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December 19, 2019

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-2019-0234/EB-2016-0315 – The Implementation of the Ontario Energy Board Decision to eliminate the Hydro One Networks Inc. Distribution Seasonal Rate Class

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.

ONTARIO ENERGY BOARD

In the matter of

**THE IMPLEMENTATION OF THE ONTARIO ENERGY BOARD DECISION
TO ELIMINATE THE HYDRO ONE NETWORKS INC. (“Hydro One”) DISTRIBUTION
SEASONAL RATE CLASS**

and in the Matter of PROCEDURAL ORDER NO. 3 DATED SEPTEMBER 17, 2019

SUBMISSION OF THE BALSAM LAKE COALITION (“BLC”)

DECEMBER 19, 2019

OVERVIEW

These are BLC’s submissions with respect to the motion by Hydro One to review and vary the Ontario Energy Board’s (the “Board”) decision dated March 12, 2015 in EB-2013-0416 (the “Decision”) with respect to the requirement that Hydro One eliminate the Seasonal Rate Class by, ultimately, transferring all seasonal customers to the appropriate remaining residential rate classes based on each seasonal customer’s density designation.

BLC generally agrees that changing circumstances since the time of the Decision warrant a review and possible variance of the Board’s order with respect to the elimination of the Seasonal Rate Class.

BLC believes that, subject to further evidence to be filed by Hydro One and review of that evidence by the Board, the Board’s Decision should be varied as follows:

- a) UR seasonal customers should be moved to the UR Rate Class immediately;
- b) R1 and R2 seasonal customers should be transferred to new R1 Seasonal and R2 Seasonal Rate Classes, with those two classes replacing the status quo Seasonal Rate Class;
- c) The rates for the new R2 Seasonal Rate Class should be maintained at the status quo rates in place for the Seasonal Rate Class;
- d) The rates for the new R1 Seasonal Rate Class should be lowered from the status quo Seasonal Rate Class Rates to an amount that reduces the revenue to cost ratio for the new class so that it is at or below 115% pursuant to the Board’s guidelines with respect to acceptable revenue to cost ratios;

- e) Any shortfall in revenue as a result of the creation of the new R1 and R2 Seasonal Rate Classes and the setting of their rates as proposed in c) and d) should be allocated to the remaining existing rate classes in a manner deemed appropriate by the Board once the full results of the new cost allocation and the level of shortfall are known;
- f) As part of the review of the new evidence required to underpin the creation of the new seasonal rate classes the Board should complete the review of Hydro One's customer class criteria as contemplated in the decision in EB-2015-0079 dated December 22, 2015, page 8.

SUBMISSIONS ON THE THRESHOLD ISSUE

As noted by Hydro One, Rule 42.01 of the Board's Rules of Practice and Procedure allows for the review of a Board decision if there is a question as to the correctness of the decision based on grounds which may include:

- a) error in fact;
- b) change in circumstances;
- c) new facts that have arisen; and
- d) facts that were not previously in evidence in the proceeding and could not have been discovered by reasonable diligence at the time.

Ultimately BLC agrees that there are grounds that have arisen that warrant a review and possible variance of the Decision with respect to the elimination of the Seasonal Rate Class. However, BLC does not agree with Hydro One's characterization and reliance on certain grounds as set out in its motion, and provides the following response recognizing that ultimately it agrees that there is reason to undertake a review and possible variance of of the Decision.

The Board's Subsequent Decision to Move to All-Fixed Residential Rates

Hydro One suggests that the Board's decision to move to All-Fixed Residential Rates shortly after the Decision, culminating in an order on September 30, 2015 specifying that the move to all-fixed rates would apply to customers in Hydro One's Seasonal Rate Class is grounds for a review under Rule 42.01. Hydro One claims in its motion material, amongst other things, that:

The Board policy to move to all- fixed rates, and the September 2015 Order that the policy would apply to the Seasonal Class, is not only a new fact on its own,

but also a new fact that immediately signified a change in circumstances and the creation of new facts that could not have been previously discovered.¹

With respect, the likelihood that the Board was going to introduce fully fixed residential rates was not only known at the time the Board issued the Decision, that likelihood was specifically relied upon by Hydro One during the course of the proceeding to resist certain positions put to it with respect to rate design issues:

MR. ANDRE: That's part of it. The paragraph below the table discusses why we believe it's appropriate to apply the fixed charge we've proposed for the R2 rate class. You can see that -- and just to read what's there:

"The R2 fixed charge has been set based on the currently approved '14 charge, escalated for the increase in rates revenue requirements."

As I said before.

"The proposed fixed charge using this approach results in the collection of 56 percent of revenue from fixed charges."

Which is what -- which is the level of -- the amount of fixed revenue we're currently collecting from the class.

So we're not proposing to increase the amount of revenue collected through fixed charges from what we are currently doing. So we're proposing to hold that constant, hold it at a value that's been previously approved by the Board.

And I also point out that, in fact, the R2 class, in 2008 we were collecting 71.3 percent of that, of the fixed -- of the total revenue, we were collecting 71 percent of that revenue via a fixed charge.

So the R2 class has historically had a high fixed charge. It was considerably higher at 71 percent. What we're proposing to do is maintain it at the value that the Board has previously approved and we're not proposing to change it for this application.

MS. GIRVAN: But one of the options might be to reduce it; is that correct? If, for example, there was a proposal to eliminate the seasonal class, that would mitigate the impact on the low-volume seasonal customers?

MR. ANDRE: The -- yes, I -- you know, I --

MS. GIRVAN: It's a possibility? You could do that?

MR. ANDRE: The fixed -- the R2 rate class represents a very large portion of the revenue that's collected by Hydro One, and reducing the fixed charge for this class would have a significant impact on the overall fixed/variable split of the revenue that's collected by Hydro One.

So I would see this as certainly going contrary to the revenue decoupling proposal that the Board is looking at right now, that's proposing to increase -- or not increase, but to change the rates for all customers to 100 percent fixed basis.

