Comments on Draft Report of the Board

Rate Design for Electricity Distributors

1. Introduction

Building Owners and Managers Association, Greater Toronto ("BOMA") is pleased to provide its comments on the Draft Report of the Board which presents three proposals to achieve revenue decoupling for stakeholder comment. According to the report, the Board 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 optimal use of assets and improving productivity;
- Removing or reducing regulatory costs; and
- Supporting the achievement of public policy objectives.

First of all, BOMA is concerned that these objectives, and to the extent that any of the three proposals can be shown to meet these objectives, the proposals vary from the Board's statutory objectives as listed in section 1(1) of the *Ontario Energy Board Act, 1998* (the "OEB Act"). These objectives are:

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

- 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.
- To facilitate the implementation of a smart grid in Ontario.
- To promote the use and generation of electricity from renewable energy sources in a manner consistent with the policies of the Government of Ontario, including the timely expansion or reinforcement of transmission systems and distribution systems to accommodate the connection of renewable energy generation facilities.

In particular, there is virtually no discussion in the paper about how the proposals will impact the statutory objective:

> "To promote electricity conservation and demand management in a manner consistent with the policies of the government of Ontario, including having regard to the customer's economic circumstances".

None of the three proposals, nor the paper itself, address how rate design should incent residential and small commercial customers to increase their energy conservation and demand management activities. The absence of such a discussion notwithstanding the emphasis on both conservation (volumetric reduction) and demand response in the Long Term Energy Plan ("LTEP", page 21), and the Conservation First directive of the Minister is unacceptable. For example, the LTEP states:

> "The Ministry of Energy will work with its agencies to ensure they put conservation first in their planning, approval and procurement processes. The ministry will also work with the Ontario Energy Board (OEB) to incorporate the policy of conservation first into distributor planning processes for both electricity and natural gas utilities".

In fact, the paper and the three proposals for the most part either explicitly discourage CDM activity, including distributed generation, or have uncertain impacts on them which are not fully discussed. The paper and the proposals also largely ignore the statutory objectives of facilitating smart grid implementation and the promotion of the use of renewable energy generation.

Nor do the proposals square with the stated objective of the "new framework of regulations for utilities, the performance based approach to regulation that arises to better align consumer and utility interests, support the achievement of important public policy objectives, and place a greater focus on delivering value" (EB-2012-0410, Draft Report of the Board, page 1).

The proposed rate designs do not, for the most part, incent CDM including CDM targeted to reduce the need for distributor infrastructure, nor is it clear how they deliver incremental value to customers. Based on the findings of the Gandalf's Group, the customers themselves do not think they deliver value. They are, rightly, skeptical that the proposed changes will be helpful, and worry that they will produce higher rates. Moreover, rather than better align utility and consumers interests, the proposals advance utility interests at the expense of consumer interests. The focus of the paper seems to be to make it easier for the utilities to plan their capital programs and raise revenues. It adopts an LDC-centric rather than a customer-centric point of view.[1] Finally, the focus on removing or reducing regulatory costs is misplaced. Even leaving aside the rather cryptic reference to "removing" regulatory costs, regulatory costs are very small relative to the utility capital and O&M costs, and they should not be elevated to the point where they have equal status with the Board's statutory objectives that truly impact consumer interests. It is a lesser priority. All the listed objectives for rate design are not, in BOMA's view, of equal importance; the Board should better prioritize these objectives (Report, page 2).

BOMA disagrees that the three proposals are in fact truly distinct; rather they are all variations on a theme (fixed charge) and all, as currently described lack a strong rationale or a tracking of costs from the customers' perspective. For example, the Board admits they have virtually no data to support the second alternative.

[1] For a different view of the future role of the distribution utility, see State of New York Public Service Commission Order Instituting Proceeding, April 25, 2014. Case 14-M-0101, Proceeding on Motion of the Commission in Regard to Reforming the Energy Vision.

