June 10, 2014

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
P.O. Box 2319
Toronto, Ontario
M4P 1E4

Dear Ms. Walli:

Re: EB-2010-0410 – Rate Design For Electricity Distributors – Draft Report of the Board - Revised Submissions of the Consumers Council of Canada

Please find, attached the revised Submissions of the Consumers Council of Canada for the above-referenced Ontario Energy Board consultation process. It came to my attention that an earlier version was filed inadvertently on June 8. The original version has not changed substantively. The revised version simply corrects several typographical errors and formatting. I apologize for any inconvenience this may have caused.

Yours truly,

Julie E. Girvan

Julie E. Girvan

CC: Ken Whitehurst, Consumers Council of Canada

ONTARIO ENERGY BOARD
RATE DESIGN/REVENUE DECOUPLING FOR ELECTICITY DISTRIBUTORS
EB-2010-0410

SUBMISSIONS OF THE CONSUMERS COUNCIL OF CANADA

I. INTRODUCTION:

By letter dated April 3, 2014, the Ontario Energy Board ("Board"), released a Draft Report of the Board on Rate Design for Electricity Distributors ("the Report"). The Board has indicated its intent to pursue a fixed rate design solution to achieve revenue decoupling for electricity distributors. The Board invited written comments on the Report and the fixed rate options set out in that Report. These are the comments of the Consumers Council of Canada ("Council").

II. BACKGOUND:

As set out in the April 3 letter the Board expressed its view that a fixed rate design for recovery of electricity "best meets principles of rate making and responds to the current challenges and policy". The Board provided the following justification for its move to a fixed rate design:

- The Board believes that when consumers understand what costs are being recovered in the amount they are being charged for the use of the distribution system, they are equipped to make informed choices about their use, their investments and the value of being connected;

- The Renewed Regulatory Framework for Electricity sets an expectation for distributors of sustained productivity that is enhanced when they invest and operate efficiently. The Board has emphasized the need for distributors to focus on asset management and planning to optimize investments. A fixed rate best meets the interests of the utility for predictable, stable revenue to implement capital investment plans; and

- The government will rely on electricity distributors to deliver its policy of conservation first to meet future energy needs. The Board needs to ensure that there is no disincentive to that role.

In its Report, the Board stated that a new rate design is needed to achieve the new regulatory and public policy objectives for the Ontario electricity sector. The Board set out three rate design proposals in the Report:

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

- **Proposal 2** – a fixed monthly charge with the size based on the electrical connection; and

- **Proposal 3** – a fixed monthly charge where the size of the charge is based on use during peak hours. (Report p. 21).

The Council will set out some general comments regarding the initiative to move to a fixed charge, and provide comments on each of the three proposals. In those submissions we will also address the questions posed by the Board in its Report.

III. SUBMISSIONS:

General Comments:

As a matter of principle, the Council is not opposed to revenue decoupling. To the extent distributors are facing revenue erosion due to conservation programs, and a general trend toward more energy efficiency, revenue decoupling is justified. Without question it is important that distributors are provided with sufficient revenue to maintain their systems and provide safe reliable electricity service to their customers.

The Council does, however, have concerns regarding the Board's decision to implement revenue decoupling by moving to a 100% fixed charge rate design for Ontario electricity local distribution companies ("LDCs"). Each of the three options present significant issues and challenges particularly regarding fairness, acceptability by customers and implementation. The Council is of the view that unless these issues (set out below) can be sufficiently addressed, it may be premature to pursue a fixed rate option at this time.

The Council fully understands the logic in moving to a fixed rate design in terms of cost causality. The most significant distribution cost drivers are the number of customers, and consumer peak demand. In effect, distribution costs, in large measure, do not vary with consumption. As noted in the Report, there is currently only a very limited link between distribution system costs and the variable energy charge determinant currently embedded in residential and small commercial class tariffs. It appears that the principles of cost causality and ensuring that distributors are afforded revenue stability are the primary drivers prompting the Board to adopt a 100% fixed distribution tariff.

It is well known that the Government of Ontario is has adopted a "Conservation First" strategy as part of its Long-Term Energy Plan ("LTEP"). In fact, the Ontario

Power Authority and the LDCs are in the midst of developing a conservation framework that will likely see over $2 billion spent on conservation programs over the next 6 years. Although moving to a 100% fixed charge eliminates the disincentive for distributors to pursue conservation (as the current lost revenue adjustment mechanism does), at the same time it reduces the incentive for customers to pursue conservation. Under most fixed rate options conservation efforts will not reduce the delivery portion of the bill. Through this policy review, the Board needs to consider the extent to which the 100% fixed charge may, in effect, make the proposed conservation plans more costly and less effective.

