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October 20, 2020

VIA E-MAIL

Christine E. Long
Registrar and Board Secretary
Ontario Energy Board
Toronto, ON

Dear Ms. Long:

**Re: EB-2019-0261 – Hydro Ottawa Limited 2021 CIR Application
VECC Submissions re Unsettle Issue 7.3**

In accordance with Procedural Order No. 8, attached please find the Vulnerable Energy Consumers Coalition's submissions on the unsettled issue in the EB-2019-0261 proceeding regarding the application by Hydro Ottawa to the Ontario Energy Board for approval of 2021-2025 rates.

Yours truly,

William Harper

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EB-2019-0261

IN THE MATTER OF the Ontario Energy Board Act, 1998 ,S.O. 1998, c. 15, (Schedule B);

AND IN THE MATTER OF an application by Hydro Ottawa Limited for an order approving just and reasonable rates and other charges for electricity distribution to be effective January 1, 2021 and for each following year through December 31, 2025.

VULNERABLE ENERGY CONSUMERS COALITION

FINAL SUBMISSIONS

OCTOBER 20, 2020

1.0 INTRODUCTION

On February 11, 2020 Hydro Ottawa Limited (Hydro Ottawa) filed a custom incentive rate-setting (Custom IR) application with the Ontario Energy Board (“OEB” or “Board”) seeking approval for changes to the rates that Hydro Ottawa charges for electricity distribution, beginning January 1, 2021, and for each following year through to December 31, 2025. Following one round of information requests and a technical conference, a settlement conference, involving Hydro Ottawa and eight intervenors, was held starting on August 10, 2020 and continuing for four additional days.

On September 18, 2020 a Settlement Proposal was filed with Board in which the Parties came to an agreement on all, but one issue related to rate design (Issue 7.3). On October 2, 2020, the OEB issued Procedural Order No. 8 which made provision to address the unsettled issue by way of a written hearing.

On October 13, 2020 Hydro Ottawa filed its Argument-in-Chief (AIC) regarding the unsettled issue. Set out below are VECC’s submissions.

2.0 VECC SUBMISSIONS RE: UNSETTLED ISSUE

The unsettled issue is Issue 7.3 from the approved Issues List¹:

“Are Hydro Ottawa’s proposals for rate design (including, but not limited to, fixed/variable split, loss factors, retail transmission service rates, low voltage charges, generator charges including MicroFIT, retail service charges, specific and other service charges) appropriate?”

However, the Settlement Proposal more narrowly defines the unsettled issue as follows²:

“Resolution was not reached amongst the Parties on the proposed fixed rates for customer classes GS 50 to 1,499 kW, GS 1,500 to 4,999 kW, and Large Use, which are above the OEB’s established ceiling”.

¹ Procedural Order No. 3, Schedule A

² HOL Settlement Proposal (SP), page 28

2.1 Hydro Ottawa's Proposal

2021 Rates

Hydro Ottawa has used the OEB's Cost Allocation Model (CAM) to assign costs to customer classes for the purpose of designing rates for the 2021 Test Year. One of the outputs³ of the CAM is three scenarios that provide, by customer class, the monthly cost of servicing a customer under three sets of assumptions: Scenario 1 - avoided customer costs plus general administration, Scenario 2 - directly related customer costs plus general administration, and Scenario 3 - minimum system costs adjusted for PLCC. According to the Board's Report – "Cost Allocation Review: Board Directions on Cost Allocation Methodology for Electricity Distributors (EB-2005-0317)" the results from Scenarios 1 and 3 provide reasonable cost-based lower and upper end customer unit costs per month⁴. In its Application Hydro Ottawa has calculated a monthly fixed charge for each customer class⁵ using the same fixed-variable split for costs as would result from the application of the approved 2020 rates. In those instances where the resulting fixed rate falls within the range established by Scenarios 1 and 3, Hydro Ottawa has proposed that the fixed charge for 2021 be as calculated using the fixed variable split based on current rates (i.e., the current fixed-variable split).

However, in those instances where the resulting fixed charge calculated using the current fixed-variable split is above the values established using Scenario 3 (i.e., the "ceiling") Hydro Ottawa has proposed that the current 2020 fixed charge be maintained for 2021⁶. For the 2021 rates filed with the Settlement Proposal, this resulted in the monthly fixed charges for the GS 50-1,499; the GS 1,500-4,999, and the Large Use classes all being held at their 2020 levels of \$200, \$4,193.93, and \$15,231.32 respectively⁷.

