

ONTARIO ENERGY BOARD
HYDRO ONE NETWORKS INC.
2015 TO 2017 DISTRIBUTION RATES APPROVAL
MOTION TO REVIEW DECISION TO ELIMINATE SEASONAL RATES
SUBMISSION OF THE BALSAM LAKE COALITION (“BLC”)

May 29, 2020

OVERVIEW

These are BLC’s submissions in accordance with the Ontario Energy Board’s (the “Board”) instructions in Procedural Order #2 issued on May 1, 2020. In Procedural Order #2 the Board provided an opportunity for parties to file submissions on the merits of the Hydro One Networks Inc. (“Hydro One”) motion with respect to the Board’s decision in EB-2013-0416/EB-2014-0247 providing for the elimination of the Seasonal Class (the “Decision”). In providing this opportunity the Board limited submissions to the merits of the two grounds for review that the Board determined met the threshold test for a motion to review:

- a) the OEB’s subsequent decision to move to all- fixed residential rates, and
- b) the subsequent introduction of distribution rate protection (“DRP”) by the provincial government.

The Board specifically restricted submissions at this stage to the merits of the motion. BLC understands this limitation to mean that parties are only supposed to make submissions as to whether, based on the two grounds that met the threshold test, there are any aspects of the Board’s decision to eliminate the status quo Seasonal Rate Class that should be changed. It is BLC’s understanding that the Board is not entertaining, at this point in the proceeding, submissions as to precisely how the Board’s decision should be changed if at all; the Board specified that:

The OEB will determine further steps, which may include the filing of additional evidence and/or submissions, upon reaching its decision on the merits of the motion.¹

¹ Procedural Order #2, May 1, 2020, page 3.

Accordingly, BLC's submissions are restricted to the merits of the motion concerning whether either or both of the threshold grounds warrant a change in the Board's Decision.

To summarize BLC's position on the merits of the motion, BLC respectfully submits that:

- a) the introduction of DRP by the provincial government materially undermines the manner in which the Board decided to eliminate the status quo Seasonal Rate Class, such that an alternative to moving all seasonal customers to the remaining residential classes (UR, R1 and R2) based on each customer's density-based characteristics should be considered;
- b) the introduction of DRP by the provincial government has no effect on the Board's finding that the status quo Seasonal Rate Class is no longer justified as a result of Hydro One's ability to implement and maintain density-based rates, such that steps remain necessary to ensure that seasonal customers are placed in rate classes that appropriately reflect their density-based characteristics, and
- c) the introduction of fully fixed rates has no effect of the Board's finding that the status quo Seasonal Rate Class is no longer justified as a result of Hydro One's ability to implement and maintain density-based rates, such that steps remain necessary to ensure that seasonal customers are placed in rate classes that appropriately reflect their density-based characteristics.

Accordingly, BLC respectfully submits that the Board should establish a process for further evidence and submissions, as contemplated in Procedural Order #2, to explore options for the appropriate reflection of density-based characteristics in the rates paid by seasonal customers.

ANALYSIS

The Board's Decision

There are two components to the Board's Decision with respect to the status quo Seasonal Rate Class.

First, the Board determined that the status quo Seasonal Rate Class is unjustified because it fails to incorporate the density-based cost allocation information that Hydro One has developed:

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.²

As was explained in BLC's original submissions on the elimination of the status quo Seasonal Rate Class, while it is true that the original intent of the seasonal class was to reflect the density-based characteristics of its members, in reality inclusion in the status quo Seasonal Rate Class is based entirely on criteria that ignores the density-based characteristics of its members.³

Instead, inclusion in the status quo Seasonal Rate Class is based on criteria relating to how often during a calendar year a customer uses their seasonal property regardless of their density-based characteristics.⁴ As a result, customers in the status quo Seasonal Rate Class that take distribution service in the high and mid density areas of Hydro One's service territory end up subsidizing the costs incurred to serve the seasonal customers in the lowest density areas of Hydro One's franchise area. This subsidy persists even as Hydro One maintains and refines three rate classes for its "year-round" residential customers that have density as their primary distinguishing factor (UR, R1 and R2).

Second, having determined that the status quo Seasonal Rate Class was unjustified, the Board determined that it was a reasonable solution to eliminate the status quo Seasonal Rate Class and place seasonal customers into the three remaining residential classes based on the density-based designation of each seasonal customer:

The OEB considered the proposal of VECC and others that further work be conducted by Hydro One to compare the load profiles of customers within the seasonal class and residential classes, at various usage levels, to determine if they are sufficiently similar to combine into one or more classes. 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.⁵

The Board's solution, as is the case with any cost allocation exercise, was a compromise between several possibilities, guided by the information the Board had at the time.

² EB-2013-0416/EB-2014-0247 Decision dated March 12, 2015, page 48. As noted later on in these submissions Hydro One does not, even in passing, address this primary finding in the Board's Decision.

³ EB-2013-0416/EB-2014-0247, BLC Argument dated October 14, 2014, pages 3-5.

⁴ EB-2013-0416/EB-2014-0247, BLC Argument dated October 14, 2014, page 4.

