May 27, 2016

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

Re: Rate Design for Commercial and Industrial Customers – Board File No. EB-2015-0043

Dear Ms. Walli:

Attached please find Cornerstone Hydro Electric Concepts Association's (CHEC) comments with respect to the Board's invitation to comment on the OEB's Staff Discussion Paper "Rate Design for Commercial and Industrial Electricity Customers: Aligning the Interests of Customers and Distributors". This submission also addresses the several questions outlined in the Staff Discussion Paper dated March 31, 2016, and follows the same format (Attachment A).

CHEC is an association of fifteen (15) local distribution companies (LDC's) that have been working collaboratively since 2000. The comments over the following pages express the views of the CHEC members.

We trust these comments and views are beneficial to the Board's initiative. CHEC looks forward to continuing to work with the Board in this matter.

Yours truly,

Kenneth B. Robertson

Kenneth B. Robertson CPA, CGA, MBA
Finance/Regulatory Analyst
43 King St. West, Suite 201
Brockville, ON K6V 3P7
krobertson@checenergy.ca
519-872-1100

ATTACHMENT A

STAFF QUESTIONS:

Staff welcomes comments by stakeholders as to what measure should be used to set the fixed charge for each class (the Monthly Service Charge) (Ref: Pages 5 – 7 Staff Discussion Paper).

Current cost allocation methodology used in rate applications applies a minimum system model to set the fixed charges for each customer class. The OEB's Staff Discussion Paper suggests that a fixed charge based on the minimum system model with an adjustment for peak load carrying capacity (PLCC) be used to determine a fixed charge, continuing to suggest that a one-size-fits-all design is appropriate.

However, is it appropriate and equitable to suggest one solution for all rate classes when one of the objectives of this rate design initiative is to better align rates with their cost drivers? The charts on pages 8 – 9 of the Staff Discussion Paper illustrate that a "one solution fits all" approach may not be appropriate when you take into account the specific customer-base composite of each utility.

There are arguments to be had for both the current fixed charge design and for seeking alternative methodologies. Although it may not be the best design for all rate classes, the current methodology retains some merit as it is simple and well understood by both the distributor and the customer. As such, it is supportive of the objectives outlined in the Staff Discussion Paper.

Potential alternatives for a fixed rate charge could include, but are not limited to:

- The voltage used to connect a customer to the utility's distribution system (e.g.: 44 KV, 4 KV, 347 – 600 V, 120 – 208 V, and 120 – 240V), or;
- The line classification within a distribution system (e.g.: Primary, Secondary, Sub-Transmission, and Transmission).

The alternatives posed above may prove to be more appropriate for certain classes of customers, but they are also likely to be more complex in nature. In turn, this would deter from the objectives outlined in the Staff Discussion Paper. Further research and analysis may be prudent before settling on a fixed charge design for each specific rate class.

However, it should be noted that regardless of the design chosen, it should be educationally focused. It is understood that education plays an important role towards assisting customers in understanding their bills and the value of the electricity service they receive. An educational focused response to the fixed charge design would be supportive of a mixed design philosophy for different rate classes and would help to underpin the objectives outlined in the staff discussion paper.

Staff invites comments on how any of the options will be affected by large amounts of net metering (Ref: Pages 10 – 12 Staff Discussion Paper).

A utility can be significantly impacted by large amounts of net metering, should rates be designed on volumetric usage. For instance, a utility must design and build its infrastructure based on the aggregated demand required by all customers. Should a customer install a behind the meter large generation facility, and utility revenue recovery is based on either full or partial volumetric usage, that customer would pay a disproportionate amount less than they should, considering the assets within the distribution system. As a result, there is potential for customer cross-subsidization or lost revenue to the utility.

An increase in net metering facilities also perpetuates the "duck curve" issue, whereby the need for alternate fuel sources outside of daylight hours is exacerbated. This undermines the effectiveness of the rate design within each rate class.
To offset the impact of net metering, rates would probably need to be reviewed annually (either through an IRM or a Cost of Service) to adjust for the change in the number of net metering customers and the load forecast that was approved to generate the revenue requirements of the utility.

Alternatively, additional rate design options would need to be considered to specifically address the issues caused by net metering customers. This would likely include a reevaluation of standby rates and/or exit costs for net metering customers.

Staff is interested in comments from stakeholders on how credits for distributed energy resources should be handled (Ref: Pages 34-35 Staff Discussion Paper).

CHEC is supportive of the suggestion that distributed energy resources be handled similar to the transformer allowance. It is recognized there may be some benefit to a utility with distributed generation customers who are willing to offset system peaks with their own generation. That said, there also needs to be some assurance that Hydro One will not penalize utilities for lower revenue from transmission charges when they benefit from such generation (i.e.: it is assumed that Retail Transmission Rates would continue to be adjusted annually, either through an IRM or a Cost of Service, to reflect potential reduced kW demand). Further agreements would be necessary to require the customer to provide the offset at the call of the utility to ensure the benefits to the distribution system.

There may be better credit solutions available, but as mentioned previously, additional time for further research and analysis would be required to determine appropriate alternatives.

