

June 6, 2014

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto, ON - M4P 1E4

Via web portal and by courier

Dear Ms. Walli:

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

The Electricity Distributors Association (EDA) is the voice of Ontario's local distribution companies (LDCs). The EDA represents the interests of 74 publicly and privately owned LDCs in Ontario.

The EDA supports the Ontario Energy Board's (Board) move towards a fixed rate design solution for electricity distributors to achieve revenue decoupling because a fixed rate design is the most effective way of ensuring that rates reflect the cost drivers for the distribution system and is also appropriate to address the current policy changes being made in the regulatory environment. Where appropriate, distributors should be allowed to propose subclasses within a rate class.

The draft report of the Board has proposed the following 3 rate design options:

- Proposal 1 – a single monthly charge which is the same for all consumers within the rate class.
- Proposal 2 – a fixed monthly charge based on the size of the electrical connection.
- Proposal 3 – a fixed monthly charge based on use during peak hours.

The EDA notes that 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 could be achieved to some degree by adopting any of the three rate design proposals made in the draft report of the Board.

The EDA members considered several different combinations of the proposed rate design options and scored all the possible combinations based not only on the Board's stated objectives but also including measures such as:

- Fairness including cost causality
- Lack of controversy / customer understanding
- Ease of implementation

Distributors considered the idea of sub classifying the residential class into three separate classes, namely "multi-residential"; "very large residences"; and single home residences. In addition, consideration was also given to sub classifying the General Service <50 kW rate class. However, the cost allocation among sub classes may be difficult to implement. Further, such sub classification would tend to increase regulatory costs of creating and administering the data and reclassifying customers annually. The regulatory costs associated with this sub classification may not be justifiable. Nevertheless, where necessary and where feasible to track costs, distributors should be allowed to propose sub classes within a rate class.

Based on a review of each of the rate design options, members concluded that proposal 1, i.e., "a single monthly charge which is the same for all consumers within the rate class" is the preferred approach, subject to a distributor who wishes to propose sub-classes within a rate class.

The pros and cons of each of the option are discussed below.

Proposal 1 – a single monthly charge which is the same for all consumers within the rate class

Pros:

- Simple for the consumer to understand;
- Provides the most consumer stability of all the proposals – rates are stable;
- This charge is tied to a significant cost driver for the distribution system which is customer numbers;
- Fair to the consumer as rates would better reflect the cost drivers for the distribution system;
- Implementation would be easy and provides a stable predictable cash flow to the distributor; and
- Removes the distributor disincentive to promote conservation and net metering.

Cons:

- Without further sub-classification of consumers within the rate class it will lead to a perception that consumers with a higher consumption get a discount on the distribution rate while low volume customers are cross-subsidizing those with higher consumption.

Proposal 2 – a fixed monthly charge with the size of the charge based on the size of the electrical connection

Pros:

- Provides consumer stability;
- Removes the distributor disincentive to promote conservation and net metering;
- Consumer's expectations for delivery would be matched with the charge, i.e., consumers pay a charge based on their expectation of the maximum demand required to be provided by the distribution system;
- In theory, it may provide future consumers with the opportunity to make changes to their use of the distribution system and could influence future consumers to reduce their connection capacity. However, in practice, it may not be feasible to provide customer choice with the type of connection; rather it would be determined based on the prevailing operational circumstances of the distribution system. Capacity of the connection is largely determined based on the load of the other consumers located in the area rather than one single low volume consumer; and
- In the long term, this proposal would encourage consumers to "right size" their connection.

