

Hydro One delivery costs for waterfront owners

You are busy and perhaps haven't time to read all of this Q and A. It's from a cottager group that has had success at the Ontario Energy Board (OEB) getting them to agree to require Hydro One to treat its seasonal customers like all of its "regular" customers. If someone in your association is concerned about rising costs of electricity and you are serviced by Hydro One, then pass it on to them. If you have the time, it will only take about 5 minutes to read this letter. But regardless, we want to hear from you

This letter is about a very narrow issue, what Hydro One charges for delivery of electricity to residential customers in rural Ontario. It is not about the actual costs of electricity, nor the gas plant scandal, windmills, the micro-fit program for solar energy, the billing fiasco, or the overall Green Energy Program started by Dalton McInty and embraced by his successor, Kathleen Wynne. So if you are looking for a rant about these programs you are out of luck. But if you are interested in some facts and arguments around delivery pricing and are a Hydro One customer, then you are in luck.

What is the primary issue with delivery pricing?

Hydro One has three primary classes of customers for whom they deliver electricity in rural Ontario: R1, R2 and Seasonal. Now for decades, Hydro One has defined the first two by density of area serviced, and the third group (Seasonal) by the number of residences they have. We aren't kidding. If you live in either an R1 or R2 density area, you can't get their better pricing unless you sign an affidavit that you don't have another residence. About 60% of Seasonal customers fall in the R2 density area and 40% in the R1 area. It doesn't matter if you have only one residence serviced by Hydro One, and have one of the 70 other firms that deliver electricity for your other residence.

Is this pricing common for utilities?

Absolutely not. Your phone, gas, water, internet, satellite do not use a pricing scheme based on the number of residences you have. And within the electricity sector very few utilities use "Seasonal" pricing and those that do, tend to define it by customers with low consumption, not by number of residences owned.

Is this approved by the regulator in Ontario, the Ontario Energy Board?

The OEB has approved this pricing mechanism for decades. Hydro One has to apply for its delivery pricing increases every couple of years and the OEB has simply rubber stamped this practice.

What is the impact on a Seasonal customer compared to an R1 or R2?

It all depends. Pricing for all three classes has been set using two factors: a flat rate charge and a volume charge. In the past, Hydro One deliberately set the flat rate for the Seasonal class lower than their R1 and R2 classes, and the volume charge substantially higher, up to twice the rate you would pay if you

were classified as R1 or R2. So the impact of this pricing was to undercharge the low volume Seasonal customers, and overcharge the higher volume Seasonal customers relative to the whole Seasonal class. And compared to an R1 or R2 designation, pricing under this regime for an average Seasonal customer is higher by approximately \$200-350 annual cost, or 40-250%.

Why has FOCA not challenged this pricing in the past?

Every couple of years Hydro One must come before the OEB and get approval for their rate increases for delivery and a variety of other charges. You would have thought that the Federation of Ontario Cottagers Association (FOCA), the umbrella organization for about 500 cottage associations in Ontario, would have been after this unfair pricing practice decade ago. Cottage and chalet owners were the primary target of this pricing mechanism (additional tax). But FOCA has supported this Hydro One policy at every recent application. It's in the public record. At the 2014 hearings, FOCA was the only organization to support the continuation of this policy, amongst 30 organizations commenting on the latest Hydro One rate proposal for delivery charges. The Balsam Lake Coalition (BLC) and other consumer focused organizations have argued repeatedly and loudly that this is unfair and inequitable delivery pricing. Remember that, thanks to the Green Energy Program and the expenditure of around \$2 Billion for smart meters (which you paid for with every hydro bill), Ontario now has the most sophisticated consumption measurement devices in the world for electricity.

So what happened with the latest Hydro One application?

In March 2015 the OEB brought down their decision on this pricing practice and agreed with the Balsam Lake Coalition in writing that the Seasonal Classification should be eliminated and the Seasonal customer placed in the appropriate R1 or R2 classifications. But they also indicated that they will be phasing out the volume pricing factor for all classifications and moving to a flat rate only charge. And that this move would take precedence over the elimination of the seasonal rate structure. Now if you have been paying attention, you will realize that moving to a flat rate structure will cause massive increases in delivery costs to low volume Seasonal customers. And ultimately utility pricing decisions are 100% political (think Clean Energy 10% Credit). So at a recent meeting in early 2017 Hydro One outlined that it will take 8 years to try to keep increases in delivery costs below 10% per annum for low-volume customers adversely impacted by the move to flat rate delivery pricing. And only after that is done (2023 or later) will they start to eliminate the Seasonal class. The OEB seems satisfied with this timing.

Then why is the BLC still concerned about the continuation of the Seasonal Class?

There are a number of reasons. Firstly, as we have argued for years and the OEB finally saw the light, the practice of setting delivery prices based on number of residences owned is neither fair, sensible or common in 2017 as rates should be based on density zones or consumption for all residential customers in accordance with Hydro One's own study. Secondly, as we have shown earlier, Hydro One has generally set delivery pricing on their own terms and the OEB has shown little concern about whether it

represented generally accepted good rate setting practice...until they made the Seasonal decision in 2015 (remember that this Seasonal pricing has been approved by the OEB for about 50 years). So if the Seasonal classification continues, we can expect that two cottages, side by side on the same road, with identical consumption, but with one classified as R2 and the other Seasonal, will see the gap widen between the two delivery costs with the Seasonal customer paying about 40% more for delivery although the same poles, transformers and wires are used for both. Thirdly, 40 plus years ago the Ontario gov't put in place a subsidy to help mitigate the high delivery costs for rural and remote electricity delivery. The Wynne government is proposing to double this subsidy to \$60.50 for 2017. And Hydro One has arbitrarily decided that it only applies to R2 residential customers and will not apply to Seasonal customers who are located in the R2 density zone. While the BLC has no objections to subsidies which recognize the higher costs of living in rural Ontario, we don't agree that using Hydro One's arbitrary residential criteria to define eligibility is appropriate. We don't support allowing Hydro One to set the subsidy rules based on making it easy for their billing practices, which has been their past explanation.