RANKING OF RATE DESIGN OPTIONS:

GS<50 Customer Class:

Fully Fixed Monthly Charge (100% fixed charge) – This is the preferred option for the GS<50 class of customers on the basis of:

- Cost recovery for the residential class and GS<50 class of customers are both based on kWh.
- Many, if not all of the arguments for a fully fixed monthly residential charge (leveraging new technologies, fairer way to recover costs, etc.) are also analogous to the GS<50 class of customers, despite the customer diversity that may be involved.
- A fully fixed rate provides distributors with revenue stability while utilizing a simple rate design for increased customer understanding of the rate structure.
- Although there is some reduction to the impact of conservation on the customer's bill, it only impacts a small portion of the overall electricity bill. Therefore conservation (either reducing total use or shifting use to the off-peak period) will still result in direct and significant bill reductions, even when the distribution charge is fixed.

Time of Use kWh (Fixed based on Minimum System Model, Variable based on kWh for on-peak and off-peak time periods) – This option is less desirable than the fully fixed monthly charge option outlined above on the basis of:

- It is similar to the current model employed, which charges more to those customers who are contributing more to the distributor's peak capacity needs.
- Although it has its merits, it is less effective in regards to revenue stability and simplicity of design and more susceptible to the impact of net metered customers.

Minimum Bill (zero fixed charge, 100% variable rate with a minimum bill that represents current use of 20% of customers) – This option is less desirable than the previous options outlined above on the basis of:

- While it encourages conservation, it could result in higher recovery costs if customers only pay for the distribution system in place when they use it.
- It may also require the introduction of a charge (similar to the "Global Adjustment" charge), to keep generation sitting idle.
- If this option were to be chosen, for calculating bills, preference is given to the "Bill = Fixed Monthly Charge + Variable Charge" option.

Energy Usage Blocks (cell phone plan) – This option is the least desirable option of those proposed by the OEB's Staff Discussion Paper on the basis of:

- Although this option does encourage conservation and it can be considered a customer-orientated solution, it may also result in higher recovery costs if customers only pay for the distribution system in place when they require the capacity.
- This option is anticipated to be too complex for small commercial customers who may not be ready for this type of "contract" solution.
- It would be difficult to predict how customers would respond when they are notified they are nearing their contract limit. Furthermore, it would be difficult to determine if they have the time and expertise to manage their consumption to the "contracted" level. This potentially could increase the number of customer complaints and disputes.

Other Classes (GS>50, Intermediate, Large Users):

Rate design for the larger classes of electricity consumers is a complex topic that requires careful thought and attention. At this level, there is no one-size-fits-all approach to rate design due to the vast diversity of customers and business types. Further complicating the evaluation of various rate designs is a lack of available data, as the initiative to install interval meters on the GS>50 class of customers (EB-2013-0311) will not be completed until August 21, 2020.

In addition to the lack of data, it has been previously noted that consideration must be given to standby rates, load displacement, and exit policies in conjunction with rate design for the larger classes of customers. For example, On April 2, 2015, the Board issued its policy on Residential Rate Design (EB-2012-0410), which states that the OEB intends to remove standby rates when the new rate policy is implemented for commercial and industrial customers. Furthermore, on March 29, 2016, the OEB issued a letter stating it is initiating a policy review to address the question of how a commercial and industrial customer should be billed when they have a Load Displacement Generator behind the meter. Recent editorials have theorized that customer-owned generation may present the greatest regulatory challenge to be faced in 2016. As a result, eliminating standby rates or setting rate design policies prior to determining the impact of load displacement could have unforeseen repercussions on both distributors and transmitters alike. Furthermore, there is increasing industry concern regarding the number of customers who chose to disconnect from the grid in an effort to take advantage of governmental policies on renewables or to avoid rising electricity costs. Clearly, one of the key issues will be around how electricity distributors are protected without unduly limiting the growth of distributed generation. This will require an exit policy be developed that manages and/or discourages customers from leaving the grid and commencing what is often described as the "death spiral", as utilities seek to recover lost revenues from those consumers who remain.

Moreover, supplementary consultation with a range of customer types in these classes would also be appropriate to ensure customer engagement and involvement of the rate design process together with a better understanding of the full impact to the rate-payer.

After all, this is supportive of the Board edict for more direct engagement with consumers in the development of regulatory policy proposals.

Because of the complexity of this issue, CHEC respectfully suggests that it may be premature to determine specific rate design options for these customer classes at this time. Perhaps an industry working group would be more appropriate to ensure the needs of distributors and the concerns of the customers are addressed, while the goals and objectives of this initiative are adequately met.

ADDITIONAL COMMENTS:

Give reasons for the ranking and any informed analysis.

Reasons for ranking of the GS<50 class are as specified above. Also, as outlined above, ranking of options for the other rate classes would not be appropriate until further research and analysis can be conducted.

Comment on customer ability to respond to the various options.

CHEC is supportive of further customer engagement regarding this initiative. Additional customer input is required to ensure the customer perspective is incorporated into the decision making process and that customers better understand the value of their distribution dollar. Through customer engagement the ability and interest in customers to be more engaged in managing their energy consumption can be determined.

Make suggestions to improve any option compared to the current description and note any change in ranking that using those suggestions would make.

CHEC has no suggestions for improvements at this time. However, additional research and analysis may result in modifications to existing designs or provide additional rate design options for consideration.

Other Comments (if applicable):

There are no other comments at this time.