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June 6, 2014

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
Suite 2700
Toronto, Ontario, M4P 1E4

Dear Ms. Walli:

Re: EB-2012-0410 – Rate Design for Electricity Distributors - Comments on Methodologies Provided in the Draft Report of the Board of the London Property Management Association

A. Introduction

The Ontario Energy Board ("Board") has indicated that it intends to pursue a fixed rate design solution to achieve revenue decoupling, which is a regulatory framework that seeks to break the link between a distributor's revenue recover and consumer consumption of energy. The London Property Management Association ("LPMA") agrees with the goal of breaking the link between revenue recovery and consumer consumption of energy. However, this decoupling must be done correctly and for the benefit of ratepayers.

The Board has provided three methodologies for setting fixed rates for low volume consumers (Residential and GS < 50 kW) and has invited stakeholders to comment on these methodologies. The Board also posed three questions on which it also invited comments.

These are the comments of the LPMA. In addition to comments on the three methodologies and the three questions posed by the Board, LPMA has provided comments on key issues that would need to be addressed if any of the options were adopted. In addition LPMA has provided alternative methodologies that it believes are superior to the options provided in the draft report.

B. The Three Methodologies

1) Single Monthly Charge

This is the simplest of the three methodologies proposed. Unfortunately is also the worst of the proposals.

The Draft Report states that a single monthly charge would provide the most consumer stability of all the proposals and that it east for the consumer to understand. LPMA disagrees.

The distribution service is only one part of the electricity service and typically accounts for 20 to 25% of a residential ratepayer's bill. In most cases the fixed monthly charge already accounts for more than half of the distribution service costs. The remaining costs are recovered through a variable charge based on the kWh's consumed. While this amount varies from month to month, the variability associated with it has been greatly exaggerated. Residential ratepayers and GS < 50 kW ratepayers have a significant amount of consumption that is fixed from one month to another. As a result, this base load does not contribute in any significant way to the variability in monthly bills. It is only the variability in consumption above this base load that contributes to the variable in a bill from month to month. Compared to the variability that can result from changes in off-peak, mid-peak and on-peak consumption and costs, the variability resulting from distribution volumetric charges for non base load consumption is minimal.

LPMA submits that it is unlikely that the majority of customers would see any reduction in variability of bills as a result of this approach.

LPMA also disagrees that a single monthly charge is easy for the consumer to understand. This assumption underestimates the intelligence of ratepayers. Ratepayers understand that a residential customer does not cost as much to serve as does a large customer.

A single monthly charge for each of the Residential and GS < 50 kW rate classes has the implicit assumption that all customers within each of the classes cause the same costs. Ratepayers will not understand why an all electric house, for example, costs the same to serve as does a house that uses natural gas for space and water heating, and uses natural gas for cooking and clothes drying. This sends the signal that it must be ok to use more electricity since the cost of the distribution system is independent of how much you actually use. This flies in the face of conservation efforts of the distributors and the

province. If using less is supposed to be good, why is the distribution cost independent of the demands placed on the system?

LPMA does not believe that a single monthly charge will improve distribution planning. Distribution planning is long term by its very nature. Revenue fluctuations from one year to another should not have a significant impact on the long term plans. Asset acquisition is not financed entirely from retained earnings. Debt is (or should) be used to finance most of the capital expenditures.

LPMA does believe that a single monthly charge removes the disincentives for a distributor to promote conservation and net metering; however it also increases the disincentive for ratepayers to conserve or to self generate. This is because by removing the variable charge from the equation, conservation and/or net metering will have a slower payback. This is because under the current rate design, the savings include the elimination of the commodity cost and some reduction in the distribution costs paid for lower consumption. Under the single monthly charge, there would be no reduction in the distribution related component of the bill, resulting in longer periods for the investments in conservation or net metering to pay off.

LPMA submits that the most significant benefit of the single monthly charge is that there would be a reduction in regulatory and accounting charges because there would no longer be a need for the effort that goes into the calculation of the Lost Revenue Adjustment Mechanism ("LRAM").