¹ Hydro One Motion, page 2.

Your proposal would actually go in the other direction, would take us much farther from where we've always historically been with the R2 rate class in terms of their proportion of revenue that comes from fixed charges. So --

MS. GIRVAN: But it may well deal with some of the problems we're having with respect to the seasonal class issues?

MR. ANDRE: It certainly wouldn't deal with the most fundamental issue, which eliminating the seasonal class has big concerns from a cost causality standpoint. It may address partially the impacts, but that fundamental principle of trying to ensure that each rate class pays for the -- and customers pay for the cost of serving them, would not be addressed by changing the fixed charges.(emphasis added)²

BLC followed up with the probability that residential rates would be moved to an all fixed charge later on in the hearing:

MR. BUONAGURO: Now, at page 133 of the transcript, you talk about the revenue decoupling proposal.

And this is with Ms. Girvan, and she was suggesting something about -- I think she was suggesting a proposal. And I can't remember the specifics, but it had to do with reducing the fixed charge as a solution of some sort. Do you recall that?

MR. ANDRE: Yes, I recall.

MR. BUONAGURO: And part of your response was:

"So I would see this as certainly going contrary to the revenue decoupling proposal that the Board is looking at right now, that's proposing to increase -- or not increase, but to change the rates for all customers to 100 percent fixed basis."

So if you go back to the 96 or 94 -- or the IR 94 proposal, which is all the seasonal class members are collapsed into the existing residential classes, the UR, the R1, the R2, and at the same time, or eventually, the Board decouples rates and goes to 100 percent fixed charge, and you come back to that scenario where you have customer one next door to customer number two and they're being allocated the same cost because they're both now in R1, and now they're both being charged 100 percent fixed charge so it doesn't matter what consumptions are -- they're being charged exactly the same -- from what I've heard, that suggests to me that that might be the ideal from a cost allocation and design rate perspective, because now you're specifically allocating the costs as specifically as you can to those two customers, and rightly so. They should be identical, or at least near identical. And now you're also recovering exactly the same from both those customers regardless of their consumption, assuming that the reason that we're going -- or that there is a proposal going to a 100 percent fixed charge is that there's no material cost being allocated on the basis of kilowatt-hours, pure kilowatt-hours.

² EB-2013-0416 Transcript Volume 6 pages 131-134.

Isn't that an advantage of that proposal in a scenario where there's fixed charge, 100 percent fixed charge?

MR. ANDRE: The situations you describe for seasonal customer adjacent to an R1 customer, yes, I would agree that that would resolve the issue that you were talking about. Recognize, of course, that for those customers moving to the R2 class, they're -- you know, if we went to an all-fixed-charge number -- and I don't have our submission to the Board -- actually, I think there was an IR from -- I don't know if it was from Energy Probe -- that asked us what would the -- if you went to an all-fixed-charge what would it look like, and for the R2 customer I know it's somewhere in the \$60 per month, so for at least half, if not more, of the seasonal customers that would be moving to the R2 class, their \$19 per month fixed charge would now go up to 60-plus dollars per month, so it would have a huge impact on the R2, but I agree that it would eliminate that disparity in the bills that you see as a result of -- you know, as a result of the volumetric component of the charge.

MR. BUONAGURO: Right. And when we're talking about the impacts, you're talking about the impact of going from a rate which is split between fixed charge and volumetric charge to a rate which is 100 percent fixed charge and certainly eliminating any issue about cross-subsidization between members within the rate class based on volumetric use -- the consumptions, that's why that happens. You're eliminating the volumetric subsidy.

*MR. ANDRE: Right. Exactly.(emphasis added)*³

As can be seen from the transcript of the evidence that underpins the decision, not only were the Board, Hydro One and the parties aware of the Board's pending proposal to move to a fully fixed charge, Hydro One and BLC were already in agreement that the new policy would eliminate any issue about cross-subsidization between members with a rate class previously based on volumetric use; accordingly BLC respectfully submits that it would be inappropriate to view the Decision as having been made without knowledge of the pending Board policy. To the contrary, in BLC's view, the Board relied on that policy when coming to its decision, specifically accounting for it as one of the steps towards the elimination of the Seasonal Rate Class in its subsequent decision released in the same proceeding.⁴

The Subsequent Introduction of Distribution Rate Protection

BLC respectfully agrees with Hydro One that the introduction of Distribution Rate Protection ("DRP") warrants a review of the Decision in order to determine whether a variance of the Decision is warranted.

At the time of the Decision there was no DRP in place or contemplated; as a result the effect of the Board's decision to eliminate the Seasonal Rate Class, without DRP, was a rate class scheme

³ EB-2013-0416 Transcript Volume 7 pages 49-52.

⁴ EB-2013-416/EB-2015-0257, Decision dated September 30, 2015, page 2.

where UR and R1 seasonal customers would experience the same rates as their non-seasonal counterparts; there would have been no situation where customers in those rate classes would experience wildly different distribution rates, particularly once the Board's proposal for fully fixed residential distribution rates was finalized and implemented. There was going to be a remaining difference between the rates paid by R2 customers and R2 seasonal customers despite their coexistence in the same rate class as a result of the RRRP, but that was known at the time of the Decision.

With the introduction of the DRP it is essentially impossible for the vast majority of seasonal customers to share the rates paid by neighbouring non-seasonal customers. Only the small number of seasonal UR customers can, if moved to the UR Rate Class, effectively share distribution rates with neighbouring non-seasonal customers. In view of this shift in the effectiveness of the elimination of the Seasonal Rate Class to provide for rate equity between customers with identical location based characteristics, BLC agrees that it is appropriate to revisit the Decision to determine whether a different approach may be warranted, particularly given that seasonal customers, as a result of the DRP, are now unequivocally being asked to pay the highest effective distribution rates of any of Hydro One's residential customers through Hydro One's status quo Seasonal Rate Class.