³ Tab O2 - Fixed Charge / Floor / Ceiling

⁴ Pages 103-105

⁵ With the exception of the Residential class where the distribution rates are based 100% on a monthly fixed charge.

⁶ Exhibit 8, page 5

⁷ See SP-Attachment 17 (A) – Rate Design Tab. Hydro Ottawa's AIC (page 7) makes reference to this approach also being applied the Standby Power class. However, in the materials filed with the Settlement Proposal the 2021 fixed charge for the Standby class is \$154.71 (SP_Attachment 21) versus a 2020 fixed charge of \$145.13 (Exhibit 8, page 3)

2022-2025 Rates

For the years 2022 through 2025 Hydro Ottawa's general approach is to maintain the fixed-variable split for each customer class and then derive the fixed and variable rates for each year based on the forecast billing determinants for the year⁸. However, in those instances where this approach would lead to a decrease in the fixed charge, Hydro Ottawa has proposed to maintain the fixed charge at the previous year's level⁹. Based on the illustrative numbers¹⁰ filed with the Settlement Proposal this approach results in the fixed rate for the GS 1,500-4,999 class being held constant for the last two years and the fixed rate for the Large Use class being held constant for the last three years of the 2022-2025 period.

VECC notes that the illustrative rates provided with the Settlement Proposal do not align with the proposed approach as set out in the original Application and Hydro Ottawa's AIC. In particular, the GS 1,500-4,999 fixed charge for 2024 (\$4,176.14) is less than the illustrative fixed charge for 2023 (\$4,239.79) and the Large Use fixed charge for 2023 (\$15,265.28) is less than the illustrative fixed charge for 2022 (\$15,287.33)¹¹. VECC assumes that these lower values are incorrect and would request that Hydro Ottawa, in its Reply Argument, confirm that its proposal is as described in its Application and the AIC.

2.2 VECC's Submissions re: Relevant Considerations

Hydro Ottawa presents a number of arguments in support of its proposed approach for those customer classes whose fixed charges, when calculated using the current fixed-variable split, exceed the unit costs as calculated in Scenario 3.

First, Hydro Ottawa notes¹² that the OEB's Chapter 2 Filing Guidelines state "*if a distributor's current fixed charge for any non-residential class is higher than the calculated ceiling, there is no requirement to lower the fixed charge to the ceiling.*"

VECC notes that the ceiling value referenced in the OEB's Filing Guidelines is founded

⁸ Exhibit 8, page 5

⁹ Exhibit 8, page 6 and AIC, pages 6 and 7

¹⁰ The 2021-2025 revenue requirements and rates set out in the Settlement Agreement are illustrative in that they are subject to various updates as detailed in the Settlement Agreement (see pages 10 and 26)

¹¹ SP Attachment 21_HOL_Bill_Impacts_Model, 2021-2025 Tabs

¹² AIC, page 7

in the Board's Report "Cost Allocation Review – Board Directions on Cost Allocation for Electricity Distributors" (EB-2005-0317) which established Scenarios 1 and 3 (as described above) as "*reasonable cost-based lower and upper end customer unit costs per month*"¹³. VECC also notes that the full direction as set out in the OEB's Filing Guidelines¹⁴ is:

"If a distributor's current fixed charge for any non-residential class is higher than the calculated ceiling, there is no requirement to lower the fixed charge to the ceiling, nor are distributors expected to raise the fixed charge further above the ceiling for any non- residential class." (emphasis added)

As result, there are two "parts" to the direction. First, that in those circumstances where a non-residential class' fixed charge is higher than the ceiling, there is no requirement to lower the charge to the ceiling (as noted by Hydro Ottawa) and, second, that the Board expects distributors will not raise the charge further. In VECC's view, in instances where a non-residential class fixed charge is higher than the ceiling, both of these directions are relevant considerations in establishing the appropriate fixed charge. Second, Hydro Ottawa notes¹⁵ that its proposed 2021 fixed charges for the GS 50-1,499, GS 1,500-4,999 and Large Use Classes are all in line with those of other comparable LDCs who have maintained commercial fixed monthly service charges above the modeled ceiling for some or all of their commercial customer classes. In VECC's view this is not a relevant consideration.

