

November 20, 2016

Ontario Energy Board  
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Re: Distribution Rate Application for London Hydro  
OEB File: EB-2016-0091

I attended the OEB's Community Meeting at London Public Library during the evening of November 15<sup>th</sup> concerning London Hydro's distribution rate application. As you will recall, it was a "packed house" and there were more attendees wanting to express an opinion than time available, so I didn't verbalize my concerns at the time. This letter is simply to formalize the matters that I would otherwise have raised if time permitted.

It was very clear from the various exchanges that the public well recognizes that the electricity system in this province is completely broken. Every pundit, think tank and expert says as much.<sup>1 2 3 4 5</sup> The general public simply see electricity costs spiralling out of control (at a rate much greater than inflation) and don't know where to vent their rightful anger. Perhaps future public engagement sessions should have a representative from the Ministry of Energy in attendance to accept responsibility for abysmal failure on the energy policy front.

In examining London Hydro's rate submission, one of the external cost influences that I see (in Table 1-2, *Budget Reconciliation*, within Exhibit 1, *Administration*, Tab 2, Schedule 1 on page 7) is an entry that **the OEB has increased its annual assessment to London Hydro by \$290,000 per year!** As with other regulatory costs, this increased OEB assessment must be recovered from consumers through rate increases. I'm not sure what the assessment was before, but this is a massive increase probably representing the burdened full-time costs of 2 or 3 OEB staff dedicated to the London Hydro file.

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<sup>1</sup> Joint Consumer Policy Group / Energy Probe report: *Getting zapped: Ontario's residential hydro prices are increasing faster than anywhere else in North America*; February 2016. See URL:: <http://probeinternational.org/library/wp-content/uploads/2016/02/Getting-Zapped.pdf>

<sup>2</sup> Globe & Mail editorial: *Ontario's Liberals have completely broken the electricity system*; December 2, 2015 edition. Editorial may be accessed at URL:: <http://www.theglobeandmail.com/opinion/editorials/ontarios-liberals-have-completely-broken-the-electricity-system/article27571292/>

<sup>3</sup> Auditor General of Ontario's 2015 Annual Report; Chapter 3, *Reports on Value for Money Audits*; Section 3.05, *Electricity Power System Planning*. Document available in electronic format at URL:: <http://www.auditor.on.ca/en/content/annualreports/arreports/en15/3.05en15.pdf>

<sup>4</sup> Financial Post article: *Boondoggle: How Ontario's pursuit of renewable energy broke the province's electricity system*; Terence Corcoran; October 6, 2016; Document available in electronic format at URL:: <http://business.financialpost.com/fp-comment/boondoggle-how-ontarios-pursuit-of-renewable-energy-broke-the-provinces-electricity-system>

<sup>5</sup> Energy Probe online article: *Top 10 takeaways from auditor general's report on Ontario's electricity sector - Ontario's auditor general blasts the province's dysfunctional electricity sector*; December 4, 2015; See URL:: <https://ep.probeinternational.org/2015/12/04/top-10-takeaways-from-auditor-generals-report-on-ontarios-electricity-sector/>

Note: In its 2011 review,<sup>6</sup> the Auditor General of Ontario noted: “*The average cost of filing a COS rate application is approximately \$100,000 for a small utility and \$250,000 for a mid-sized one, representing between 15% and 55% of the revenue increase these utilities are seeking in the first place. ...*” Rather than increasing the efficiency of its processes (pursuant to the OEB’s response to the Auditor General’s recommendation #1), the OEB has apparently instead elected to considerably increase its annual assessment fee to LDC’s. This is hardly the expected outcome of an efficiency exercise! Ironically, the current rate-setting process for LDC’s includes what is termed a *productivity factor*<sup>7</sup> wherein there is a financial penalty to LDC’s that are unable to improve their respective productivity year after year, but this same concept doesn’t seem to be applied to the OEB to streamline its regulatory activities.

This large OEB fee increase is deeply troubling to me from two inter-related perspectives, namely:

- (i) I am aware of previous undertakings by the Ontario Energy Board to protect my interest as a residential customer via the eradication of all forms of cross-subsidization. The mantra at the time was that those parties with cost responsibility should bear their fair share of infrastructure costs. As such, there were significant endeavours to (i) adjust the rates for unmetered scattered load (e.g. municipal streetlights, traffic signals, CATV amplifiers, etc.) and (ii) to eliminate “*long term load transfer*” customers, to name but two examples.