The Subsequent Comment Letters from Seasonal Customers

While BLC certainly believes that the Board should value comments from customers, including comments that are provided subsequent to the release of decisions that it makes, BLC does not believe that necessarily provides the grounds for a review of a particular decision. In the present case, by way of example, BLC notes that a wide variety of customer perspectives were specifically represented in the proceeding, including multiple groups purporting to advance the perspective of seasonal customers in the form of both BLC and FOCA. BLC further notes that the issue of the appropriateness of the Seasonal Rate Class was specifically advanced by Hydro One, following a consultative on the appropriateness of the class, a consultative that Hydro One agreed to undertake in its previous rate application EB-2012-0136:

H1 agrees to carry out a consultation with the interested stakeholders to review the rates for Seasonal Customers, to identify options (which could incl. changes in rate design, classification, or otherwise) to ensure that those rates are as fair and equitable as possible and in accordance with rate-making principles.⁵

The mere fact that the Board's ultimate decision on how to handle the Seasonal Rate Class was not in line with Hydro One's proposal does not provide grounds for a review, particularly in light of the fact that the ultimate Decision was based on a proposal that was canvassed in evidence and presented to Hydro One for its response in reply argument.

⁵ EB-2013-0416, Exhibit G1, Tab 2, Schedule 2.

Error of Understanding that the Seasonal Rate Class Was Not a Density-Based Rate Class

BLC disagrees that there was any error of understanding by the Board with respect to the basis for the Seasonal Rate Class in relation to density. As the Board noted in its decision to eliminate the Seasonal Rate Class:

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.⁶

BLC understands, as did, it respectfully submits, the Board, that the density factor assigned to the Seasonal Rate Class was an interpolation based on the underlying density factors associated with the members of the class.⁷ With respect, it is precisely the fact that Hydro One utilized an interpolated density factor for the Seasonal Rate Class that BLC and the Board found objectionable.

The very specific exercise that Hydro One was undertaking in EB-2013-0416, pursuant to the Board's previous direction, was to properly reflect the density-based cost allocation factors in its rate classes. The result of that exercise (in the residential rate class context) was to take all the residential customers and split them into three density-based groups; UR, R1, and R2. That was Hydro One's proposal based on the geographic factors of its customer base and its distribution assets.⁸

At the same time that Hydro One was splitting most of its residential customers into three rate classes based specifically on their shared density based factors, Hydro One failed to make any attempt to group its seasonal customers into matching density based groups, despite the fact that the originally stated reason for maintaining a Seasonal Rate Class was precisely as a crude attempt to reflect density based cost causality principles.⁹ Instead Hydro One proposed to maintain the status quo composition of the Seasonal Rate Class despite the fact that, as a result of the split of the rest of the residential customers into specifically density based cohorts, the status quo Seasonal Rate Class became the most disparate grouping of residential customers in Hydro One's rate schedule based on density, containing customers from both the most densely populated parts of Hydro One's distribution system to the most remotely populated, with all

⁶ EB-2013-0416, Decision dated March 12, 2015, page 48.

⁷ EB-2013-0416, Transcript Volume 7, pages 33-35.

⁸ EB-2013-0416 Exhibit G1 Tab 2 Schedule 1.

⁹ Eb-2013-0416 Exhibit G1, Tab 02, Schedule 02, page 20; slide deck of presentation to stakeholders explaining the reason for maintaining a separate Seasonal Rate Class.

those customers being forced to share the same distribution rates despite their very different use of Hydro One's assets.

It was even the case, as described by Hydro One, that there were historically separate seasonal rate classes based on the notion of different density weightings, classes that were collapsed in a single Seasonal Rate Class prior to the Hydro One density study that underpins the existing UR, R1 and R2 Rate Classes:

MR. BUONAGURO: So the irony being now is that the seasonal rate class, which is supposed to capture specifically location-based rates, is the one residential rate class where there is no distinction between people who are living in what I would call an R1 location or type of location, the R2 type of location, and the urban location. It's the one residential rate class where the people who are living in R2 and have neighbours who are -- sorry, in R1 class density zone, where their neighbours are getting -- I think the weighting density factor for R1 is 1.9. Does that sound right?

MR. ANDRE: Sounds about right.

MR. BUONAGURO: Their neighbours are being weighted on a cost allocation basis based on location at 1.9, and then you have R2 customers and R2 seasonal customers who are getting a different weighting. So I think the density weighting for seasonal was 3.9 or 3.6?

MR. ANDRE: Six, I think it is.

MR. BUONAGURO: Yeah. I got a little jumbled here, but everybody in seasonal is being weighted at 3.6, even though you know, based on the density study, that a lot of those customers would be R1 based on location, and that would attract a 1.9 weighting. And a lot of those customers would be R2, which would attract a higher -- 4-something, I believe -- weighting, right?

MR. ANDRE: Yes.

MR. BUONAGURO: Right. I don't understand -- I understand why you say and why the caveat is always as a whole it reflects location. And that's reflected in -- I think you call it an interpolated density factor of 3.6.

MR. ANDRE: Correct.

MR. BUONAGURO: But really what's happening is you have a whole whack of customers who, if you were to look strictly at their location, would attract a density factor of 1.9, combined with a whole whack customers who should be in R2, on purely a location basis, which is a much higher density factor, which means that from a location-based perspective, the people who should be in R1 are subsidizing the people who should be in R2 on the -- within the cost allocation exercise.

MR. ANDRE: And I don't know to what extent those issues were already explored, Mr. Buonaguro, when -- in the 2008 cost of service application, the amalgamation of those two classes. And I think we went over this yesterday from a question from Ms. Girvan. That we used to have what we called an R3, which was an in-town seasonal customer class, and an R4, which is a rural

seasonal customer class. And at the time, those were amalgamated as part of our 2000 (sic) application.

