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BY EMAIL

October 20, 2020

Christine E. Long
Registrar and Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4

Dear Ms. Long:

**Re: Hydro Ottawa Limited (Hydro Ottawa)
Application for Rates
Ontario Energy Board (OEB) File Number: EB-2019-0261
OEB Staff Submission on Issue 7.3 Rate Design**

In accordance with Procedural Order No.8, please find attached OEB staff's submission on Issue 7.3 Rate Design in the above noted proceeding.

Yours truly,

Project Advisor – Electricity Distribution: Major Rate Applications & Consolidations

Attach.

**2021-2025 CUSTOM INCENTIVE RATE-SETTING
APPLICATION**

HYDRO OTTAWA LIMITED

EB-2019-0261

OEB STAFF SUBMISSION ON ISSUE 7.3

OCTOBER 20, 2020

Introduction

Hydro Ottawa Limited (Hydro Ottawa) filed a complete custom incentive rate-setting (Custom IR) application with the Ontario Energy Board (OEB) on February 11, 2020 under section 78 of the *Ontario Energy Board Act, 1998* (OEB Act), S.O. 1998, c.15, (Schedule B), 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 (the Application).

The OEB issued an approved issues list for this proceeding on June 22, 2020. A settlement conference was held from August 10, 2020 to August 17, 2020. Hydro Ottawa filed a settlement proposal setting out an agreement among all the parties to the proceeding on September 18, 2020. The parties to the settlement proposal are Hydro Ottawa and the following approved intervenors¹ in the proceeding: Building Owners and Managers Association, Consumers Council of Canada, Distributed Resource Coalition, Environmental Defence (ED), Energy Probe Research Foundation, Pollution Probe, School Energy Coalition, and Vulnerable Energy Consumers Coalition (the Parties).

The settlement proposal represents a comprehensive settlement with one unsettled issue. Parties have reached a complete settlement on issues related to the Custom IR framework, revenue requirement, load forecast, cost allocation, accounting and effective date. No settlement was reached on Issue 7.3 related to rate design.

In its Decision on Settlement Proposal and Procedural Order No.8,² the OEB accepted the settlement proposal as filed. The OEB made provisions for parties to file submissions on the unsettled issue.

Hydro Ottawa filed its Argument-In-Chief (AiC) on the unsettled issue on October 13, 2020 supporting its proposal. ED filed its submission on October 16, 2020 in which it presented a counter position to Hydro Ottawa's.³

OEB staff makes this submission intending to assist the OEB in deciding upon the one

¹ Richard Parry and Nash Smith are also approved as intervenors in the proceeding. They did not participate in the settlement conference.

² Decision on Settlement Proposal and Procedural Order No.8, October 2, 2020.

³ Environmental Defence Submission Re Hydro Ottawa's Fixed Rates Over 2021 to 2025 , October 16, 2020.

unsettled rate design issue. It addresses both Hydro Ottawa's AiC and ED's submission.

Issue 7.3 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?

Background

The Parties agreed that Hydro Ottawa's proposals under Issue 7.3, as modified in the settlement proposal, are appropriate, except for one unsettled element. The unsettled element relates to the proposed fixed/variable rate design for three commercial customer classes: General Service (GS) > 50 to 1,499 kW, GS 1,500 to 4,999 kW, and Large Use.

Hydro Ottawa proposed to maintain the current fixed charges, which are already higher than the calculated upper bound for each of the three rate classes, for 2021. This approach adjusted the variable charges for these classes to recover the class-level revenue requirement for 2021.

ED asked the OEB to direct Hydro Ottawa to begin lowering its fixed charges to better align with the principles of cost causality and economic efficiency.

Table 1 below summarizes Hydro Ottawa's current (2020) and proposed (2021-2025) fixed charges and cost allocation results for these classes.

