

ONTARIO ENERGY BOARD

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 rates from January 1, 2021 to December 31, 2025.

Reply Submissions of Environmental Defence

Re Hydro Ottawa's Fixed Rates Over 2021 to 2025

November 3, 2020

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Introduction

Environmental Defence provides these submissions in reply to Hydro Ottawa's submissions of October 27, 2020 and pursuant to *Procedural Order #8*. Contrary to Hydro Ottawa's submissions, Environmental Defence is not seeking a deviation from OEB policy. Instead, Environmental Defence is asking for modest incremental progress, which is fully consistent with OEB policy. Regardless, the fundamental issue is that Hydro Ottawa's fixed rates do not respect the principles of cost causality and economic efficiency, which means certain customers are being overcharged vis-à-vis others and an opportunity is being missed to lower system costs over time by sending appropriate price signals. None of the ongoing generic proceedings are addressing this issue. Progress can and should be made now for the sake of fairness and the interest of consumers in lower energy bills.

Policy compliance

Hydro Ottawa asserts that Environmental Defence is seeking a change in or deviation from current OEB policy.¹ That is not the case. OEB policy states that distributors need not come down to the ceiling.² However, Environmental Defence was clear that is it *not* asking the OEB to order Hydro Ottawa to bring its fixed rates all the way down to the ceiling. There is a very wide range of possible rates between the OEB ceiling and Hydro Ottawa's rates, which are up to 3,241% higher than the ceiling. Environmental Defence is simply asking for a decrease, which is different from asking that the rates be brought all the way to the ceiling.

It is Hydro Ottawa that seeks a deviation from current OEB policy. It is inconsistent with the OEB's rate design methodology for fixed rates to be so far above the ceiling. The OEB decided that LDC's need not come down to the ceiling in the context of a discussion of whether the upper end of the allowable range should be 20% higher than minimum system with PLCC adjustment.³ That decision cannot be construed as the OEB condoning and providing policy approval of fixed rates that are 3,241% above the ceiling.

Environmental Defence is asking for incremental progress on this issue. This is not inconsistent with OEB policy, but rather supports it.

Fairness to Customers and Cost Causality

Hydro Ottawa argued that bringing fixed charges down to the ceiling would cause bill increases for "a typical customer with demand in the upper range of each commercial customer class."⁴

¹ Hydro Ottawa Submissions, October 27, 2020, paras. 10 & 19.

² EB-2007-0667, Application of Cost Allocation for Electricity Distributors, Report of the Board, November 28, 2007, p. 12-13 (emphasis added) ([link](#)).

³ *Ibid.*; see also EB-2007-0667, Board Staff Discussion Paper, On the implications arising from a review of the electricity distributors' cost allocation filings, June 28, 2007, p. 29 ([link](#)).

⁴ Hydro Ottawa Submissions, October 27, 2020, para. 50 & Table 1.

However, the inverse is also true, and that is a major problem. Based on Hydro Ottawa's numbers, a typical customer with demand in the *lower* range of each customer class is being overcharged by approximately \$11,000 (for 50 to 1,499 kW) to \$180,000 (large use) each year.⁵ Over five years, that amounts to \$900,000 of excess charges to the typical large use customer with demand in the lower range. That customer is paying an additional \$900,000 that should be attributed to their higher-demand peers according to the principle of cost causality.⁶ Those peers may be their competitors. This is unfair.

Of course, Environmental Defence is not asking Hydro Ottawa to be ordered to come all the way down to the ceiling, and so this overpayment would not be fully resolved. But if, for example, Hydro Ottawa reduced its deviation from the ceiling by half for large use customers, that would reduce the five-year overpayment by roughly \$450,000. Any reduction would be a change in the right direction.

Fairness to LDCs

Hydro Ottawa argues that "ED has not provided any evidence to support the contention that lowering the monthly fixed service charge is 'fair' to LDCs."⁷ However, it is Hydro Ottawa that raised the question of fairness by saying that low fixed charges "leave the LDC open to increased risks."⁸ Hydro Ottawa has raised this point and, as the applicant, has the obligation to provide evidence to show that this is a valid reason to maintain very high fixed rates. Hydro Ottawa has not submitted such evidence.