I would expect that some of those issues would have been explored and the decision to amalgamate the class was, at that time, considered appropriate.

MR. BUONAGURO: True. It was amalgamated at some point. I personally don't know the details, sorry. I'll take your word for it. Hopefully you remember better than I do.

But since then, you went and did a density study, right?

MR. ANDRE: Yes, but even at the time there were already some density weights in there. I think they've been improved and refined as a result of the density study, but even at that time, there were already, I think, density distinction between those classes.

MR. BUONAGURO: So the density -- I'll call it your density evidence in general. Your approach to density has been improved and refined since the last time you were before the Board, right?

MR. ANDRE: Yes, I would say that's correct.

MR. BUONAGURO: Right. And it's been applied to residential customers who would fit into the new urban class, right?

MR. ANDRE: It has been applied to all residential, yeah.

MR. BUONAGURO: But it hasn't been applied to seasonal even though you have the information, which is what allowed you to map them into the R1, R2 and urban classes?

MR. ANDRE: As you indicated, for seasonal class what we took into account was the weighting of those seasonal customers that are in the sort of R1-type density zone and the seasonal customers that are in the rural density zone. So the factor that's used for the seasonal class takes into account that there are customers in both of those areas.

MR. BUONAGURO: But the result that the customers from the seasonal class -- sorry, within the seasonal class, there's not only the issue of subsidization on the basis of volume, so low-volume seasonal class members being subsidized by high-volume seasonal class members, but you also have a subsidy in the cost allocation aspect of the rate, because you have customers who would be in R1 normally subsidizing customers in R2 normally based on location. They are now both paying in their rates the weighted -- sorry, the average cost allocation based on location, even though seasonal rates are specifically designed to capture location-based cost differentials; that's all true, isn't it?

MR. ANDRE: Yes. I would agree that they're -- within the seasonal class, there are higher density and lower density customers within the seasonal class, and there would be some cross-subsidization within that class as a result.(emphasis added)¹⁰

¹⁰ EB-2013-0416, Transcript Volume 7, pages 33-35.

Accordingly, BLC respectfully submits that there was no failure on the part of the Board in the Decision to understand the proper nature of the Seasonal Rate Class in relation to its density-based factors. Indeed, Hydro One specifically agreed in evidence that as a result of their interpolated density factor for the Seasonal Rate Class the result was cross-subsidization between higher density and lower density seasonal customers, a subsidy that the creation of density based classes for the UR, R1 and R2 year-round customers sought specifically to minimize. It is precisely this cross-subsidization based on density that the Decision sought to address through the elimination of the Seasonal Rate Class and the transfer of seasonal customers to their appropriate density based residential classes. In BLC's view the goal of eliminating the density based cross-subsidization is not connected to an error of understanding by the Board; to the contrary, it is a goal that should continue to guide the Board to the extent it determines a variance of the Decision is required because of other factors.

Error of Not Concluding That the Load Characteristics of Seasonal Customers are Sufficiently Different from their Neighbours to Justify a Separate Rate Class

BLC respectfully submits that in the context of the original Decision the Board did not make any reviewable error with respect to the conclusions it made concerning the load characteristics of Seasonal Customers. In BLC's submission it is clear that the Board turned its mind to the load characteristics of seasonal customers and, based on the evidence submitted on those characteristics in the hearing, determined that those characteristics did not warrant maintaining a Seasonal Rate Class that combined customers that, but for the existence of the Seasonal Rate Class, would fall within the existing three residential rate classes that were based on Hydro One's density weightings:

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. . .

The OEB recognizes the practice of considering load profiles and consumption patterns in creating rate classes, but the OEB also recognizes that load profiles and consumption patterns will inevitably differ to some degree between customers within any rate class. Given the significance and predominance of the density cost causality characteristic the OEB is not convinced that the load characteristics of seasonal customers are sufficiently different from their

*neighbours in the residential classes to justify the continuation of the seasonal class.*¹¹

BLC agrees with Hydro One that there was evidence on the record that seasonal customers, when grouped together as a class, exhibited a distinctly different load profile and consumption pattern than the other residential rate classes.

However, BLC also agrees with Hydro One that “. . . that the evidence in [the] proceeding included no analysis of how the demonstrated differences in seasonal customer load characteristics impact the allocated costs. . .”.¹²

In BLC’s respectful submission that there was no such evidence in the proceeding is primarily the fault of Hydro One, in that Hydro One could have provided such evidence in defence of its position on the elimination of the Seasonal Rate Class; instead Hydro One limited its evidence to demonstrating that there were load profile and consumption pattern differences without explaining or even asserting that those differences resulted in material differences in the costs allocated to seasonal customers. Accordingly, BLC respectfully submits that the absence of such evidence is not in itself a ground for review of the Decision; it is a failure on the part of Hydro One to submit readily available evidence. Even while asserting that the evidence in the original proceeding included no analysis of how the demonstrated differences in seasonal customer load characteristics impact the allocated costs, Hydro One makes no attempt in its Report on the Elimination of the Seasonal Rate Class filed on July 19, 2019 to assist the Board by demonstrating how differences in seasonal customer load characteristics impact allocated costs; Hydro One seems content to assert that there are differences in load characteristics without ever explaining to the Board how those differences affect cost allocation.¹³

BLC has in fact sought such evidence, most recently in Hydro One’s 2018 cost of service application EB-2017-0049; at Exhibit I-49-BLC-5 BLC noted that Hydro One was able to split out the Seasonal Rate Class members into each of the UR, R1 and R2 density based rate zones, including the ability to forecast the consumption patterns for those customers, and accordingly asked Hydro One to:

Please produce a version of the table at Exhibit H1/Tab1/Schedule2/pg. 1 that splits out the 149,485 customers included in the Seasonal Class into three “sub” classes, UR Seasonal, R1 Seasonal and R2 Seasonal, which shows the costs allocated to each sub class, the revenue attributed to each sub class, etc., with the caveat that the proposed fixed and variable charges for each sub class be the same as what is proposed for the Seasonal Class as a whole.

