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Board Secretary,
Ontario Energy Board
P.O. Box 2319
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Dear Board Secretary

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

Introduction and Scope of CFIB's Comments

The Canadian Federation of Independent Business ("CFIB") appreciates the opportunity to participate in the above-captioned consultation, and to provide the following comments in response to the Staff Discussion Paper dated March 31, 2016 and titled "Rate Design for Commercial and Industrial Customers: Aligning the Interests of Customers and Distributors" (the "Staff Paper").

CFIB's members are predominantly in the GS<50 kW class, with a minority in the GS>50 kW class. As such, CFIB's comments are intended to represent the standpoint of owner-operated small businesses with electricity consumptions at the low end of the very wide range that the overall commercial/industrial class represents.
The Staff Paper appears concerned primarily with rate design solutions to issues created by "DER and complex relationships with the grid"(Discussion Paper, p.12). While large businesses and institutions can afford significant investments in expertise and technology to support what the Staff Paper calls a "Prosumer" approach to interaction with the grid, and have electricity bills large enough to justify such investments, small businesses are more typically in the "Traditional Customer" category. This is not because small businesses are not interested in their bills – in fact, the rising cost of energy is one of the most important pressures on small independent business in Ontario today – or because small businesses have no interest in the environment. It is simply that in most cases, a small business owner:

(a) Is at the mercy of the marketplace in terms of hours of business and the technologies through which the business' goods or services are offered, and therefore has limited opportunities to shift load; and
(b) Does not have the time, money or expertise to be a pioneer.

Small and medium firms in Ontario account for 98% of all businesses, contribute to half of the GDP and create the majority of new jobs. CFIB asks the Board to take this into account when considering the cost shifting that will occur with any revenue-neutral rate design change, and which will be significantly negative for some customers under some of the options being considered.

At the same time, CFIB has attempted to go beyond consideration of bill impacts and consider multiple issues important in rate design, in offering these comments. Specifically, we have attempted to consider the proposals in light of the Board's objectives as set out in the Staff Paper.

Also in view of CFIB's constituency which, as already stated, is composed of relatively small electricity loads, CFIB has concentrated its comments on the rate design proposals for GS<50 kW and the proposals for the GS>50 kW class insofar as they would result in a boundary issue for small businesses as they grow. CFIB has not commented on the proposals for rates for large and "medium" users.

CFIB has also not commented in any detail on item G – Credits for Distributed Energy Resources. In our understanding, the proposal is for a credit applicable if a generation resource because of its nature or location provides an opportunity for a distributor to defer or avoid investment in the system, and that this would relate primary to resources of some significant size, owned by sophisticated customers. We do not anticipate that these situations are likely to afford opportunities to small customers in the short term. However, we would be interested in further opportunity to work with stakeholders to develop a mechanism by which participating small customers could share a credit, if it seems possible that a sophisticated party could aggregate small resources to produce a benefit.

Objectives of the Proposed Rate Design Changes

The objectives of rate design change for the commercial and industrial class are set out at various points in the Staff Paper in slightly different language, but we believe they can be summarized as follows:

- Simplicity and ease of understanding
- Increase customer understanding of relatively fixed nature of distribution costs ("value" of distribution service)
- Encourage load shifting from the distribution peak, to help the distributor avoid costs
- Encourage conservation; and
- Encourage DER and net metering, while being fair to non-participating customers and distributors.

It became clear to CFIB that while each proposal has certain strengths, these are achieved at the expense of other objectives. In the discussion below, each objective, in the form listed above, will be referred to in evaluating each option.

Level of Fixed Charge

The Staff Paper specifically requested comments on the appropriate level for fixed charges. Presumably this refers only to rate design proposals that also contain a variable element, whether as kWh (for GS<50) or as kW (for larger customers). If there is no variable element, all costs would be collected through the fixed charge, and the level of the fixed charge would be determined by total cost.

The Board-approved cost allocation methodology should provide a basis to quantify costs. In our view, assuming some variable element to the rate, the upper limit on cost-based fixed charges would be determined by the "customer-related" costs allocated to the class. This would include all metering and meter data costs, billing and payment processing, call centre, collections and other "customer care", and the components of the distribution system classified as "customer-related" through the approved minimum system methodology.

CFIB has done no analysis, and does not know what the result of this approach would be in terms of bill impacts within individual distributors, or how it would affect the consistency of fixed charge levels across LDCs. We suggest that analysis be done as an initial step, and that the result be used in re-computing bill impacts of the proposed rate structures with a fixed and variable component.