Cons:

- Distributors do not currently gather information regarding individual consumers' connections. It is therefore, highly complex and expensive to collect this data to start implementing this proposal for the existing customers;
- Customer education would be necessary to assist customers in understanding the rate design and how to determine their connection current;
- Leads to customer confusion – customers with larger capacity connection may not really need that type of connection and would request for a lower capacity connection in order to get a lower distribution rate (e.g., often a customer moves into a new location and inherits the connection of the previous owner). On the other hand, it may not be operationally practical for the distributor to provide a lower capacity connection due to operational reasons. This would force the distributor to give a discount to that consumer on the distribution rate without changing the connection capacity. This would lead to gaming the system and would be unfair to all other consumers in that rate class;
- Customers could upgrade their connection capacity without informing the distributor while continuing to pay a lower rate. It would be impractical for the distributor to monitor such activities;
- Cost causality is not easily traceable within the rate class. Cost allocation and setting a rate to consumers based on different types of connections would be completely arbitrary;
- Periodically customer reclassification would be necessary;
- Implementation would be difficult;
- Customer education will be more complex than for a single fixed monthly charge;

- Rates may not entirely reflect cost drivers for the distribution system;
- This proposal would increase regulatory costs as the customer connection data would be required to be collected in the beginning followed by periodic re-classification of customers followed by on-going maintenance of the data.

Proposal 3 – a fixed monthly charge where the size of the charge is based on use during peak hours

Pros:

- Removes the distributor disincentive to promote conservation;
- In theory, it provides consumers with the opportunity to make changes to their usage and could influence consumers to reduce their peak usage. However, in practice, this is likely a weak price signal as the distribution rate is a small amount in comparison with other components of the bill. The Distribution rate does not by itself provide a significant actionable signal for consumers given that the fixed charge would change annually. In addition, since the distribution charge is reflected on the bill under “Delivery charges”, customers are not likely to notice the difference given the changes to other components of the Delivery Charge, such as the cost of distribution system losses and the transmission charge as well as various types of rate riders.

Cons:

- Annual reclassification of customers would be necessary which may give rise to consumer concern and additional regulatory cost to distributors;
- Causes customer confusion as this method does not provide a timely signal for consumers to be able to act for reducing their costs in terms of distribution charges. The signal provided by this method would not be actionable for the consumer in the short term;
- Consumers who have distributed generation behind the meter would benefit by paying a lower distribution rate, which is not fair to other consumers in the same rate class;
- Cost allocation and setting a rate to consumers based on use during peak hours would be perceived as arbitrary;
- Implementation would be complex;
- Rates do not reflect cost drivers for the distribution system in the short term for sunk costs;
- This proposal would increase regulatory costs as periodic re-classification of customers would be necessary;
- Customer education will be more complex than for a single fixed monthly charge;
- By valuing peak use and encouraging off-peak use, the new charges could encourage peak shifting. Peak shifting by a large number of consumers would force the distributor to increase the distribution rate in the following year for the groups consuming lower amount of energy. Customers would not be able to understand as to why their

distribution rates have gone up, particularly if they reduced their usage during peak periods.

Distributor's discretion to choose which method to use

One rate design option, as a default design, should be adopted by the Board and implemented consistently across the province to avoid consumer confusion. However, where necessary and where feasible to track costs, distributors should be allowed to propose creation of sub classes within a rate class.

Implementation issues

The implementation of the chosen rate design option should occur at the same time consistently across the province to avoid consumer confusion. LDCs in the middle of multi-year rate applications (i.e., Custom IR) would require direction from the Board.

Distributors noted that although a single fixed charge may be relatively easy to implement, both from a regulatory and an administrative perspective, 6 to 9 months may be needed to revise the filing requirements, to review LDCs' calculations, and to launch a customer communication and education strategy in which OEB will need to take a lead role.

However, in the case of those distributors that propose sub classifying their customers, within the rate class, differently from the existing practice, more time would be needed to file revised cost allocation methodologies and rate applications.

Impact on Return on Equity

The business risk of distributors would not materially change with the implementation of revenue decoupling for low volume consumers. Therefore, the EDA recommends that there be no changes made to the approved return on equity (ROE) on this basis.

Yours truly,



Teresa Sarkesian
Vice President, Policy and Government Affairs

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