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June 6, 2014

Ontario Energy Board  
2300 Yonge Street  
Suite 2700  
Toronto, ON M4P 1E4

Attention: Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Low-Income Energy Network Comments**  
**Board File No. EB-2012-0410 - Rate Design for Electricity Distributors**

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Enclosed please find LIEN's comments on rate design for electricity distributors.

Yours truly,

Matt Gardner

Encl.

Document #: 731348



# Low-Income Energy Network

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The Board intends to pursue a fixed rate design solution to achieve revenue decoupling in order to more effectively achieve the principles of rate design set out by the Board in 2007. These principles are: full cost recovery with appropriate return and risk; fairness including cost causality, simplicity and lack of controversy; and efficiency to encourage maximum use and rational growth of the electricity grid.

The Board has developed three options for a fixed rate design and is seeking stakeholder input on each. LIEN provides some general comments on the options and then provides comment on each one. Then, LIEN addresses the more general questions posed by the Board.

## General Comments

LIEN supports the Board's principles of rate design and appreciates the Board's efforts to address the particular needs of low-income consumers in the new rate-setting framework. LIEN also supports the Board's objective with the new rate design to help consumers better understand the fixed nature of distribution charges so that consumers can make informed choices about energy use.

LIEN notes that any rate increase that results from any of the Board's options will have a disproportionate negative impact on low-income consumers. These consumers are already experiencing difficulties in keeping up with their energy bills. This problem is exacerbated by the lack of availability, to date, of low-income DSM and CDM programs available throughout the entire province.

LIEN also notes that the principle of cost causality would, all other things being equal, result in a rate-setting model where the fixed portion of the rate structure would cover 100% of the utility's fixed costs, and any variable portion of the rate structure would cover 100% of the variable portion of the utility's costs. Many members of LIEN deal with low-income consumers in the field and help consumers to better understand their bills and make informed decisions about bill management and energy use. Therefore, it would be helpful if the Board could provide: **(1) information regarding the percentage of utility distribution costs that are fixed, if they are, typically by utility, less than 100% of the total distribution costs; and (2) an explanation why such information was not considered significant from a ratemaking point of view.**

In order to make an informed choice among the three rate design options presented by the Board, an 'apples to apples' comparison should be made. As described in the Board Staff Appendix C of *EB-2012-0410 Draft Report of the Board Rate Design for Electricity Distributors*, there are significant data gaps. While Board Staff's examples are very

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helpful in understanding each of the options, it is clear that the examples are indicative, but not based on a statistically significant sample, of relevant data. If the options are to be treated as equally important and fairly assessed, the Board must have appropriate data. Because of the existing data gaps, LIEN is unable to determine which option would be best for low-income consumers and for all residential and small business consumers. However, to assist the Board, LIEN provides an assessment of the options based on the information available. LIEN encourages the Board to do additional study to enable an equivalent ‘apples to apples’ comparison, before deciding among the three options.

In the absence of data to permit an ‘apples to apples’ comparison among the options, LIEN would prefer the more known approach, which is option 1, a single monthly charge for all consumers in the rate class. This option can be implemented most easily and is consistent with how fixed charges for small customers are determined in the current regulatory framework.

### **Proposal 1: A single monthly charge for the rate class**

LIEN agrees that a single monthly charge for the rate class is the simplest and most straight-forward mechanism for recovering revenue and for customers to understand. Being the easiest option to implement, this option will result in the least administrative effort for the utility and for the Board compared with the other options. Utility data is readily available to calculate the fixed charge and it is straight-forward for the Board to provide oversight. The rate option will provide stability and predictability, which will make it easier for customers to manage their electricity bills. Based on the information known and presented by the Board, of the three options, this option best enables the Board to fulfill its objective under section 1(1)1. of the *Ontario Energy Board Act*.<sup>1</sup>

Of the three options, LIEN prefers this option because its implications are better known than the other two. LIEN does not have sufficient information to determine whether this option will result in a more equitable rate-setting regime than the other two options. As a result, LIEN urges the Board to obtain better data to enable an ‘apples to apples’ comparison among the three options.

### **Proposal 2: Fixed monthly charge based on size of the electrical connection**

In this option, each consumer would have a fixed monthly charge based on the size of the electrical connection, which in the case of low volume consumers would be the maximum connection current in amps (e.g. 100 or 200 amp service). As pointed out by the Board, utilities do not gather this type of information. LIEN notes that it is not clear that having a larger amperage connection means that the consumer typically uses more electricity than the one with a smaller connection, particularly during peak times.

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<sup>1</sup> To protect the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service.

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Conducting studies to determine whether higher amperage service is a good proxy for higher electricity consumption among low-income, residential and small business consumers would be necessary to determine the validity of this option. In addition, should it be proven valid, utilities would then have the increased burden of collecting this information from customers. It may require site visits, as customers may not know what service they have. This could be an expensive process. In addition, customers upgrade their service from time to time and therefore, the database would need to be kept up to date. Moreover, customers may not have control over their amperage. For example, it is typical for low-income consumers in rural areas to rent houses or apartments, and in such instances while they may be ratepayers, they would have no opportunity to change the amperage as they do not own the property.

### **Proposal 3: Fixed charges for groups based on peak usage**

In this option, all consumers in a rate class would have a fixed monthly charge based on their usage during peak hours. At the end of a rate period, a consumer's use would be evaluated compared to other consumers in their class. For example, if the consumer's peak was substantially lower than the class average, the consumer would be assigned to the lowest use sub-group with the lowest charge. The Board would implement an annual reclassification process for all low volume consumers.

It appears that the intent of this option is to link the fixed cost with peak usage such that a higher use on peak would necessitate a higher fixed charge. However, in order for such a price signal to be effective, timing of the signal is key. A signal adjusted annually is too late for the signal to be effective. If a consumer intended to reduce peak electricity consumption by participating in an OPA or LDC CDM program and did so at the beginning of the second year of the rate design, that customer would be penalized for the energy conservation behaviour during the year the savings were beginning to accrue, as the customer would not see a savings until the next year. This would be a disincentive to conservation action and would provide a confusing price signal. While a quarterly price adjustment, such as the quarterly commodity adjustment implemented for Ontario's natural gas utilities, adds to regulatory oversight and utility administrative costs, this would provide a more acceptable and effective price signal. However, if such an approach were taken, it is not clear that this would be an improvement over the current variable rate structure. More study would be necessary to determine the implications of this option as designed by the Board and as recommended for modification by LIEN.

### **Should distributors be allowed to choose which method they will use or should it be consistent across the province?**

Distributors should not be allowed to choose which method they will use. The approach to calculating fixed rates should be consistent across the province to avoid customer confusion, to simplify customer messaging and education, and to minimize regulatory oversight.

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

The Board should address the data and analysis gaps described here before deciding on the preferred option. It may be helpful to the Board to hold a subsequent consultation on this new material and findings.

Before implementing the new rate design, the Board should work with the utilities and the various stakeholders, community groups and business associations to develop appropriate consumer messaging, communications and education. LIEN would be pleased to assist regarding the materials that affect its membership and their clients.