customer (and therefore be eligible for RRRP and/or DRP funding depending on the density classification of the service location) BLC notes that:

a) Hydro One does not use the actual criteria employed in the relevant legislation, and

b) Hydro One adds several criteria that are not required by the legislation.

By way of example, Hydro One specifies that customers who are eligible to vote must be enumerated to vote at the address of the service location; that is not a requirement under the legislation that determines either RRRP or DRP eligibility.

Similarly, Hydro One specifies that the address of the residence must appear on documents such as the occupant's electric bill, driver's licence, credit card invoice and property tax bill; there is no such requirement in the legislation that determines eligibility for either RRRP or DRP.

In BLC's respectful submission, particularly in light of the expansion of DRP funding to an additional 450,000 R1 customers in addition to the 330,000 R2 customers who were already receiving RRRP funding and now receive both RRRP and DRP funding, it has become critically import that Hydro One carefully present and explain the actual qualifications for such funding to its customers so that no customer that qualifies under the legislation but does not meet all of Hydro One's additional criteria is denied the funding they are entitled to.

[29] Exhibit H1-2-2, Attachment 1, page 1

In BLC's view the only requirement that Hydro One is entitled to impose is the requirement that the customer reside or occupy the residence or service location "continuously for at least eight months of the year"; if the customer makes the appropriate assertion to that effect then the customer is, in BLC's view, entitled to the non-seasonal classification and any related RRRP or DRP funding, subject only to evidence that the customer's assertion is false.

Accordingly BLC respectfully submits that the Board should require that Hydro One redraft its Residential Services Classifications to accurately reflect the actual legislative requirements with respect to eligibility for RRRP and DRP funding, using the wording from the relevant regulations. BLC further submits that Hydro One should be required to refrain from citing any other criteria as a necessary pre-condition for eligibility as a "non seasonal" customer.

Conclusion

In conclusion, and as set out in detail in BLC's introduction and summary, BLC respectfully submits that under in the context of these proceedings, including consideration of the Board's previous decisions with respect to the Seasonal Rate Class, the implementation of DRP funding and the effect it has on the ability to achieve rate equity for seasonal customers, particularly R2 Seasonal Customers, and the failures of Hydro One to properly advocate for Seasonal Customers given the underlying rationale for what became the Distribution Rate Protection legislation, the following relief is appropriate:

a) the implementation of the Hybrid Solution as set out by BLC in these submissions as a measure that both advances the Board's decision with respect to moving seasonal customers into rate classes that are based on their actual density weightings while at the same time protecting R2 Seasonal Customers from excessive rate impacts,

b) a direction to Hydro One to fully inform seasonal customers about Hydro One's approach to prioritizing its residential customers with respect to affordability issues and how that prioritization resulted in the exclusion of seasonal customers from DRP related rate relief, and

c) a direction to Hydro One to amend its residential rate classifications to reflect the actual legislative requirements that establish the relevant criteria for RRRP and DRP related funding and eliminate criteria that is not specifically contained in the relevant legislation.

Costs

BLC respectfully submits that it has acted efficiently and responsibly in its participation in this proceeding and as such requests that it be allowed 100% of its recoverable costs.

ALL OF WHICH IS RESPECTFULLY SUBMITTED THIS 9th DAY OF AUGUST, 2018