You should also be aware that this subsidy (the RRRP) and the OESP subsidy for low income electricity consumers as well as a myriad of other regulatory costs (the OEB alone costs about \$37 Million a year) are all funded by all electricity users, not by government general revenues

And in a recent (2016) comparison of 16 electricity distributors across rural Ontario from Lake of the Woods to Cornwall, Hydro One came in at roughly twice the price for delivery as the its competitors for residential service. And of course, even worse for Seasonal customers.

How can ratepayer associations help the BLC in their fight for fair and equitable treatment of electricity delivery pricing?

We think that a lot of cottage owners don't really understand the issues that we have laid out above. And some have told us they rely on FOCA to represent their best interests. Many also say that fighting Hydro One is a lost cause and so it's not worth the trouble; you can't win.

But we won the elimination of the Seasonal class at the OEB. And you would need to talk to FOCA about their support for Hydro One's opposition to eliminating the Seasonal Classification. The BLC doesn't agree with the past FOCA position which was that rate setting based on number of residences owned is the correct way to price delivery of electricity. It's that simple. We continue to try to convince FOCA to join our fight for fair pricing.

We think waterfront owners want fair and transparent pricing for all users serviced by Hydro One. And no cottage owner we have talked to can understand why there is a big difference in the price they pay compared with their R2 neighbour (when both use identical amounts of electricity and are serviced by the same poles and wires)

We simply would like the support of you or your association in our continuing fight for fair pricing for waterfront and all other property owners

If you or one of your members has an interest in this initiative, we are always looking for help, and we have much more info we can share. And remember...we have had success with the OEB to eliminate the Seasonal rate. They do pay attention to us. We have our own lawyer who has been successful in our regulatory battle. We simply want your time to attend hearings and help us advocate for fair pricing of electricity delivery in Ontario. The rate hearings for 2018-2022 are about to start.

Thanks you for your time...and get touch if your association supports our initiative, or you are interested in helping us or know someone who is.

Or just like to rant as I do about poor public policy that costs us all dearly

Bill Cheshire billcheshire@sympatico.ca

June 7th, 2017

IN THE MATTER OF the Ontario Energy Board Act, 1998;

AND IN THE MATTER OF an Application by Hydro One Networks Inc. For an Order or Orders approving rates for the distribution of electricity, to be effective on January 1st 2018 and continuing for a four year period ending on December 31st 2022.

NOTICE OF INTERVENTION

OF

BALSAM LAKE COALITION

1. Balsam Lake Coalition hereby applies for intervenor status in this proceeding.
2. Balsam Lake Coalition (BLC) is comprised of several seasonal customers of Hydro One Networks Inc. (HON). BLC has canvassed the opinions of various cottage groups and has found that a large number of seasonal customers are very dissatisfied with the huge disparity in electricity rates between year-round (YR) and seasonal residential (SR) customers of HON, both of whom are located on the same road, the same density zone and are using the same feeder lines and transformers etc., and yet have very different rates.
3. BLC's intended participation will focus on the following issues:
 - a) There appears to be no valid reason to have higher (SR) distribution (DX) rates than YR-DX rates because the SR cost profile does not differ materially from the YR residential class cost profile. HON's justification for higher SR-DX rates is their claim that the average SR customer's KWH consumption is about one-half the average YR KWH consumption. That claim has been largely rejected by the OEB's Draft Report (EB-2012-0410) all- fixed monthly rate design: See page 13, "costs are driven largely by two factors: the number of consumers and the peak demand on the entire distribution system". "The conclusion was that customer numbers was therefore the dominant cost driver"- and not KWH consumption.
 - b) HON also claimed that SR customer's peak demand is very different from year-round customer's peak demand which justified higher SR rates. This claim also is largely rejected by the OEB's decision dated March 12th 2015 (EB-2013-0416) see page 48: "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 class".
 - c) HON appears to have deviated from generally accepted rate-making principles, such as:
 - a) equal customers should pay equal rates & unequal customers should pay unequal rates,
 - b) rates should be a true & accurate reflection of HON's cost to provide service,
 - c) all consumers shall have non-discriminatory access to the transmission grid, as per *Part 3, Sec. 26.1, The Electricity Act 1998,*

4. BLC intends to participate in any pre-hearing procedures, settlement conferences, written or oral submissions, as well as any process the Board should order.
5. BLC has participated in several previous hearings, settlement conferences and Stakeholder Consultations.
6. BLC hereby applies for recovery of its costs reasonably incurred, including travel, parking and legal counsel.
7. The Balsam Lake Coalition requests that all documents or notices be sent as follows:

Balsam Lake Coalition
c/o Nicholas P. Copes
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Thornhill, Ontario L3T3X9
Tel: 905-889-2449
Email: ncopes@sympatico.ca

Also send to:
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And also send to:
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TO: Ms. Kirsten Walli (by email)

Board Secretary, Ontario Energy Board

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c.c. Ms. Kelly Denny (by email)

Regulatory Coordinator, Regulatory Affairs

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