⁵ EB-2013-0416/EB-2014-0247 Decision dated March 12, 2015, page 48.

In making the density-based characteristics of seasonal customers the primary concern for the purposes of cost allocation the Board had at least two viable options:

- a) The Board could eliminate the status quo Seasonal Rate Class and split those customers into density-based sub-classes specific to seasonal customers, a proposal cited by BLC in its submissions⁶ and specifically proposed by CCC⁷; or
- b) The Board could eliminate the status quo Seasonal Rate Class and move its customers into the appropriate existing density-based residential classes.

The Board chose to eliminate the status quo Seasonal Rate Class and move its customers into the appropriate remaining residential classes based on their density-based characteristics; this solution, at the time, provided two unique benefits:

- a) this solution reduced rather than increased the number of residential rate classes; and
- b) this solution allowed “neighbouring”⁸ customers that accessed the same distribution assets to have the same rates.

The Impact of DRP on the Board’s Decision

Hydro One generally argues in its submission that the introduction of DRP undermines the Board’s proposal to eliminate the status quo Seasonal Rate Class and move seasonal customers in the remaining residential customer classes.⁹ BLC generally agrees with this conclusion.

In the absence of DRP the Board’s Decision made sense. Seasonal customers were assigned to rate classes that reflected their density-based characteristics, and (with the exception of the RRRP subsidy enjoyed by R2 “year-round” customers) “neighbouring” customers, whether seasonal or “year-round”, had matching rates. The trade-off for seasonal customers was the impact of having to move to rate classes that exhibited higher load collective profiles and consumption patterns than either the status quo Seasonal Rate Class or what would be exhibited by new seasonal sub-classes¹⁰. While it was probably the case that seasonal

⁶ EB-2013-0416/EB-2014-0247, BLC Argument dated October 14, 2014, page 6.

⁷ EB-2013-0416/EB-2014-0247 Decision dated March 12, 2015, page 47.

⁸ When referring to the “neighbouring” benefit BLC refers to the notion that it is a benefit that residential customers whose properties are obviously accessing the same distribution assets because those properties are in close proximity share the same distribution rates, even if, strictly speaking, their utilization of those assets may be, from a cost allocation perspective, different based on their less obvious load profile and consumption pattern characteristics.

⁹ Hydro One Submission dated May 15, 2020, page 10, paragraph 27.

¹⁰ As noted in BLC’s submissions on the threshold issues Hydro One has consistently declined to quantify the cost allocation impact of the average seasonal customer load profile and consumption pattern as compared to the average year-round customer. It was only in Hydro One’s 2018 rate application that Hydro One provided evidence that the average R2 seasonal customer load profile and consumption pattern results in materially lower costs being allocated to those customers in comparison to R2 year-round customers.

customers, split into 3 seasonal sub-classes, would benefit from lower rates than their UR, R1 and R2 counterparts¹¹, that benefit was never quantified by Hydro One.

The introduction of DRP completely eliminated the proposed sharing of like rates between R1 seasonal and “year round” customers and exacerbated the RRRP based gap between R2 seasonal and “year round” customers, with the probable result of increased customer confusion and frustration as most seasonal customers would, while notionally included in the same rate classes as their neighbours, end up with materially different distribution rate impacts. Instead of reducing the number of rate classes the Board’s proposal, as a result of DRP, effectively creates 5 rate classes.

Accordingly, BLC respectfully submits that the solution proposed by the Board in its original Decision is no longer appropriate, having been materially undermined by the introduction of the DRP.

The Impact of Fully Fixed Rates on the Board’s Decision

Hydro One generally concludes that the introduction of fully fixed rates makes any solution unnecessary and that accordingly the status quo Seasonal Rate Class should be maintained.¹² BLC does not agree with this conclusion.

The Board’s Decision was, in its essence, a decision concerning the appropriateness of the cost allocation mechanics underpinning Hydro One’s rate classes. The status quo Seasonal Rate Class lumps together customers with disparate density-based characteristics even though Hydro One has the capability to create a rate class scheme that groups customers based on their density-based characteristics, as exhibited by the creation of the UR, R1 and R2 rate classes. The failure of the status quo Seasonal Rate Class to properly distinguish between the different density-based characteristics of seasonal customers was the primary issue the Board’s Decision identified and sought to address.

The move to fully fixed rates is not in its essence a measure that addresses cost allocation mechanics; the move to fully fixed rates is a change in rate design. While such a move likely eliminates any subsidy, in all of the residential rate classes, that may exist between high volume and low volume customers through the elimination of a volumetric charge, fully fixed rates do nothing to eliminate any subsidy as between high density and low density customers where those customers continue to be included in the same rate class.

BLC notes that Hydro One eliminates any material subsidy between “year-round” customers based on their density-based characteristics through the use of density-based rate classes;

¹¹BLC Submission Dated December 19, 2019, pages 16-17; in its submissions on the threshold issues BLC provides an analysis as to how materially lower the costs allocated to seasonal customers in R1 and R2 seasonal sub classes will likely be a result of their load profile and consumption pattern, an analysis based on the data provided by Hydro One in its 2018 rate application, several years after the Board’s Decision.