However, in my mind, much recent government policy is simply thinly-veiled cross-subsidization measures (that largely address some symptoms of the plethora of problems, and entirely miss the root cause). Specifically:

- The Ontario Electricity Support Program (OESP) – while social support programs are certainly an integral part of the Canadian fabric, the fact that the cost of this ongoing program is buried in the distribution tariff (as opposed to being funded from the tax base as is the case for other social support programs) is simply another example of cross-subsidization. If the newspaper claim that \$11.7M of the overall \$11.9M program budget went to consultants, publications, media and advertising is correct,<sup>8</sup> and nobody within government or quasi-government circles is held accountable, then this is particularly galling to ratepayers.

Note: The Low-Income Energy Assistance Program (LEAP) that has been around for a few years now and provides one-time emergency financial assistance to qualifying low-income customers in serious arrears with their electricity and natural bills (or more likely disconnected for non-payment) is clearly yet another cross-subsidization program. This is not to suggest that such social assistance programs should cease, but rather they should properly be funded from the tax base (in contrast to being a hidden component of an LDC’s distribution charge).

- Rural / Remote Rate Protection – In the recent Speech from the Throne<sup>9</sup> the government committed (to amend Ontario Regulation 442/01) to significantly enhance the existing rural support program to provide even more on-bill savings for Ontario’s eligible rural customers.

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<sup>6</sup> 2011 Annual Report of the Office of the Auditor General of Ontario, Chapter 3, *Ontario Energy Board*; Section 3.02, *Electricity Sector - Regulatory Oversight*; pages 76 – 77. Document available online at URL:: <http://www.auditor.on.ca/en/content/annualreports/arreports/en11/302en11.pdf>

<sup>7</sup> Mowat Centre report: *Background Report on the Ontario Energy Sector*; February 2016; Section 5.2.1, *Evolution of the OEB’s Electricity Distribution Rate Setting*; pages 27 – 29; see URL:: [https://mowatcentre.ca/wp-content/uploads/2013/05/MowatEnergyRFP\\_AppendixB.pdf](https://mowatcentre.ca/wp-content/uploads/2013/05/MowatEnergyRFP_AppendixB.pdf)

<sup>8</sup> The Canadian Press online article: *Tories say Liberals spent \$11.7M on consultants, media for hydro rebate plan - Energy minister says money spent on 'robust and effective promotions campaign'*; October 18, 2016. Article available online at URL:: <http://www.cbc.ca/beta/news/canada/toronto/ontario-electricity-support-1.3809961>

<sup>9</sup> Speech from the Throne: *A Balanced Plan to Build Ontario Up for Everyone*; September 12, 2016; page ; Speech transcript available at URL:: <https://news.ontario.ca/opo/en/2016/09/speech-from-the-throne.html>

*“Eligible rural customers would receive these additional savings, which would result in an on-bill monthly saving of about 20 per cent — approximately \$45 a month.”*

While I readily concede that the per-customer costs of distributing electricity in sparsely populated rural areas is greater than in densely populated urban areas, this entire concept is troubling from two perspectives, namely (i) it is again another blatant example of cross-subsidization, and (ii) on numerous occasions, the Auditor General of Ontario has been rightly critical of Hydro One Networks as a bloated and ineffective organization.<sup>10</sup> And yet, customers of London Hydro, and the other LDC’s in the province that seemingly are well managed will effectively be penalized by subsidizing Hydro One Networks’ customers.

- Industrial Conservation Initiative (ICI) - the Ministry of Energy is proposing to amend Ontario Regulation 429/04 so that any electricity consumer with an average monthly peak demand of greater than 1 MW can opt-in to be eligible for participation in ICI. This will simply result in a massive shift in Global Adjustment payments to the remaining Class B consumers and residential and small business consumers with TOU-RPP rates (again a massive shift in cost from participants to non-participants). For residential customers like me, the result can only be yet another increase to the TOU-RPP rate.
- The proposed amendments to Ontario’s net metering regulation (as posted on the Environmental Registry) embrace the concept of “*virtual net metering*”. If this concept comes to fruition in the regulations, this would clearly be yet another instance of cross-subsidization (i.e. transferring costs from participant to non-participants).