It is generally accepted that rate design is not a science. There is no perfect way to design rates. In determining rate design utilities, and their regulators, must balance a number of competing objectives which can include cost causality, stability, simplicity, fairness, efficiency, public acceptability and the avoidance of undue discrimination. In addition, this Board is guided by its statutory objectives, which include:

1. To protect the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service;

2. To promote economic efficiency and cost effectiveness in the generation, transmission, distribution, sale and demand management of electricity and to facilitate the maintenance of a financially viable electricity; and

3. To promote electricity conservation and demand management in a manner consistent with the policies of the Government of Ontario, including having regard to the consumer's economic circumstances.

In the Report the Board has indicated that, in the context of this review, in terms of determining which rate design would be appropriate, it will have regard to the following objectives:

- 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 the optimal use of assets and improving productivity;
- Removing or reducing regulatory costs; and
- Supporting the achievement of public policy objectives. (Report, p. 2)

The Council submits that these are all important and relevant policy objectives that should be considered in rate design. As noted above, we are not opposed to revenue decoupling but do question whether the move to a 100% fixed rate design is the best way to balance all of these objectives.

One of the other difficulties with moving to a fixed rate design, in pursuit of many of these objectives, is that fact that the current bill presentment (prescribed by regulation) does not break out the distribution component on the bill. "Delivery" is currently made up of a fixed customer charge, a variable rate for distribution, a variable rate for transmission and a variable rate for losses. Moving to a 100% fixed charge would not be visible on the bill under the current bill presentation, as the delivery charge would continue to be made up of fixed and variable charges.

The Council would add that in moving to a fixed rate design the Board must consider the extent to which the business risk of the LDCs would change and how any reduction in risk should be reflected in the cost of capital.

Comments on the 3 Proposals:

The Council submits that all of these options present a number of challenges for the Board. Unless these challenges can be sufficiently addressed it may be premature to implement a fixed rate design as a way to achieve revenue decoupling.

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

This option would provide some measure of bill stability for customers (commodity costs would still be variable) and would provide revenue certainty for LDCs. The Board also concluded in its Report that it would be the easiest for the consumer to understand (among the 3 options) and could be implemented quickly without significant billing changes (Report, pp. 23-24). This proposal has the following disadvantages:

- Although it would eliminate a disincentive for LDCs to pursue CDM, it mutes the incentive for customers to participate in CDM programs relative to the current rate design. CDM savings may be more difficult and more costly to achieve;

- Low-volume customers will see bill increases, whereas large use customers will see bill reductions relative to the current structure;

- Depending upon the implementation strategy these increases may represent rate shock and be intolerable for low-income and fixed income customers;

- It may be very difficult to gain acceptance of this proposal. Many customers will not understand why someone in a 1000 square foot home will pay the same as their neighbor in a 4000 square foot home. This is a fairness issue;

- Customer education/messaging will be costly and there is the potential for customer call center costs to increase if consumer acceptance is difficult;

- The cost of serving a smaller property may not be the same as the cost to serve a larger property. This maybe particularly true with respect to multi-residential properties and larger homes. Again, this is a fairness issue;

- This proposal does not recognize that peak demand is a cost driver for distributors;

- With respect to the Board stated policy objectives it is not clear whether this proposal, relative to the status quo, will necessarily focus distributors on optimal use of assets and improve productivity, remove or reduce regulatory costs or support the achievement of public policy objectives.

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

Under this proposal the size of a consumer's fixed charge would be based on the size of the electrical connection to the distribution system. This is about the "capacity" to draw from the system, not necessarily about how much a customer actually draws from the system. It would address some issues of fairness and impacts on low-volume customers, as a greater share of the costs would be borne by individual customers who have larger connections. This might incent customers to reduce their connection capacity. This proposal has the following disadvantages:

- It mutes the incentive for customers to participate in conservation programs relative to the status quo;

- It assumes a relationship between use and connection size, which is not necessarily the case. A low-volume customer may have a higher amp service connection. It maybe better for some low-income customers relative to Proposal 1, but worse for others in terms of bill impacts;

- Many distributors do not have the information required to implement this option and would need to undertake a data gathering exercise to comply. It would also require LDCs to keep track of service upgrades which would come at an administrative cost

