



DECISION

IN THE MATTER OF an Application by
New Brunswick Power Corporation with
respect to proposed changes to its rate
structure, rate classes and rate design.

(Matter No. 357)

August 4, 2020

NEW BRUNSWICK ENERGY AND UTILITIES BOARD

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NEW BRUNSWICK ENERGY AND UTILITIES BOARD:

Acting Chairperson: François Beaulieu

Members: Michael Costello

Patrick Ervin

John Patrick Herron

Counsel: Ellen Desmond, Q.C.

Chief Clerk: Kathleen Mitchell

APPLICANT:

New Brunswick Power Corporation: John Furey

INTERVENERS:

David Amos:	Per se
Gerald Bourque:	Per se
J.D. Irving, Limited:	Christopher Stewart
Liberty Utilities (Gas New Brunswick) LP (formerly Enbridge Gas New Brunswick Limited Partnership):	Paul Volpé
Dr. Roger Richard:	Per se
Sussex Sharing Club:	Alfie Smith
Union of Municipalities of New Brunswick:	Margot Cragg
Utilities Municipal:	Scott Stoll
York North Veneer Products Inc.:	Jennifer Leduc-Allen
PUBLIC INTERVENER:	Heather Black

A. Introduction

- [1] By correspondence dated August 2, 2016, the New Brunswick Energy and Utilities Board (Board) directed the New Brunswick Power Corporation (NB Power) to file a rate design application by May 1, 2017. This application was filed as Matter 357 and a pre-hearing conference was held on June 15, 2017.
- [2] The Board generally permits interested parties, including members of the public, to participate in Board proceedings. Several stakeholders intervened in this matter.
- [3] On September 12, 2017, NB Power filed a motion seeking an adjournment, effective November 1, 2017. In an oral decision dated September 21, 2017, the Board granted the adjournment and directed that the rate design matter be heard in conjunction with NB Power's 2019-2020 General Rate Application.
- [4] Following further consultation with the parties, however, the Board decided that the rate design application would be considered separately. A procedural conference was held on October 12, 2018 to discuss the evidentiary record and to define the issues.
- [5] As a result of the procedural conference, the Board retained The Brattle Group (Brattle Group) as an independent facilitator, with the objective of creating a forum for discussion of the defined issues.
- [6] The Brattle Group was asked to assist the stakeholders to (a) identify the issues for determination in Matter 357, based on the evidentiary record and on stakeholder comments; and (b) determine what issues should and can be resolved in the immediate future and those issues that need to be resolved in the medium and long-term basis.
- [7] On May 14, 2019, the Board established the following goals in relation to Matter 357:
- a) Reducing any inequity that may exist or may be caused by the current rate structure (on a short-term, medium-term and long-term basis);
 - b) Establishing a rate design methodology that is easily adaptable to future changes (including changing technologies and the business environment); and

- c) Establishing a rate design methodology that is clear, manageable and predictable, allowing customers, utilities, the government and stakeholders to make the necessary investments and appropriate behaviour changes.

- [8] In June 2019, the Department of Social Development and the Canadian Federation of Independent Business requested to participate in the stakeholder process. As the stakeholder process was intended to be informal and to permit a broad discussion of issues, the Board allowed their participation.
- [9] The Brattle Group facilitated three stakeholder meetings, led by Dr. Ahmad Faruqui and Ms. Cecile Bourbonnais. These were held in the summer and fall of 2019. Following the conclusion of the third meeting, stakeholders were provided an opportunity to submit written comments and redlines on the draft report of the Brattle Group. Many of the suggested edits were incorporated into the final stakeholders' report.
- [10] The Brattle Group then filed a report to the Board entitled "Stakeholder Perspectives on Rate Design Reform" (the Brattle Report) dated November 8, 2019. A presentation, originally scheduled for December 2019, was to provide the Board with an overview of the Brattle Report. It was also an opportunity for the Board to ask questions about the process and potential sequencing of decisions and studies.
- [11] Due to the unavailability of the Brattle Group in December, the matter was rescheduled to May 12, 2020, at which time the Board conducted a meeting via video conference with Dr. Faruqui, Ms. Bourbonnais and the stakeholders. The Board provided all stakeholders the opportunity to submit written comments. A number of stakeholders submitted comments, including, Mr. David Amos, Mr. Gerald Bourque, Liberty Utilities, NB Power, Dr. Roger Richard, Sussex Sharing Club, Utilities Municipal and the Public Intervener.
- [12] The Board appreciates the contributions that stakeholders have made in this matter, which involved a significant commitment of time and effort. The Board values the views that were presented.

B. Issues

[13] At the outset, it is important to note that due to the diversity and complexity of the issues raised, not all may be resolved in the near future, or in a single hearing. Also, the order in which these issues are addressed may be sequenced differently.

