April 12, 2019

Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4
Attn: Ms. K. Walli
Board Secretary

Dear Ms. Walli

Re: **EB-2015-0043 Commercial and Industrial Rate Design**

This submission provides the comments of the Electricity Distributors Association's (EDA) members on matters arising in the above named consultation. The EDA's members will be directly affected by the outcome of this initiative as it will impact both the customers that members recover revenues from and the risk profile of distribution revenue streams. On behalf of all our members, we thank the Ontario Energy Board (OEB or the Board) for progressing this issue and for providing this opportunity to comment on the most recently released OEB Staff Report to the Board (Staff Report).

As you know, the EDA represents Ontario's electricity LDCs - the face of the industry to Ontario's energy consumers. Our members deal with the consumer every day whether by safely and reliably providing energy, educating them on opportunities or resolving their issues. The EDA's Regulatory, Operations and Engineering, and, Finance and Corporate Governance Councils reviewed the OEB Staff Report on Commercial and Industrial (C&I) rate design. This submission provides their thoughts, concerns, analysis and suggestions. The Councils also provided input on matters of customer class boundary issues, transitional issues and gap analysis. These comments reflect those considerations and are offered in an effort to support the Board in bringing the end result of this work to market in a timely manner. They are organized as follows:

- Customer Class Specific Comments
- Class Boundary Issues
- Unaddressed Issues and 'Gap' Analysis
- Concluding Thoughts.

Customer Class Specific Comments

As set out in the Staff Report, the EDA's customer class specific comments are organized as follows:

I. The proposed General Service (GS) GS<10 kW subclass
II. The proposed GS>10kW, <50kW subclass
III. The proposed changes to the existing GS>50kW customer class

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I GS<10kW

The Staff Report proposes that a GS<10kW subclass be established within the existing GS<50kW customer class. This proposed subclass is to:

- Transition to a 100 % Fixed Monthly Charge (FMC)
- Include those customers who satisfy the proposed new subclass eligibility criterion, specifically whose average of the highest hourly consumption in one billing month in a calendar year and the two months on either side of that peak month is less than 10kWh/h.

The issues arising from the proposed changes are:

- Is the class electrically homogeneous?
- Is the proposed 100% FMC fair? Does the proposed 100% FMC send an appropriate price signal to the consumer? Does it improve the link between the rate charged and the costs incurred by the LDC?
- How will customers react to the proposed 100% FMC?
- Can LDCs implement the proposed rate design?
- Is it appropriate to create the proposed subclass without a supporting Cost Allocation Review – Informational Filing (CAR-IF) study?
- Should the proposed rate design be phased in?
- What consumer education and support should be provided and by whom?

LDCs understand that customer class eligibility conditions are designed to achieve a homogeneous grouping of customers while being simple to administer, they are not expected to be capable of precluding anomalies. The members of the proposed subclass may not exhibit electrical homogeneity (e.g., while the typical member is expected to be provided single phase service some members may be provided 3 phase service). Without knowledge of the infrastructure deployed to serve the affected customers it is very difficult to understand whether the members of this subclass will exhibit electrical homogeneity. Homogeneity is desirable from a fairness perspective as it assists in demonstrating that the costs incurred to provide service are consistent and that the authorized rates are appropriate. The EDA acknowledges that the existing GS<50kW customer class suffers from a lack of electrical homogeneity and makes this suggestion in an effort to improve fairness to customers.

The Staff Report does not explicitly analyze the appropriateness of the proposed 100% FMC. The Staff Report asserts that the infrastructure used to serve the members of this proposed subclass is analogous to that used to serve Residential customers. The EDA notes that the OEB's rationale for proposing a 100% FMC for the Residential class was to improve fairness and cost causality; if the infrastructure deployed to the members of the existing Residential class and the proposed GS<10 kW subclass are analogous then it is reasonable to expect that cost causality for the proposed GS<10kW subclass will be similarly improved through authorizing a 100% FMC. The Staff Report also discusses that the proposed 100% FMC will stabilize bill amounts and contribute to increased predictability of the bill amount. LDCs note that the proposed 100% FMC results in the downward averaging of the unit cost of delivery service as consumption

increases. Despite distribution delivery charges typically representing 20% of the total bill amount, this may act to weaken the incentive to reduce consumption.