Finally, the impact on ratepayers of this approach is perverse. Ratepayers that consume the smallest amount of electricity within their rate class will see an increase in their bills, while the largest consumers in each class will see a reduction in their bills. This does not support the governments conservation objectives and expectations. Small users would be incented to conserve more because of the increase in cost, while large users would have less of an incentive. More significantly, those ratepayers that do conserve would not see any savings on the distribution portion of their bill. It is extremely difficult to compare savings on the commodity because the change in total consumption can be masked by a change in the off-peak, mid-peak, on-peak consumption. The distribution component, under the current rate design, is the easiest place for the ratepayer to see the savings that his conservation efforts have achieved. Under a single monthly charge, there would be no savings, discouraging the ratepayer from further conservation efforts.

LPMA submits that the Board should not adopt this rate methodology. It is submitted that there is substantial diversity within the Residential rate class and even more diversity

within the GS < 50 kW class so as to impose a single monthly charge on all customers in each of these two classes would not be fair to smaller customers.

LPMA notes that this problem could be rectified if each of the classes were to be further subdivided into more homogenous groupings. Rate design, of course, prescribes that rate classes should be as homogenous as possible. By changing to a single monthly charge, there is a need to revisit the definition of rate classes. For example, why should a residential customer in an apartment building pay the same distribution charge as a residential customer in a large house that used 4 or 5 times as much electricity and clearly causes a higher demand on the system? Similarly, why should a small commercial customer with a peak demand of 5 kW pay the same as a customer with a peak demand of 45kW?

Creating more homogenous rate classes would be one way to deal with the inequity caused by the single monthly charge approach. A better way to deal with it would be to move to a methodology that includes a recognition of peak demand (see method 3 below).

2) Fixed Monthly Charge Based on Size of Electrical Connection

LPMA submits that the same issues identified for the single monthly charge discussed in the previous section apply equally to this option.

In addition, this approach requires distributors to use information that most currently do not have and would be difficult to obtain and maintain. If this approach did not suffer from the same problems as discussed in the previous section, LPMA would submit that it may be worthwhile to obtain and maintain the information needed. However, since it does suffer from the same shortcomings, LPMA recommends that the Board not adopt this approach.

3) Fixed Monthly Charge Based on Use During Peak Hours

LPMA supports the use of a billing methodology that takes into account consumption during peak hours. However, LPMA does not support the proposal in the Draft Report.

LPMA does not believe that a charge that does not vary from month to month is an appropriate method to promote conservation and/or load shifting. If a ratepayer does not see a reduction in their distribution cost soon after making changes to their consumption during peak hours, there will be confusion as to why their costs did not go down and the

desire to undertake further conservation measure and/or load shifting will be adversely affected.

LPMA also does not support the comparison to other ratepayers in determining which monthly service charge category they would fall into. Again, a ratepayer could undertake conservation and/or load shifting measures that would reduce their demand on the distribution system, but result in them being shifted into the a higher monthly service charge category. Again this destroys the incentive to do more and would be difficult for consumers to understand.

This approach appears to be a very complicated method not only for distributors to administer, but for ratepayers to understand.

LPMA does agree that ratepayer acceptance would be enhanced if the peak use period used for the distribution charges was aligned with the time of use peak period. Having two peak use periods that may overlap, but do not exactly match one another would only cause consumer confusion.

LPMA does not agree that the proposed methodology would provide the consumers with a price signal regarding the use of the system and the opportunity to make changes to their use to affect their bills. This is because consumers would have to wait up to a year to see any impact of changes that they make. In addition, any changes they make during a given year, would not be fully reflected in their monthly charge until the second year following the change. In order to promote the benefits of conservation and/or load shifting, the impact needs to be visible to the consumer within a few months.

LPMA also has significant concerns with the costs of this methodology that would be incurred by distributors and passed on to ratepayers through higher rates. As the Draft Report indicates, the extra complexity of this proposal would require distributors to help customers manage their distribution costs through ongoing customer engagement.