In fact, the Board appears to have pre-empted the principal issue in the consultation, which is what is the rate design most likely to help realize the Board's statutory objectives. Rather, the Board states: "The Board intends to pursue a fixed rate design solution to achieve revenue decoupling" (Board Memorandum Rate Design For Electricity Distributors, EB-2012-0410, April 3, 2014). The Board has said in effect, we will eliminate volumetric rate and have fixed charges, without explaining the rationale or considering the alternatives. In this way, the paper is disingenuous. The real reason appears to "protect" the utilities from declining throughput. But if this is the objective, it should be stated clearly and there should be an even-handed review of available options for doing this, which do not compromise government policies and consumer interests. Moreover, it is doubtful that the utilities need further protection than they already have through deferral accounts, Y-factors, LRAM, and the earnings bonus they receive from sharing in savings achieved by the CDM programs. The paper suggests that variable rates which would produce lower revenues resulting from lower throughput volumes due to conservation and distributed generation would impede the implementation of utility plans. They would only do that if the utility plans themselves did not take proper account of the likely impacts of energy efficiency, including their impact over the medium and larger term on the need for additional infrastructure. The Board's paper provides no evidence either on the likely pace of revenue reduction, or the impact such reduction would have on the need for existing infrastructure and, over time, the need for new infrastructure. Nor have utilities generally done the research. They have not integrated customer initiatives into their plans.

The paper does not seriously address a critical part of the Conservation First Framework, which is to assist the lower income customer to cope with energy costs.

Finally, BOMA is concerned about the continued reference in the Board's Report, and in its other publications, to the need to align utility and customer interests. Some interests are capable of being "aligned", others are not. Electricity distributors are regulated monopolies, and the primary reason for their regulation is to protect their customers

from exploitation. This will always be a tendency for utilities to try to maximize their revenue, and reduce their costs at the expense of ratepayers, and no amount of "alignment of interests" will change that.

2. Review of Specific Proposals

Proposal One: A Single Monthly Charge for the Rate Class

- This is an extremely regressive rate making approach, shifting a greater burden to lower income customers who already use much less than the average customer in Ontario and considerably less than high income groups. It does not protect the interests of consumers with respect to prices, and there is no evidence that will address the adequacy, reliability and quality of electricity service.
- This proposal does nothing to promote economic efficiency and cost effectiveness in the generation, transmission, distribution, sale and demand management of electricity, nor is there evidence that it will facilitate the maintenance of a financially viable electricity industry.
- This proposal is actually a disincentive to conservation. It does not promote electricity conservation and demand management in a manner consistent with the policies of the Government of Ontario and it especially has no regard to the consumer's economic circumstances.
- This proposal ignores the fact that Ontario's significant investment in smart meters was for a purpose – to empower customers, and give them a tool to better manage their energy costs; which many of them are now doing through making use of time-of-use rates. It does nothing to facilitate the implementation of a smart grid in Ontario.
- This proposal is extremely unfavourable to renewable energy. It does not promote the use and generation of electricity from renewable energy sources

and distributed generation in a manner generally consistent with the policies of the Government of Ontario.

- Finally, as noted above, the customers are opposed to this approach as shown by the following excerpt from the Gandalf Report (page 10):

  "Fixed Monthly Charges

  Moving to a fixed monthly charge every month for 12 month periods was problematic for participants in our groups. Concerns included:

  - The fact that many assume they will seek efficiencies in the course of each year and that this will forestall the benefit or reduce the payback of those.
  - Others believed that if we were encouraging reductions in peak consumption, along the lines of TOU pricing that they should be incentivized either to the full extent or in the way they are accustomed to.
  - Some worried that in order for them to qualify for lower charges due to decreased consumption, that decrease in consumption would have to be sustained for 12 months and with less forgiveness than exists now for lapses. It seems like a higher burden, with a chance of no reward if they fall short.
  - Two groups' participants were particularly cynical and felt that utilities might simply change the rules or conditions at the end of each year, and that the promise of lower rates based on a reassessment of usage would essentially disappear with a rate increase.
  - This helps explain why several respondents immediately asked if they would see credits retroactively if use was lower than assumed in the rate they were charged."

