April 12, 2019

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge St., Suite 2700
Toronto, ON, M4P 1E4

via RESS and Courier

Dear Ms. Walli:

Re: Staff Report to the Board: Rate Design for Commercial and Industrial Customers to Support an Evolving Electricity Sector EB-2015-0043

On February 21, 2019, Staff at the Ontario Energy Board ("OEB") issued a Report to the Board (the "Report") which provides new recommended rate designs for commercial and industrial ("C&I") rate classes. These new rate designs are intended to support customer adoption of technological alternatives and encourage efficiency in the operation of distribution networks.

The Coalition of Large Distributors ("CLD") is pleased to offer comments on this important policy file. The CLD consists of Alectra Utilities Corporation, Elexicon Energy Inc., Hydro One Networks Inc., Hydro Ottawa Limited, and Toronto Hydro-Electric System Limited.

A. SUMMARY OF KEY MESSAGES & RECOMMENDATIONS

For the reasons set out and described further in the submission below, the CLD urges the Board to allow other policy proceedings delving into issues regarding innovation, DERs, and utility remuneration to precede this examination of C&I Rate Design issues. The CLD notes a number of questions and concerns, especially as related to the section on Capacity Reserve Charges ("CRCs") and believes that it would be more rational to set strategic direction before applying tactical rate design changes as in this proceeding.

Other key messages and recommendations that follow from the CLD's review of the Staff Report include the following:

- Undertake further review, customer engagement and analysis to determine whether, and if so, where to best position the eligibility threshold for a new rate class design that both maximizes bill stability for customers and minimizes the potential for frequent customer re-classifications;

  - Allow for the appropriate configuration of metering infrastructure, CIS and billing infrastructure, and data capture to properly set up the new rate class structures, as required;
  - Once the infrastructure can support any transition, allow for a rate design transition period for the lower demand rate design (i.e. the GS < 10kW or 15kW class) class of up to 4-5 years;
  - Do not create a rate design transition period for a GS 10 - 50kW (or GS 15 - 50kW) rate class;
- Re-visit the Capacity Reserve Charges framework to more explicitly account for certain assumptions, perceived costs and benefits, as well as implementation and administration challenges. The path forward should be informed by a well-articulated cost/benefit analysis of the alternatives.

Following general comments provided in Section B, specific comments are dealt with in Section C and organized under the following headings:

I. Comments on the proposed new rate designs;
II. Comments on the proposed new Capacity Reserve Charges;
III. Linkages to other policy initiatives;
IV. Comments on estimated revenue requirement impacts.

Before concluding, Section D provides responses to specific questions posed by Board Staff.

B. COMMENTS – GENERAL

At a high level, Staff makes the following recommendations:

- Split the GS < 50kW class into a GS < 10kW class and GS 10 - 50kW class;
- For the GS < 10kW class, establish a fixed distribution charge;
- For the GS 10kW - 50kW class, implement a demand charge rather than volumetric charges, to better reflect these customers' use of the system;
- Introduce a capacity reserve charge ("CRC") for customers with load displacement generation.

The CLD generally concurs with Board Staff in respect of the purpose and goals of the intended rate design changes. From the CLD's perspective, many of the key themes underpinning Staff's approach to its analysis and conclusions have merit.

Among such underpinnings include the notion that any changes to rate design should be framed and articulated so as to achieve revenue neutrality. Furthermore, the lens through which rate design changes should be evaluated must include an acknowledgement and alignment with how the distribution system is used. Customer choices to implement energy solutions such as downstream generation or storage solutions will impact how the system is used and revenues that are (or are not) collected. As a result, customer choices impact the costs assigned to other customers using the system.

The CLD agrees with several other basic principles of rate design enunciated by Staff. Specifically, the design of rates should properly reflect the value of, and use of, the system and provide appropriate signals that aid customers in the adoption of technology or energy solutions if they so choose. The rate design should also avoid unfair subsidization where one customer's choices affect other customers' costs, and should provide distributors with proper incentives to undertake grid modernization for efficiency and reliability.