This methodology does provide a more direct link between peak hours and distribution system planning. This type of rate design would encourage off-peak use, but as noted above, the price and cost signal sent to the ratepayer must be more closely linked in terms of timing to the measures taken by a customer. Waiting a year or two to see results is likely to result in the reversal of any benefits from the initial measure taken. If a consumer does not see an immediate impact in their distribution bill, their behaviour is likely to revert to what it was before the measure was implemented.

This also leads to backlash against the government policy, the Ontario Energy Board and the local distributors. Ratepayers have been told that they can reduce their bills if they take action to reduce their consumption and/or shift load out of the peak period. If they do not see the results of their actions in a short period of time, their conclusion is likely that all of this nonsense is simply to make more money for the distributors.

Of the three options presented, LPMA submits that this option is the one likely to have the most positive impact on encouraging net metering, but again the full impact would not be seen by the consumer until at least two years later. This is because there would be no impact on their distribution costs in the year in which the net metering was installed. In the following year, the distribution charge would only reflect a partial year impact of net metering. The full annual impact of the net metering would only be reflected in the following year.

The Draft Report is not specific on the peak demand figure that would be used in this methodology. It could range from the highest peak hour (or 15 minutes) in the month, season or year, to an average of the peak use in all peak hours in a month, season, or year. It could also be an average of the above approaches over a season or the average of the monthly averages. The approach taken would have a significant impact not only on the classification of customers into the sub-groupings, but also on the impact on ratepayers and the creation of an incentive or disincentive to conserve and/or load shift.

In Section E below, LPMA provides a rate design that it believes is more appropriate for a number of reasons indicated there.

C. Responses to 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?

LPMA deals with each of the goals for each of the approaches identified.

i) providing stability and predictability to consumers on their bills:

As noted earlier in these comments, the distribution component of the bill only represents 20 to 25% of the total bill. In most cases, over one half of this amount is already a fixed charge. The remaining distribution costs include a base level of consumption that does

not vary from month to month If this base level of consumption represents 50% of the highest level of consumption (a conservative assumption), then the remaining variable consumption represents less than 5% of the total bill. As a result the movement to any fixed rate for distribution costs will have little impact on the variable of the customers overall bill. For small volume customers that will end up paying a higher distribution charge this marginal increase in stability comes with a higher cost.

LPMA concludes that none of the three proposals has any significant improvement in stability and predictability to consumers on their bills.

ii) enhancing consumer literacy of energy rates:

A fixed charge for distribution costs does not enhance consumer literacy of energy rates. Distribution costs are drive by costs that are dependent on the number of customers (such as billing) and on peak demand requirements for the system. A fixed charge combines these two distinct components into one charge and results in a rate design that deviates from the two major cost drivers. This combination does a disservice to an engaged consumer that understands these cost causation factors have been hidden under the fixed charge approach.

iii) providing consumers with tools for managing their costs:

The first two proposals do not take peak demand into account in setting the fixed charge. Compared to the current rate design, this increases costs to small volume ratepayers and decreases the costs for large volume ratepayers in each of the residential and GS < 50 kW classes. This is counterproductive if the goal is to reward ratepayers with lower bills for consuming less. As a result, the tools provided to consumers to manage their costs have been reduced. Any conservation measure undertaken by a consumer will actually have less of benefit to them under the monthly fixed charge proposals than they receive under the current rate design.

The third proposal does have an incentive to reduce consumption during peak periods. However, as noted above, a rate payer can reduce their on peak use and still end up paying a higher cost if they reduce their peak use by less than others. From a consumers perspective paying more despite reducing consumption is counter intuitive and this result should be avoided.

iv) focusing distributors on optimal use of assets and improving productivity:

LPMA believes that distributors are already focused on the optimal use of their assets and on improving productivity. How they get their revenues is not likely to have any significant impacts on their long term distribution plans.

v) removing or reducing regulatory costs:

All three proposals have the benefit of removing the need for an LRAM to be calculated and cleared. Other than this, LPMA does not believe there is any significant reduction in regulatory costs. Purchased kWh's will still need to be forecast for rebasing or cost of service applications in order to calculate the working capital component of rate base associated with the cost of power. kWh forecasts would not appear to be needed by rate class.

vi) supporting public policy:

LPMA does not believe that the move to a fixed monthly charge to recover all distribution costs supports public policy. In fact, it may hinder public policy.

