Low-Income Energy Network

Sent by courier and filed via RESS

Ms Kirsten Walli
Board Secretary
P.O. Box 2319
Ontario Energy Board
2300 Yonge Street, Suite 2700
Toronto, ON M4P 1E4

Re: Provision for Written Comments by Stakeholders
Renewed Regulatory Framework for Electricity (RRFE)
Board File Nos: EB-2010-0377, EB-2010-0378, EB-2010-0379, EB-2011-0043 and EB-2011-0004

Dear Ms Walli:

The Low-Income Energy Network (LIEN) represents 90 member groups across Ontario. As a network representing the intersection of interests related to low-income consumers and energy and sustainability, LIEN's focus is on reducing the energy bills of all low-income consumers and providing low-income consumers the opportunity to better manage their energy bills. This helps to ensure that all low-income consumers across Ontario have access to conservation programs, technologies and services as well as conservation education, and realize the environmental, energy and economic benefits associated with the more efficient use of energy.

LIEN attended and participated in the Stakeholder Conferences held by the Ontario Energy Board (OEB or the Board) in December 2011 and March 2012. LIEN welcomes the opportunity to provide further comments to the Board with respect to the development of the RRFE.

LIEN provides its comments in order in which the questions appear in Attachment A of the OEB's April 5, 2012 Letter. However, to avoid duplication with Board Staff questions, LIEN has addressed more than one question under each heading, where responses are related.

1. What is your vision for a sustainable and long-term regulatory regime?

In preparing these comments, LIEN has endeavoured to promulgate the following principles, which LIEN submits should be part of the RRFE:

- The RRFE should lead to the maintenance of an environmentally and socially sustainable electricity system, which is affordable, efficient and reliable. Electricity planning, system performance metrics and incentives of LDCs should align with and reinforce these objectives.

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LIEN is a project funded by the Ontario Trillium Foundation and supported by ACTO and Legal Aid Ontario

- Achieving such a sustainable electricity system requires integrated planning and implementation for distribution system maintenance and expansion, and a thorough and transparent examination of alternatives to make least-cost[1] choices.
- At each step of planning, approvals and implementation, there is due regard to affordability. Affordability not only includes consideration of rate mitigation and smoothing as well as rate subsidization; it also considers mitigating bill impacts through conservation and demand management (CDM). CDM, geographically targeted (e.g. local, regional) to address specific system constraints, is a proven approach to cheaply address electricity system constraint issues in other jurisdictions (e.g. ConEdison, New York, USA).

Straw Man Model for Regulatory Framework

LIEN sees the straw man model as a good starting point for the development of a RRFE, reflecting the principles described above. The straw man integrates network investment with asset management in a multi-year framework, which is linked with regional planning. It also provides some sense of cohesion between the different policy initiatives of the RRFE, notably distribution planning, regional planning and smart grid. The RRFE process should continue to build on this initial model.

Integration is important as it helps to ensure a more cost effective and orderly approach to investment. A multi-year framework is necessary as investments can be large and recovered over many years; it facilitates a long-term view to investment and provides the opportunity to phase-in investments and smooth rate increases and appropriately address affordability issues. The treatment of total bill mitigation, both from ex-post and ex-ante approaches, also helps to address affordability issues. Accordingly, the straw man model should be enhanced to include broader affordability considerations as described above in the LIEN principles. Further comments related to the regulatory framework are discussed in various sections below.

Network Planning and Smart Grid

In this section LIEN provides comments on issues related to Distribution Planning (EB-2010-0277), Regional Planning (EB-2011-0043) and Smart Grid (EB-2011-0004). On that latter topic, LIEN's comments are primarily concerned with investment in Smart Grid technologies rather than the regulatory oversight of those technologies with respect to privacy and cyber-security.

LIEN supports the general direction set by the Board regarding network planning. As indicated in the Board's March 20, 2012 Letter, the regulatory framework should provide "for efficiently planned investments in grid sustainment, expansion and modernization that consider pace and prioritization." LIEN suggests that the Board should also consider issues of affordability in addition to pace and prioritization.

[1] For the definition of least-cost, LIEN adopts a societal cost perspective which includes environmental, economic and social costs.

2. How do we optimize planning across the sector to ensure that investment decisions achieve the level of reliability and quality of supply that consumers demand and are paying for?

LIEN recognizes that it is difficult for the Board to optimize planning across the sector when it does not have jurisdiction over all the planning tools that are exercised in a jurisdiction.[2] However, within these limitations LIEN suggests that there are steps that the Board can take toward optimization of investment.