The CLD also supports Staff's finding that the existing rate design may be problematic in that customers that reduce their consumption (a good thing) will reduce their fair share of funding the distribution system (a bad thing). This, in turn, may lead to uneconomic decisions by customers and the shifting of costs to other customers who are unable to, or don't want to, adopt new technologies. As such, the concept of a Capacity Reserve Charge ("CRC") makes logical sense.

There are, however, several specific concerns or issues that arose in the course of the CLD's review of Staff's proposals that warrant further analysis or consideration. Among these concerns is how a vision for rate re-design intersects with other policy initiatives. While the CLD supports a review of the rate design for C&I customers, the result must be considered within the broader context of ongoing developments in the electricity industry to avoid circumstances where different policy outcomes may create or exacerbate unintended outcomes, or worse, work at cross purposes. Other areas that the CLD believes warrant further review include an assessment of metering infrastructure and its capabilities to achieve the desired outcomes, as well as issues that arise in respect of implementation costs and timelines. These and other issues are detailed in the section that follows.

C. COMMENTS – SPECIFIC

I. Proposed New Rate Designs

In the comments that follow, the CLD provides a brief summary of Staff's proposal for each of the subject rate classes, followed by specific CLD commentary. The following table from the Report summarizes OEB Staff's proposed rate design changes:

Class	Current Rate Design	Proposed Rate Design
General Service Less than 10 kW	Monthly Service Charge + consumption charge (per kWh)	Monthly Service Charge (fully fixed – average cost)
General Service 10 to less than 50kW		Monthly Service Charge + demand charge (per kW)
General Service 50kW and Over	Monthly Service Charge + demand charge (per kW)	Monthly Service Charge + demand charge (per kW) + Capacity Reserve Charge
Large (over 5000 kW)	Monthly Service Charge + demand charge (per kVA)	Monthly Service Charge + demand charge (per kVA) + Capacity Reserve Charge • Emergency Backup • Maintenance • Bypass

GS<10 kW customers

Staff Report:
In the Report, Staff recommends first establishing the GS < 10kW as a rate class and then transitioning this class to a fully fixed distribution rate structure, similar to the rate re-design that has occurred for residential customers. Staff argues that as a result, these customers will see a more stable, predicable bill. This rate design would still allow customers to manage their bill by targeting new technologies or conservation that aim to reduce the amount of "commodity" the customer uses (which is still subject to variable rates). To determine the eligibility for the class, a customer's peak hourly consumption would be identified, and then averaged with the peaks for each of the two months on either side of that month (i.e. for a 5-month average peak). If this averaged peak is less than 10 kW, then the customer would fall into this rate class. Once identified, Staff recommends employing an implementation strategy of gradually reducing the variable rate and increasing the fixed rate over a 5-year period, again similar to that which was undertaken for the residential class transition.

CLD Comments:
The CLD does not oppose the creation of split subclasses within the GS < 50kW rate class as proposed by Board Staff. Similarly, the CLD sees merit in moving the lower of these classes to a fully fixed distribution rate, as their usage of the system tends to be steady and predictable. As a technical matter, the CLD notes that while this rate class may have steady and predictable demand like the residential class, their load profile may be considerably different. That is, customers in a GS < 10kW rate class would see different peaking periods than the residential class. In any event, it is reasonable that these customers would be charged a fully fixed

distribution rate to coincide with their generally stable and predictable (i.e. near fixed) usage of the system.

Should the OEB opt to proceed with fixed distribution rates, the CLD recommends that Board Staff further analyze the determination for the threshold at which to create the new sub-class. This should include engagement with affected customers. The key objective in such a determination should include at what point the potential for variability in consumption or demand would minimize the potential for rate reclassifications in order to create more stability, both for customers and for distributors.

For example, a different threshold, say at 15 kW, may significantly reduce the number of rate reclassifications in each year, thereby producing greater rate and bill stability for customers and distributors. The point is not necessarily that 15 kW is a better threshold for rate classification, rather that the CLD urges the Board to undertake further study to objectively determine the best threshold for the establishment of a new rate class. The Board should also be open to accepting differing proposals from distributors if the case can be made that a new generic threshold would cause undue hardship or burden for the distributors' customers.