The first two proposals outlined in the Draft Report actually reduce the financial incentive to conserve by eliminating the variable kWh charge, which is a significant component of the overall charge per kWh that consumers can save by consuming less. The third proposal can actually result in higher costs to a consumer even if they reduce their on peak consumption. Neither result supports the public policy of conservation first.

Similarly, net metering is adversely impacted by the first two proposals because the payback period for the investment will be extended under each proposal. This is because the savings per kWh are being reduced through the elimination of the variable kWh distribution charge.

The third proposal would have a positive impact on net metering, but the benefits of self generation would not be felt for up to 2 years following the installation, again extending the payback period for residential and small general service customers.

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

LPMA strongly believes that distributors should NOT be allowed to choose which method they will use. The approach should be consistent across the province. Multiple approaches will only result in ratepayer confusion. This is especially true for the GS < 50

kW rate class because many commercial, institutional and industrial ratepayers are ratepayers across multiple electric distributors.

LPMA sees no benefit to anyone in allowing different approaches to be used by different distributors.

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

LPMA submits that regardless of the methodology ultimately chosen, the implementation issues regarding timing and consumer impacts are the same.

First, with respect to timing, LPMA submits that the change should only be implemented as part of a cost of service rebasing application or as part of a multi-year IR application. The rationale for this is very simple. Under these two types of applications, the forecast number of customers, a key driver in all the methodologies, is available to used in deriving the rates. Under the other forms of IR this information is not available.

More importantly, is the change in the capital structure that should be implemented at the same time (see below), as well as any other significant changes that may result from the simplified billing.

LPMA also believes that whatever change is made should only be made after a full year of billing information provided to the ratepayers showing their costs under the current rate design and under the rate design that will come into effect in the future. Not only would this provide valuable information to customers on a monthly basis before they are subject to the new approach, but it would also provide valuable information to the distributors in order for them to concentrate their CDM and public relations efforts on the customers that would be most adversely impacted by the change. This pro-active approach is vastly superior to making the change and then reacting to calls through a call center.

D. Other Comments

i) Capital Structure

With the increased emphasis on the customer under the renewed regulatory framework, LPMA was surprised by the lack of information in the Draft Report related to savings to ratepayers that should result from the movement to recovery of distribution costs solely through a monthly fixed charge.

Revenue decoupling breaks the link between a distributor's revenue recovery and the consumption of energy by the ratepayers. This effectively removes a number of risks from the distributor. For example, distributors would no longer face risk associated with deviations in consumption due to weather and economic and business conditions.

Forecast risks would be significantly reduced since forecast accuracy with respect to the number of customers is much higher than it is for kWh consumption.

The Board is proposing a significant change in the way the ratepayers pay for distribution service, and the clear evidence is that this will result in a increase in distribution costs paid by the smaller volume customers in the residential and GS < 50 kW classes, including tenants and low income individuals. Before the Board makes any such changes, there should be an indication of the reduction in the equity component of the capital structure that would be required to reflect the reduction in business and financial risks for the distributors.

ii) CDM Cost Increases

As indicated throughout these comments, LPMA submits that the proposals are likely to reduce the amount of CDM that takes place because of the reduced savings through the elimination of the variable distribution charge. This increases the payback period of conservation programs and may require an increase in incentives in order to simply maintain the pace of CDM savings. These increase CDM costs would be recovered from ratepayers, meaning that in the absence of a return in the equity component of the capital structure because of the reduced risk for distributors, rates could actually increase to cover the increased CDM costs, that would be needed to maintain the current CDM reductions. Thus the rate design change would not be revenue neutral, but would result in increased costs to ratepayers.

iii) Bill Presentation

The current bill presentation does not provide transparency to ratepayers. In order for ratepayers to improve their literacy of energy rates, they need to see the components of their bills. This is a basic need for literacy. Ratepayers cannot be expected to understand their bills if the bill hides the details.