¹¹ EB-2013-0416, Decision dated March 12, 2015, page 48.

¹² Hydro One Motion, page 10.

¹³ Hydro One Report on Elimination of the Seasonal Class, EB-2013-0416.

July 19, 2019, Update EB-2016-0315; a review of the report shows that while Hydro One stresses that seasonal customers as a class exhibit a different load profile than year-round customers, Hydro One makes no attempt to quantify the impact of those differences on the allocation of costs.

Had Hydro One agreed to answer this single interrogatory there would have been evidence in the EB-2017-0049 proceeding that demonstrated the costs allocated to each density-based sub class of seasonal customers, which would have allowed the Board to compare not only the level of subsidy caused by the inclusion of all 149,485 seasonal customers into one Seasonal Rate Class despite their disparate density based characteristics, but also the differences between the UR year-round customers and the UR seasonal customers, the R1 year-round customers and the R1 seasonal customers, and the R2 year-round customers and the R2 seasonal customers in terms of the costs allocated to them based on their consumption patterns.

Hydro One refused to answer the interrogatory, claiming that it could not be done “in the time frame available”.¹⁴

BLC followed up on the interrogatory in the technical conference held in the EB-2017-0049 proceeding, wherein Hydro One agreed to provide one aspect of the requested information through Exhibit JT 3.23, which is a cost allocation run that splits out the costs allocated to the R2 seasonal customers in the form of their own distinct rate class, with the UR and R1 seasonal customers being moved to the UR and R1 Rate Classes. To BLC’s knowledge this undertaking response is the first evidence filed by Hydro One that allows for the quantification of the impact of differing load profile and consumption differences between, in this case, R2 year-round customers and R2 seasonal customers.

As will be elaborated within these submissions with respect to the merits of the motion and the order that the Board should issue as a result of that review, BLC respectfully submits that the Board should require Hydro One to complete the analysis that underpins the answer in JT 3.23 from EB-2017-0049 by providing a cost allocation run that a) moves the UR seasonal customers to the UR class and b) splits the remaining Seasonal Rate Class members into a new R1 Seasonal Rate Class and a new R2 Seasonal Rate Class. In doing so the Board will be provided with full information with respect to not only how costs should possibly be allocated differently as between R1 and R2 seasonal customers based on density, but also how costs should possibly be allocated differently as between R1/R2 year-round customers and R1/R2 seasonal customers based on their respective load profiles and consumption patterns, with the result, BLC anticipates, that the appropriate variance of the Decision given the introduction of the DRP is the movement of UR seasonal customers to the existing UR Rate Class and the splitting of the remaining seasonal customers into a new R1 Seasonal Rate Class and a new R2 Seasonal Rate Class.

SUBMISSION ON THE MERITS OF THE MOTION TO REVIEW AND REVISE THE BOARD’S DECISION, AND ORDER REQUESTED

BLC generally agrees that one of the primary reasons for the elimination of the Seasonal Rate Class has been effectively frustrated as a result of the introduction of DRP, since DRP makes it

¹⁴ EB-2017-0049 Exhibit I-49-BLC-5.

impossible for the vast majority of seasonal customers to share the same effective rate structure as their neighbours through the transfer of those seasonal customers into the UR, R1 and R2 Rate Classes. While there was going to be some disparity between R2 seasonal customers and the R2 year-round customers as a result of the RRRP, that disparity has been exacerbated by the introduction of the DRP, which has also extended that disparity to essentially the entire R1 Rate Class as well.

In saying this, however, BLC does not agree that the status quo Seasonal Rate Class should remain in existence. To the contrary, BLC believes that the underlying issue that the Decision sought to address, the failure of the status quo Seasonal Rate Class to properly reflect density based properties of seasonal customers in the face of Hydro One's ability to implement density based rates, can be appropriately addressed with a minimal amount of additional confirming evidence and a limited change to Hydro One's customer class structure.

What follows are BLC's recommendations on how the Board can continue to give effect to the most important elements of the Decision.

Move UR Seasonal Customers to the UR Rate Class

Hydro One has, in its most recent report to the Board on the elimination of the Seasonal Rate Class, suggested that one step that remains appropriate is to move the UR seasonal customers to the UR Rate Class.¹⁵ BLC agrees with this proposal; it is a proposal that BLC made in the EB-2017-0049 proceeding as a step that the Board could and should immediately take pending the ultimate elimination of the seasonal rate class,¹⁶ and it remains, in BLC's view, a viable step that the Board can take whether or not the Seasonal Rate Class is eliminated or otherwise adjusted.

The UR seasonal customers are, relatively speaking, few in number, last estimated by Hydro One at 245 out of a total number of 147,679 seasonal customers.¹⁷ BLC agrees with Hydro One's assessment generally with respect to the movement of the UR Seasonal Customers to the UR Rate Class regardless of other factors, when Hydro One asserts that:

*Given the small number of seasonal customers (245) that are located in urban density zones, and the more significant benefits they would see as a result of eliminating the Seasonal Class as originally contemplated by the March 2015 Decision, Hydro One recommends that those customers be reclassified to the UR class on implementation.*¹⁸

¹⁵ Hydro One Report on Elimination of the Seasonal Class, EB-2013-0416 July 19, 2019, Update EB-2016-0315, page 30.

¹⁶ EB-2017-0049, BLC Argument dated August 8, 2018, page 2.

¹⁷ Hydro One Report on Elimination of the Seasonal Class, EB-2013-0416 July 19, 2019, Update EB-2016-0315, page 9.

¹⁸ Hydro One Report on Elimination of the Seasonal Class, EB-2013-0416 July 19, 2019, Update EB-2016-0315, page 30.