The proposal to determine the eligibility for this rate class (i.e., the 5-month average) seems reasonable on the grounds it may produce fairly stable results. However, in the CLD's view the rate reclassification methodology should be aligned across all demand based rate classes (from GS>10kW through to Large Users). That is, the determination should be based on the same methodology for all classes; either the existing 12-month average or the proposed 5-month average. Furthermore, it may be worth considering implementing a dead-band to the new threshold determination such that customers must exhibit a material or sustained change before being reclassified in order to avoid customer confusion or frustration.

The concept or strategy of transitioning to a fully fixed distribution rate design over a period of time is reasonable as it would serve to smooth any transition issues for customers and distributors. A transition period of 4-5 years to accommodate the conversion is likely reasonable for most distributors. However, flexibility may be required in order to keep bill impacts below a 10% threshold.

<u>GS 10kW - 50kW customers</u>

Staff Report:
OEB Staff is proposing moving this class of customers from a consumption charge to a single non-coincident peak demand charge. The billing determinant for the proposed GS 10kW - 50kW class would be defined as the maximum consumption over an hour interval. Staff notes that the operational processes of both the Meter Data Management and Repository ("MDM/R") and distributors' Customer Information Systems ("CIS") will have to be synchronized to ensure implementation of this strategy is feasible. Staff proposes a rate mitigation strategy to gradually reduce the monthly consumption rate while correspondingly increasing the demand rate, while maintaining revenue neutrality for distributors.

CLD Comments:
The CLD sees some merit with Staff's proposal and agrees that it is reasonable to charge these customers on the basis of their demand and capacity. A billing determinant based on demand is more representative of these customers' use of the system, and therefore a fairer way to bill them.

However, the CLD is concerned that existing infrastructure may not support the implementation of this structure in all cases (i.e. use of a kW billing determinant). In addition, the proposed billing determinant (kWh/h) is problematic in that it may not be recognized by Measurement Canada as a viable unit of measure. If this is the case, then it would be an inappropriate measure on which to bill customers. The CLD recommends that OEB Staff consult with Measurement Canada to further investigate this potential issue.

The CLD is also concerned with Staff's conclusion that, "The interest of the customer and the distributor are linked in that the customer has an incentive to reduce demand through conservation, efficiency, or distributed energy technology which will, in turn, reduce the need for investment by the distributor"[1]. While directionally accurate, realizing these benefits would require that over the long term an aggregate level of demand reduction in localized areas affect system plans by lowering future distribution capacity requirements. Otherwise, distributors still need to build the infrastructure to accommodate whatever level of service is required, even if the supply of service is supplemented by other means (i.e. there may not be enough full bypass of capacity). Staff's view also assumes that distributors are aware of customer intents and plans, and that the scale of such plans will meaningfully affect the design of distribution system plans, which may not be the case.

The CLD agrees with Staff's assessment that MDM/R and distributor CIS systems will have to be synchronized to ensure that the meter data request and response are compatible. However, simply recognizing this point is not enough because, depending on the distributor's circumstances, there may be a significant effort required in terms of time and cost to accomplish this. Additionally, the MDM/R does not currently have the ability to provide information on net metered customers, and so a further cost would need to be incurred to account for building this functionality.

The CLD has some concerns with Staff's proposal for a transition plan (i.e. reducing volumetric charges while concurrently increasing the demand rate) in the case of the proposed GS 10kW - 50kW class. Chief among these concerns is that it would be very confusing (and send contradictory price signals) for customers to receive bills with each of fixed, volumetric, and demand charges during the transition period. It would also be problematic to create the bills for customers using each of these determinants. The CLD submits that undertaking the effort to bill on three billing determinants for what would ultimately only be a temporary transition period would not be worthwhile, given the limited or otherwise undeterminable customer benefits (i.e. unlike a shift between variable consumption and fixed rates, there is no guarantee that a timed transition

[1] Staff Report to the Board, Rate Design for Commercial and Industrial Electricity Consumers: Rates to Support an Evolving Energy Sector, EB-2015-0043, Ontario Energy Board, February 21, 2019, p. 28.

between fixed, variable consumption, and peak demand, would result in a similar rate smoothing effect).