Regardless of the rationale, the EDA notes that a rate is capable of being authorized as just and reasonable if it recovers the costs incurred to provide service and provides the LDC with an opportunity to earn the allowed rate of return and if it achieves other objectives including not resulting in undue cross subsidization, achieving cost causality. LDCs note that they would be assisted in testing for undue cross subsidization if a CAR-IF was required. Without such an analysis, the OEB will not be able to test for the impact of the proposed changes to any existing intra class cross subsidies that may presently exist. To be clear, the EDA is not suggesting that all LDCs update their CAR-IF studies; rather, as an alternative, it is proposed that the OEB could update a representative sample of CAR-IFs based on their insights into the changes to load data that are expected to be observed or address updating when processing rate rebasing applications.

Any proposed rate design should be able to be implemented by all distributors in a cost effective manner. The proposed changes will result in LDCs gathering data to appropriately classify customers into the proposed subclasses, to record the proposed new charge parameter and to adapt billing practices, processes and systems. The EDA notes that in a sector with over 60 members and when Customer Information Systems (CIS) have a useful life of roughly 10 years that it is reasonable to anticipate that more than 1 LDC will be upgrading or possibly replacing its CIS in any year. For this reason, it will be appropriate for the OEB to consider the timeline over which LDCs will be expected to achieve compliance with any authorized changes. LDCs also note that implementation costs should be included in a cost-benefit analysis of the proposed rate design changes. LDCs understand that the proposed eligibility criterion is expected to improve the alignment between the rates charged and the costs incurred but are unclear as to the other benefits.

The Staff Report explicitly contemplates that the proposed changes should be phased in over time. The EDA notes that phasing in sensitizes the consumer to the bill change, which may alter the customers willingness to deploy innovative technologies. The EDA also notes that LDCs' ability to offer and deliver conservation programs was materially changed as of March 20, 2019 when the Minister's Directive (the Directive) to the OEB was issued. Accordingly, the EDA seeks to better understand how the staff's assertion that conservation can be tailored to mitigating the customer's bill impacts now that the Directive is in effect.

While the Staff Report considers the anticipated bill impacts it does not analyze the expected consumer reaction to the quantified bill impacts. LDCs are conversant with customers' needs and their desire to understand, be prepared, mitigate or offset bill impacts, and to seek other resources or opportunities that will result in bill reductions. LDCs anticipate that customers will want to know the advantages of the proposed rate design changes (and whether there were deficiencies in the existing rate design that prompted change). In addition, the EDA notes that there is a risk that customers will take action in their specific self-interest rather than potentially pursue Conservation and Demand Management alternatives. No amount of bill modelling will predict how customers will ultimately respond.

Among the OEB's requirements is that LDCs annually review the classification of customers. The proposed subclasses will engage more customers in this process and expose more customers to the potential for reclassification. LDCs are experienced in this process and with the customer confusion and questions posed by those customers who are reclassified for the first time and by those who, because they are at the boundary of the eligibility criteria, are potentially at risk of recurring reclassification (i.e., switching between customer classes).

LDCs, being the face of the industry to the consumer, will be on the front line providing consumer education with materials and information that is correct, clear and geared to the consumer's level of knowledge and sophistication. It is important that customers have foreknowledge of changes to their electricity bills, especially when the bill may be regarded as consumer unfriendly or lacking transparency. LDCs recognize that many of the consumers who are eligible for inclusion in the new subclass may be related to businesses that operate through out Ontario (e.g., franchises, chain restaurants, chain retailers) and that it will be important for customer messaging to be consistent across LDCs. LDCs welcome the opportunity to liaise and possibly coordinate efforts to educate the consumer.