Table 1: Current and Proposed Fixed Charges and Cost Allocation Results

Customer Class	Cost Allocation Results ⁴		2020 Current Rate ⁵	Proposed Rates				
	Floor	Ceiling		2021 ⁶	2022 ⁷	2023 ⁸	2024 ⁹	2025 ¹⁰
GS > 50 to 1,499 kW	\$25.60	\$76.46	\$200.00	\$200.00	\$208.20	\$215.31	\$218.45	\$219.54
GS > 1,500 to 4,999 kW	\$65.18	\$370.17	\$4,193.93	\$4,193.93	\$4,228.35	\$4,239.79	\$4,176.14	\$4,176.14
Large Use	\$16.43	\$455.91	\$15,231.32	\$15,231.32	\$15,287.33	\$15,265.28	\$15,265.28	\$15,265.28

For 2022-2025, Hydro Ottawa proposed to increase the fixed charges by inflation and maintain the fixed/variable split in recovering revenue requirement. If the following year's percentage of revenue requirement from the fixed charge being maintained would result in a lower fixed charge, Hydro Ottawa proposed to maintain the previous year's fixed charge for that class. As such, the proposed fixed charge for the GS 1,500 to 4,999 kW class has been held constant for 2024-2025 and the fixed charge for the Large Use class has been held constant for 2023-2025. The proposed fixed charges for all rate classes are above the established ceiling resulting from the OEB's cost allocation model.

During the interrogatory and technical conference processes, ED asked why Hydro Ottawa's proposed fixed charges for commercial and industrial customers are above the established ceiling. ED also asked Hydro Ottawa to comment on the potential positive customer behavior resulting from a lower fixed charge, including the shifting of load off the peak, installing of distributed energy resources, and implementing energy efficiency.

⁴ Settlement Proposal, Attachment 18, Cost Allocation Model, September 18, 2020.

⁵ EB-2019-0046.

⁶ Settlement Proposal, Attachment 17A, 2021 Revenue Requirement Workform, September 18, 2020.

⁷ Settlement Proposal, Attachment 17B, 2022 Revenue Requirement Workform, September 18, 2020.

⁸ Settlement Proposal, Attachment 17C, 2023 Revenue Requirement Workform, September 18, 2020.

⁹ Settlement Proposal, Attachment 17D, 2024 Revenue Requirement Workform, September 18, 2020.

¹⁰ Settlement Proposal, Attachment 17E, 2025 Revenue Requirement Workform, September 18, 2020.

Hydro Ottawa responded by stating that the distribution system costs by nature are significantly fixed. It further explained that the fixed portion represents the cost of establishing and maintaining the customer connection and of providing sufficient capacity in the distribution network to serve customers' requirements. Reducing fixed charges in rate design would create the risk of a revenue shortfall, if the actual consumption was lower than the forecast level.¹¹

Hydro Ottawa also stated that the OEB's cost allocation model was first used in support of its 2008 distribution rate application.¹² However, Hydro Ottawa did not use the OEB's cost allocation model as the basis to set fixed charges for the commercial customer classes; these were kept at the 2007 base level, adjusted only for the Smart Meter adder charge. Hydro Ottawa noted that the fixed charge for each of the three commercial classes was higher than the minimum system with peak load carrying capability (PLCC) adjustment¹³ calculated by the cost allocation model.¹⁴

Discussion and OEB Staff Submission

OEB Policy

The current policy on fixed charges is provided in the *OEB Report of the Board - Application of Cost Allocation For Electricity Distributors*¹⁵ (2007 Cost Allocation Report). In addressing the scenario where the existing fixed charge is above the ceiling, it states:

The Board does not expect distributors to make changes to the MSC¹⁶ that result in a charge that is greater than the ceiling as defined in the Methodology 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.

¹¹ Interrogatory Responses, June 5, 2020, ED-5.

¹² EB-2007-0713.

¹³ The cost allocation model provides ranges to target for fixed charges. The avoided cost is considered to be the minimum fixed charge that should be used, and is commonly referred to as the floor. Conversely, the minimum system with PLCC is considered to be the maximum charge supported by cost allocation, and is commonly referred to as the ceiling.

¹⁴ Argument-In-Chief, October 13, 2020, paragraph 15 and 16.

¹⁵ EB-2007-0667, Report of the Board – Application of Cost Allocation For Electricity Distributors, November 28, 2007, pp. 12-13.

¹⁶ Monthly Service Charge

This has also been addressed in the OEB's *Filing Requirements for Electricity Distribution Rate Applications* (Filing Requirements) which 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, nor are distributors expected to raise the fixed charge further above the ceiling for any non-residential class.¹⁷

"Hydro Ottawa submits that its proposed distribution rate designs are appropriate and fall within current OEB policy and guidelines"¹⁸ OEB staff notes that Hydro Ottawa has proposed to increase its fixed charges in some of the years of the five year term which is actually contrary to the guideline to not raise the fixed charge further above the ceiling.