The CLD believes it will be necessary to first establish that the metering infrastructure is capable of supporting a demand based billing determinant (i.e. kW), and then to make the changes to accommodate this approach (assuming that a kWh/h approach cannot be accommodated). Then, it will be necessary to obtain a period (i.e. a year's worth) of metering data to complete the customer reclassification into the new classes, as required. Furthermore, the proposed changes would require revisions to virtually all billing processes to account for the new classes and the manner in which they are billed. The Board Staff Report should consider these costs against the intended benefits.

For all the reasons identified above, the CLD submits that it would be prudent to first ready the necessary systems and infrastructure for the GS 10kW - 50kW class, and then to execute the change at a single point in time. To the extent that a single change creates bill impacts in excess of 10%, distributors should be afforded the flexibility to offer some form of bill impact mitigation to affected customers, while maintaining revenue neutrality.

II. Capacity Reserve Charges

Staff proposed no rate design changes for the GS > 50 kW or the Large Customer classes. Changes for these classes focused on the introduction of standardized Capacity Reserve Charges ("CRCs"), including bypass charges, as below.

GS > 50 kW customers

Staff Report:
In the Discussion Paper, Staff recommends that customers installing distributed generation would be subject to new CRCs, which would replace current standby charges and be technology specific. The only type of CRC that would be available to GS > 50kW customers would be Emergency Backup Service ("EBS"), defined as follows:

> *Emergency backup service (EBS) is a full emergency service that is instantaneously (or nearly instantaneously) available if the customer's generator fails for any reason. Since the distributor must maintain full capacity for this customer including like-for-like asset replacement, the distributor should charge a capacity reserve charge that is based on the normal demand charge for the class and the full value (faceplate rating) of the generator and projected or historic levels of capacity factor.*[2]

The Capacity Factor ("CF") is defined as the ratio of a generator's actual output to its potential output. Staff expects that this CRC can be implemented immediately subject only to appropriate

[2] Ibid., p. 42.

changes in distributor CIS systems. Further, any current standby charges would be converted to a CRC at a distributor's next rate case and any existing generators not currently subject to standby charges would begin to pay CRC on a phased-in basis. OEB Staff proposes that the CRC applied every year increase by 10% each year (i.e. to reach 100% of the CRC in 10 years).

Large Customers

Staff Report:
In addition to the EBS, large customers would also be able to choose from Maintenance Service ("MS") or a Bypass charge. On the continuum of service, the MS is envisaged as one where the customer would contract for a lower level of service to coincide with scheduled maintenance for the customer's supplementary supply generation. Staff explains that, for the MS, the customer would take the risk that their installed generation would be able to supply their needs. Similar to the EBS, the MS rate would be calculated as the generator's faceplate capacity rating multiplied by the demand rate for the class, but also multiplied by a "Maintenance Factor" ("MF"). As Staff explains:

> *MS would be negotiated with the distributor to provide full load at off-peak times at the distributor's discretion. Since the additional cost to the distributor is low for maintenance service, the charge should be lower than EBS. However, since the customer is abandoning load, there should also be a form of exit payment to the distributor.*[3]

Bypass service is defined as when a customer takes their entire load off the system. Under this service, Staff envisions that there would be an economic evaluation to determine a payment to the distributor for the value of the abandoned assets. The Bypass charge would be calculated as the Net Book Value of the abandoned assets and system costs based on the load being abandoned. Similarly, a "Partial" bypass occurs when the customer wants to maintain a connection to the grid. Here again, the customer would pay an exit fee to account for the value of assets built to serve them, offset by any continued revenue stream.

CLD Comments:
The CLD concurs with Board Staff that no changes to the rate designs of these classes are needed. The CLD also agrees with the intention of working to formulate a consistent way of dealing with capacity reserve charges and distributor remuneration across the industry. These should necessarily reflect that customers may still access capacity on the distribution system. Specifically, it should be recognized that there are costs related to building the infrastructure necessary to support demand and consumption, even if the customer chooses alternative ways of supplying or managing their energy usage. The CLD generally has no issue with the concept that there be graduated service levels available to each of the rate classes – namely, EBS for GS < 50kW and EBS, MS, and Bypass available to Large Customers. However, the CLD has a number of concerns with the specific proposals.