[14] The Board must therefore determine:

1. What rate design issues can be addressed in the short-term;
2. What rate design issues should be set over for resolution on a medium- or longer-term basis; and
3. Next steps in the rate design process.

C. Analysis

[15] Any rate design decision must consider important ratemaking principles, as were emphasized in the Brattle Report. They include the need for economic efficiency, equity, revenue stability, bill stability, and customer satisfaction. Dr. Richard, in his submission, added that impacts on the environment should also be considered as a principle.

[16] Before any single issue can be addressed, the Board needs to consider how the views of consumer groups will be represented in relation to rate design. NB Power highlighted the need for residential customers to be adequately represented. The residential class, being the largest customer class, was not specifically represented in stakeholder sessions and Board proceedings. This, in turn, may have an impact on the outcome of the process, particularly as it relates to equity and fairness.

[17] In the Board's view, more consideration of rate design issues for customer classes not specifically represented in stakeholder sessions is warranted.

[18] NB Power proposes an increased use of customer surveys and customer engagement as methods to address under-represented customer groups. These could better inform the Board about the interests of such groups; however, specific representation may be required to raise concerns and advocate for their specific interests.

[19] The Board understands that the Public Intervener is charged with representing the public interest during Board proceedings, and does not represent any specific class of customers. Moreover, the Board understands the submissions of the Public Intervener and Utilities Municipal that the residential class is diverse and that the interests of some residential customers may be different than others.

[20] In the Board's view, advocates for under-represented customers would contribute to the rate design process.

[21] NB Power is directed to submit a proposal to remedy this gap in representation no later than June 2021. If this issue is addressed, informal tools such as surveys, stakeholder workshops or focus groups may be more effective in identifying the concerns and interests of all classes. Future hearings would benefit from informed customer advocates as parties to the rate design process.

1. Short-Term Issues

a. Load Research

[22] As the Board continues its work in rate design, reliable and comprehensive load research will be required. In Matter 430, the Board found that past load research is stale and should be refreshed.

[23] The results of this load research will be critical in the decision-making process, especially as it relates to the residential class. Most residential customers do not have meters that can capture time sensitive information about their usage. More accurate information will assist in understanding their load profiles.

[24] Without accurate and timely load research, it is very challenging to make effective changes for those classes that take service at the distribution level. In the 2020-2021 General Rate Application, NB Power proposed a reinvigorated load research program. It stated that it was able to start collecting load data in the winter of 2020-2021 for all customer classes. Information from the load research program will serve as a foundation for other decisions that will be made in the medium and longer-term basis.

[25] NB Power is to continue its load research program and is directed to file any results no later than June 2021.

b. Issues Relating to Fairness and Equity

[26] The current matter, as its heading indicates, deals with rate structure, rate classes and rate design. These general issues, however, have brought to the surface more specific issues related to the overall objectives, or potential objectives, that rate structure, classes and design could achieve. These issues are reviewed below.

(1) Revenue to Cost Ratio Inequities

[27] In its Decision dated May 13, 2016 (Matter 271), the Board reaffirmed a 2005 decision of the New Brunswick Board of Commissioners of Public Utilities, which stated "... a long term target range of .95 to 1.05 for the revenue to cost ratio for each class is reasonable." The Board continues to use this range as a standard target for achieving inter-class equity.

[28] Revenues received from any particular rate class would ideally be equal to the costs to service that class. For practical purposes, however, any revenue to cost ratio within the so-called "range of reasonableness" is considered as acceptable and equitable. Outside of this range, some customer classes pay more than the cost incurred to provide service to those classes, while others pay less than the cost of service. This inter-class cross-subsidization results in inequities. An effective rate design would assist in resolving such issues.

[29] Any effort to resolve the revenue to cost ratio is influenced by the composition of the rate classes themselves. Ideally, customer classes should group customers with similar electricity use patterns or load profiles.

[30] However, NB Power's commercial and industrial classes are mostly defined by the end uses of the electricity. For example, the small industrial class is only open to customers using electricity for specific processes. While this classification may have been a helpful proxy to group customers with similar loads together, changes in the nature of customers' loads may allow for new classifications.

[31] NB Power is directed to file an application, no later than June 2021, that proposes the appropriate classification of commercial and industrial classes. This may include the creation of new classes, or a new approach to customer classification.

[32] NB Power should also address the specific issues identified in the paragraphs below. NB Power is to propose a plan for moving these customer classes towards the range of reasonableness.

(2) Phase out of the General Service II Rate Class

[33] A long-standing issue has been the existence of separate General Service I (GS I) and General Service II (GS II) classes of customers. Many GS II customers may have similar usage as GS I customers but are charged different rates because they are “grandfathered” in the GS II class. In Matter 430, NB Power indicated that the GS II customer class will eventually need to be eliminated.