It is BLC's understanding that the movement of so few customers to the UR Rate Class will have no material effect on the overall allocation of costs; at the same time such movement would allow the UR seasonal customers to:

- a) have costs allocated to them based on the same density factor as year-round UR customers, a factor much lower than what is currently used for the Seasonal Rate Class and one that more accurately reflects the locational cost factors associated with those customers,
- b) experience the same distribution rates as their year-round neighbours, since neither DRP nor RRRP rate subsidies apply to the UR Rate Class, and
- c) experience a material decrease in distribution costs, as the UR Rate Class rates are materially below the status quo rates for all other residential rate classes including, most importantly, the Seasonal Rate Class.

While, in theory, it would be possible to establish a UR Seasonal Rate Class that captures the impact of the UR seasonal customer specific load profile and consumption pattern in the cost allocation exercise, BLC would suggest and accept that it would not normally be appropriate to create and maintain a separate rate class for so few (245) residential sized customers in the context of a utility the size of Hydro One.

Review a Possible Split of the Remaining Seasonal Rate Class Customers into an R1 Seasonal Rate Class and an R2 Seasonal Rate Class

In BLC's view, assuming the elimination of the Seasonal Rate Class is no longer deemed appropriate in response to the Board's findings in the Decision, it remains intuitively true that splitting the remaining R1 and R2 seasonal customers into two separate R1 and R2 Seasonal Rate Classes may be an ideal response that respects the Board's findings in the Decision while recognizing that some of the goals that the elimination of the Seasonal Rate Class entirely was meant to achieve have been effectively frustrated by the introduction of the DRP.

As noted earlier in these submissions the Decision highlights as a primary factor the failure of Hydro One's status quo Seasonal Rate Class to take proper account of the density based cost factors in the cost allocation exercise, particularly in the context of Hydro One's proposal to utilize sophisticated density based information to split the rest of its residential customers into three density based classes, while at the same time failing to use that same density based information to directly inform the allocation of costs to its seasonal customers.¹⁹

¹⁹ BLC recognizes that the density based information gathered by Hydro One is incorporated into its interpolated density weighting for the Seasonal Rate Class; BLC's objection to Hydro One's proposal is the failure to use that density based information to drastically reduce if not eliminate the implicit subsidy from high density to low density seasonal customers by separating those customers into the same density based subgroups as was proposed for Hydro One's "year round" residential customers.

In BLC's respectful submission it is a relatively simple proposition to split the existing Seasonal Rate Class (assuming the UR seasonal customers are first transferred to the UR Rate Class) into two classes, the R1 Seasonal Rate Class and the R2 Seasonal Rate Class. Doing so would provide several benefits that BLC believes weigh heavily in favour of such a proposal:

- a) by splitting the R1 and R2 seasonal customers into two classes the Board can give effect to the Decision's observation about density-based classes, resulting in costs being allocated to seasonal customers based on their actual density based characteristics in exactly the same way Hydro One accounts for density based differences for its year-round residential customers;
- b) by using the actual density-based characteristics to build separate R1 and R2 Seasonal Rate Classes, the Board can effectively eliminate the density-based cross subsidization that exists as a result of the use of single rate class and the resulting interpolated density factor, a subsidy Hydro One agrees exists;
- c) by maintaining seasonal customers in two rate classes of their own, separate from the existing R1 and R2 Rate Classes, the effect of the seasonal customer load profile and consumption pattern differences will be factored into the costs allocated to those rate classes, an important reason, according to Hydro One, for maintaining seasonal customers in classes apart from year-round customers; and
- d) by maintaining R2 seasonal customers within their own rate class the Board can control the rate impact on R2 seasonal customers of any adjustments, the rate impact that appears to be the primary concern of Hydro One in bringing its motion.

In making this proposal BLC relies largely on Hydro One's response found at Exhibit JT 3.23, attached as Schedule A to this submission. As described earlier in this submission, Exhibit JT 3.23 appears to BLC to be the first and only evidence provided by Hydro One that demonstrates the appropriate level of costs to be allocated to the R2 seasonal customers based both on their actual density characteristics and their load profile and consumption patterns, separate from any implicit subsidy that may be transferred from R1 and UR seasonal customers through the use of an interpolated density factor and, perhaps even more interestingly, separate from any implicit subsidy that R2 Seasonal customers would be transferring to year-round R2 customers as a result of combining the load profiles and consumption patterns of both R2 seasonal and R2 year-round customers into a single rate class.

A simple review of the results of Exhibit JT 3.23 suggest that the annual revenue requirement for R2 seasonal customers on a per customer basis is \$885 per year, while the annual revenue requirement for R2 year-round customers on a per customer basis is \$1,654 per year:²⁰

	Customers	Allocated Costs	Misc Revenue	Revenue from Rates	Effective Annual Costs per Customer
R2	328,410	\$560,291,895	\$17,045,784	\$543,246,111	\$1,654
R2 Seasonal	78,544	\$71,571,267	\$2,025,513	\$69,545,754	\$885

This suggests strongly, BLC submits, that the effect of the load profile and annual consumption on the allocation of costs when comparing R2 seasonal customers against R2 year-round customers is material.

As part of JT 3.23 BLC asked Hydro One to indicate the resulting revenue to cost ratio if rates were, despite the new allocation of costs, maintained at the status quo seasonal rates; the resulting revenue to cost ratio was 86%, within the Board’s acceptable range of revenue to cost ratios for residential rate classes.²¹ As a result, based on JT 3.23, it appears possible to separate out the R2 seasonal customers into their own rate class and maintain their status quo rates without violating any of the Board’s policies with respect to the revenue to cost ratio for that new rate class resulting from the exercise. This would fully address the concern about the rate impact on R2 seasonal customers.