Proposal 2: Fixed Charge Based On the Maximum Connection Current

While this proposal appears to try to address the fairness issue of Proposal 1, it seems entirely arbitrary and exhibits the same lack of conformance to the Board's statutory objectives. The suggestion that this approach supports conservation is flat out wrong. When was the last time any customers downsized their panel. The Board staff presents no evidence to support the proposal.

Proposal 3: Use of peak hours, peak usage to determine customer sub-groups

This proposal comes closest of the three to be a starting point for discussion, but it will require many changes for it to meet the objectives in the Draft Report, or the Boards statutory objectives. With smart meters, a customer's peak demand at time of the distributor's system peak is readily available. It is this kW demand that should be the basis of a fixed customer charge, but only if it is in alignment with the distributor's peak time. Currently Ontario's time of use rates are based on a system peak driven by southern Ontario's use of air conditioning (which is also the basis of a fundamental mismatch of conservation programs for the north versus the south). In fact, every customer could pay a different fixed charge; creating sub groups is cross-**subsidization**. It will also be important that customers benefit from freeing up capacity by reducing their own peak use, thus offering them a true incentive to conserve and shift their energy consumption[2]. Some conservation measures reduce consumption year round including system peak periods. Customers have demonstrated they are capable of and interested in, shifting some of their use to off-peak periods. The cost of transmission could also be charged based on a customers' peak demand during times of system peak, using the same regions that will be used for regional planning.

[2] See charts on following pages. While neither Milton Hydro nor BOMA considers the data as part of a thorough experiment to test the ability of customers to shift their use to off peak use, they represent a dramatic response.

3. Answers to the Board's Three Questions

As noted in the body of BOMA's comments, options 1 and 2 would not meet any of the criteria set out in the question. They are at odds with government conservation policy and/or are impractical. The third option, modified, could meet some of the criteria. However, the customers need tools to manage their costs, reducing and/or shifting load. The Gandalf Report makes it clear that is what the customers think are the major tools. A portion of the rate should remain variable for that reason.

The rate design should be consistent across the province because the rate design impacts, important provincial policies, and distributors should not be permitted to frustrate those policies by a perverse rate design.

Prior to any changes in rate design, the Board should provide material to distributors to include with the bill that clearly explain the intent of the changes, the details of the changes, and some numerical examples. The Gandalf Report provides some useful suggestions on communications to customers. The Board needs to have more information on the impact of any changes on non-residential, general service customers under 50 kW. No changes should be made to small non-residential general service customers' rate design until better data is available. Needless to say, it will be important to ensure that any proposed change is revenue neutral to ratepayers.