Regardless of which approach is ultimately adopted by the Board, the ratepayer bill needs to reflect the information needed for ratepayers to make educated and informed decisions about their consumption.

iv) Cost Causation

LPMA continues to support the concept of cost causation and recovery of costs in a manner similar to how the costs are incurred.

Specifically, LPMA notes that for electricity distributors, the bulk of costs are either customer related or demand related and that very few costs are related to volumetric consumption.

Unfortunately, the Staff Report does not do any analysis of how much of the distribution costs are customer related and how much of these costs is demand related. The comment is made that in the short run all costs are fixed and that a fixed monthly charge is appropriate. LPMA disagrees with this approach.

If revenue stability to distributors and bill stability is a goal of the Board for ratepayers, then the focus should not be on the short run, but rather on the long run. In the long run, both customer related and demand related are not fixed. Demand related costs will fluctuate with increases (or decreases) in peak demand. Customer related costs will fluctuate (to some extent) with the number of customers being served. However, the way that customers are served (for example billing by mail, by e-mail or by self service websites) are evolving.

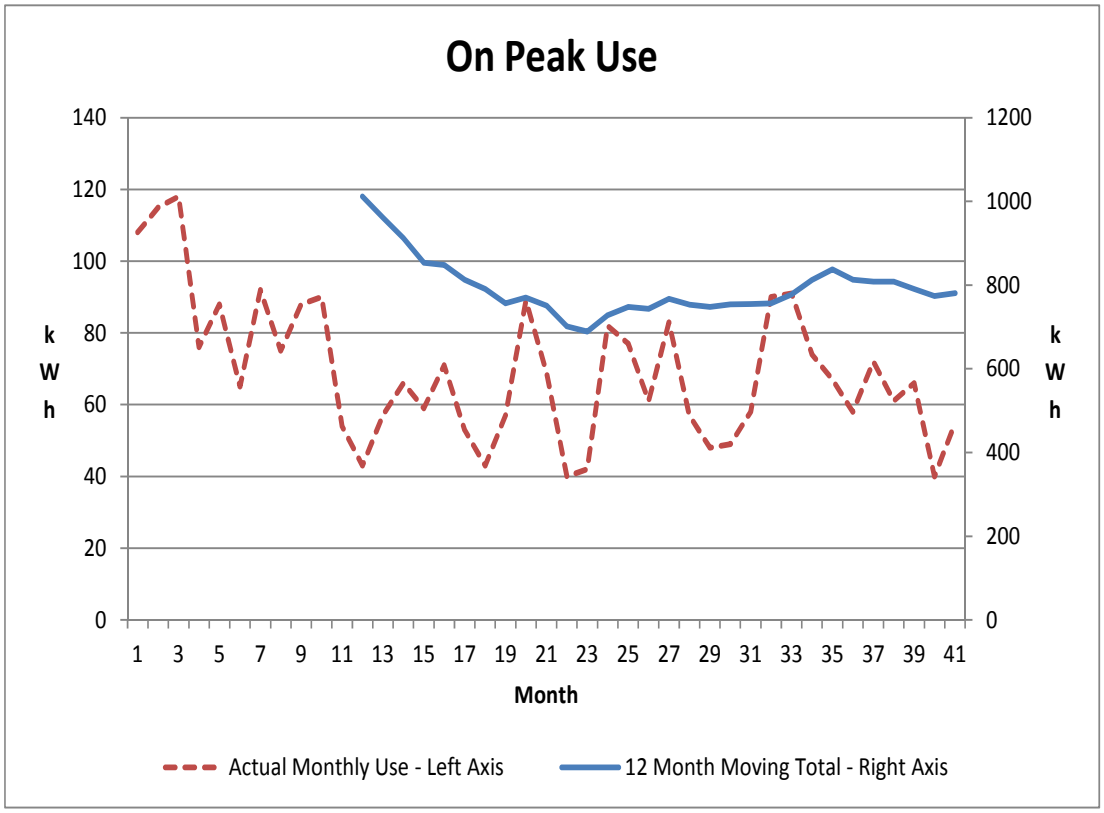
E. A Proposal

LPMA submits that the following proposal for rate design changes is an alternative to the three methods included in the Draft Report.