LIEN notes that the Regional Planning paper specifically asks if there "are there any other criteria, beyond transmission asset functionality, that should be used in the determination of appropriate regions within Ontario for regional planning purposes?" LIEN is of the view thatcriteria for determining "regions" with respect to network investments should go beyond transmission asset functionality. There is a need for a set of coherent and practical criteria that encompass transmission requirements as well as other planning requirements such as smart grid considerations, environmental considerations, and location of population and businesses for targeted CDM to address the particular network constraint(s).

Regarding, the identification of regional planning groups, LIEN considers that the Board's policy direction in that regard should minimize the number of layers of regional groupings and encourage the creation of "regional planning clusters" that, to the extent practical, will contribute to coherent, cost-effective and integrated network investments.

With respect to the current regional planning process, the representative of the Ontario Power Authority (OPA) during the March Stakeholder Conference (Mike Lyle, Transcript, March 29, 2012, p. 4) described the OPA's planning process as follows:

> *When a regional planning process kicks off, a study team is set up, which includes representatives of the Ontario Power Authority, the affected LDCs, the relevant transmitter or transmitters, the IESO and any other entity that might be appropriate under the particular circumstances of that study.*
>
> *A terms of reference is developed at the beginning of the process that lays out the roles and responsibilities of each of the study team members, the objectives of the study, and the scope and the key assumptions that underlie the study. The terms of reference also lay out a schedule for completing the study.*
>
> *Once the draft study is completed through the work of the study team, the draft is then put out for stakeholdering in the communities affected.*

LIEN finds the process described above to be problematic as it involves stakeholders too late in the planning process for meaningful input to be obtained. Stakeholders are engaged only after the OPA has done an assessment of alternatives and chosen from amongst transmission, generation and CDM options. Such a process is likely to lead to suboptimal investment decisions.

[2] For example, the Board does not have jurisdiction over municipal planning (e.g. Planning Act, Municipal Act) or environmental planning (e.g. Environmental Assessment Act).

The Board can assist in improving the process by facilitating stakeholder input much earlier in the process through cooperative efforts with the OPA. The Board can further assist by developing general planning guidelines for these integrated resources planning efforts. LIEN notes that Ontario Hydro pioneered such integrated resources planning efforts – local IRP – which involved the community in a joint planning process with a comprehensive investigation of local generation, transmission/distribution and CDM alternatives.[3] The local IRP took a comprehensive and integrated approach to addressing the local/regional constraint; the planning addressed technical, economic and environmental issues.

One of the key stakeholder is the municipalities potentially affected. The Board's guidelines could encourage their early involvement and suggest ways for municipal and utility cooperation. On its website, the Board could provide best practice examples of municipal and utility cooperation.

3. If we revise cost responsibility under section the Transmission System Code in respect of transmission line connection facilities to pool the costs, should the pooling be on a province-wide basis, a regional basis, or some combination?

LIEN supports the continuation of transmission 'postage stamp rates' where the costs of transmission investment are shared among all ratepayers (other than specific generation connection). This ensures that costs are spread out across the largest rate base, thereby keeping costs as low as possible for any particular investment. Unless the line is dedicated to a particular facility (in which case the customer would make a financial contribution), the connection is likely to have some degree of system benefits at the time of construction and even more benefits are likely to occur over time. Therefore, LIEN supports the pooling of transmission line connection facilities on a province-wide basis.

4. How should smart grid investments be treated (i.e., as part of rate base, or based on type of activity/asset)?

LIEN views smart grid investments as an evolution of the modernization of the grid. For LIEN, there does not appear to be any reasonable ground to treat smart grid investments differently than any other network investments. Accordingly, any prudently incurred investment in smart grid related technologies should be part of rate base and receive the same level of regulatory oversight as other potentially rate-based investments.

5. What empirical and qualitative tools and methods might be used to inform: (a) utility planning processes; (b) utility applications to the Board; and/or (c) the Board's review of utilities' plans?

LIEN supports the consistent categorization of investments for regulatory purposes as well as the harmonization of filing requirements. Currently, LDCs are required to report on their actual and planned investments based on requirements that are comprehensive, but this reporting does not necessarily provide a coherent view of those investments.

[3] The local IRP for Espanola is an example of such a process. The local integrated resources planning process was presented in the Ontario Hydro restructuring hearing before the OEB in the 1990's.

There would be benefits for the different filing requirements to ultimately result in a summary table illustrating the types or cluster of investments undertaken or projected by an LDC. The clusters would generally reflect the nature of the investment such as, for example, those needed for generation and load connection, those required for the renewal of the system or those mandated by an outside party.

