

EB-2012-0410

**Rate Design for Electricity
Distributors**

***Ontario Power Authority
Comments***

June 6, 2014



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1 **Background**

2 On April 3, 2014 the Ontario Energy Board (“Board”) issued a Draft Report of the Board on the
3 topic of Rate Design for Electricity Distributors (“Draft Report”). The Draft Report articulates
4 the Board’s policy on implementing a new rate design for electricity distributors, explaining that
5 it is pursuing a fixed rate design solution to achieve revenue decoupling. The Draft Report then
6 goes on to discuss why a change to the rate design is now appropriate, and solicits input from
7 stakeholders on the design and approach to implementing a new rate. The Draft Report
8 presents three proposals for the design of this rate, and lists the objectives by which the Board
9 will consider the merits of the different proposals. The three proposals are:

- 10 1) A single monthly charge which is the same for all consumers within the rate class;
- 11 2) A fixed monthly charge with the size of the charge based on the size of the electrical
12 connection; and
- 13 3) A fixed monthly charge where the size of the charge is based on use during peak hours.

14 **OPA Comments**

15 The OPA’s principal interest with respect to rate design for electricity distributors is to ensure
16 alignment with provincial conservation and demand management (“CDM”) and distributed
17 generation programs. The OPA also believes that rates for electricity distributors should
18 support customer literacy, reduce customer confusion, and reflect the costs of maintaining the
19 electricity system.

20 Given the evolution of the utility business model brought about by the advent of new
21 technologies and trends in electricity consumption, the OPA is supportive of initiatives such as
22 this that explore appropriate new approaches to allocating the costs of using the electricity
23 system to access and provide energy services. The OPA encourages the Board to continue to
24 explore additional such opportunities in the future through regular reviews of rates. In
25 subsequent reviews, the Board may wish to consider such things as standby rates for customers
26 who are primarily served by behind the meter generation, and fully or partially fixed rates for
27 transmission costs. As it does so, the Board should have regard to finding balance between
28 fixed and variable portions of customers’ overall bill to ensure adequacy of revenues and to
29 appropriately reflect cost drivers, while at the same time providing appropriate price signals to
30 customers that encourage efficient use of the electricity system. The OPA notes that such
31 future rate design reviews could address the recommendations listed in the OPA/IESO report



32 on enhancing regional electricity planning and siting by aligning local preferences with local
33 responsibility.

34 With respect to the questions posed in the Board's Draft Report, the OPA notes that Proposal 1
35 is the most administratively simple to implement, and that simplicity can be advantageous as it
36 reduces the cost of implementation and eases communication to customers. However, it does
37 not offer customers the opportunity to manage their electricity bills and it does not incent
38 participation in CDM or distributed generation programs. As well, small volume customers will
39 pay more under this proposal and this may be seen as an inequity amongst ratepayers.

40 Proposal 3 has the greatest potential to support the achievement of CDM and distributed
41 generation as its price signal is tied to peak demand. By providing a price signal to minimize
42 consumption at peak times, it also provides an opportunity for customers to manage their
43 electricity bills and encourages customers to take action that, over the long term, will reduce
44 the cost of maintaining the distribution system. However, the OPA believes it would likely be
45 more administratively difficult to implement due to the need for complicated analysis of
46 customers' consumption data to determine the distribution charge, and would likely also
47 require upgrades to LDCs' billing systems to assign this charge to each customer. As recognized
48 by the Board, there are still questions related to the specific methodology of how customers'
49 contribution to peak would be calculated and how costs would be allocated. Without greater
50 clarity on the details of the implementation of Proposal 3, the OPA remains cautious in offering
51 full support to this Proposal.

52 The OPA therefore submits that the success of the Board's approach to revenue decoupling
53 would be assisted by additional research and development of Proposal 3, possibly through a
54 working group. The OPA believes that the potential benefits associated with pursuing this
55 option may warrant the additional costs and efforts of implementation, but that the challenges
56 described above need to be investigated. A working group would be a valuable forum for
57 establishing the specific details related to the methodology for Proposal 3. Once additional
58 research is complete and there is greater clarity on the design of Proposal 3, the Board will be
59 in a better position to make an informed decision on the preferred structure of the fixed rate.
60 It will be clear whether Proposal 3 can be implemented effectively, with support from
61 customers, and in a manner that warrants the additional effort, or whether the simplicity of
62 Proposal 1 is superior.

63 The OPA believes that customers will benefit from a single change to the way that their
64 distribution charge is calculated, rather than a staged approach of implementing one proposal

65 and then changing to another proposal after additional research is available and completed. A
66 single implementation, in OPA's opinion, will minimize customer confusion.

67 Should the Board elect a working group to explore Proposal 3, the OPA would be interested in
68 participating in that process.

69 The OPA appreciates the opportunity to provide comments in this matter and looks forward to
70 participating in further initiatives on this subject.