[3] Ibid., p. 45

One particular concern is the absence of any discussion regarding the utility's obligation to serve. In the situation where a customer requests reduced service or Bypass, what happens when a customer subsequently wants to reverse a previous decision? What are the implications on utilities' obligation to serve if the utility is no longer able to serve due to system changes that might have occurred in the interim? A discussion on how this fundamental policy might be affected requires further attention.

Another concern is that it is not clear to the CLD whether Staff has considered the extent to which proposals on partial or full Bypass charges align, or conflict, with the bypass requirements specified in Section 3.5 of the Distribution System Code. Bypass requirements in Ontario have typically been documented in both the Transmission and Distribution System Codes, and any proposals related to bypass that come from the findings in this Report must be consistent with Code requirements, which were recently updated.

The CLD is also concerned that the determination of an exit payment may be difficult to process. For example, it may be difficult, if not impossible, to isolate exactly which assets serve which customers, or determine in what proportion they may serve specific customers versus providing larger system needs. Another issue is that an exit payment based only on the net book value of assets would create a financial hardship for distributors. The distribution system is financed in large part through debt financing, which is issued on the basis of the utility's ability to service and repay its debt obligations. Since the abandoned assets would have future revenue streams associated with them, beyond the current net book value, this would have to be included in the valuation of an exit payment. Alternatively, assessing the cost vs. benefit of asset deployment or replacement may be adversely affected in that evaluations made today may be stranded before the end of the useful life of an asset, introducing elements of risk and uncertainty. In any event, the CLD would also like to seek further clarity around the accounting treatment of exit payments and expects that the OEB should produce guidelines within the Distribution System Code to ensure uniform treatment by utilities across the province.

A further concern is an assumption throughout the Report that distributors have perfect knowledge about customer plans and intentions. For example, the Report states "where needs are changing or assets are approaching the end of their useful life, distributors have opportunities to address customers' emergent expectations through system plans in ways that can lower costs for all customers."[4] This could only happen if customers were forthright with their plans and intentions and followed through with the plans as expected, and that enough customers within local planning areas cause changes that are material to distribution system planning. Timing is also an important element to consider; customer plans and intentions could change with the emergence of new technology or market factors. These customer plans would typically lag those of distributors, who are required to design their systems based on anticipated load based on present day conditions.

[4] Ibid., p. 3

Similarly, the Report proposes that any current standby changes would be converted to a CRC at a utility's next rate case, and that any generators not currently subject to standby charge would begin to pay a CRC on a phased-in basis over 10 years. The time, effort, and resources to gathering the necessary information from customers could be significant, and again assumes that customers would be forthright with this information. Once collected, the administration and follow-up effort by more than 60 distributors to maintain this information would be significant. The Board should consider the amount and level of resources applying this direction would require. At the least, distributors would need to be afforded additional resource and system costs to manage such an effort.

Another issue arises in that customers would inherently have an incentive or motivation to make the CF or the MF appear low. This would in turn reduce the cost embedded within the CRC to them. If this occurred, distributors might not make the necessary investments in their distribution system and other customers would be forced to pick up the revenue shortfall. In the worst case, this could lead to a scenario where the system is not designed to deliver needed capacity, resulting in potential service interruptions or deterioration in reliability.

The Report recognizes the potential for customers trying to access EBS without appropriately paying for it, and recommends that penalties could be developed for customers who pay for limited service, but use more than their service schedule allows for. The CLD agrees that penalties could be an appropriate means to curtail this sort of activity, but is concerned with the level of policing this would require, both in terms of human and system resources. The penalties would have to be substantive enough to cause customers to change their behaviour, which could lead to customer dissatisfaction. In addition, determining a suitable format for a penalty structure may be difficult. For example, one customer could inappropriately access emergency service and it may have no effect on the system, whereas another customer's impact could be severe (e.g. by overloading a feeder). As such, a penalty structure that considers relative impact should be considered. Given the potential for overloading of the system given unauthorized use of MS or Bypass service capacity (e.g. by overloading a feeder), the CLD believes the use of load limiters should be a requirement for customer CRC eligibility.

