June 5, 2014

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, Suite 2700
Toronto, Ontario M4P 1E4

Re: Rate Design for Electricity Distributors – Board File No. EB-2012-0410

Dear Ms. Walli:

Attached please find Cornerstone Hydro Electric Concepts Association's (CHEC) comments with respect to the Board's review of the rate design for electricity distributors.

As you are aware, CHEC is an association of fourteen local distribution companies (LDC's) that have been working collaboratively since 2000. The comments over the following pages express the views of the CHEC members. They also address the several questions outlined in the letter dated April 3, 2014, and follow the same format (Attachment A).

We trust these comments and views are beneficial to the Board's review process. CHEC looks forward to continuing to work with the Board in this matter.

Yours truly,

Gord Eamer

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CHEC Members

Centre Wellington Hydro	COLLUS PowerStream
Innisfil Hydro Distribution Systems	Lakefront Utilities
Lakeland Power Distribution	Midland Power Utility
Orangeville Hydro	Orillia Power
Ottawa River Power	Parry Sound Power
Rideau St. Lawrence Distribution	Wasaga Distribution
Wellington North Power	West Coast Huron Energy

ATTACHMENT A
To OEB Letter Dated April 3, 2014

FIXED RATE DESIGN:

Although CHEC is generally supportive of the transition to a fixed rate design, it should be noted that all three proposals will have implications for customers which need to be taken into account. The following attempts to highlight the key merits and detriments of each proposal:

Question 1 – Comments on Proposal 1 – A single monthly charge for the rate class

Proposal #1 (a fixed single monthly charge) is the simplest methodology to measure and implement and provides the most consistency and stability for both consumers and distributors. This option directly addresses the primary cost driver, which is the number of customers using the system. It is also the easiest for the end consumer to understand. Furthermore, it is seen as being effective at removing distributor risk associated with conservation and changing weather patterns.

It should be noted that this proposal also reduces the benefit of conservation to the consumer as the variable component of the consumer bill (based on kWh) is reduced. Application of this rate structure will increase the amount paid by low consumption consumers while reducing the amount paid by high consumption consumers. While this may appear counterproductive from a conservation perspective, the costing better reflects the true cost of distribution and total energy billing. As such, not having a variable rate on such a small part of the overall bill should not have a significant impact on CDM practices. The energy consumption portion of the bill has a much more dramatic impact on customers and is more likely to influence or change behaviour.

Question 2 – Comments on Proposal 2 – A fixed monthly charge based on the size of the electrical connection

Similar to Proposal #1, this proposal (based on the size of electrical connection) is also viewed as providing consistency and stability for both the consumer and the distributor. It is anticipated that some consumer education would be required to make this transition. For example, under this scenario, customer confusion could occur when two adjacent customers who are similar in nature and usage, are being charged two different fees simply due to service size. However, once customers are familiar with this methodology, it should be easily understood by the consumer.

Unfortunately, service size historically may have been a subject of building philosophy at the time the service was installed. This means the onus is on the customer to “right size” their electrical connection and forces them to absorb the cost of re-sizing in order to benefit from lower rates. Furthermore, it is more onerous on the distributor with regards to implementing and maintaining records. A distributor would likely not have a listing of customer’s connection sizes readily available and would need access to customer sites in order to determine this

information. Control over such a system would also be very difficult for a distributor to maintain as there is no mechanism in place to track customer changes in connection size.

The number of rate classes under this option could become very complex due to the variety of connection sizes among a residential customer base. From a practical perspective it may be advisable to limit the number of residential classes to two: (1) 200 Amps and below, and (2) above 200 Amps. This rate structure then becomes a two tier structure based on service size rather than consumption, resembling the fixed monthly charge with increased granularity.

Question 3 – Comments on Proposal 3 – A fixed monthly charge based on use during peak hours

CHEC does not support this proposal (a fixed monthly charge based on use during peak hours) as it is considered to provide the least amount of stability and predictability for customers and would be difficult to understand and communicate. The consequence of high consumption is also delayed by a year which limits the effectiveness of the feedback loop. It is also likely to cause more confusion among customer due to the potential for a customer to shift between classes based on the previous year's consumption pattern.

This method represents the highest cost to implement and maintain for the distributor and it is anticipated that communication of the change in method as well as the annual up-date would incur significant costs. While working with the meter data can provide the required information, the manipulation of the data in a way that is transparent to the customer, may also present a challenge and additional costs. The cost benefit for the customer may not be apparent or recovered in changes to their consumption pattern.

BOARD SPECIFIC QUESTIONS:

Question 1 – How would the different approaches affect achievement of the Board's goals of: providing stability and predictability to consumers on their bills; enhancing consumer literacy of energy rates; providing consumers with tools for managing their costs; focusing distributors on optimal use of assets and improving productivity; removing or reducing regulatory costs; and supporting public policy?

In this section Proposal 1 and Proposal 2 are commented on while Proposal 3 is not included in any comments as the Proposal 3 is not supported by CHEC. The different proposals affect the achievement of the Board's goals as follows:

- **Providing Stability and Predictability** – Proposal 1 and Proposal 2 are both seen as supportive in achieving stability and predictability. Both proposals are based on a fixed rate charge which will be relatively stable, and as such, predictable for the customer. In addition the percentage of the bill based on variable charges is reduced which adds to the predictability of the bill. Both of these proposals are easily understandable for customers and allow consumers to budget their delivery costs accordingly.

- **Enhancing Consumer Literacy of Energy Rates** – Proposal 1 and Proposal 2 are both supportive in achievement of this goal but they only assist with the distribution portion of the bill. Bill presentation may have to be altered to ensure transparency of energy costs to the end consumer.