[34] Under NB Power’s Rate Schedules and Policies, the GS II rate is not available to new customers as of July 1, 2006. Existing GS II customers that request reconnection or upgrade for any reason, including change of ownership, will have the GS I rate applied. NB Power proposed a strategy to move all GS II rates closer to the GS I rates.

[35] NB Power is directed to file an application, no later than June 2021, that includes an action plan for the timely elimination of the GS II class.

(3) Farms, Churches and Charitable Organizations

[36] Under NB Power’s existing tariff, there are a number of issues in which rate exemptions have been created for particular groups of customers. For example, some farms and churches are billed at the residential rate, while others are not. This is the result of a long standing “grandfathered” clause that has resulted in customers with similar usage profiles to be treated differently.

[37] The Board has also heard requests on several occasions to consider the creation of a rate class for charitable organizations. This issue remains unresolved.

[38] NB Power is directed to file an application, no later than June 2021, containing a proposal to address the above issues. In its proposal, NB Power is also directed to address any proposals for special rates for particular groups of customers, as discussed below.

[39] The proposal should outline the history and rationale behind the current manner in which farms and churches are classified. This should provide a view as to whether the existing “grandfathered” clause should continue, and if so, on what basis, and whether a charitable class should exist. NB Power should also address any other issues raised by individual interveners in recent hearings.

(4) Street Lights, Unmetered Customers and Water Heaters

[40] Street lights, unmetered customers and water heaters are rate classes that have been the subject of debate. The revenue to cost ratio for these classes is well outside the range of reasonableness.

[41] During previous hearings, some interveners have argued that there is sufficient market competition for these services. They suggested that the Board should consider forbearing from regulating such services and allow the free market to determine rates.

[42] NB Power is directed to file an application, no later than June 2021, that includes a proposal as to whether the Board should or should not forebear from regulating these services. NB Power is also directed to file an updated cost of service model for these classes.

c. Marginal Cost of Service Study

[43] The Brattle Report considers the merit of NB Power conducting a marginal cost of service study. At page 28, it states:

Prior to making rate design enhancements, there was strong support for completing a marginal cost study for pricing purposes, with the understanding that marginal and embedded cost of service studies might produce two different sets of outputs and serve two purposes. This position reflects the belief that an embedded cost of service study provides a benchmark as a measure of equity but does not capture the attribute of cost reflectivity for a seasonal type of utility.

[44] Liberty Utilities, a proponent of a marginal cost of service study, provided the following comment from its expert consultants, Concentric Advisors ULC:

New Brunswick has a tradition of using Allocated Cost of Service Studies to determine the proper assignment of revenues to a tariff class... Liberty recommends keeping the practice of completing this type of study.

The Marginal Cost of Service Study would be performed in addition to, not instead of, an Allocated Cost of Service study which has historically been part of NB Power's GRA. The Marginal Cost of Service Study would be used to provide guidance for pricing tariff elements (e.g. energy charges, differentials by time of use or season, etc.) which would produce cost reflective tariffs. In contrast, the Allocated Cost of Service Study, as noted, would be used to allocate the revenue requirement to tariff classes (i.e. achieve the equity goal).

[45] While most stakeholders did not object to the provision of additional information, there was no evidence to suggest that the current methodology and the use of the allocated cost of service study are inappropriate. It was generally agreed that a marginal cost of service study would provide additional guidance but would not be used in the process of cost allocation.

[46] The Board is not convinced that a marginal cost of service study is currently necessary. At this time, the focus is on resolving short-term equity issues, using an up-to-date embedded cost of service study. If necessary, the marginal cost of service study may be considered at a future stage in the process.

2. Next Steps in the Rate Design Process

[47] The process of modernizing rate design is expected to occur over three distinct phases. This process will take time and commitment from stakeholders.

[48] NB Power is directed to commence a new proceeding which includes the phases as described below.

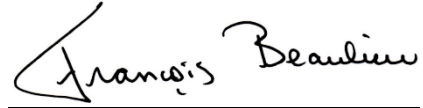
[49] The first phase will begin with the filing of an application by June 30, 2021 to address the issues identified above. The Board is confident that the resolution of these issues will assist in laying a foundation for future rate design phases.

[50] In the second phase, the Board will provide details about the timing and the specific issues to be resolved. It is expected that this phase will identify rate design options and determine the rate structure.

[51] The final phase will establish and implement a new rate design.

[52] Accordingly, Matter 357 is hereby concluded.

Dated at Saint John, New Brunswick, this 4th day of August, 2020.



François Beaulieu
Acting Chairperson



Michael Costello
Member



Patrick Ervin
Member



John Patrick Herron
Member