Rate Design for Electricity Distributors, EB-2012-0410

I have reviewed the Draft Report dated April 3, 2014 and find it is riddled with faulty assumptions. I'll try to follow the sequence as presented.

1. "The Board intends to pursue a fixed rate design for (certain customer classes) to achieve revenue decoupling." It is evident that the residential and small business consumers provide the most predictable revenue stream for LDCs. Only the street light class would be more predictable. The big risks for LDCs comes from the GS>50kw and large user classes. Bankruptcies and relocations are common in these classes. Not only does the LDC have to face 2-3 months of unpaid bills but significant amounts of well planned assets can be stranded. Yet these classes are excluded from the Board's decoupling agenda.
2. "The Board believes that when consumers understand" the various charges they pay then "they are equipped to make informed choices about their use". This is an area in which the government through regulation is at odds with Board objectives. With the introduction of the "simplified bill" most consumers are unaware of the numerous fixed charges in the Delivery line of their bill. In addition to hiding DX fixed charges, smart meter and smart meter entity charges loss factors will be hidden as well.
3. "A fixed rate best meets the interests of the LDC for predictable stable revenue to implement capital investment plans." This statement ignores the extreme unpredictability of revenue from th GS>50 kw and large user classes and infers that LDCs have not made prudent capital investments in the past.
4. "The Government will rely on LDCs to deliver its Conservation First agenda and the Board needs to ensure there is no disincentive to that role". First the Board must be aware that it has authority to compel LDCs to participate in OPA CDM programs as a license condition. So no disincentives exist. Secondly appliance efficiency standards are controlled by the US and Canadian federal governments. The Ontario market is just too small to influence these standards and LDC influence is non-existent. In looking at made in Ontario CDM programs, the record is abysmal. The very expensive Smart meter program and TOU rates have yet to produce any significant reduction in Ontario's system load factor. That is, load shifting is not measurable. Similar comments would apply to the Peak Saver program and the Great Refrigerator Roundup.
5. "Providing bill stability to consumers". Most small consumers can sign up for Equal Monthly Bill programs that provide all the stability they need, without wrecking the rate design and especially for those very small consumers who pay very dearly for the Board's decoupling agenda.

6. “Enhancing customer literacy of energy rates and providing consumers with tools for managing their costs”. As noted in 2 above there are so many hidden charges, only a complete unbundling of the bill will enhance consumer literacy. The rapidly increasing Global Adjustment hidden from most consumers cries out for more transparency.
7. “Focusing distributors on optimal use of assets and improving productivity”. If anything, planning the distribution system is likely to be diverted from building for energy to enhancing the bottom line. This implies building useless lines and playing the cat and mouse game to see if the OEB can find these underutilized facilities. This hardly reduces regulatory costs.

Consultant Reports

The Navigant report observes a significant downward trend in electricity use for most LDCs in Ontario but gives no reasons. The load forecast by Hydro One shows a drastic downward trend in its 2015-2019 rate application. Navigant also observes that there are no significant decoupling efforts in North America. This raises the question as to why the OEB wants to jump into uncharted territory having no idea of the unintended consequences that could be severe.

The Gandalf focus group reveals many of the consumer concerns mentioned above. That is, the components of the delivery charge are unknown to most consumers. Only TOU billing has any recognition as it is highlighted on the bill. In order to pursue decoupling the OEB is going to have to ask the government to roll back several regulations that produced the simplified bill. Even then it will take some time for consumers to understand the many hidden components and most are unlikely to try. Serious concerns were expressed about all 3 options presented. These concerns and objections will not be easily overcome. Many complaints to local MPPs can be expected.

Appendix C, Board Staff Examples

Proposal 1, Single Monthly Fixed Charge

LDCs have highly variable fixed charges at present. Those with a very low fixed charge recover most of their revenue through the kwh charge. Conversely, those with a high fixed charge collect much less of their revenue through the kwh charge. That is, the fixed/variable split in Ontario varies all over the map. I don’t know why this is because they all have to follow the same OEB rules for cost allocation and rate design. The % of customers adversely affected by as single fixed charge will vary by LDC. As well, the revenue/cost ratio varies greatly among various classes within LDCs.

LDC1 in the example is not identified so one has no idea whether it is representative of the entire province. The report says 70% of their residential see an impact of less than + or - $5 without mentioning the impacts on the other 30%

It would have been more useful if all the classes of the 2 major LDCs were analyzed. Toronto Hydro, has a large number of low use condo owners and Hydro One has a high range of monthly consumptions from zero to very high levels.

And of course a glaring error is the absence of any analysis of the high risk GS>50 kw or large use classes. To achieve revenue stability for LDCs these classes must be included.

Proposal 2, Fixed charge based on Service Entrance Capacity

This proposal is fraught with numerous problems.

First, most residential and GS<50Kw receive service at 120/240 volts single phase or 120/208 volts two phase for high rise condos and rental apartments. Some in the GS<50 kw class receive service at 600Y/347 or 208/120 volts three phase. So a more appropriate measure than amperes would be kw or kva capacity.

Secondly service entrance capacities vary greatly across the 2 classes. Most would be at 100 amps at 120/240 volts or 24kw. There are many condos and rental apartments at 60 amps or 14.4 kw at 120/240 or 12.48 kw if served at 120/208 volts. But there are services at 125, 150, 200 or 400 amps single phase. In the GS<50 class there are numerous customers who have a single meter serving several buildings with various service capacities. In these cases the combined capacity could be in the 300 kw range or higher even though the combined peak demand never exceeds 50kw.

Thirdly it is fairly easy for a consumer to hire an electrical contractor to reduce the size of the main breaker to get into a lower rate class. With Smart Meter data, consumers now can access their maximum peak demand and reduce their service entrance capacity accordingly. LDCs would be chasing these changes and would have very unstable revenue until the breaker downsizing program is compete. If Proposal 2 was adopted Electrical contractors would do a land office business downsizing breakers.

Proposal 3, Fixed Charge based on Peak Use

As observed by Gandalf there is little consumer incentive to reduce demand in the peak period if one has to wait up to a full year to see any reduction in the bill. This proposal would only work if peak demand reduction was rewarded in the next bill which of course brings the OEB objective back to square one. Basing the fixed charge on summer peak demand is very unfair to residents in Northern Ontario where most use is in the winter. Winter heating is the dominant use that can only be offset by (polluting) wood heat. So the OEB is proposing a system that discriminates heavily against northern residents.

Replacing monthly billing based on peak kw use is not too different than basing it on kwh but would require a massive education program and of course would not meet the OEB objective of giving LDCs an equal monthly revenue stream.

General Comments

All of the OEB proposals to give LDCs a comfy equal monthly revenue stream are likely to meet stiff consumer opposition. This opposition will quickly find its way into the political forum. I suggest the OEB abandon the decoupling effort quickly and concentrate on removing some of the inequities in rev/cost ratios and straighten out the rules for fixed/variable splits in distribution rates.

All consumers would agree that CDM first is a laudable objective. But removing the consumption price signal to encourage LDC participation in OPA CDM programs is not the way to go. All conservation efforts are consumer driven and LDC contributions are minuscule. As well the new OEB regulatory regime is based on 5 year applications. The above proposals are all based on a 1 year time horizon. So it is hard to see how regulatory burden is diminished.

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