Bill Impacts

Hydro Ottawa states that it "has determined that some customers will have large negative impacts if the monthly service charge was set to the ceiling."¹⁹

When utilities are proposing to adjust distribution rates, adjusting both the fixed charge and the variable charge by the same percentage results in all customers of the rate class experiencing that same percentage rate change from base distribution rates. When the fixed and variable charges are changed by different percentages, different customers will be impacted differently.

As noted above, OEB staff agrees that differential rate adjustments to fixed and variable charges will affect individual customers within each rate class differently. This has the potential to be material if large changes are made quickly. OEB staff submits that Hydro Ottawa should confirm whether mitigation would be required if ED's proposal is accepted by the OEB.

¹⁷ Ontario Energy Board Filing Requirements For Electricity Distribution Rate Applications – 2020 Edition for 2021 Rate Applications- Chapter 2, section 2.8.1.

¹⁸ Argument-In-Chief, October 13, 2020, paragraph 39.

¹⁹ *Ibid*, paragraph 28.

The OEB's residential rate design policy²⁰ required that the full distribution charge to residential customers be recovered through a fixed monthly charge. When implementing this policy, the OEB recognized that such a change to the fixed-variable proportion would cause impacts to customer bills, and ordered a four-year transition to phase in the impacts for most distributors. Some distributors required more time to further mitigate bill impacts. As noted by Hydro Ottawa, it "required five years to mitigate the impact of the customer who would be impacted the greatest."²¹ In the case of Hydro One Networks Inc.'s residential and seasonal rate classes, the transition was ordered over eight years to manage bill impacts.²²

Rate Stability

James C. Bonbright addressed the concern of rate stability as one of the attributes of a sound rate structure. He advocated for "Stability and predictability of the rates themselves, with a minimum of unexpected changes seriously adverse to rate-payers and with a sense of historical continuity."²³ The current OEB policy addresses the concern of rate stability by not requiring utilities to reduce fixed charges to the ceiling, only requiring that they not be increased further above the ceiling.

OEB staff submits that ED's proposal would be a significant change to the rates Hydro Ottawa has been charging its commercial customers²⁴ and is therefore contrary to this principle.

Ongoing Consultation

As noted by Hydro Ottawa, the issue of commercial and industrial rate design is already being studied as part of a broader OEB consultation. Hydro Ottawa states that its "commercial customers could be subject to multiple distribution rate designs in a relatively short period of time" and that it "could result in customers experiencing fluctuations in their bills".²⁵ OEB staff notes that the timing of any new policy resulting

²⁰ EB-2012-0410, Board Policy – A New Distribution Rate Design for Residential Electricity Customers, April 2, 2015.

²¹ Argument-In-Chief, October 13, 2020, paragraph 29.

²² EB-2015-0079.

²³ Bonbright, James C., *Principles of Public Utility Rates*, 1988, page 383.

²⁴ For example, reducing the Larger User fixed charge in 2021 by 3,241% as noted in Environmental Defence Submission Re Hydro Ottawa's Fixed Rates Over 2021 to 2025, October 16, 2020, p. 2

²⁵ Argument-In-Chief, October 13, 2020, paragraph 38.

from this consultation is uncertain. Until that time, OEB staff submits that the policy as stated in the 2007 Cost Allocation Report and described in the Filing Requirements remains the policy of the OEB.

Previous Decisions

OEB staff notes that this fixed/variable rate design issue was recently an issue in Energy+ Inc.'s (Energy+) 2019 Cost of Service proceeding.²⁶ Energy+ proposed to increase the fixed charge for its Large Use rate class, despite it being already above the ceiling. The OEB decided to maintain the fixed charge at its then present level.

Summary

OEB staff submits that the fixed charges should remain at their present, 2020 levels for the 2021-2025 Custom IR term in the GS > 50 to 1,499 kW, GS 1,500 to 4,999 kW, and Large Use rate classes. This is consistent with the Filing Requirements and current OEB policy. These require that changes not be made to increase fixed charges above the ceiling, but also do not require that fixed charges be lowered to the ceiling. It is also consistent with the rate design principle of stable and predictable rates.

All of which is respectfully submitted

²⁶ EB-2018-0028.