As noted earlier in these submissions Hydro One did not provide a similar analysis to track how costs would be allocated to a new R1 Seasonal Rate Class, so BLC cannot say with certainty what the results of a new cost allocation run that created that second new class instead of simply shifting those customers to the existing R1 Rate Class would be; BLC does note, however, that:

- a) it is reasonable to assume that the resulting revenue to cost ratio for a new R1 Seasonal Rate Class that anticipated status quo seasonal rates would be well above 100% as a result of the material decrease in the density factor used for the new class; and
- b) the resulting annual revenue requirement per customer should be materially lower than the annual revenue requirement per customer that R1 seasonal customers would experience as members of the R1 Rate Class, as it is reasonable to assume that the differences in costs between R1 seasonal customers and R1 year-round customers

²⁰ The analysis of JT 3.23 from EB-2017-0049 compares the allocated costs per customer for the R2 and proposed R2 Seasonal Rate Classes after adjusting for the amount of miscellaneous revenue allocated to each class. The resulting Effective Annual Costs per Customer is the amount that would need to be recovered from each customer in the class in order to maintain a revenue to cost ratio of 100%.

²¹ EB-2017-0049 Exhibit H1 Tab 1 Schedule 1 Page 9.

would be similar to the differences between the R2 seasonal customers and R2 year-round customers as a result of their different load profiles and consumption patterns.

Accordingly, for the reasons set out above, BLC respectfully submit that the Board should require Hydro One to file an updated cost allocation run that:

- a) moves all UR seasonal customers to the UR Rate Class;
- b) splits the remaining seasonal customers into an R1 Seasonal Rate Class and an R2 Seasonal Rate Class;
- c) holds the rates for the new R2 Seasonal Rate Class to the status quo Seasonal Rate Class rates;
- d) reduces the rates for the new R1 Seasonal Rate Class from the status quo Seasonal Rate Class rates to at or below the Board's maximum revenue to cost ratio of 115% for residential rate classes, and
- e) identifies the shortfall as a result of the above exercise so that the Board can determine how to recover that shortfall from the remaining rate classes.

Upon filing such a cost allocation run the Board could use that information to make a final determination as to the appropriate rate class and rate design treatment for R1 and R2 seasonal customers, with the expectation that if the results are as anticipated by BLC based on the results in Exhibit JT 3.23 the process should result in the creation of a new R1 Seasonal Rate Class and a new R2 Seasonal Rate Class.

Customer Classification Issues

In EB-2015-0079 the Board determined that issues raised by BLC with respect to the manner in which Hydro One classifies customers as eligible or not eligible for RRRP funding (and, now, DRP funding) should be addressed in a subsequent phase of the process to eliminate the Seasonal Rate Class:

The OEB has reviewed the submissions of the Balsam Lake Coalition regarding the RRRP funding criteria and Hydro One's customer class criteria. To the extent there is a compliance issue regarding Hydro One's application of the RRRP funding criteria as established in Regulation 442/01, a rates proceeding, such as this one, is not the appropriate forum. To the extent that there is an issue with Hydro One's customer class criteria, it could be addressed in the subsequent proceeding dealing with the elimination of the Seasonal class.²²

²² EB-2015-0079, Decision dated December 22, 2015, page 8.

BLC wishes to pursue these issues, which are not affected by the Motion to review and vary; accordingly BLC believes it would be appropriate for the Board to provide for the hearing of these issues in conjunction with the process BLC has requested for the determination of an appropriate alternative to the elimination of the Seasonal Rate Class.

ALL OF WHICH IS RESPECTFULLY SUBMITTED THIS 19th DAY OF DECEMBER 2019

SCHEDULE A

Updated: 2018-05-24
EB-2017-0049
Exhibit JT 3.23
Page 1 of 1

UNDERTAKING – JT 3.23

Undertaking

With reference to Interrogatory Exhibit I, Tab 49, Schedule BLC 5, Part b, to examine whether a response is doable or if it is not doable; and if not why not.

Response

In response to Undertaking JT 3.23, Hydro One has reviewed the information requested under part b) of I-49-BLC-5 and is providing the requested material in this updated submission. The percentage split of seasonal customers between the UR, R1 and R2 classes is based on the same information as in the Seasonal report previously prepared for proceeding EB-2016-0315, updated to incorporate the results of the recent rate class review, as discussed in Exhibit G1, Tab 02, Schedule 1.

Hydro One also notes that sub-part iii of the question asks that the density factors, weightings, and other factors for the “new” Seasonal class consisting only of R2-Seasonal customers be maintained at the currently proposed values for the combined Seasonal class. This is not appropriate as the new R2-Seasonal class would consist of a substantially different subset of customers than the current Seasonal class that includes both medium and low density seasonal customers. As such, Hydro One completed the requested cost allocation model run using the density factors, weightings, and other factors appropriate for a Seasonal class consisting solely of R2-Seasonal customers. Hydro One has adopted all the R2 class weighting factors for the new “R2-Seasonal” class, with the exception of the Meter Reading weighting factor. The new R2-Seasonal class consists of relatively more water access and dispersed service points than the typical R2 year-round residential customers, and so Hydro One has applied the current, higher, meter reading weight for the existing status-quo Seasonal class to the new R2-seasonal class.

Table 1 in Attachment 1 to this response shows a version of the 2018 Rate Design Sheet similar to Exhibit H1, Tab 1, Schedule 2, page 1, with adjustments described above. This table is also provided in Excel format.