If such a policy results in an increase in fixed charges from current levels, but without a major bill impact issue, it might go part way toward reconciling the various objectives of the Board. Customers would see a fixed charge that reflects the cost burden that a customer puts on the system with minimal consumption, and therefore better understand the "value" of connection. However, there would still be a variable component, that could be used to satisfy other objectives that would not be met through a fixed-charge-only design.

Rate Designs Proposed for GS<50 kW

Option 1: Fully Fixed Charge

This would clearly be simple to administer, and easy for customers to understand, and would also send a message that the costs of distribution are fixed. From a distributor's point of view, it assures recovery of the revenue requirement regardless of weather, conservation or net metering.

This type of rate would reduce the benefit that a customer receives from conservation. Whether the effect, as compared with the existing rates, would be significant in terms of customers' willingness to participate in CDM programs is not known; however, in CFIB's view the messaging is poor in view of the commitment of the OEB and the Government to conservation. The signal being sent is that the customer's actions have no effect on costs, and that the customer is helpless in terms of controlling the bill.

When this consultation commenced last year, CFIB reviewed the rate applications of three LDCs and estimated the impacts on customers of different sizes, in terms of the distribution bill

alone, and the total bill[1]. The fixed rate distribution charge was computed by dividing the total class distribution revenue requirement by the number of customers.

Niagara Peninsula Energy Inc.

			Distribution Charge			Total Bill		
kWh	HU	KW	Present Rate	Fixed Rate	% Chng	Present Rate	Fixed Rate	% Chng
1000	200	5.0	$ 57.02	$ 71.10	25%	$ 173.06	$ 187.39	8%
2000	200	10.0	$ 67.82	$ 71.10	5%	$ 298.06	$ 301.40	1%
5000	225	22.2	$ 100.22	$ 71.10	-29%	$ 673.06	$ 643.46	-4%
10000	250	40.0	$ 154.22	$ 71.10	-54%	$ 1,298.07	$ 1,213.54	-7%
15000	306	49.0	$ 208.22	$ 71.10	-66%	$ 1,923.07	$ 1,783.62	-7%
			$ 208.22	$ 71.10		$ 1,923.07	$ 1,783.62	

Festival Hydro

			Distribution Charge			Total Bill		
kWh	HU	KW	Present Rate	Fixed Rate	% Chng	Present Rate	Fixed Rate	% Chng
1000	200	5.0	$ 48.46	$ 75.13	55%	$ 160.53	$ 187.66	17%
2000	200	10.0	$ 64.76	$ 75.13	16%	$ 287.30	$ 297.86	4%
5000	225	22.2	$ 113.66	$ 75.13	-34%	$ 667.60	$ 628.42	-6%
10000	250	40.0	$ 195.16	$ 75.13	-62%	$ 1,301.44	$ 1,179.38	-9%
15000	306	49.0	$ 276.66	$ 75.13	-73%	$ 1,935.29	$ 1,730.34	-11%

North Bay Hydro

			Distribution Charge			Total Bill		
kWh	HU	KW	Present Rate	Fixed Rate	% Chng	Present Rate	Fixed Rate	% Chng
1000	200	5.0	$ 40.66	$ 70.08	72%	$ 156.35	$ 186.26	19%
2000	200	10.0	$ 58.36	$ 70.08	20%	$ 288.28	$ 300.19	4%
5000	225	22.2	$ 111.46	$ 70.08	-37%	$ 684.09	$ 642.01	-6%
10000	250	40.0	$ 199.96	$ 70.08	-65%	$ 1,343.77	$ 1,211.68	-10%
15000	306	49.0	$ 288.46	$ 70.08	-76%	$ 2,003.45	$ 1,781.36	-11%

In CFIB's view, these bill impacts on small customers are completely unacceptable, when combined with the fact that the customer has no tools at all to manage the bill. Any change in rate design, assuming revenue neutrality, will have "winners" and "losers". It is important

[1] Analysis was done in July, 2015 and is reproduced here without update.

that a decision that results in transference of the burden of cost be well based in both the facts of cost causality and principle, in particular so that the "losers" are able to accept as fair the new higher bill, and also to have a reasonable opportunity for action that would turn them into winners. Neither would be true if this design were implemented.

Option 2: Time of Use Distribution Rate

In CFIB's view, if the Board is convinced a change must be made, this option is the most reasonable from a customer point of view. Customers are already used to a time of use structure for their consumption costs. They would perceive that there is an opportunity to reduce costs by load shifting – that is, an increase in opportunity to influence the bill, rather than a decrease in opportunity as with Option 1. If a re-assessment of the level of fixed charge resulted in an increase in this billing component (and a reduction in the variable component), the result would be a step toward stabilization of revenue for distributors.