If it is determined that the use of the CF or MF are critical to the development of CRCs, then the CLD proposes that it be at the option of the utility to accept or reject customer proposals. In addition, system requirements and resources would also need to be put into place to review these factors annually. Further consideration should be given as to whether these factors should be based on historical data and trued up annually, or if they should be based on forecast levels. Issues in this regard should include consideration of the administrative burden of managing the level of customer information required and the customer usage levels. The CLD believes that in all cases, the rate class determination should be on the basis of gross load to align with planning criteria, rather than on net system impacts.

Finally, the CLD has concerns with Staff's discussion of potentially developing a kVA billing determinant. The CLD does not believe this is viable given that kVA information is not currently

(or consistently) recorded for all customers by all utilities. This may create significant billing system and RRR reporting requirement changes as a result.

In addition to the concerns spelled out above, a number of other questions arise in respect of CRCs. For example, it may be worth considering if CRC eligibility requirements would require a minimum faceplate capacity rating to be able to access CRCs. Also, further consideration should be given to whether bypass should be allowed for others besides Large Customers alone. For example, what would preclude a customer who is not a Large Customer from bypassing the system? In this case there would be no remuneration to the utility, and all customers would have to bear the cost of stranded assets or an over-supply of capacity.

The CLD recognizes that dealing with potentially stranded assets and developing an appropriate framework for dealing with bypass are difficult issues. However, the guiding principle should be promoting customer choice while at the same time leaving distributors (and the rest of the system's customers) no worse off. Since options to defect from the grid (i.e. DER options) will not be priced based on fully allocated embedded costs, trying to create a bypass cost on this basis means that the distributors will not have the necessary pricing options to avoid uneconomic bypass of their respective grids. In other words, bypass rates set on the basis as put forth by the Report may not be the most effective pricing tool. In the CLD's view, this is a topic area that is better addressed in other policy areas being looked at by the Board, namely, the combined docket which is intended to address issues relating to "Utility Remuneration" and "Responding to DERs", respectively.

III. Linkages to Other Policy Initiatives

As above, the CLD is concerned that this policy initiative should not precede or be considered in isolation of other important policy developments. Specifically, the CLD believes that C&I Rate Design should either explicitly consider or follow any developments on case files related to the Advisory Committee on Innovation ("ACI"), or cases that impact electricity commodity pricing.[5]

Advisory Committee on Innovation

Many of the Rate Design changes or issues are implicit in some of the ACI Report recommendations. Both the ACI Report and the C&I Staff Report recognize or encourage closer planning and cooperation between LDCs and customers and both seek to find ways to address issues related to the accommodation of DERs.

Many of the items that are addressed in the Staff Discussion Paper are germane to issues addressed in the ACI Report and recommendations. The ACI Report and recommendations,

[5] For example, the Advisory Committee on Innovation led to the combined policy files EB-2019-0287/0288 relating to "Utility Remuneration" and "Responding to DERs", respectively. Policy files that impact commodity pricing include the IESO's Market Renewal Project ("MRP"), the "Examination of Alternative Price Designs for the Recovery of Global Adjustment Costs from Class B Consumers in Ontario (docket #EB-2016-0201), and the RPP pilot programs being conducted as part of the RPP Roadmap.

however, are broader in reach and scope than those contained within the C&I Rate Design policy file. One item common to both policy contexts is that neither explicitly defines and/or differentiates between economic and uneconomic bypass.

Given the broader scope of the ACI policy issues, the CLD recommends that it is essential to address those issues first, followed by consideration of Rate Design issues. Necessarily, the context and outcomes arising from the later may be greatly informed or influenced by direction in the former.

RPP Roadmap

The RPP Roadmap will have implications for how customers pay for commodity and Global Adjustment ("GA") costs. These represent the largest elements of the customer bill and together dwarf the relative proportion of distribution charges. As a result, changes in these areas will materially impact customer evaluation of DER alternatives.

