

Rising Electricity Bills for Hydro One's Small Rural Customers

Hydro One is proposing to raise the electricity bills of its small rural residential customers by up to 9.4% per year for up to seven years to comply with an Ontario Energy Board (OEB) directive to recover all of its distribution (wires) costs via a fixed monthly charge.

Currently, Hydro One recovers its costs of distributing electricity to its residential customers through a combination of a fixed monthly charge and a volumetric kilowatt-hour (kWh) usage charge. The fixed monthly charge does not vary with consumption and is the same for all consumers irrespective of whether they live in a cottage or a mansion. A customer's usage charge, on the other hand, is directly proportional to her consumption.

The OEB has directed Hydro One to phase-out the use of a volumetric kWh charge for the recovery of its distribution costs (a kWh charge for the recovery of electricity generation costs will remain).¹

Table 1 below shows Hydro One's proposed annual bill increases for its small rural residential customers effective January 1, 2016.

Table 1: Proposed Annual Bill Increase for Small, Rural Residential Customers²

Rate Class	Monthly Consumption (kWh)	Change in Total Bill
R1: Residential Medium Density	350	4.88%
R2: Residential Low Density	450	8.30%
Seasonal (Cottages)	50	9.40%

Hydro One plans to phase out its volumetric charge for distribution in favour of recovering all of its distribution costs through the fixed monthly charge over the next five to seven years in order to keep bill increases below 10% per year.³

This change will result in low-volume customers in the R1 and R2 rate classes experiencing significant annual bill increases for the next five years, while small seasonal customers will experience significant annual bill increases for the next seven years. Table 2 below shows Hydro One's proposed increases to its fixed monthly charges in 2016.

Table 2: Proposed Increases to Fixed Monthly Charges in 2016

Rate Class	Fixed Monthly Charge 2015 ⁴	Fixed Monthly Charge 2016 ⁵	Total Annual Increases to Fixed Monthly Charges in 2016
R1: Medium Density	\$26.03	\$32.56	\$78.36
R2: Low Density	\$65.52	\$77.28	\$141.12
Seasonal	\$28.62	\$33.03	\$52.92

Small rural residential power users will pay the price for the Ontario Energy Board's decision to move to fixed charges exclusively for recovering distribution costs



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The underlying cause for these increases is that by rolling all distribution costs into the fixed monthly charge, Hydro One will also be shifting a higher percentage of these costs to low-volume customers. In fact, the increases for low-volume customers will essentially be used to finance bill reductions or lower bill increases for large volume consumers — Robin Hood in reverse. See Table 3 below.

Table 3: Proposed Annual Bill Changes for High-Volume Rural Residential Customers⁶

Rate Class	Monthly Consumption (kWh)	Change in Total Bill
R1: Residential Medium Density	1,800	-1.16%
R2: Residential Low Density	2,400	0.77%
Seasonal (Cottages)	1,100	0.21%

The OEB’s directive to Hydro One to recover all of its residential distribution costs via a fixed monthly charge is contrary to the public interest for two reasons.

First, it is not economically rational. Hydro One’s cost of delivering electricity is a function of both its number of customers and its customers’ peak day demands.⁷ The higher the peak day demand, the more capacity that is needed in the distribution system and the more congested that system gets under heavy loads. Under the OEB’s new regime, there is a reduced incentive for customers to curb their electricity demand through peak load shifting or efficiency improvements. This runs directly contrary to the province’s Conservation First policy and the OEB’s own time-of-use policies, which recognize that it is more costly to deliver power during high demand periods.

Second, it is not fair because it requires small volume customers to subsidize the electricity bills of high-volume customers because the greater costs that these large-volume customers place on the distribution system will no longer be reflected in their bills.

Recommendation

The Minister of Energy should direct the OEB to revise its distribution rate design to continue to include a volumetric distribution (wires) charge that provides an incentive for conservation and peak load shifting. Such a usage-based charge can help the province achieve its Conservation First objectives, including lowering costs for all customers by reducing the need for increased high-cost electricity generation, transmission and distribution infrastructure.

Endnotes

1. Ontario Energy Board, *EB-2012-0410 Board Policy: A New Distribution Rate Design for Residential Electricity Consumers*, (April 2, 2015).
2. Ontario Energy Board Docket No. EB-2015-0079, Draft Rate Order, Attachment 1, Page 7.
3. Ontario Energy Board Docket No. EB-2015-0079, Draft Rate Order, Attachment 1, Page 4.
4. Ontario Energy Board Docket No. EB-2015-0079, Draft Rate Order, Exhibit 3.5, Pages 2, 3 & 4.
5. Ontario Energy Board Docket No. EB-2015-0079, Draft Rate Order, Exhibit 5.0, Pages 2 & 3.
6. Ontario Energy Board Docket No. EB-2015-0079, Draft Rate Order, Attachment 1, Page 7.
7. Ontario Energy Board Docket No. EB-2012-0410, William B. Marcus, Principal Economist, JBS Energy, Inc., *Comments on the Ontario Energy Board’s Draft Report on Rate Design for Electricity Distributors*, (June 4, 2014), Pages 3 – 6.

The OEB’s plan leads to an outcome that is essentially Robin Hood in reverse with smaller consumers subsidizing larger power users

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