- **Providing Consumers with Tools for Managing their Costs** – The proposed options do not provide customers with tools to manage their energy costs. Fixed costs, by their very nature, limit the ability to manage costs. Under a fixed rate regime, an increase or reduction of energy consumption has no impact on the fixed portion of the bill. However, it does alter the overall energy costs for a specified period to a lesser degree than if all costs are variable. Removing the dependence on a variable rate to capture fixed costs removes the need for Distributors to increase the kWh rate due to the lower consumption and the associated negative impact on the customers overall cost and perceived savings from conservation efforts.

- **Focusing Distributors on Optimal use of Assets and Improving Productivity** – A fixed rate option allows the targeted revenue requirement to be achieved, which in turn allows for better planning and reduced risk with respect to use of assets and improved productivity. Distributors can make long range plans knowing that revenue is predictable. It also provides revenue stability that banks rely on to provide lower lending rates, which in turn would result in lower costs to ratepayers. Proposal 1 is considered the simplest in terms of implementation and monitoring by the distributor, therefore it is expected to provide the highest impact in terms of productivity.

- **Removing or Reducing Regulatory Costs** – At this time, it is not clear how the above proposals would impact regulatory costs. For the most part, CDM measures and their associated costs would still be required to encourage energy conservation, however, it is expected that LRAM requirements could be reduced or eliminated. Costs associated with rate applications, including load forecasting would likely remain the same, although the focus of some costs may shift within the rate application process (i.e.: less time spent on load forecasting but more time spent on a distributor's DSP). That being said, it is reasonable to assume a distributor may experience some efficiency and reduced costs through the implementation and maintenance of a fixed rate system for residential customers.

- **Supporting Public Policy** – Proposal 1 and Proposal 2 may provide some support for public policy through a simplified rate structure to improve customer understanding. However, neither proposal is seen as providing much support for public policy with regards to conservation. To support public policy with respect to conservation the implementation of either proposal 1 or 2 could be assisted by a review of the on-peak/off-peak ratio to better communicate the impacts of peak use of power. Through OEB EB-2010-0364 the Board engaged the Brattle Group to benchmark the time of use regime in Ontario with other jurisdictions (see chart below). The major finding of the report indicated that in general the time of use structure compared favorably, however, it was noted that an area of improvement would be to focus on the price ratio between on-peak and off-peak. The findings indicated that by sending a stronger on-

peak price signal, increased customer action would be observed. To complement the rate decoupling and strengthen the conservation mandate further follow up on the peak to off peak ratio should be considered.

Results of TOU Benchmarking

TOU Characteristic	Alignment with Best Practices?	Reason
Number of periods	Strong	Many TOU rates have three periods
Timing/duration of peak	Strong	Aligns well with historical system load and hourly energy market prices
Seasonality	Strong	Dual peak in winter justifies seasonal change in pricing structure
Time-varying charges	Strong	Typically only generation-related charges are made to be time-varying
Average customer cost neutrality	Moderate	Calculation is reasonable given available data; focus on province-wide supply cost recovery can have differential impacts on customers
Price ratio	Weak	Price ratio is low relative to TOU programs in other jurisdictions; likely to produce modest customer response or bill savings

Source: EB-2010-0364 Staff Report to the Board, March 23, 2011

Question 2 – Should distributors be allowed to choose which method they will use or should it be consistent across the province?

CHEC is only supportive of a consistent rate structure across the province. A consistent rate structure helps to reduce confusion for the end customer and provides for more stability than using multiple rate options across distributors.

Question 3 – What are the implementation issues that the Board should consider for each methodology regarding timing and consumer impacts?

In order to minimize implementation issues, three points should be considered:

- First, any proposed change needs to be consistently communicated to the end consumer so that consumers are well aware of the pending changes to their energy costs. Such communication should focus on the benefits of the revised system, the reasons for implementation and the impacts on consumers. Failure to effectively communicate the change to the consumer will result in confusion, concern on total bill impact and a negative backlash which will undermine the implementation and acceptance of a new rate structure.

- Secondly, the focus of future rate applications should be to ensure that the cost drivers for cost allocation are clear and that full cost allocation (100%) of rate classes occurs. Cross subsidizing of rate classes should be minimized or completely eliminated at the time of implementation. To implement without full cost allocation will result in a disproportionate sharing of costs between classes which will compromise the ability to assess a distributors true costs of providing electrical service.

- Third, the rules for evaluating and implementing customer classes need to be clearly communicated to distributors. A clearly defined scope definition is required for all market participants to ensure the appropriate implementation of a new rate structure. Additionally, from the time of complete scope definition, a minimum of one (1) year should be provided to implement the appropriate changes to billing systems, CIS, and bill presentment. This will ensure that the chosen proposal will be applied consistently across distributors, and that consumer confidence can be maintained in the rate system.

Other Comments:

Other suggestions regarding a fixed rate design are as follows:

As noted above consideration should be given to proposing a fixed rate based on meter type. This option would also result in only two classes of residential customers, those that are less than 200 amps and the larger customers that require more than 200 amps, but it also eliminates the need to access customer sites in order to determine the size of the electrical connection.

It is recognized that the impact on customers need to be considered with any changes to the rate structure. As such, special attention should be given to the impact on the low income customer. While the Brattle report determined some impacts if peak to off-peak changes were made, the change to a fixed rate system will need to be evaluated along with the associated impact to low income customers. This will determine if any changes to the current LEAP framework is required. If impacts to customers necessitate new customer rate classes, this should be confirmed prior to the completion of the scope definition of changes that is presented to market participants.