



June 6, 2014

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

Re: Rate Design for Electricity Distribution
AMPCO Comments
Board File No. EB-2012-0410

Dear Ms. Walli:

AMPCO has reviewed the Board's Draft Report on Rate Design for Electricity Distributors dated March 31, 2014 and makes the following comments for the Board's consideration.

Please do not hesitate to contact me if you have any questions or require further information.

Sincerely yours,

A handwritten signature in blue ink, appearing to read "Adam White". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Adam White
President
Association of Major Power Consumers in Ontario

Association of Major Power Consumers in Ontario

www.ampco.org

65 Queen Street West, Suite 1510
Toronto, Ontario M5H 2M5

P. 416-260-0280
F. 416-260-0442

AMPCO Comments
EB-2012-0410
Rate Design for Electricity Distributors

Background

The Ontario Energy Board (Board) has indicated it intends to pursue a fixed rate design solution to achieve revenue decoupling. Revenue Decoupling is a regulatory framework that seeks to break the link between a distributor's revenue recovery and consumer consumption of energy.¹ The Board is proceeding first with decoupling of rates charged for electricity. The review of rates charged for natural gas is deferred until the completion of other planned natural gas initiatives.²

The Board is considering potential electricity rate design options to achieve revenue decoupling to meet the following objectives and link the consumer's charge with the cost drivers of the electricity distributor:

- 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 the achievement of public policy objectives.

The Board's Report, Rate Design for Electricity Distributors dated March 31, 2014 (Report) summarizes the key electricity distributor costs that are largely fixed and predictable (over the near term): administration, maintenance, capital investment, asset amortization and rate of return. The long-term planning horizon costs are primarily driven by the number of consumers and the peak demand on the entire distribution system, with customer numbers being the dominant output-related cost driver.³

The Report notes that investments in the system tend to come from adding or replacing assets for individual consumers driven by number of customers or adding or replacing assets for system capacity driven by peak numbers. The Report also notes that reducing energy usage does not reduce the cost of distribution.⁴

The delivery line on a customers' electricity bill includes service charges that cover the cost to

¹ Draft Report of the Board, Rate Design for Electricity Distributors, Page 1

² Draft Report of the Board, Rate Design for Electricity Distributors, Page 3

³ Draft Report of the Board, Rate Design for Electricity Distributors, Page13

⁴ Draft Report of the Board, Rate Design for Electricity Distributors, Page

operate the distribution system. The Report notes that the distribution charges typically reflect about 20-25% of a residential consumer's bill.⁵

The current electricity rate design includes a fixed monthly service charge and a variable rate. For lower volume consumers (residential and GS<50 kW customer classes) the variable rate is based on kWh of consumption, which has a limited link to electricity distribution system cost. The percentage split between fixed charges and variable charges varies between distributors.

For larger volume consumers (GS > 50 kW) the rate design includes a fixed monthly service charge and a charge based on monthly maximum demand that is aligned with distribution cost drivers. The scope of the Board's policy review at this time covers revenue decoupling for low volume customers. Rate design for larger volume consumers will be addressed in due course.⁶

Proposed Rate Design Options

The Board has put forward the following three rate design proposals for residential and GS<50 kW customer classes for comment.

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 of the charge based on the size of the electrical connection.

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

The Report notes that the amount of revenue collected from each rate class or the cost allocations between the classes is not intended to change under the three proposed revenue decoupling rate designs.⁷

Discussion of Three Options

AMPCO has reviewed the three options. In general AMPCO notes all three rate options meet the Board's objective to provide consumers stability during the rate period as the charge proposed under each option would not vary month to month. Proposals 2 and 3 provide consumer literacy benefits. Proposal 2 provides a better understanding of connection costs and Proposal 3 provides a better understanding of system peak. In AMPCO's view, Proposal 1 does not provide consumer literacy in a way that is meaningful for the reasons noted below. Only two Proposals (2 & 3) provide consumers with tools for managing their costs. AMPCO believes the optimal rate design should provide correct price signals and allow consumers to manage their costs. Proposal 1 is the only option that has the near term potential to remove or

⁵ Draft Report of the Board, Rate Design for Electricity Distributors, Page 7

⁶ Draft Report of the Board, Rate Design for Electricity Distributors, Page 4

⁷ Draft Report of the Board, Rate Design for Electricity Distributors, Page

reduce regulatory costs.

Although AMPCO does not have members in the two rate classes under consideration for rate design changes, AMPCO has provided the following comments from a policy perspective.

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

Proposal 1 is determined by dividing the revenue of the class by the forecasted number of customers in a month to arrive at a fixed monthly charge. By the nature of its design (i.e. a single monthly charge), AMPCO acknowledges Proposal 1 provides the most consumer stability of all the proposals; it is easy to understand and it aligns the charge with a primary long term cost driver - number of customers. The Report notes that Proposal 1 provides a constant, reliable and predictable cash flow for electricity distributors. Because revenue is more predictable, the distributor focus will be on its own operational efficiency gains and the implementation of its 5 year capital plans because revenue is more predictably available for the execution on those plans. It is not clear to AMPCO reviewing the report how the current rate design actually impacts the implementation of distributors' capital & OM&A plans. AMPCO submits this increase in predictable revenue decreases the distributors risk and this would need to be taken into account in the regulatory process.