The categories should be determined so as to help the Board and stakeholders assess the cause and impact of the investments. One category, say, would be for revenue generating investments (such as load connection) and another for non-revenue generating investments (such as asset renewal). Each main category could be further broken down into sub-categories to clarify the main underlying cause for the investment.

The overall goals for greater consistency in categorization and further harmonization of investments categories are to simplify the assessment undertaken by the Board and stakeholders and to streamline the regulatory process.

LIEN considers that there is merit for LDCs to provide the expected bill impact of proposed investments on customer classes. This would inform the assessment process by illustrating the financial impact of the proposed investments. It would also be a basis for assessing the need for affordability measures to be put in place for affected low-income consumers.

The overall goal should be to provide the Board and stakeholders with information that is clear, consistent and coherent and which will, at a relatively high level, provide a reasonable appreciation of the types of investments contemplated, their underlying cause, the costs involved and well as their impacts, both financially and from a reliability perspective on customers.

Performance and Incentives

LIEN is generally supportive of mechanisms that provide incentives and rewards to performing LDCs. Though, as noted by Board Staff in its discussion paper on utility performance: the regulatory incentive should only be an opportunity for financial rewards and not be guaranteed. LIEN notes that the incentives and rewards should align with the principles for a sustainable electricity system (described above).

6. What outcomes for customer service and company cost performance should be established?

It is LIEN's view that consumers are interested in being provided with a reliable electric service at a reasonable cost and expect LDCs to provide efficient customer service that is courteous, considerate, timely, and responsive.

LIEN suggests that indicators should be introduced to measure rate levels. A possible indicator would benchmark the distribution rates of Ontario LDCs. The indicator could track the rates themselves or benchmark a hypothetical customer. The indicator would rank utilities based on their rates and give an indication of cost reasonableness and variability across the sector.

7. **What incentives, if any, are appropriate to reward utilities for cost-effective and efficient performance, including appropriate rewards for exceeding standards for customer service, and company cost performance? What incentives, if any, are appropriate for the purposes of rewarding performance with regard to multi-year capital programs?**

LIEN submits that minimum standards of performance should remain as conditions of licence and that performance over and above the defined minimum should be eligible to a reasonable financial reward. The current Shared Savings Mechanism (SSM) for LDCs could be further extended to reward customer service. In addition, a financial reward for cost reductions and cost-effective investments could be considered, as long as all related performance targets (e.g. CDM targets) are met first. This may contribute to aligning company and customer interests with respect to cost control and keeping rates affordable.

Affordability and Rate Mitigation

Further to the May 16, 2008 decision of the Divisional Court regarding the Board's jurisdiction to consider the ability to pay when setting utility rates, the Board has launched a number of initiatives directed towards low-income consumers of which the LEAP Emergency Financial Assistance (EFA) program is one of the outcomes.

While very supportive of the Board's LEAP initiative, LIEN is of the view that more will need to be done to address the special circumstances of the low-income consumer as LDC network investments increase to address maintenance, expansion and renewables connection matters. LIEN urges the Board to exercise its jurisdiction with respect to consumers' ability to pay, and in exercising that jurisdiction, develop, as part of the RFFE, appropriate regulatory mechanisms to address matters of affordability within the context of network investment

With respect to rate mitigation, LIEN stresses that it is entirely appropriate for the Board to consider the "total bill impact" when setting rates even if the utilities do not control or have the ability to influence all elements of the bill.

LIEN submits that the Board should keep as much flexibility when judging whether or not mitigation is appropriate and to what extent it should be applied. LIEN sees little value-added in a totally "fixed" framework, but understands that utilities as much as stakeholders appreciate the prospect of a Board doctrine that provides some form of expectations with respect to rate mitigation.

As Board Staff highlight in their discussion paper on rate mitigation:

> *several factors […] may influence customer perspectives about rate or bill changes and considerations of whether increases are acceptable or tolerable. Such factors include how the proposed increase compares with the changes in the cost of other goods as measured by indexes such as the Consumer Price Index, and customers' experience with past increases for the specific service.*

LIEN also sees merit in the Board's approach to foreseeable cost increases such as those for smart meters and the response the Board provided in the form of permitting "rate adders". LIEN

is also supportive of deferral accounts and future recovery of network expenditures smoothed over time.

LIEN nevertheless notes that by allowing electricity distribution rates to be implemented on January first rather than May first the Board has undermined, to some extent, its rate mitigation options. LIEN would prefer that rate increases not occur during the heating season, but realizes that there may be little opportunity to reverse that trend.

Thank you for the opportunity to make this submission to the Board.

Sincerely,

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