The rate design follows the cost causality principles and recovers customer related costs through a fixed monthly charge, much as it does today. Demand related costs (and any variable costs) would be recovered through a demand related charge. While this would not lead to complete revenue decoupling, LPMA submits that the demand related billing units would be significantly more stable than the monthly kWh billing units currently used.

The demand related charge would be based on the same on-peak period used for time of use rates. This would avoid any confusion between different concepts of the on-peak period and peak demands on the distribution system.

The demand related billing units would be the twelve month moving total of the kWh's consumed in the on-peak period. For example, a customer bill would reflect a demand related billing figure that is comprised of the current month on-peak TOU usage along with the corresponding figure for the previous eleven months. The following graph illustrates the on-peak and twelve month moving total for a residential customer.



The above graph shows that the actual on-peak usage varies from month to month and illustrates that the twelve month moving total is relatively stable on a month to month basis, while still reflecting the impact of changes in on-peak use on a month to month basis.

This approach reflects cost causation through the use of a monthly fixed charge to recover customer related costs and a demand related charge to recover demand related costs.

The above approach does not represent a complete revenue decoupling between revenue and costs, but LPMA submits that the use of a twelve month moving total of on-peak use is much more stable that the volumetric kWh's currently used for billing purposes.

As a result, the change in the capital structure to reflect a lowering of the equity component because of the reduced level of business and financial risks would be less than under a 100% fixed charge recovery (assuming no variance account is used - see below). This still provides benefits to ratepayers through lower rates, while reducing the reduction in return on equity for distributors, which are likely to be more concerned with a larger reduction in the equity component of the capital structure.

With respect to the Board's goals, LPMA provides the following submissions on this approach.

First, this approach would provide ratepayers with stability and predictability to consumers on their bills, to the extent that the distribution costs are reflected in the total bill. As the above total illustrates, the use of a 12 month moving total stabilizes the demand billing units from one month to the next.

Second, the use of the two billing determinants would coincide with the two cost drivers that impact distribution costs. This would enhance consumer literacy and understanding of what drives changes in their rates.

Third, the above approach provides consumers with tools for managing their costs. As part of the bill, LPMA would suggest that the twelve month rolling total would show the previous months twelve month total, should the addition of the current figure (which would be identical to the on-peak usage shown in the TOU section of the bill) and the subtraction of the same month from one year ago. This would allow comparison of the on-peak usage for the same month on a year over year basis. This would also allow ratepayers to see the impacts of any conservation measures or load shifting measures undertaken in the current month when compared to the same month one year previous. This also results in any savings due to changes made to be reflected immediately for ratepayers, enabling them to see the difference the change made.

Fourth, the inclusion of a demand related component to rates will encourage distributors to focus on the optimal use of assets and on improving productivity. While not totally decoupled, the variability in the demand component would be less than in the current situation. Further, the increase in costs related to demand related costs would be recovered from the customers that create the increase.

Fifth, regulatory costs would be reduced because there would not be a need for an LRAM mechanism related to kWh's. To account for variances between actual and forecast on-peak usage billing determinants, a variance account could be established, similar to what is currently in place for Union Gas and Enbridge Gas Distribution Inc. This variance

account results in a true up for differences in the average use per customer for the small customer classes, regardless of the source of the difference. This is effectively a revenue decoupling mechanism since it deals with changes due to CDM programs, natural CDM, changes in economic and business conditions, forecast error and any other factors that influence average use. Of course, with such protection, the equity component of the capital structure would be reduced in the same manner as if the distribution costs were all recovered through a fixed monthly charge.

Finally, with respect to supporting public policy, the above proposal enhances net metering better than any of the proposals in the Draft Report. Ratepayers would be able to see the impact upon installing self generation and it would be reflected in savings in their bill immediately. With respect to conservation and load shifting, again the ratepayer would continue to be incented to reduce or shift consumption through the distribution demand rate in addition to the TOU commodity rates. Again, the impact would be seen immediately by the ratepayer and reinforce the value of the measures to the ratepayer.

Sincerely,

Randy Aiken

Randy Aiken
Aiken & Associates
Consultant to London Property Management Association