- Customers may have an incentive to change out their service, but the costs may exceed the benefits. Renters would be unable to do so, unless agreed to by their landlord. In addition, there may be safety issues associated with customers being incented to undersize their service;

- Changes to the billing systems would be required at a cost. Those costs are unknown;

- Again, it maybe difficult to gain acceptance of this proposal relative to the status quo;

- Customer education/messaging may be even more costly than Proposal 1 and there is the potential for customer call center costs to increase if consumer acceptance is difficult;

- With respect to the Board stated policy objectives it is not clear whether this proposal, relative to the status quo, will necessarily focus distributors on optimal use of assets and improve productivity, remove or reduce regulatory costs or support the achievement of public policy objectives.

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

Under this proposal there would be a fixed monthly charge where the size of the charge is based on use during peak hours. At the end of a rate period, a consumer's use would be evaluated as compared to other customers in the class. The LDC would be comparing each customer's peak usage against the class. If a customer's peak usage was below the class average they would be assigned to the lowest use sub group with the lowest charge. At the other end of the spectrum, if their peak use was substantially higher than the class average, they would be assigned to the highest use sub group and receive the highest distribution rate. From a rate design perspective this is likely the best option to link distribution rates to distribution costs.

This proposal would connect a customer's distribution charge to it's use of the system (over the last period). It may encourage more peak shifting more than under the other proposals.

This proposal has the following disadvantages:

- This would entail increased administrative costs (over the status quo and the other options) in order to potentially reclassify customers each year:

- There would be a lag between a customer's behavior and the reclassification, muting the incentive to load shift or reduce load;

- It would not ensure predictability and stability for customers, as they may be reclassified each year;

- Customer education/messaging would likely be the highest under this option. Call center costs would undoubtedly increase;

- Customers would not necessarily be rewarded for their conservation efforts or efforts to manage their bills. Their use would be considered relative to other customers in the class.

- Implementation challenges would include the definition of the "peak" and whether it should be distributor specific or Province-wide;

- The impacts on low-income customers and those that use electric heat may be more significant under this option as they may have limited opportunities to avoid the peaks;

- This would not be adaptable for customers without smart meters;

- With respect to the Board-stated policy objectives it is not clear that this proposal, relative to the status quo, will necessarily focus distributors on optimal use of assets and improve productivity, remove or reduce regulatory costs or support the achievement of public policy objectives.

IV. CONCLUSIONS:

As noted above, the Council is generally supportive of revenue decoupling, to the extent distribution revenue erosion needs to be addressed. The Council has carefully assessed the three 100% fixed rate proposals advanced by the Board. We are not convinced, in light of the issues and challenges identified with these proposals, that the Board should proceed with one of them at this time (or let the LDCs choose among the options).

The Council submits that more study is required regarding the development of a fixed rate option (to the extent the Board has determined it will proceed). Further study should include, but not be limited to:

1. What are the potential impacts on specific customer groups of specific LDCs of each of the options? Do the LDCs agree with the analysis provided by Board Staff? How could any adverse impacts be mitigated?

2. What further information could be obtained through more extensive focus group studies and surveys that could inform the Board's policy choices regarding rate design? (The original focus groups were very small).

3. How should any potential impacts on low-income customers be addressed?

4. Are these proposals the best way to achieve a balancing of the Board's stated objectives and generally accepted rate-making principles?

5. Why are fixed rate structures not more common in other jurisdictions? Where have fixed rate options been implemented, and what have been the results?

6. What might be the impacts on the new CDM framework if fixed distribution rates were implemented? How might fixed rates mute those efforts, add to the cost, or reduce the potential impacts of new programs?

7. How should communication efforts be undertaken in order to ensure customers are fully informed about rate structure changes and the rationale for those changes. How should those efforts be coordinated across the Province? How can public acceptance best be achieved?

8. To what extent would the benefits of moving to a 100% fixed charge outweigh the costs? Depending upon each proposal, there may be significant costs incurred related to customer communication, increased call center activity, billing system changes, and other administrative/monitoring costs. What would be the magnitude of these costs? How would these compare to the expected benefits?

9. What are the potential timeline options for implementation? Is a multi-year phase in required in order to achieve customer acceptance?

10. What are all of the other implementation issues that must be addressed prior to any roll-out of a fixed charge rate structure?

The Council believes the challenges of implementing a fixed rate option are significant and some issues potentially insurmountable. The Council would be supportive of the Board establishing a working group to further consider the Board's current proposals, other options, and the key implementation issues.