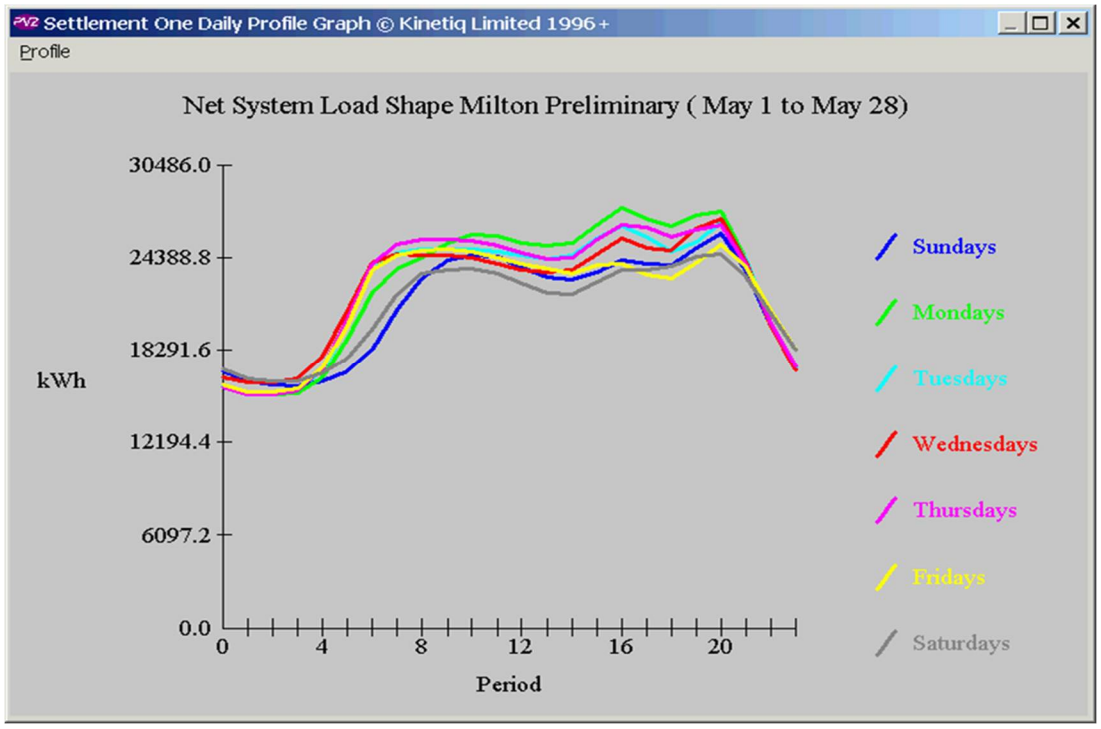
4. Additional Concerns

BOMA wishes to express some additional concerns. While the OEB does not set the global adjustment nor control the design of its components, the Board should take into account the incidence of the global adjustment in its ratemaking and be advising the Ministry of the impact and incidence of the manner in which the global adjustment is calculated and implemented on the customer bills.

- The allocation of the Global Adjustment on a kWh basis, with a 24/7 (except for large industrial customers) belies that fact that many of the costs in the global adjustment are time sensitive. If gas plants are intended to be for peaking

purposes, their costs should all be allocated to peak consumption. Solar is clearly a peak generation technology for both winter and summer and its costs should also be allocated to the peak hours. The costs associated with Bruce Power contracts are base load as are most of OPG's so only these costs should be allocated on a 24/7 basis. The timing of wind generation needs to be analysed and allocated according. Furthermore, BOMA's members are particularly troubled by the mismatch between energy use and the collection of the global adjustment.