II GS > 10kW, <50kW

The Staff Report proposes that the remaining members of the exiting GS<50kW customer class transition to a proposed GS>10 kW, <50 kW subclass. The proposed changes to this subclass are:

- Transition to a new variable charge parameter: highest energy consumption in an hour in the month
- Establish a new class eligibility criterion equal to the average of the highest hourly consumption in one billing month in a calendar year and the two months on either side of that peak month.

The issues arising from the proposed changes are:

- Is the class electrically homogeneous?
- Is the proposed charge parameter appropriate?
- Does the proposed charge parameter send an appropriate price signal to the consumer? Does it improve the link between the rate charged and the costs incurred by the LDC?
- How will customers react to the proposed charge parameter?
- Can LDCs implement the proposed charge parameter? the proposed eligibility criteria?
- Is it appropriate to create the proposed subclass without the benefit of a CAR-IF study?
- Should the proposed rate design changes be phased in or not?

The issues of electrical homogeneity and the need for a CAR-IF are common to those of the proposed GS<10kW subclass and will not be repeated.

The Staff Report contemplates that this proposed subclass will be billed a demand charge variable rate applied to the proposed new charge parameter. The EDA points out that the OEB should have the benefit of data of the quantum of the proposed charge parameter and a CAR-IF to be able to test the just and reasonableness of the proposed demand charge. The EDA notes that while the proposed charge

parameter would enable the continued use of Smart Meters for these customers, it can be characterized as an approximation of demand rather than a true measure of demand.

Measurement Canada rules do not permit using consumption data (i.e., kWh) as demand data. It is unclear whether the proposed new charge parameter satisfies the federal *Weights and Measures Act*. The EDA suggests that the OEB engage with Measurement Canada to obtain a correct and valid position on whether Smart Metered data is capable of being leveraged in this manner.

Assuming that the proposed charge parameter can be implemented, and that the LDC's interface with the Independent Electricity System Operator's (IESO) Meter/Data Management Repository (M/DMR) can be amended suitably, the next question is whether the customers in this subclass will experience an improved price signal. An improved price signal may, for example, achieve greater transparency about the costs incurred to provide service. Whether applying the pseudo-demand charge parameter will improve the alignment between the costs incurred and the amount billed or will improve on the existing level of intraclass cross subsidy depends on factors (e.g., homogeneity of the electrical infrastructure serving the proposed subclass).

The Staff Report does not discuss the design of retail transmission rates (e.g., the appropriate charge parameter to apply). The currently authorized GS<50 kW Retail Transmission Service Rates (RTSRs), being consumption based, provide the consumer an opportunity to reduce their bill by reducing their electricity consumption. However, aligning the design of the RTSRs with the design proposed for distribution rates may improve the quality of the price signal to consumers and lessen consumer confusion. The EDA's members will benefit from the Board's consideration of this aspect of rate design.

The EDA's members expressed that both the creation of the proposed sub-classes through the adoption of the proposed eligibility criteria and the adoption of the proposed rate design changes can be expected to result in changes to LDCs' CIS and to their interface with the IESO's M/DMR. The OEB should include adequate time for LDCs to identify, scope, implement, test and then 'go live' with the authorized changes.

All LDCs expressed that the proposed changes to these proposed sub-classes and the concurrent adoption of a new charge parameter for one of them and the new eligibility criteria can be expected to require considerable consumer education for a large number of customers. As discussed in the comments of the rate design changes to the proposed GS<10 kW subclass, LDCs are the face of the industry to the consumer and will be on the front line providing consumer education through materials and information that are correct, clear and geared to the consumer's level of knowledge and sophistication.

III GS>50kW

The proposed changes to this class are:

- Introduction of the Capacity Reservation Charge (CRC)
- Introduction of bypass compensation
- Introduction of 3 levels of service

The issues arising from the proposed changes are:

- Does the proposed Capacity Reservation Charge (CRC) and the proposed bypass charge achieve the OEB's objectives?
- How will customers react to the proposed CRC? To the proposed bypass compensation?
- Will the proposed CRC and or the bypass charge create a barrier to the adoption of innovation?
- What are the alternatives to the proposed CRC, bypass charge?
- How should the LDC account for payments of CRC, of bypass? And why?
- How do the proposed CRC and the proposed bypass impact the LDC's level of business risk?
- Will consumers paying CRC expect to receive the same security of supply, quality of service that they receive now? Will consumers paying CRC expect that delivery capacity will be dedicated to them?
- Is the OEB's consultation on CRC, on bypass charge appropriate?