CFIB also sees the following issues with this structure:

- The report does not clearly address the issue of how the peak hours should be selected, and whether they should be the same hours for all distributors. A peak that is too broad would reduce the impact of the structure in terms of its ability to generate shifting off the peak.
- On the other hand, there is a clear complication if the peak hours for purposes of the distribution rate are not the same as the peak hours for the price of electricity. A customer serious about managing load to reduce the bill would face the issue of reconciling these differences. In particular, CFIB would have questions about the possibility of 3 p.m. to 9 p.m. as the distribution peak hours. If this is reflective of a summer issue, it is not clear whether these hours are intended to apply in the winter.
- This structure introduces an additional complexity into a bill that is already complex. As well as seeing peak, mid-peak and off-peak generation pricing, the customer would need to see the peak and off-peak rates for distribution in order for the mechanism to be effective. If, as with generation, there were a seasonal element, there are too many variables for a small customer to remember, plan for, and manage.
- There may be no real effect to the change. Distribution is only about 20% of the total bill, and the variable charges would only be a portion of that. The peak/off-peak pricing differential may therefore not be sufficient to motivate the customer; especially when, as stated in the Staff Report, only 0.5% of load has been shifted out of off-peak periods by this class of customers in response to price signals on generated supply.
- There was no discussion of how the peak/off-peak differential would be determined. In CFIB's view, it should be supported by a cost analysis. CFIB does not support the view that off-peak use should be without charge.
- As well as the current level of risk that distributors face as customers increase efficiency (i.e. conserve), the distributor would risk revenue loss as a result of load shifting.

Before a final decision is made, CFIB suggests that:

- The proposal for the selection of peak hours be fully considered, in light of the existing time of use periods, the load shapes of distributors, and some cost basis, such as the incremental cost of new capacity.

- If the distributor is significantly summer peaking, consideration be given to having no time of day element in the rate in winter. (vice versa if winter peaking)
- Effects of inconsistency between peak periods in the generation rates and the distribution rates be studied, perhaps through customer focus groups as well as through input from distributors.
- The effect of changes in policy on the level of fixed charges, if any, be considered in determining whether there is really value in introducing the additional complexity of time of use to the rate.

Option 3: Energy Use Blocks

As CFIB understands this proposal, the customers would each have to review their consumption history, and elect one of several pre-specified levels of monthly peak consumption. All consumption below this block is charged as a fixed monthly charge. If there is consumption in any month above the selected block, that consumption incurs charges at a penalty level, in addition to the fixed charge.

The advantages that CFIB sees in this proposal are that it does focus the customer's attention on usage in the peak hours, and that it potentially provides a mechanism for net metering customers to reduce their bills. We also see the following issues or concerns:

- The same issues exist as with Option 2, in terms of selection of the peak period, and the complexity introduced if the peak hours are not the same as for generation.
- Customers would face the task of reviewing their consumption histories and reporting their block selection to their distributors. Depending on how often customers were allowed to change their selection, this might be an onerous recurring task.
- Customers who consumed below the selected block could feel that they are being overcharged, since there would always be a gap between the amount consumed and the amount they were paying for.
- Customers who consumed in excess of their selection could feel that they are being overcharged, since they would be aware that the charges were set at a penalty (or "disincentive") level.
- Customers with a seasonal consumption pattern would have a more difficult time choosing an appropriate block (assuming it has to be the same for some period of time), and could feel overcharged (for under or over use) each and every month.
- Customers would need to reassess and report to their distributor if they added equipment, expanded activity level, or implemented conservation measures that affected their usage. Customer satisfaction could be negatively impacted if the program administration did not allow for immediate changes in block, or limited the number of changes in block over some period.
- In order to set rates, distributors would need to forecast both loads and the selection of blocks by customers. If customers are permitted to change their elections, revenue uncertainty could be high during non-rebasing years.
- Customers with the same usage might be receiving different bills, depending on their ability to analyze historic bills and forecast their usage.

- As mentioned in the Staff Report, distributors might need to implement a mechanism to notify customers as they approach their block limits.
- Distributors might also need to provide support to customers in selecting their block.
- As long as the customer is within the selected block, there is probably no incentive to conserve or shift load. It is not explicit in the description of the proposal, but CFIB's understanding is that the customer would need to move permanently to a reduced level of consumption before resetting the block and reducing the bill. Short term reductions in usage would not be rewarded in any way.