¹² Hydro One Submission dated May 15, 2020, page 10, paragraph 28.

customers in the highest density areas of the franchise area are protected from subsidizing customers in the lowest density areas of the franchise area through the use of the UR, R1 and R2 rate classes during the cost allocation phase of establishing rates. Whether, within those classes, rates are based on fully fixed charges or not does not impact on whether customers within those rate classes are being charged rates that properly reflect their density-based characteristics.

It is the failure of the status quo Seasonal Rate Class to distinguish between the disparate density-based characteristics of its members that the Board identified as an issue in its Decision, an issue that remains despite the introduction of fully fixed rates.

In its submissions Hydro One incorrectly asserts that the Board's Decision was intended primarily to address the subsidy between high volume and low volume seasonal customers, suggesting that the subsequent move to all fixed rates provides a complete solution to that issue.¹³

In BLC's submission Hydro One is, in focussing entirely on subsidies between high volume and low volume customers, undermining the actual, primary issue identified by the Board, the failure of the status quo Seasonal Rate Class to properly reflect density-based characteristics. In BLC's respectful submission Hydro One's focus on volumetric based rate subsidies is clearly a "red herring". That Hydro One's focus on fixed rates and its effect on volumetric based subsidization is a "red herring" is all the more apparent when one considers that Hydro One does not use the word "density" even once in the entirety of its submission on the merits of its motion, let alone address in any fashion the Board's primary finding with respect to the failure of the status quo Seasonal Rate Class to properly reflect density-based characteristics.

BLC respectfully submits that, assuming the Board agrees that the original solution has been materially undermined as a result of the introduction of DRP, the next step is to compare the status quo Seasonal Rate Class against the other possible solutions, particularly the creation of R1 and R2 Seasonal Sub Classes, in the next phase of the motion as contemplated in Procedural Order # 2. By way of example, and as set out in its December 19, 2019 submission, it is BLC's expectation that an R1 Seasonal Sub Class' rates are likely materially lower than both the R1 Class rates and the status quo Seasonal Rate Class rates as a result of the combined effect of a lower density factor (relative to the status quo Seasonal Rate Class) and a lower load profile and consumption pattern (relative to the R1 Class) even when those rates become fully fixed.¹⁴ Similarly it has already been demonstrated that the rate impact on R2 seasonal customers in moving to an R2 Seasonal Rate Class is materially lower than the impact that would be experienced when moving to the existing R2 Rate Class, an impact that can likely be adequately mitigated if not entirely eliminated with minimal impact on other rate classes.¹⁵

¹³ Hydro One Submission dated May 15, 2020, page 2, paragraph 5.

¹⁴ BLC Submission Dated December 19, 2019, pages 16-17.

¹⁵ BLC Submission Dated December 19, 2019, pages 16-17.

In making these observations BLC is mindful that the Board is not accepting submissions beyond those that address the merits of the motion. BLC makes these observations in support of the Board's direction that on determining the merits of the motion further procedural steps will be established, and in recognition of the fact that despite the limited scope of the submissions being accepted by the Board at this time Hydro One did, in its submission, submit its conclusion that the Board should simply continue on with the status quo Seasonal Rate Class.

Conclusion

BLC submits that the introduction of DRP has materially undermined the original solution proposed by the Board in its Decision, such that collapsing the status quo Seasonal Rate Class and sending its members into the UR, R1 and R2 classes is no longer appropriate. The introduction of DRP has eliminated the benefits of the original solution in terms of reducing the number of effective rate classes and ensuring that "neighbouring" customers share rates, particularly in the R1 rate class.

BLC also submits, however, that the finding by the Board that the status quo Seasonal Rate Class is unjustified remains appropriate; that finding is not impugned by the introduction of DRP. Put more simply, while the Board's proposed solution is no longer appropriate, the problem identified by the Board remains.

BLC does not believe that the introduction of fully fixed rates has any material bearing on the Board's Decision. The fact that all rate classes will eventually pay fully fixed rates does not change the fact that the status quo Seasonal Rate Class remains fundamentally flawed in terms of its handling of the density-based characteristics of Hydro One's seasonal customers. The introduction of fully fixed rates, while serving to largely eliminate rate design-based subsidies between high volume and low volume customers in all classes, does nothing to alleviate the subsidy between high-density and low-density customers lumped together in the status quo Seasonal Rate Class.

Accordingly, BLC believes that it is appropriate to move on to consider additional evidence and submissions from the parties, as contemplated in Procedural Order # 2, in order to determine how to best reflect the density-based characteristics of Hydro One's seasonal customers given the impact of DRP on the Board's Decision. BLC notes that it has, in its submissions dated December 19, 2019, outlined in detail how it believes the Board's original determination that the status quo Seasonal Rate Class is unjustified may be addressed and welcomes the opportunity to have additional evidence and submissions filed in relation to that proposal and any alternatives that may be proposed by other parties in order that the Board can provide appropriate relief.

ALL OF WHICH IS RESPECTFULLY SUBMITTED THIS 29th DAY OF MAY, 2020