The CLD recommends that it may be advisable to allow changes to commodity pricing outcomes to reveal themselves in advance of targeting changes to rate design. This is not to say that commodity pricing outcomes should drive the rate design outcomes, however, it is noteworthy that the objectives set out in this consultation may be affected by outcomes elsewhere. For example, it may be the case that rate design changes made in this policy context do not achieve their intended outcomes as a result of fundamental changes to commodity pricing if they are not fundamentally aligned. In the worst case, taken together the two different arenas examining intended policy outcomes (which may or may not be aligned) may result in outcomes that are misaligned or work at cross purposes

Government Consultation

The Ontario government has launched a consultation to, among other things, gather input on electricity rate design. The consultation has been scoped to include items such as the Industrial Conservation Initiative ("ICI"), dynamic pricing structures, and delivery and regulatory cost recovery.

The issues examined in the Ontario government's consultation are germane to framing the issues and potentially the recommendations, within this policy context. These items should either be conducted sequentially, or in lock step with one another, rather than as independent consultations.

IV. Estimated Revenue Requirement Impacts

The CLD has reviewed Appendix B authored by Navigant Consulting accompanying Staff's Report to the Board. The CLD will not take any specific issue with the work conducted by Navigant, but does wish to clarify that some underlying, fundamental assumptions may be worth re-considering.

The CLD agrees with the first of Navigant's findings that substantial uptake of Distributed Generation ("DG") would reduce distribution revenues. However, the CLD disagrees with Navigant's second conclusion that a higher Sample Revenue Requirement ("SRR") would be generated by the new C&I rate designs relative to the current, existing rate design. Specifically, the Navigant study assumes that there are no customers who may choose to sign up for lower service but actually use higher service. This was a concern raised in the discussion above in respect of Capacity Reserve Charges. The analysis also assumes that distributors have complete knowledge of customer plans and intentions with regard to DG installation and operation. The CLD believes a finding where the SRR would be lower than the current SRR would be a more likely outcome in a real world application.

D. RESPONSES TO OEB STAFF QUESTIONS

1. *Regarding the recommendation for a new sub-class of small commercial customers, what is the appropriate definition of the class boundary and whether it would substantially change the customers who are included in the class? Options could include 10kW, 2000kWh per month, or a combination of current and voltage.*

   The CLD has considered other alternative forms of re-classifying the current GS < 50kW rate class, including those suggested in Board Staff's question, and offers the following comments.

   In general, the CLD does not support a kWh threshold (2000 or otherwise) in defining a subset of the current GS < 50kW rate class as it would be considerably more volatile than a kW threshold. This volatility would result in more unnecessary rate reclassifications each year due to greater fluctuation around the eligibility boundary. It would also be unique and administratively inefficient, as no other class eligibility is currently set on this basis.

   While the CLD is not opposed to a 10kW threshold, the CLD strongly recommends that the Board undertake further analysis to determine what other appropriate thresholds might make sense, including consideration of a 15kW threshold. In particular, the CLD would like to see analyses such as those produced in Appendix A of the Discussion Paper at this threshold.[6] Comparing the analyses, including customers' bill impacts, at the 10 kW and 15kW thresholds may be informative and lead to a superior classification of this subset of customers.

   The CLD believes that further study to objectively determine an appropriate rate classification threshold should be undertaken. The objective of the analysis should seek to optimize between bill stability and the potential for frequent customer re-classifications on an annual basis. For example, it may be the case that a 15 kW threshold reduces the potential for customer reclassifications and produces greater bill stability for more customers than a 10 kW

[6] Appendix A to Staff Report to the Board, Staff Analysis of Hourly Residential and General Service Customer Data, Ontario Energy Board, EB-2015-0043, February 21, 2019.

threshold. In a brief analysis of its customer data, one of the CLD's members has found that a significant number of customers in the GS 10kW - 15kW demand band remain clustered around the 10 kW threshold; given the relatively large numbers involved, there does not appear to be a valid reason to regard these similarly situated customers as fitting within different distribution rate classes.

In any event, the CLD urges the Board to undertake further study to objectively determine the best threshold for the establishment of a new rate class. Distributors should be given the flexibility to propose alternative thresholds if it can be shown that this is better for all of the customers in the current GS < 50kW rate class.