As a rate payer I see ever-expanding instances of cross-subsidization (i.e. the transference of costs from participants to non-participants, or from one tariff group to another), and yet the OEB appears to remain silent on these matters, allowing other watchdog entities such as the Auditor General of Ontario, the Ombudsman, and the Environmental Commissioner of Ontario to rail against various aspects of the clearly failed electricity system. In my mind, the Ontario Energy Board has abdicated its assumed purpose of being an independent agency charged with *protecting the interests of consumers* ....<sup>11</sup> Even the OEB’s mandate and vision as expressed in its 2014 – 2015 annual report<sup>12</sup> reiterates this purpose, i.e. *protecting energy consumers’ interests*.

Note: The irony here is that consumers probably don’t need much protection from LDC’s but rather from the government and quasi-government agencies that are entirely responsible for completely breaking the electricity system in this province.

- (ii) The OEB spokesperson at Tuesday night’s meeting spoke about the OEB’s expectation that individual LDC’s should better engage the public with respect to their individual investment plans and show evidence of such engagement in their rate applications. However, I have no recollection of ever receiving anything from the OEB asking me if I was willing to pay more money for less protection of my interests (in an indirect manner by a significantly larger fee assessment on

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<sup>10</sup> 2015 Annual Report of the Office of the Auditor General of Ontario; Chapter 3, Section 3.06, *Hydro One—Management of Electricity Transmission and Distribution Assets*; document available online in electronic format at URL:: <http://www.auditor.on.ca/en/content/annualreports/arreports/en15/3.06en15.pdf>

<sup>11</sup> Part 1, *General*, Clause 1, *Board Objectives, Electricity*, of the Ontario Energy Board Act, 1998.

<sup>12</sup> Ontario Energy Board Annual Report 2014 – 2015, *Protecting Consumers and Delivering Value*; pg 2; document published at URL:: [http://www.ontarioenergyboard.ca/html/annualreport/2014-15/pdf/OEB\\_AnnualReport\\_2014-15\\_E\\_Complete.pdf](http://www.ontarioenergyboard.ca/html/annualreport/2014-15/pdf/OEB_AnnualReport_2014-15_E_Complete.pdf)

LDC's). Can you direct me to evidence of that public engagement process? Or is this simply another case of a bureaucratic government body expecting other non-government organizations to conduct business in a manner they wouldn't subject themselves to?

There are certainly other hidden costs in the “*delivery charge*” on my bill that I feel exemplify the OEB's failure to *protect the consumers' interest*, namely:

- Monthly *IESO smart metering entity* charge – Apparently my delivery charge includes a hidden \$0.79 / month charge<sup>13</sup> for the provincial Smart Meter Entity to conduct a simple data processing activity that the Auditor General of Ontario reckons could be done by the community of LDC's for \$0.21 / month (on average).<sup>14</sup> As a ratepayer, what is particularly infuriating about this arrangement is that the OEB is even considering a license extension<sup>15</sup> <sup>16</sup> to this cozy exclusive arrangement thereby depriving me of the opportunity to have London Hydro provide me with this same service at market rates (which seem to be about 26% of the IESO's charge).
- Bad debt write-offs – the electricity sector in Ontario is so completely broken that the term “*energy poverty*” has entered the lexicon of every low-income and fixed income (mostly seniors) customer in this province.<sup>17</sup> With escalating electricity costs putting more customers into financial difficulty, it is inevitable that bad debt write-offs will increase, and consequently there will be more upward pressure on the distribution tariff (purely on account of matters completely outside the LDC's control). It is not clear to me (and seemingly unfair) why bad debt write-offs are completely borne by the electricity distributor (in this case London Hydro) but the upstream provincially-owned entities such as the transmitter (Hydro One Networks) and generators (e.g. Ontario Power Generation) are held whole.

