

May 27, 2016

BY COURIER (2 COPIES) AND RESS

Ms. Kirsten Walli

Board Secretary

Ontario Energy Board

2300 Yonge Street, Suite 2700, P.O. Box 2319

Toronto, Ontario M4P 1E4

Dear Ms. Walli:

Re: EB-2015-0043 Rate Design for Commercial and Industrial Customers

Further to your letter of March 31, 2016, we are writing to provide Environmental Defence's comments on the discussion paper by Board Staff regarding rate design for commercial and industrial electricity customers.

Overall Objectives

Environmental Defence strongly supports the objectives of the Ontario Energy Board (the "Board") in this proceeding. A new rate design could lead to lower utility costs and lower customer bills by encouraging the wise use of our electricity distribution systems. This opportunity is described in the discussion paper as follows:

In looking at commercial and industrial customers, the OEB also intends to increase efficiency in the sector by optimizing the use of the current system and optimizing investment for long-term cost containment. Current distribution rate designs are not fully linked to distribution cost drivers i.e. customer demand, both connection and peak.¹

In addition, the Board has noted that its new rate design can encourage the development of distributed energy resources:

New rate designs could encourage greater economic use by customers of distributed energy resources. Distributed energy resources (DER) are becoming more cost effective and increasing penetration.²

Environmental Defence strongly supports rate designs that will encourage customers to reduce their peak demands and invest in distributed energy resources. Energy

¹ Staff Discussion Paper, Rate Design for Commercial and Industrial Electricity Customers: Aligning the Interests of Customers and Distributors, March 31, 2016, p. 2.

² Staff Discussion Paper, Rate Design for Commercial and Industrial Electricity Customers: Aligning the Interests of Customers and Distributors, March 31, 2016, p. 3.

conservation and efficiency and cost-effective distributed energy are cleaner, safer and lower cost resource options to keep our lights on than electricity distribution and transmission system expansions and costly electricity generation infrastructure projects such as nuclear re-builds.

Aligning Incentives

According to the Board Staff discussion paper, the Board's objectives can be achieved by increasing consumers' financial incentive to reduce their peak day demands:

Current OEB staff thinking is that the underlying rate design should be readily understandable to the traditional customer and reward the active customer for reducing one of the primary cost drivers i.e. peak capacity. Reducing peak capacity will lower the distributor's investment needs to meet peak capacity and save money over time. Building this driver into rates will align the interests of the customer and the distributor. The expectation is that a rate design that addresses underlying cost drivers will lead to each customer paying their fair share of the system. The intention is to avoid creating specialized rate classes for load displacement generation and net metered customers and charges like standby rates that can be a barrier to customer choice. OEB staff further thinks that prosumers who are actively engaging with the system have a level of knowledge and sophistication that may allow more advanced rate designs to apply to them.³

Environmental Defence agrees.

Choice of Rate Design Options

In general, Environmental Defence supports rate design options that:

- (1) Provide the largest incentives for consumers to reduce peak demand; and
- (2) Encourage the expansion of distributed generation.

As noted by Board Staff, reducing peak demand will reduce the need for utility infrastructure investments and ultimately reduce energy bills in the province. Reducing peak demand could also reduce greenhouse gas emissions by reducing the consumption of power generated at the peak by natural gas peaking plants. Those emissions reductions could save customers carbon-related costs and help further the government's objective of de-carbonizing the electricity system. Furthermore, reducing peak demand could also reduce the need for new generation capacity in the province (e.g. natural gas peaking plants), and thereby save generation-related costs, thus lowering commodity costs.

³ Staff Discussion Paper, Rate Design for Commercial and Industrial Electricity Customers: Aligning the Interests of Customers and Distributors, March 31, 2016, p. 12.

Incentivizing reductions in peak demand is also fair. Seeing as distribution costs depend in large part on peak demand, it makes sense to vary charges based on the degree to which consumers contribute to peak demand.

Incentivizing reductions in peak demand is also sound from the perspective of economics and policy. The consumption of power during peak periods leads to negative externalities by contributing to the need for additional distribution and generation capacity and increased greenhouse gas emissions. Varying costs based on a customer's peak demand helps to address and internalize these negative externalities.

As for the goal of encouraging distributed generation, this benefits all consumers because it is a cleaner, safer and lower cost resource option to keep our lights on.

General Service Under 50 kW

For general service customers with under 50 kW of demand, Environmental Defence supports the option that maximizes the incentives to reduce peak demand while also encouraging distributed generation. Of the options presented in the discussion document in relation to this customer class, it appears that option 2 (time of use distribution rate) would best achieve those goals. However, if a technical analysis were to determine that another option would better achieve the goals of reducing peak demand and encouraging distributed generation (e.g. energy use blocks or an option based on demand rather than consumption), Environmental Defence would likely support that alternative.

General Service Over 50 kW, Intermediate Customers, and Large Customers

Environmental Defence supports Board Staff's three part demand rate (option 5). This consists of the following:

1. A fixed monthly charge to reflect direct customer costs (e.g., meter, billing);
2. A non-coincident peak demand charge to represent the costs of connecting the customer to the distribution grid; and
3. A peak demand charge to represent the customer's contribution to the utility's peak capacity requirements.⁴

As Board Staff have noted, the three part demand rate is closely aligned to the utility's cost drivers and would remove complications relating to distributed generation:

It ensures that a customer pays for fixed customer costs, customer connection and contribution to peak capacity. The intent is to eliminate the need for specialized charging for distributed generation or net metering

⁴ Staff Discussion Paper, Rate Design for Commercial and Industrial Electricity Customers: Aligning the Interests of Customers and Distributors, March 31, 2016, p. 24.

since the underlying distribution rate is recovery from customers according to their use. The peak demand would reward customers for generation on-peak but also charge them for use when their generator was down for maintenance or repair.⁵

This option appears to best achieve peak demand reductions and distributed generation expansion. However, if a technical analysis were to determine that another option would better achieve these goals, Environmental Defence would likely support that alternative.

As to whether to charge based on a broad peak (option 5a, 7 am to 7 pm) or a narrow peak (option 5b, 3 pm to 9 pm), again, Environmental Defence supports the option that best incentivizes reductions in peak demand while also encouraging the expansion of distributed generation.

Credits for Distributed Energy Resources

Environmental Defence supports Board Staff's efforts to develop credits that would encourage the development of distributed energy resources.

Conclusion

Environmental Defence is strongly supportive of this process and the Board's efforts to develop a new rate design that would lead to lower utility costs and lower customer bills by encouraging the wise use of our electricity distribution systems.

Yours truly,



Kent Elson

cc: Intervenor

⁵ Staff Discussion Paper, Rate Design for Commercial and Industrial Electricity Customers: Aligning the Interests of Customers and Distributors, March 31, 2016, p. 25.