- BOMA is also concerned how the Minister's Directive requiring the Board to report on developing and implementing an appropriate electricity rate affordability Program for Low Income Electricity Consumers will be supported by any new rate design.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Net System Load Shape Milton Preliminary (May 1 to May 28)
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18291.6
12194.4
6097.2
0.0
kWh
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Period
Sundays
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Tuesdays
Wednesdays
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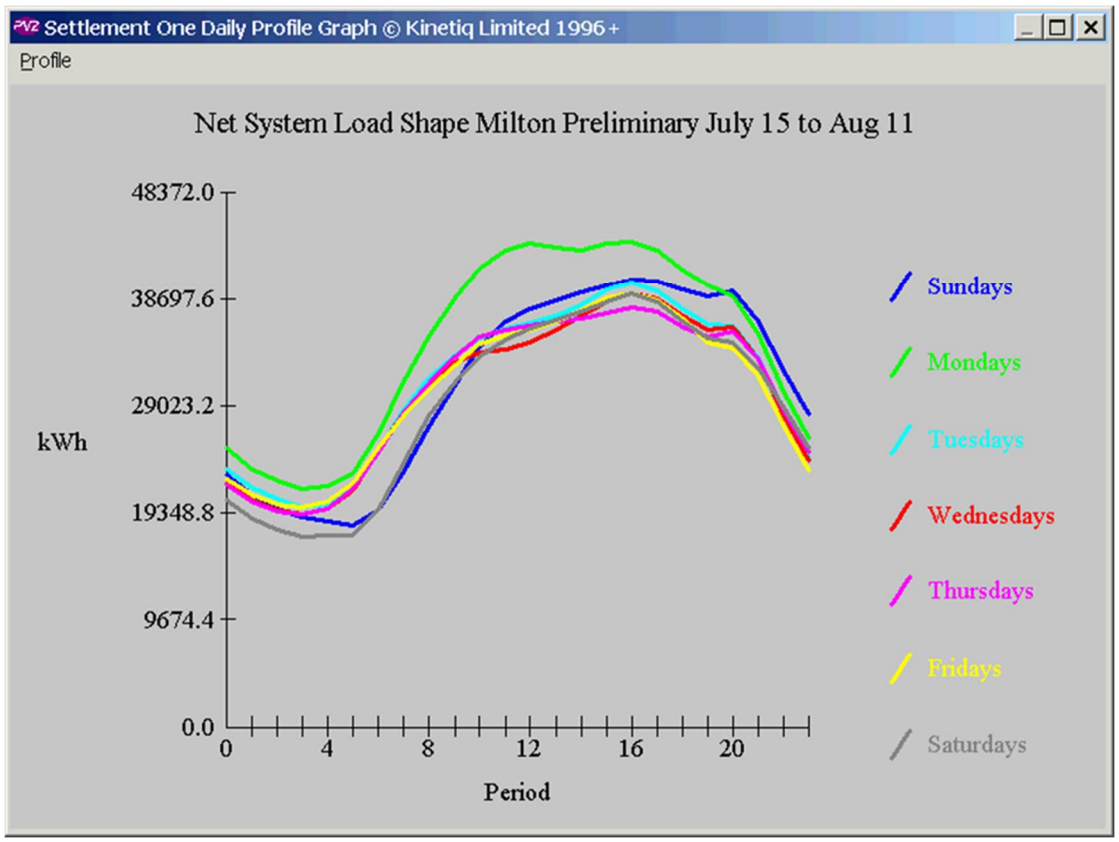
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Net System Load Shape Milton Preliminary July 15 to Aug 11