Furthermore, Hydro Ottawa's proposal is hardly fair as between LDCs. Why should Hydro Ottawa be allowed to avoid risks with fixed rates that are as much as 3,241% above the ceiling when some LDCs are within or significantly closer to the ceiling?⁹

Accurate Price Signals and Economic Efficiency

Hydro Ottawa argues that "the supply charge for electricity provides the greatest opportunity for customers to realize savings through conservation initiatives."¹⁰ That may be true. However, that is no reason to disregard the accuracy of the price signal sent by distribution charges. Even if those charges are only a small portion of a customer's bill, they should be accurate and could contribute to the incentive to pursue CDM and other initiatives that can lower distribution,

⁵ *Ibid.*; This represents the difference in rates vis-à-vis those at the ceiling.

⁶ Hydro Ottawa Submissions, October 27, 2020, para. 50 & Table 1 (Also, for a customer in the lower end of the 1,500 to 4,999 kW demand range the overcharging is roughly \$69,000 annually and \$345,000 over the span of five years.)

⁷ Hydro Ottawa Submissions, October 27, 2020, para. 23.

⁸ *Ibid.* para. 36; see also undertaking JT 3.18.

⁹ Hydro Ottawa Argument-In-Chief, October 13, 2020, pp. 8 (For example, Elexicon Veridian Zone set its 50-2,999 kW rates to equal the ceiling and Toronto Hydro's 50-999 kW rates are 14% below the ceiling).

¹⁰ Hydro Ottawa Submissions, October 27, 2020, para. 40.

transmission, and generation capacity costs. Even if the price signal would change by only 5%, that will make a difference on the margin and should not be disregarded absent a very good reason to do so.

Shifting costs from fixed to variable rates will not cause a huge increase in CDM and positive load shifting/shaving. But it will make a positive incremental difference that should not be ignored.

Rate Stability: Not an Issue

Hydro Ottawa raises concerns about rate stability were it to be ordered to reduce its fixed rates. Those concerns can be addressed by phasing in any decreases over time. Furthermore, Environmental Defence is not asking that Hydro Ottawa be ordered to abruptly bring its costs down to the ceiling on January 1st.

Generic Proceeding: Not a Realistic Option

Hydro Ottawa argues that “any change to current OEB policy should be contemplated in the context of a broader generic consultations [sic], which Hydro Ottawa notes is underway.”¹¹ However, as noted above, Environmental Defence is not seeking a change to the current policy and is not asking Hydro Ottawa’s rates to be brought down to the ceiling at this time. It is not necessary to defer a reduction in Hydro Ottawa’s fixed rates to a generic proceeding.

Furthermore, a deferral of any discussion of the fixed/variable split to a generic consultation is not an actual option. As detailed on pages 9 to 10 of Environmental Defence’s submissions of October 16, 2020, this issue is no longer being explored in the Commercial and Industrial Rate Design consultation.

In its 2007 application, Hydro Ottawa was successful in deferring the issue to a generic hearing and in ultimately side-stepping the issue completely because the issue was never addressed in subsequent generic hearings.¹² A further deferral of the issue to a generic proceeding now will most likely end in the same result – another decade or more with fixed rates out of line with cost causality and economic efficiency, resulting in lost opportunities to incentivize actions that would lower system costs and certain kinds of customers being charged many millions more than they should be.

¹¹ Hydro Ottawa Submissions, October 27, 2020, para. 23.

¹² EB-2007-0713, Exhibit H1, Tab 1, Schedule 1, Filed: 2007-09-18, Page 2 (In this proceeding, with respect to applying the Board’s new fixed rate ceiling, Hydro Ottawa stated: “determination of the fixed charges is a rate design issue that is best reviewed as part of the Board’s proceeding EB-2007-0031.”).

Conclusion

Although Hydro Ottawa has raised many points, it has not squarely said that its fixed rates are consistent with cost causation or economic efficiency, let alone supported those propositions with evidence. This inconsistency is a fundamental problem that has persisted for too long and needs to be resolved.