The overall rate levels (e.g., the bills for a typical customer) for customers in similar rate classes vary from utility to utility such that a comparison of their fixed charges is not particularly useful in determining the appropriate levels for Hydro Ottawa's fixed charges. Similarly, VECC submits that differences in the actual distribution systems will give rise to differences in cost structure such that a comparison of fixed vs variable revenues across the noted distributors is also not particularly useful in determining or justifying the proposed level for Hydro Ottawa's fixed charge. The resulting fixed-variable split should reflect Hydro Ottawa's cost structure. Overall, it is VECC's view

¹³ Page 103-105

¹⁴ Page 54

¹⁵ AIC, pages 8-10

that no weight should be given to Hydro Ottawa's inter-utility comparison of fixed charges in determining the unsettled issue.

Third, in its AIC Hydro Ottawa states¹⁶:

“The modeled scenarios in the OEB Cost Allocation Model represent an approach to defining customer cost but do not, in Hydro Ottawa's view, adequately account for all customer-related costs. Indeed, these scenarios do not encompass all the costs that the Cost Allocation Model itself defines as customer-driven. Hydro Ottawa estimates that the Large User class's monthly service charge would increase by approximately \$1,600 if all customer-driven costs were included.

Additionally, a proportion of demand-based costs representing the minimum demand requirement for a customer's rate class could reasonably be added to the calculation of the monthly service charge. For the Large User class, Hydro Ottawa calculates this addition would increase the estimated ceiling monthly service charge by approximately \$3,100 in 2021. These two changes alone would increase the monthly ceiling for the service charge by approximately \$4,700.”

In VECC's submission what Hydro Ottawa is effectively arguing is for a change in the calculation of the ceiling value used in terming the fixed charge from that currently established by the Board (RP-2005-0317¹⁷). As the Board is aware, the current basis for the floor and ceiling values was established following an extensive stakeholdering process and re-confirmed in a subsequent report by the Board following further consultation (EB-2007-0667)¹⁸: VECC notes that, in the latter report¹⁹ the following statement by the Board also established the approach found in the current Filing Guidelines:

“...the Board does not expect distributors to make changes to the MSC that result in a charge that is greater than the ceiling as defined in the Methodology

¹⁶ Page 10

¹⁷ Cost Allocation Review – Board Directions on Cost Allocation Methodology for Electricity Distributors, pages 102-105

¹⁸ Board Report “Application of Cost Allocation for Electricity Distributors”, page 12

¹⁹ Pages 12-13

for the MSC. Distributors that are currently above this value are not required to make changes to their current MSC to bring it to or below this level at this time”.

It is VECC’s submission that if a change in policy/approach (including the factors to be taken into account) is to be made regarding the setting of the fixed charges for non-residential classes it should not be made in the context of a single application but rather on a generic basis and after appropriate consultation. Furthermore, in its AIC²⁰, Hydro Ottawa appears to agree with this approach as noted by the following statement:

“If a change in the policy is considered, Hydro Ottawa suggests it should be contemplated on a generic basis and not applied to a single utility. In addition, any review should include a full assessment that looks at the magnitude of the bill impacts, the type of customers/industries impacted, and if the change reflects the cost of serving the customer on the distribution grid”.

Finally, VECC notes that the views in Hydro Ottawa’s AIC as to what should be considered “customer costs” are is not something that Hydro Ottawa presented in its evidence to-date and there is no documentation as to how either the \$1,600 or the \$3,100 values were derived. Nor, in VECC’s view, would it be appropriate for Hydro Ottawa to do so at this stage in the proceeding.

As a result, VECC submits that no weight should be given to Hydro Ottawa’s arguments as to the appropriateness of the current range for customer unit costs as calculated by the CAM in the Board’s consideration of this issue.

Next, Hydro Ottawa notes²¹ that the Board’s policy regarding Residential Rate Design results in a fixed charge that “*is above the ceiling as calculated by the OEB Cost Allocation Model*”. In VECC’s view the Board’s approach towards Residential Rate Design does not provide any precedent or direction with respect to the rate design for larger industrial and commercial customers. The nature of large commercial/industrial customers and their current rate design are different from that of Residential customers. Further, and more importantly, the Board currently has an ongoing consultation – Rate

²⁰ Page 12

²¹ AIC, pages

Design for Commercial and Industrial Customers (EB-2015-0043) – which is dealing directly with this issue.

Lastly, Hydro Ottawa makes specific reference²² to the Board’s consultation regarding Rate Design for Commercial and Industrial Customers including a number of specific references to the February 2019 Staff Report. In VECC’s view, where consultations are ongoing and the outcome is still unknown, prejudgement of the outcome, particularly when it changes current policy, should not be used as a basis for justifying an Applicant’s proposals. This is particularly so in the case of the Rate Design for Commercial and Industrial Customers when the most recent Staff Report specifically states²³ the current “*rates are based on good rate design principles and are cost reflective of fixed and demand charges*” and then goes on to indicate that “*staff are now proposing that there be no change to the underlying rate classes, basis for fixed charge, or rate design and allocations for these customers*”²⁴.

