

Ontario Energy Board
2300 Yonge St., 27th Floor
Toronto, ON
M4P 1E4

Attn: Ms Kirsten Walli
Board Secretary

By electronic filing and e-mail

Dear Ms Walli:

Re: EB-2013-0416 Response of William Marcus to HONI Rebuttal Comments

As discussed on the record on September 16th, HONI consented to Mr. Marcus filing written comments in response to the commentary on his evidence by HONI witnesses. Attached is Mr. Marcus' response. This document also responds to the Panel's request for information on Mr. Marcus' expert credentials in regard to rate design.

Sincerely,

A handwritten signature in black ink, appearing to read 'David Poch', with a stylized flourish at the end.

David Poch

Cc: all parties

William B. Marcus Response to HONI Rebuttal Comments

Q Mr. Marcus, do you adopt your pre-filed evidence, interrogatory responses and this response as your testimony in this case?

A Yes.

Q Will you briefly comment on your experience with rate design.

A My full CV is appended to my June 4th report on Rate Design that is attached to my pre-filed evidence in this proceeding. I have been extensively involved in cost allocation and rate design since the mid-1980s. I previously testified before this Board as an expert witness on rate design (for standby customers) in OEB Dockets HR 22 and HR 23 in 1994 and 1995. More recently, I have testified on electric and gas cost allocation and rate design in Alberta, Arkansas, California, Colorado, Iowa, Maryland, Nebraska, Nevada, and Texas, and have filed testimony in Wisconsin. In both Arkansas and California, I have testified more than 10 times on these issues since 2004.

Q Will you address Mr. Andre's comment regarding alleged inconsistency between using the minimum system for cost allocation and not using it for rate design?

A The Board has used the minimum system method for allocation for a number of years, which is why I did not challenge it even though it is not my preferred allocation method. Many jurisdictions that use the minimum system for cost allocation (such as Arkansas for gas customers) do not use it to set customer charges but instead set lower customer costs. This Board itself allows customer costs to be set below the amount determined by that method, as noted in my direct testimony. Finally, HONI itself uses the minimum system for cost allocation to its seasonal customers but sets the customer charge lower than that developed by the minimum system.

Intraclass rate design has a large number of other purposes beyond mere reflection of costs, such as promoting energy efficiency, protecting lower income customers, and giving customers more control over their bills. Therefore, it would be perfectly

reasonable for the Board to set a lower customer charge and collect the balance of costs allocated to the class through variable charges.

Q Will you respond to HONI's comments in rebuttal downplaying how the rate design operates at cross purposes to Conservation and Demand Management (CDM)?

A I do not believe that these issues are extraneous to this case at all. They are in fact at the heart of this case. Developing rates that further discourage CDM and increase consumption (such as the higher fixed charges proposed by HONI) is squarely within the Board's ambit pursuant to its statutory objectives and recent government policy directives. Regarding elasticity, I used a range of 0.075 to 0.3, with a middle estimate of about 0.15 (similar to that obtained in British Columbia). Now, after failing to answer interrogatories from GEC on this topic,¹ HONI has come up with its own estimate of 0.06 in the rebuttal comments of Mr. But. Nevertheless, even if the elasticity is 0.06, that still means that about 38% of HONI's 2011-14 CDM, or about 1.5 years of CDM is eliminated by the increases to customer charge proposed by HONI. That is still significant and results in a considerable amount of wasted spending by the ratepayers of Ontario.

HONI was also talking about the percentage of distribution rates collected in customer charges. I was specifically referring to what would happen if HONI's increased distribution rates were instead collected volumetrically as they would be to ensure cost recovery.²

Q Will you respond to Mr. But's comment regarding low-income customers having similar load profiles to higher income customers.

A I think he missed the point of what I was saying – that the impact on the bills of lower income customers would be larger than on higher impact customers if fixed charges are substituted for energy charges. I was not referring to load profiles at all but was saying something much simpler – fixed charges are a larger proportion of low use customer bills and therefore an increase in fixed charges is more significant for low users. The correlation between low users and lower income is elaborated on in my report and is

¹ GEC information requests 29-32, included in GEC Cross Materials for HONI Panel 4.

² There were some questions about how I obtained percentages of fixed versus volumetric distribution rates. The customer charges that I calculated were from the Upated Exhibit G2-4-1 Attachment 1.

supported by StatsCan Ontario data I reproduce there. Because HONI chose not to offer any information it had in response to GEC's interrogatories 24 and 25 requesting studies on the relationship of income to residential electricity use, and only now asserts that the StatsCan data does not reflect HONI customers, it is not practical at this late stage for me to offer informed comment on HONI's assertion that its customers deviate from the provincial pattern.

Q Does this complete your comments in reply to HONI's rebuttal?

A Yes, it does. Thank you.