

**Ontario Energy  
Board**

P.O. Box 2319  
2300 Yonge Street  
27<sup>th</sup> Floor  
Toronto ON M4P 1E4  
Telephone: 416-481-1967  
Facsimile: 416-440-7656  
Toll free: 1-888-632-6273

**Commission de l'énergie  
de l'Ontario**

C.P. 2319  
2300, rue Yonge  
27<sup>e</sup> étage  
Toronto ON M4P 1E4  
Téléphone: 416-481-1967  
Télécopieur: 416-440-7656  
Numéro sans frais: 1-888-632-6273



**BY E-MAIL**

July 16, 2015

**To: All Licensed Electricity Distributors**

**Re: Implementing a New Rate Design for Electricity Distributors  
OEB File No. EB-2012-0410**

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This letter establishes how the OEB will implement its new policy on distribution rate design for residential electricity customers.

**Background**

On April 2, 2015, the OEB released its policy on a new electricity distribution rate design. For residential electricity customers only, distribution delivery costs will be recovered through a monthly, fixed service charge. Currently, distributors charge customers through a combination of a fixed monthly charge and a usage charge so that the amount they pay for electricity distribution increases or decreases with the amount of electricity consumed. The policy set out that the transition to a fully fixed rate would occur over four years. Starting in 2016, the fixed rate will increase gradually, and the usage rate will decline.

Appreciating that there are a number of implementation matters, the OEB convened a working group with a cross-section of different distributors and consumer representatives.<sup>1</sup> Initially, this working group reviewed methods for implementing the change over the four-year period and how this would be incorporated into the OEB's annual update of its filing requirements and rate models. Also discussed was the information distributors needed to file to request an exception to the four-year phase-in plan as a result of the bill impact on customers.

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<sup>1</sup> Materials for the Rate Design Working Group can be found [here](#).

### Implementation Approach

Based on the input from the working group, the OEB has determined that the change to the fixed monthly charge should be determined using the customer numbers and usage data approved by the Board as part of a distributor's last cost of service review. If a distributor is currently undergoing a cost of service review, the numbers used in the current application will be used. This will ensure that the change will not alter the total amount of revenue that distributors collect from residential customers.

Going forward, any new "other" charges related to distribution<sup>2</sup> will be applied on a fixed basis. These charges typically have an end date. Therefore any "other" charges currently in place and billed on a usage basis will remain unchanged until they phase out on their own over the four-year transition period. In addition, distributors will not change the way they collect commodity charges, transmission, wholesale market charges and any variances between these costs incurred by the distributor and what has been billed to customers. These will still be charged based on customer usage rather than a fixed cost.

Finally, the working group considered what kind of information a distributor would need to provide the OEB so that it could assess if the bill impact for customers warranted taking longer to implement the shift to fully fixed rates. Bill impacts will vary depending on a customer's level of consumption. Other distribution cost changes being implemented at the same time may compound this effect. The OEB currently requires distributors to file plans to reduce any bill impacts that exceed 10%. The bill impact from the implementation of the new fixed rate design is expected to be very small for the typical residential customer using 800 kWh per month because any increase to the fixed charge is offset by a reduction to the usage charge. For the purposes of implementing the new fixed rate design, this 10% test will be applied to customers who consume much less electricity than the typical residential customer. This will allow any mitigation plans to be well tailored to those who use the least power and whose bills will likely increase due to the shift to fixed rates. If a customer at the lowest 10<sup>th</sup> percentile of electricity consumption has a bill impact of 10% or higher, the distributor must make a proposal for a rate mitigation plan.

All aspects of these approaches are reflected in the updated filing requirements for cost of service and incentive rate-setting applications, also released today. These requirements will set out the appropriate rate calculations for updated 2016 residential rates, outline the data required to support a distributor's application for mitigation, if applicable, as well as instructions on the treatment of rate riders.

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<sup>2</sup> Examples of distribution-related charges are funding mechanisms for additional infrastructure investment (ICM/ACM) or the recovery of unforeseen costs from storm damage (Z-Factor).

Other Implementation Matters

This policy will apply to all rate-regulated grid-connected distributors in Ontario. The OEB expects that all distributors will file an application for 2016 rates to begin the implementation of fixed residential distribution rates even if the distributor had not planned to file a rate change application in 2016. Given that fixed rates for residential classes are revenue neutral, the OEB is of the view that adjustments to the residential rate structure should be carried out in distribution service areas even where a rate freeze is in effect due to a merger agreement.

Any questions relating to this letter should be directed to Stephen Vetsis at [Stephen.Vetsis@ontarioenergyboard.ca](mailto:Stephen.Vetsis@ontarioenergyboard.ca) or at 416-544-5182. The Board's toll-free number is 1-888-632-6273.

Yours truly,

*Original Signed By*

Kirsten Walli  
Board Secretary