Based on the foregoing, VECC submits that the Board’s current policy as to what are the reasonable cost-based lower and upper end customer unit costs per month and the Board’s current Filing Guidelines as to how distributors should address those circumstances when the fixed charges for non-residential customers are above the ceiling should be the primary considerations (along with bill impact considerations) used to evaluate Hydro Ottawa’s fixed charge proposals for the GS 50-1,499 kW, GS 1,500-4,999 kW, and Large Use customer classes.

2.3 VECC’s Conclusions re: Hydro Ottawa’s Proposals

Hydro Ottawa’s 2021 Rates

VECC submits that Hydro Ottawa’s proposals regarding the 2021 fixed charges for the GS 50-1,499 kW, GS 1,500-4,999 kW, and Large Use customer classes should be accepted by the Board. In each case, Hydro Ottawa has compared the existing 2020 fixed charge to the ceiling set by Scenario 3 in the Board’s CAM and, after finding the rate exceed the ceiling, has proposed to hold the 2021 fixed charge at the 2020 level.

²² AIC, pages 14-15

²³ Page 35

²⁴ Page 36

This approach is fully consistent with the Board's Cost Allocation Policy and 2021 Filing Guidelines²⁵ which are repeated below:

“If a distributor's current fixed charge for any non-residential class is higher than the calculated ceiling, there is no requirement to lower the fixed charge to the ceiling, nor are distributors expected to raise the fixed charge further above the ceiling for any non- residential class.”

Hydro Ottawa's 2022-2025 Rates

VECC submits that Hydro Ottawa's proposals regarding the 2022-2025 fixed charges for the GS 50 to 1,499 kW, GS 1,500 to 4,999 kW, and Large Use customer classes are not in accordance with the Board's current Cost Allocation Policy and 2021 Filing Guidelines direction and should be rejected by the Board.

Hydro Ottawa proposes that, after 2021, fixed charges will be set so as to maintain the fixed variable split. Then, if this results in a decrease in the fixed charge, Hydro Ottawa proposes to hold the fixed charge at current levels²⁶.

Based on the illustrative numbers filed with the Settlement Proposal this means that for the GS 50-1,499 class the fixed charges increase each year of the IR period. For the GS 1,499-4,999, this results in increases in the fixed charges for the first two years of the four year IR period while, for the Large Use class, it results in increases in the fixed charges for 2022. These increases are inconsistent with the Board's current Filing Guidelines which expect distributors not to raise the fixed charge further above the ceiling. VECC submits that in situations where the application of Hydro Ottawa's standard practice of maintaining the fixed-variable split results in an increase in fixed charges that are already above the ceiling calculated by the CAM, Hydro Ottawa should be required by the Board to set the fixed charge at the previous year's rate.

With respect to Ottawa Hydro's proposal to hold the fixed charge at the previous year's level if maintaining the fixed-variable split would result in a decrease, it is VECC's submission that this is also inconsistent with the Board's Filing Guidelines. In VECC's view, while the Filing Guidelines do not require a distributor to explicitly reduce fixed

²⁵ 2021 Filing Guidelines, page 54

²⁶ Exhibit 8, pages 5-6 and AIC, page 6. See also Hydro Ottawa's response to OEB 161.

charges that are above the ceiling, this does not mean that the fixed charges shouldn't decrease as result of the application of a distributor's standard practices with respect to rate design. In fact, VECC submits that, in such circumstances, holding the fixed charge at current levels represents an explicit decision to increase fixed charges which, again, is counter the Board's expectations as set out in the Filing Guidelines.

Overall, VECC submits that in order for Hydro Ottawa to be consistent with the Filing Guidelines, for those non-Residential customer classes whose current service charge exceeds the ceiling (calculated per the CAM-Tab O2), fixed charges should be maintained at the previous year's level unless the application Hydro Ottawa's standard approach to rate design (i.e., maintain the current fixed-variable revenue proportions) results in a lower fixed charge. In such situations the fixed charge should be lowered accordingly.

These are our respectful submissions. VECC submits that it has acted responsibly and efficiently during the course of this proceeding and requests that it be allowed to recover 100% of its reasonably incurred costs.

October 20, 2020