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Period
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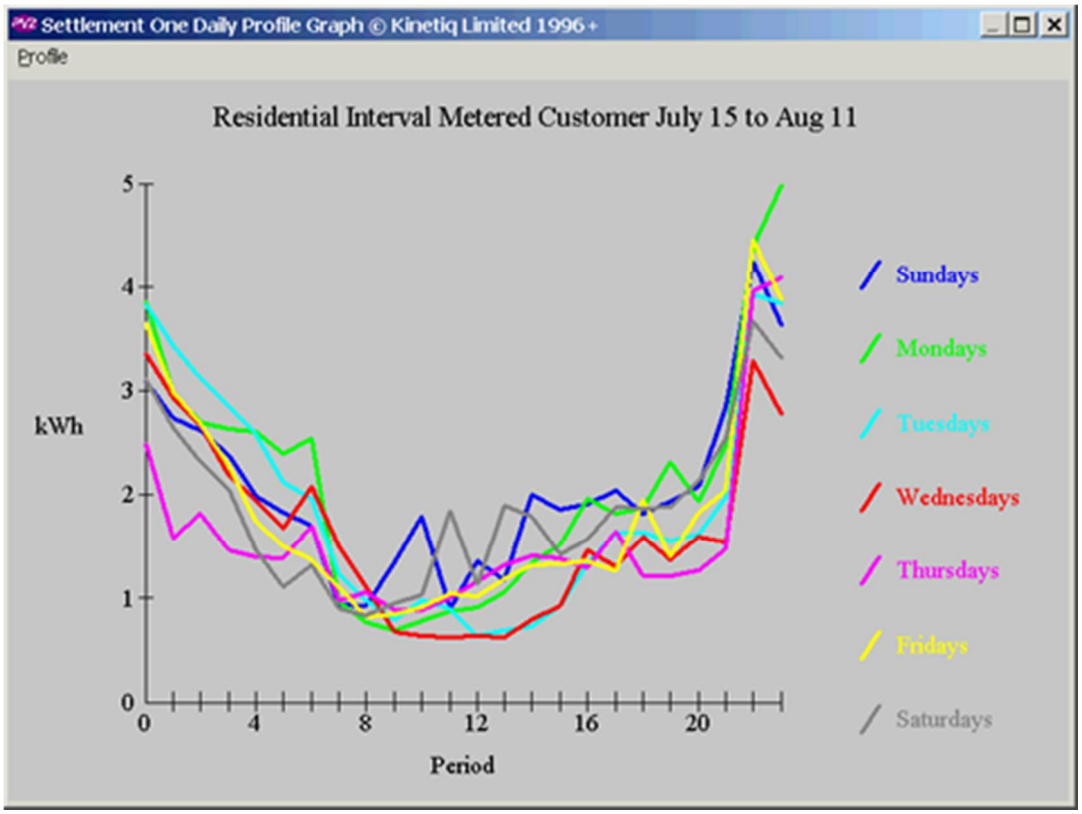
Settlement One Daily Profile Graph © Kinetiq Limited 1996+
Profile
Residential Interval Metered Customer July 15 to Aug 11
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0
1
2
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Period
Sundays
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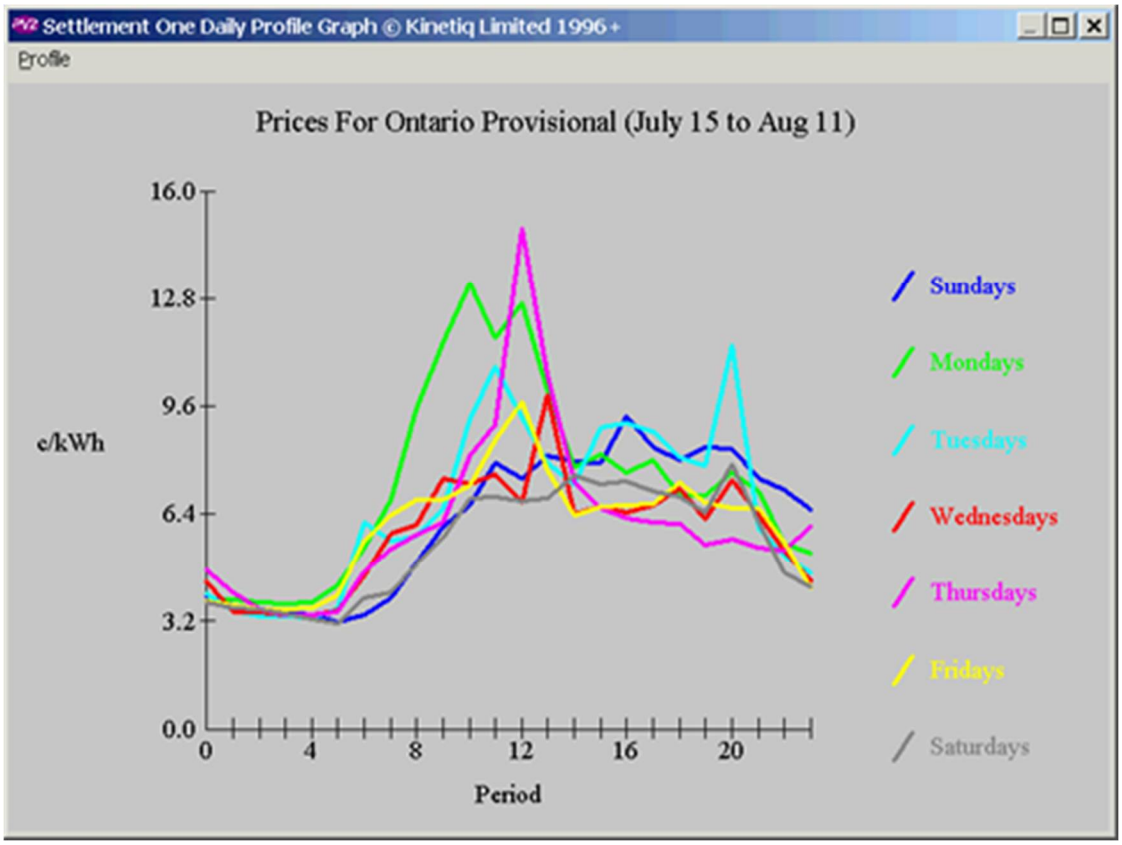
Saturdays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Profile
Prices For Ontario Provisional (July 15 to Aug 11)
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0.0
3.2
6.4
9.6
12.8
16.0
0
4
8
12
16
20
Period
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Wednesdays
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Saturdays