With respect to consumer literacy, AMPCO submits a fixed charge that doesn't change doesn't make consumers more informed about the system, or "more literate", if the underlying costs are not fixed. In the long run, the costs are not fixed. That's essentially what's driving the consideration of these different options.

A charge that doesn't change doesn't improve literacy or any other thing if it removes all inducements for customers to change behaviour and to reduce costs in ways that deliver system efficiencies, which is what a peak-based charge would do.

AMPCO members are large consumers, large investors and large employers. AMPCO member employees are all residential customers, and the system costs overall are largely driven by the behaviors and needs of residential and GS<50 customers. What happens in these customer classes is a key driver of costs for large customers.

We don't "dumb down" communications with our own employees by pretending things are fixed when they're not. We expect (and work with) our employees to develop and execute adaptive transitions to more efficient consumption patterns at every scale. AMPCO employees are a significant portion of these customer classes; they are literate, numerate, highly educated, trained and skilled. These people are our most important resource; they are highly valued and we have high expectations of what they're capable of delivering. The Board should expect no less of the consumers in its charge.

AMPCO has some other concerns with Proposal 1. First, AMPCO notes that by treating all consumers in the rate class the same it does not distinguish between a high energy consumer and a low energy consumer which leads to cross subsidization within the rate class and is contrary to cost allocation and rate design principles of cost causality and fairness. The charge proposed under Proposals 2 and 3 include sub-groups to account for differences between consumers in the rate class which in AMPCO's view better addresses fairness. Second, AMPCO notes that Proposal 1 does not provide a price signal or tools for consumers to manage their costs. There is also a question as to whether or not Proposal 1 fully supports public policy related to the Province's Long Term Energy Plan (LTEP).

AMPCO is concerned the approach of Proposal 1 has the potential to undermine the "LTEP's conservation first policy as a tool to respond to increased electricity demand and to limit the need to invest in new infrastructure over the next 20 years. In the Board's view a new rate design that will allow the sector to focus on conservation without needing to address potential lost revenues is necessary to support this policy direction. Currently the Board addresses revenue erosion due to consumer conservation and demand management programs by providing a Lost Revenue Adjustment Mechanism (LRAM). The LRAM addresses the disincentive for a distributor to promote conservation and demand management. However, at the customer level, the change in rate design to a single monthly charge could potentially reduce the incentive to conserve electricity. AMPCO submits further analysis should be undertaken to address this issue.

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

Under this option each consumer would have a fixed monthly charge with the size of the charge based on the size of the electrical connection to the distribution system.

Proposal 2 provides consumers with tools for managing their costs as a fixed monthly charge based on connection current could encourage consumers to reduce their connection capacity and "right size" their connection thereby changing their use of the system and the corresponding costs. This proposal helps the consumer better understand the cost of being connected.

The Report notes distributors do not currently gather information regarding individual connections. One approach is that this proposal be on a go forward basis as new or rebuilt connections are made to the distribution system.⁸

In AMPCO's view this option would be the most challenging to implement given the data needs, communication and education programs, timing and increased regulatory costs.

⁸ Draft Report of the Board, Rate Design for Electricity Distributors, Page24

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

Proposal 3 connects the distribution charges to the consumer's use of the electricity distribution system. It provides a price signal regarding the use of the system and allows consumers to make changes to their use to affect their bills.

Under proposal 3, the distributor would be required to evaluate and compare each consumer's peak use against the class on an annual basis in order to assign the distribution charge based on lowest use, highest use and average use subgroups.

AMPCO submits this Proposal provides the most consumer literacy on how the distribution system works as it links directly to long-term planning horizon costs driven by the peak demand on the entire distribution system. AMPCO agrees strongly that by valuing peak use and encouraging off-peak use, the new charges could encourage optimum use of the system given that system capacity is driven by peak numbers.

AMPCO members are primarily Large Use consumers with a rate design that incents Large Users to reduce peak period consumption as the variable portion of their bill is based on monthly maximum demand. Large users shift usage from peak periods to allow them to better manage their electricity costs and save money. In addition, many AMPCO members are active in demand response programs that shift usage from peak periods. The LTEP indicates Ontario is aiming to use Demand Response (DR) to meet 10% of peak demand by 2025, equivalent to approximately 2,400 megawatts (MW) under forecast conditions.

AMPCO acknowledges that this option would require more extensive communication to explain the significance of the peak period and convey the benefits of this approach and the actions that consumers can take to reduce their use during peak hours. However, in AMPCO's view this Proposal is the best of the three in that it delivers system efficiencies.

Alternative Option

AMPCO suggest that Board may wish to consider a hybrid option with costs weighted between (1) connection size, which reflects total potential peak of a customer, on a go forward basis which incents right-size connections going forward, and (2) customer coincident peak demand, which reflects actual peak and induces and rewards efficient customer behavior to reduce demand during actual system peaks.

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

AMPCO believes the method should be the same across all distributors in the Province for consistency, simplicity and to avoid customer confusion. One methodology would mean that one communication and education plan could be developed for consumers which would likely

result in less regulatory costs than having to communicate about more than one methodology.

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

In AMPCO's view the Board needs to conduct more detailed analysis on each option to obtain more information on the costs and benefits of each option, unintended consequences and the resulting consumer impacts. A comprehensive communication strategy will need to be developed well in advance of any change to provide consumers with adequate time to understand and process the change. An implementation schedule should be developed as part of the communication strategy with additional input from consumers and relevant stakeholders.