London Hydro has been kind with its rate application. Table 1-2, *Budget Reconciliation*, of Exhibit 1, *Administration*, should be followed by narrative text that reads something akin to:

*The provincial government's ill-considered pursuit of some ideology has completely broken the electricity system in this province resulting in skyrocketing electricity rates and a plethora of band-aid regulations that address the symptoms as opposed to the root cause. While London Hydro is properly doing its part to contain or lower its distribution rate via cost savings due to productivity gains, these savings aren't nearly sufficient to offset the increasing costs associated with cross-subsidization, the unintended consequences of a broken electricity system (e.g. bad debt write-off), emerging additional regulatory requirements, and significant downloaded costs from the Ontario Energy Board, a regulatory body that is failing the residential customer on*

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<sup>13</sup> London Hydro website page entitled: *Electricity and Water Rates*; see URL:: <https://www.londonhydro.com/site/#!/residential/content?page=electricity-water-rates>

<sup>14</sup> Auditor General of Ontario's 2014 Annual Report; Chapter 3, *Ministry of Energy*, Section 3.11, *Smart Metering Initiative*; page 369 - *Duplication of Services by Provincial Data Centre and Local Distribution Companies' In-house Systems*. Report electronically available at URL:: <http://www.auditor.on.ca/en/content/annualreports/arreports/en14/311en14.pdf>

<sup>15</sup> Aird & Berlis online publication *Energy Insider*; article entitled: *OEB Requires “Smart Metering Entity” to Collect and Share More Consumption Data*; by David Stevens; February 4, 2016; article available online at URL:: <http://energyinsider.ca/index.php/oeb-requires-smart-metering-entity-to-collect-and-share-more-consumption-data/>

<sup>16</sup> OEB File Number EB-2016-0284, *Application to Renew the Smart Metering Entity Licence*.

<sup>17</sup> CBC Radio broadcast: *The Current with Anna Maria Tremonti*; September 1<sup>st</sup>, 2016 episode; *People have to choose between heating and eating: Rising hydro costs hit Ontarians*; Transcript available at URL:: <http://www.cbc.ca/radio/thecurrent/the-current-for-september-1-2016-1.3744010/people-have-to-choose-between-heating-and-eating-rising-hydro-costs-hit-ontarians-1.3744013>

*several fronts. In all likelihood, other LDC's will have to deliver the bad news of a distribution rate increase primarily due to reasons directly attributable to government and quasi-government action (or inaction).*

As a final note, I have no expectation that this letter will have any effect on London Hydro's rate application. While it is easy to blame ill-conceived regulation (such as the *Green Energy and Green Economy Act, 2009*) for costs that are spiralling out of control, the intention of this letter was to show that there are a number of measures that the Ontario Energy Board itself can undertake to provide rate relief to residential consumers and better align its activities with my expectations for an agency that actually does protect the consumers' interest.

It is noteworthy that in Friday's speech at the Liberal party's annual general meeting in Ottawa, it is reported<sup>18</sup> that Premier Kathleen Wynne has finally stopped trying to cast blame on the previous Conservative government for entirely breaking the electricity system – this is probably a good move since such claims are clearly not supported by the evidence. Apparently “... *In the weeks and the months ahead, we are going to find more ways to lower rates and reduce the burden on consumers. ...*” If the OEB really wanted to do something within its control to contribute towards this promise, my suggestions for the short-term are:

- (i) provide LDC's opt-out provisions for the IESO smart metering entity fee, and
- (ii) roll back the OEB's exorbitant fee increases to LDC's and put itself on a financial diet as per its earlier promise to the Auditor General of Ontario.

Elimination of the various types of cross-subsidization is a longer-term play that needs to be done but this will take time to unravel the various regulations. I surmise that the Premier is so desperate to provide even a small message of hope to customers, that if these suggestions were brought to her attention, she would personally “*move mountains*” to implement them sooner than later.

Yours truly,



Gary & Gail Rains

[Redacted signature block]

<sup>18</sup> Globe & Mail online article: *Premier Kathleen Wynne promises to win back Ontarians' trust, calls high electricity prices her 'mistake'*; by Adrian Morrow; November 18, 2016. Article available at URL:: <http://www.theglobeandmail.com/news/national/ontario-premier-kathleen-wynne-calls-high-electricity-prices-her-mistake/article32946738/>