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By electronic filing

June 6, 2014

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
27th floor
Toronto, ON M4P 1E4

Dear Ms. Walli,

Consultation – Rate Design for Electricity Distributors

Board File No.: EB-2012-0410

Our File No.: 339583-000174

This letter contains comments made on behalf of Canadian Manufacturers & Exporters (“CME”) related to the Board’s plan to adopt a fixed rate design for electricity distributors.

In preparing these comments, we have recognized that this consultative addresses fixed rate design only for customers with demands less than 50 kW and that the Board plans to address the rate design for larger consumers in due course. Board Staff’s notes of its meetings with the Advisory Committee of Regulatory and Finance Councils, Electricity Distributors Association on May 12, 2014, and with the Coalition of Large Distributors on May 15, 2014, indicate that the Board intends to address rate design for larger electricity customers and all natural gas customers at a later date. Our comments, which follow, have been written on the assumption that we will have an opportunity later to address, in greater detail, fixed rate design proposals for both larger electricity customers and natural gas consumers being proposals which will have a direct impact on manufacturers.

Board Staff’s March 31, 2014, Draft Report describes 3 different approaches for implementing a fixed rate design for customers with demands less than 50kWh. In the context of these 3 fixed rate design approaches, stakeholders have been invited to comment on the following 3 questions:

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

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

The comments which follow relate to question 3. We defer to the comments of representatives of customers with demands under 50 Kw with respect to questions 1 and 2.

We provide comments on four matters pertaining to implementation: 1) the need to ensure that the move to fixed rate design does not unintentionally undermine conservation activities; 2) the need to consider the extent to which this rate design change reduces the business and financial risks of the utilities; 3) the importance of advance communications with customers prior to proceeding with implementation; and 4) the appropriate transition period.

The Importance of Conservation Activities

A large segment of CME's members fall within the ambit of the commercial or small industrial rate classes. The feedback CME receives from this segment of its membership is almost entirely supportive of CDM and DSM programs. In CME's experience, the businesses within these segments do not have the resources or expertise to undertake sophisticated conservation activities in the absence of existing CDM and DSM programs.

Particularly since 2009, many companies have found it more difficult to access the financing they require to invest in new products and new technologies, grow their business and in some cases – even stay in business. CME has remained a strong supporter of Board-mandated CDM and DSM. When CDM and DSM is delivered strategically and cost effectively, then it can greatly assist the manufacturing sector.

Within this context, we are concerned by some of the issues raised by the Green Energy Coalition (“GEC”). GEC's submissions are supported by a lengthy report from Mr. William Marcus, a principal economist with JBS Energy Inc. In its submissions to the Board, GEC describes its concerns as follows:

GEC is concerned that the proposed move to a 100% fixed charge for electricity distribution rates will undermine the Conservation First agenda, reducing CDM effectiveness and/or increase its costs of delivery and unfairly subsidize larger, wealthier customers at the expense of smaller, less affluent ratepayers. We believe that the proposal will meet with considerable customer resistance if not tied to energy use.

As recognized by Board Staff, the government has stated in its Long-Term Energy Plan that distributors will have an increased responsibility in the delivery of conservation programs to customers to help achieve the “Conservation First” policy to meet future energy needs. We urge the Board to take steps to ensure that its plan to move to a fixed rate design will not result in the creation of unintentional disincentives for the continued delivery of conservation programs. Put another way, we urge the Board to consider the extent to which revenue decoupling is likely to reduce the effectiveness of CDM and/or DSM, and if so, then the proactive measures which the Board might adopt to mitigate such an outcome.

Reduction in Utility Business and Financial Risks

Neither Board Staff's Draft Report, nor the materials circulated by other parties, make reference to the fact that the adoption of fixed rate design methods materially reduces the business and financial risks which utilities currently face.

We submit that the review of the return on equity ("ROE") to be allowed to utilities, which the Board plans to conduct later this year, needs to be completed before measures to implement a fixed rate design approach begin. This is necessary in order to ensure that the level of rates under the fixed rate design are appropriately adjusted before the implementation of such rates commences. Accordingly, any fixed rate design that emanates from this consultation should not be implemented before the Board has completed its cost of capital review.

Customer Communication Prior to Implementation is Key

In the final report from the Gandalf Group ("Gandalf") dated October 9, 2013, starting at page 11, a number of considerations and suggestions for the implementation of the proposed new delivery pricing scheme are presented. We agree with Gandalf that informative communications with consumers is one of the key challenges which the Board faces.

We support the suggestions contained in the Gandalf Report to the effect that advance communications with consumers is an essential component of implementing a fixed rate design for smaller electricity consumers. These consumers will need time to gain an understanding of the implications of these rates which many of them will regard as a radical change to the way their electricity is billed.

The Board will be challenged to clearly explain to smaller customers how and why their bills will materially change with the implementation of a fixed rate design approach. Information will need to be provided to customers that explains the extent to which their particular bills will vary once a fixed rate design has been fully implemented. The provision of such information is a key component of a communication strategy designed to mitigate the adverse reaction from small consumers which will likely materialize as a consequence of significant increases in the amounts which they are required to pay regardless of their electricity consumption levels.

Board Staff recognizes that under the current pricing mechanism, consumers are provided with a signal that by reducing energy usage, they may reduce the cost of distribution. This is obviously not in line with the realities of the distribution system where the cost drivers are primarily numbers of customers and consumer peak demand with energy consumption is relatively insignificant. To this end, while the alignment of the price mechanism with the cost drivers for distribution may create a pricing system that is more aligned with cost causality, the change from the current system to a fixed rate design will come as a shock to many consumers. We suggest that a carefully crafted communication strategy will need to be established, well in advance of the steps to be taken to transition to a fixed rate design, in order to provide consumers with the advance notice they will require to gradually adjust to the increasingly fixed charge components of their bills.

A Multi-Year Transition Period Is Appropriate

For both small and large electricity consumers, the ability to plan in advance is extremely important. For this reason, we encourage the Board to ensure that all customers are provided with information

about the bill changes they will be facing well in advance of the commencement of the transition to a fixed rate design.

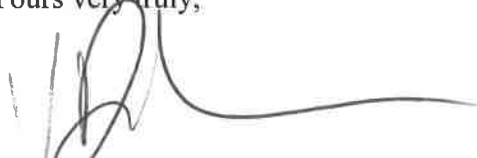
As Gandalf observes, communicating matters pertaining to the adoption of a fixed rate design to millions of Ontario consumers will be a significant challenge.

We suggest that a multi-year transition period to the complete implementation of a fixed rate design should be adopted to allow consumers to gradually adjust to the increasingly fixed charge components of their bills. Such a multi-year transition period should be combined with a communication strategy announcing the impacts of the new fixed charge regime well in advance of the date that the new rate design begins to be implemented. The communication strategy should include advance notice of the further changes in fixed charge components of consumers' bills as the multi-year transition progresses.

In summary, the equity return component of electricity bills will need to be reduced before any fixed rate design is implemented, with such a rate design to be implemented gradually and on advance notice to consumers in order to mitigate the adverse reaction that can reasonably be expected from many small consumers who will view the increasingly fixed charge components of their bills as a radical change.

If you have any further questions or concerns, please do not hesitate to contact me.

Yours very truly,



Vincent J. DeRose
Peter C.P. Thompson, Q.C.

VJD/PCT/kt/slc

c. Paul Clipsham and Ian Shaw (CME)
All Interested Parties

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