Witness: ANDRE Henry

Table 1 – 2018 Rate Design with I-49-BLC-5 part b adjustments

	Number of Customers	GWh	kWs	Revenue	Costs Allocated from Previous Study (2017)		Allocated Costs	Misc Rev	Revenue from Rates	2017 R/C Ratio	R/C Ratio from the CAM	Target 2018 R/C Ratio	Total rev to be collected	Shifted Rev	% Change in revenue from rates	Fixed Charge (\$/month)	Revenue from Fixed Charge	Fixed Rev %	Revenue from Volumetric Charge	Volumetric Charge (\$/kWh)	Volumetric Charge (\$/kW)	CSTA Rate Adders (\$/kW)	Hopper Foundry Rate Adder (\$/kW)	Total Volumetric Charge (\$/kW)
					(A)	(B)																		
LIR	228,192	2,048	-	\$ 97,201,928	\$ 79,598,952	0.42%	\$ 92,100,224	6.14%	\$ 5,125,181	\$ 92,076,747	1.10	1.06	1.06	97,201,928	-	0.0%	\$ 27.83	\$ 75,532,617	82%	\$ 16,544,130	\$ 0.0081			
RI	519,799	6,212	-	\$ 395,346,901	\$ 292,927,936	19.26%	\$ 339,201,961	21.66%	\$ 14,977,428	\$ 354,499,493	1.10	1.11	1.11	395,346,901	(156,789)	0.0%	\$ 37.58	\$ 239,426,883	60%	\$ 117,405,810	\$ 0.0225			
R2	329,410	4,539	-	\$ 534,664,454	\$ 544,114,242	37.07%	\$ 690,291,899	37.36%	\$ 17,045,794	\$ 617,618,671	0.95	0.95	0.95	\$ 534,664,454	-	0.0%	\$ 88.83	\$ 350,081,815	68%	\$ 167,536,655	\$ 0.0369			
Seasonal R2	78,544	343	-	\$ 61,618,419	\$ 108,746,448	7.41%	\$ 79,871,267	4.77%	\$ 2,026,919	\$ 99,592,906	1.04	0.98	0.86	61,618,419	-	0.0%	\$ 40.77	\$ 38,427,812	64%	\$ 21,165,094	\$ 0.0617			
GSB	63,484	2,104	-	\$ 192,061,115	\$ 161,477,751	11.00%	\$ 159,037,370	10.60%	\$ 5,163,653	\$ 159,897,462	0.99	1.02	1.02	192,061,115	-	0.0%	\$ 26.87	\$ 31,719,871	20%	\$ 125,166,591	\$ 0.0595			
GSB	5,406	2,342	8,025,918	\$ 144,916,859	\$ 152,368,182	10.38%	\$ 149,099,563	9.94%	\$ 2,818,413	\$ 142,096,447	0.95	0.97	0.97	144,916,859	-	0.0%	\$ 103.56	\$ 6,717,987	5%	\$ 135,380,460	\$ 0.0637	\$ 16,8679	\$ 0.0078	\$ 16,9384
UGS	18,074	598	-	\$ 22,951,112	\$ 22,785,478	1.55%	\$ 22,400,661	1.49%	\$ 887,474	\$ 22,953,637	0.95	1.02	1.02	22,951,112	-	0.0%	\$ 24.12	\$ 6,231,493	24%	\$ 16,832,144	\$ 0.0281			
UGS	1,744	1,058	2,832,322	\$ 30,114,739	\$ 31,755,025	2.16%	\$ 31,545,043	2.10%	\$ 834,915	\$ 29,479,825	0.95	0.95	0.95	30,114,739	-	0.0%	\$ 101.75	\$ 2,129,760	7%	\$ 27,350,064	\$ 9.8564	\$ 0.0837		\$ 9,7201
SI Lgt	5,323	1,21	-	\$ 12,627,804	\$ 12,719,453	0.87%	\$ 13,497,695	0.90%	\$ 403,394	\$ 12,224,410	0.95	0.94	0.94	12,627,804	-	0.0%	\$ 4.11	\$ 852,512	2%	\$ 11,881,898	\$ 0.0586			
Sen Lgt	23,987	20	-	\$ 6,465,680	\$ 7,616,002	0.52%	\$ 6,268,136	0.42%	\$ 3,079,639	\$ 3,398,041	0.95	1.03	1.03	6,465,680	-	0.0%	\$ 3.19	\$ 916,903	27%	\$ 2,489,138	\$ 0.1211			
USG	5,997	24	-	\$ 3,385,030	\$ 2,953,443	0.20%	\$ 2,802,577	0.16%	\$ 126,913	\$ 3,298,117	1.10	1.17	1.11	3,319,005	(168,005)	-5.1%	\$ 35.46	\$ 2,381,783	77%	\$ 798,310	\$ 0.0290			
DGen	1,152	18	184,739	\$ 3,740,576	\$ 7,407,470	0.50%	\$ 6,445,239	0.43%	\$ 175,585	\$ 3,564,981	0.81	0.58	0.63	4,063,400	322,824	9.1%	\$ 196.15	\$ 2,712,713	70%	\$ 1,175,091	\$ 6.3608	\$ 0.0637		\$ 6,4245
ST	808	15,528	29,977,946	\$ 54,787,309	\$ 53,453,334	3.64%	\$ 55,440,314	3.70%	\$ 1,264,602	\$ 53,522,707	0.95	0.99	0.99	54,787,309	-	0.0%	N/A **	\$ 10,014,216	19%	\$ 43,508,489	N/A **			N/A **
				1,300,516	33,957	41,020,926	\$ 1,499,881,927	\$ 1,467,624,315	100%	\$ 1,499,881,927	100%	\$ 53,630,485	\$ 1,446,251,442		(0)		\$ 789,027,367		\$ 687,224,075					

** ST rates are calculated on a separate sheet

Total Rev (K+L) \$ 1,446,251,442
 Misc Rev (C) \$ 53,630,485
 Total Rev Req \$ 1,499,881,927

Rate Class	2017 Current Fixed Charge	2018 All-Fixed Charge	Phase-In Period (Remaining Years)	Annual Increase in Fixed Charge	2018 Proposed Fixed Charge
LIR	\$ 34.70	\$ 33.92	3	\$ -3.05	\$ 27.83
RI	\$ 33.77	\$ 59.49	6	\$ 3.79	\$ 37.58
R2	\$ 80.33	\$ 131.34	6	\$ 8.50	\$ 88.83
Seasonal R2	\$ 39.23	\$ 63.23	6	\$ 4.49	\$ 40.77