In CFIB's view, the potential negatives in terms of complexity, stress for the customer, lack of immediate incentive to conserve, administration for the distributor, and revenue uncertainty for the distributor, far outweigh the limited possible advantages of this rate.

Option 4: Minimum Bill

Prior to restructuring and the commencement of regulation of distribution rates by the Board, a minimum bill mechanism applied to the rates of small customers. It is important to distinguish that at that time, there was no separation of charges for generation, transmission and distribution—it was a "bundled" bill. The customer paid a price per kWh, and if fewer than a certain number of kWh were consumed, the minimum bill applied. Since there was no fixed charge at that time, the minimum bill was the distributor's only assurance of some revenue to contribute to fixed costs from a customer with little or no consumption.

In the years before restructuring, there was considerable discussion in the industry about the possibility of implementing a fixed charge. However, it was thought that customers would dislike a fixed charge, seeing it as "paying for nothing". The minimum bill mechanism was eliminated when the current fixed/variable distribution rate structure was introduced. Customers are now accustomed to, and accepting of, the fixed charge on their electricity and gas bills.

CFIB believes that if the rate was otherwise fully variable, a minimum bill would be required to protect the revenue stability of distributors and ensure that customers pay at least part of their fair share of fixed cost. However, customers are now accustomed to a fixed charge, and in our view, a fixed charge is a better mechanism to protect the distributor and other customers than a minimum bill. In addition, if there were a minimum bill in addition to the fixed charge, there would be some level at which the customer would perceive paying for electricity not consumed, or alternatively, would have no incentive to conserve. In our view, neither is positive for customer satisfaction or encouraging efficient use.

Since CFIB does not recommend that this option be implemented, we have not addressed the issue of the underlying rate structure. Our comments apply to any structure that includes an adequate fixed charge.

Rate Designs for GS>50 kW

The comments made as to designs for the GS<50 kW class apply generally to this class:

- For the reasons stated, CFIB does not recommend a minimum bill structure.
- Subject to the considerations stated for Option 2, CFIB is generally favorable to the 3-part demand rate (Options 5), assuming any change is made away from the current rates. In CFIB's opinion, zero pricing for off-peak demand is not appropriate, because coincidence on the system is created by all users, and a share of the benefits of coincidence should apply to peak users as well as off-peak users. CFIB prefers Variable 2 to be maximum anytime demand, which gives users who peak in peak hours a very strong incentive to shave their peak, but also gives an incentive to users who peak outside peak hours to manage their peak.
- Again, selection of the appropriate peak hours is important, and should be justified by analysis. If time of use structures are selected for both this class and the GS<50 kW class, the same hours should be used.

Other Comments

Very little consideration seems to have been given as yet to consistency of the rate structures across classes and the issue of boundary bill impacts. CFIB hopes that this will be the next step of the work, once Staff have determined the views of stakeholders on these proposals. Since very significant structural changes are being considered, CFIB wonders whether it would be useful to consider either demand billing for GS<50 (which should now be possible with existing metering) or changing the billing basis for GS>50 to a kWh basis for the variable changes, or alternatively to a demand based on a longer interval. Either of these steps, assuming that a rate with variable charges is implemented for both, might, along with some step mechanism in the fixed charge, smooth the transition. The boundary transition is important to CFIB, particularly the effects of a move from below 50 kW to above 50 kW, since customers (as well as being energy efficient) aspire to grow their businesses, which may imply more usage.

Ranking the Designs

The prior sections of this comment letter explain CFIB's reasons for its view of each of the structures.

In summary, subject to resolution of the issues discussed, CFIB is positive to the implementation of a rate with a fixed charge and time-of-use variable charges. However, CFIB is not convinced that time-of-use charges at the distribution level, when combined with a fixed charge in the structure, will provide sufficient incentive to create additional response to CDM programs. Without confidence in that result, CFIB believes that a change to the time-of-use rates would simply add cost, complexity, and distributor risk, in which case, customers and distributors are just as well served by continuation of the existing structure.

In CFIB's view, implementation of a minimum bill, with the underlying structure being either the current structure or the time of use structure, is relatively neutral – it adds complexity with very little positive result except to reduce distributor risk.

Both the fixed charge and the energy block structure are, in our view, strongly negative—the fixed charge structure because of bill impacts and the elimination of all control over the bill, including any benefit to net billing or DER; and the energy block structure because of the management burden it would place on customers.

All of which is respectfully submitted,

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