2. *What would be the appropriate time frame for implementation and rate mitigation for the new small volume commercial sub-class? Should the OEB keep to its general policy of keeping increases under 10% per year on total bill? What considerations should the OEB examine in order to finalize the proposed mitigation?*

   Ideally, before implementation, a Cost Allocation study would be conducted for the new rate classes in order to ensure that each of the new classes is appropriately carrying the costs specific to their usage of the system. As a practical matter, the CLD understands that it may be unfeasible to have every distributor undertake such a study. However, the CLD recommends that Board Staff should undertake a generic study to assist in the design of the new rate class construction and to support the hypothesis of revenue neutrality.

   Beyond allowing for this step, as well as any infrastructure or system readiness requirements, a 4 or 5 year transition period, similar to that employed for the residential rate design, would be appropriate. However, depending on the circumstances, the OEB should allow for flexibility in the length of transition period, if necessary or warranted.

   The CLD believes that the OEB should keep to its general policy of aiming for rate impacts at less than 10% per year as appropriate guidance for a transition plan.

3. *Are most current electricity distributor customer information systems capable of maintaining both a kWh and kWh/h distribution rates as part of the applied tariff?*

   The CLD believes the answer to the question is most likely yes both a kWh and kWh/h rate can likely be accomplished. However, for reasons of simplicity and customer communication, a single determinant per rate class is desirable. As noted earlier, the CLD does not believe that a transition plan requiring both a kWh and a kWh/h billing determinant is necessary or effective. This approach would add some complexity to the rates set up and testing (i.e. fixed, kW or kWh/h, and kWh), will be very complicated and confusing for customers to understand, and provides for undeterminable customer benefits in terms of rate mitigation.

4. *Given that there would be bill increases for a small segment of each new class, what would be the appropriate time frame for implementation and rate mitigation?*

   In the event that the OEB moves forward with C&I Rate re-design after appropriate consultation and consideration of the issues, implementation should begin after the meter infrastructure has been set up, conditioned, and tested, and a year's worth of demand data has been acquired.

   Once implementation has begun, the transition time path to full implementation for the GS < 10kW could be 4 or 5 years depending on the size of the estimated bill impacts. For the GS 10kW - 50kW rate class, the CLD suggests a complete conversion without a transition period. While the CLD is certainly understanding and sympathetic of the desire to avoid customer rate shock, the CLD nevertheless believes that the cost and effort in establishing billing based on three separate billing determinants, for what will only be a transition period, would not be prudent. This approach would also be very confusing for customers, whose bills would be a function of changing fixed rates, volumetric rates, and demand rates all at the same time. Ultimately, the effort required does not seem warranted given that it is not clear if this approach would actually result in material bill mitigation for a substantial group of customers.

5. *Stakeholders are invited to comment on the feasibility of implementing the Capacity Reserve Charge approach and expected consequences on customer investments in distributed generation.*

   The CLD has expressed its comments and resulting concerns on the Capacity Reserve Charge in the body of this submission above. To summarize, the CLD sees merit with the intent of designing appropriate CRCs where customers are required to pay for their proper share and use of the grid, including back-up capacity. The proper design of such CRCs, however, is critical as it will necessarily impact how customers view or analyze their DER/DG options. As presented in the Report, the CRCs are complicated and would be very difficult to implement (i.e. a capacity factor would require a new class code set up) and likely confusing for customers. At the very least, the CLD urges the OEB to undertake further analysis to better understand the merits of the proposals and their implications, particularly with respect to maintenance and Bypass service. Such further analyses should also consider customer communication and implementation matters.

6. *Should there only be one option to address the issue of customers who do not abide by their maintenance or bypass obligations? Should the customer have the option? Should the distributor have the option?*

   The CLD believes that both financial penalties and/or physical load limiters should be used to address the issue of customers who do not abide by their service obligations. Since the

choices customers make may impact system planning and operations, a failure to live up to their end of the bargain may inevitably impact other customers. Penalties should be material enough so as to avoid situations where customers may try to get lower rates but take full service (i.e. cheat). Alternatively, requiring distributors to manage a greater number of options for customers who do not abide by their obligations would cause unnecessary administrative burden, without much benefit, if any.

E. CONCLUSION

The CLD appreciates the opportunity to provide comments on the Report, and respectfully requests that any subsequent action taken by OEB be consistent with the comments set forth herein.

If you have any questions with respect to the above, please contact the undersigned.

Sincerely,

Original signed by Indy J. Butany-DeSouza

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