The Staff Report proposes and discusses CRC and bypass charges. These changes would, if implemented, replace any currently authorized Stand By Rates that are applied to consumers with load displacing generation. The range of currently authorized Stand By rates and rate classes reflects the fact that the OEB authorized them on a case by case basis. While Stand By charges are typically recovered through a demand charge the Staff Report correctly notes that there is variability with respect to the allocated costs and bill determinants. The EDA offers that a consistent solution implemented province wide will eliminate existing locational disparities and improve the level of fairness experienced by consumers who deploy these load displacing devices. One potential solution is for the Board to authorize all LDCs to apply Gross Load Billing (GLB). The EDA notes that GLB is currently authorized for transmission rates and that if the OEB also authorizes LDCs to apply this metric that it will improve consistency between the Board authorized Uniform Transmission Rates and RTSRs. The EDA reminds the Board that the currently authorized transmission tariff sheet references load displacing devices, whereas previously it referenced generation, and that the proposed change will improve alignment. It is important to note that by authorizing GLB the Board will resolve the uncertainty that exists today as to whether the LDC will recover its transmission and distribution charges through rates and that this will also lessen the risk of cross-subsidization among customers with respect to the recovery of transmission and distribution charges.

The proposed CRC and the proposed bypass charges are designed to fulfill the OEB's identified objectives:

- They allow customers to make sound economic decisions in their own benefit
- They prevent customers from making decisions that negatively impact more traditional customers
- They represent the cost of the distribution system's capacity that is 'held' to supply the needs of these customers when the device they deploy is unavailable.

The EDA notes that under staff's proposal the LDCs' currently authorized rates are expected to continue to recover the LDCs' revenue requirement without impacting their level of risk and, to continue to achieve both cost causality and not result in undue cross subsidization. All LDCs are expected to be readily able to implement the staff proposals. The proposed approach is anticipated to render the LDC financially neutral to customer adoption of innovative technologies that will support the customer realizing savings on the commodity portion of the bill.

The EDA's members raised several questions about how customers will perceive the CRC, for example whether customers will expect that the LDC is physically withholding capacity from all other customers connected to joint use or common use infrastructure? LDCs who interface with customers every day anticipate that the nomenclature will create exactly this expectation. LDCs point out that this inference risks situations that may result in inappropriate investment decisions. Consider the situation where the LDC is physically 'reserving' capacity for a customer remitting CRC such that the 'reserved' capacity is idle for much of the year and that an existing customer served by the same infrastructure wishes to increase their demand. If the increased requirements cannot be served with remaining capacity the LDC will need to consider expanding its system and overbuilding or duplicating infrastructure - despite the fact that unutilized typically capacity exists.

The proposed CRC implicitly achieves a form of Gross Load Billing (GLB) as it ties the customer's bill amount to a combination of actual load on the infrastructure and potential load on the infrastructure. Since operationalizing the staff's approach by using nameplate data may give rise to unanticipated anomalies, the EDA suggests that the OEB consider other data sources, such as historic metered load or 'combined' load of actual metered load plus the 'Faceplate Rating x Capacity Factor'.

The EDA notes that applying rules to quantifying charges in ways that are not technology, geography or infrastructure neutral raises fairness issues. The EDA's members have educated their customers that regulation is a form of consumer protection (for example, a feature of today's rate design is that similarly situated customers are charged similar rates for similar service). LDCs anticipate a need for customer education if, for example, the LDC could be in a position of seeking different amounts of CRC or bypass because of different Net Book Values of the affected infrastructure from customers who appear comparable.

The EDA notes that the Staff Report does not analyze either the proposed CRC or the proposed bypass charge for whether they will act as, or be perceived to act as, barriers to the adoption of innovative and/or disruptive technologies. The EDA points out that there are a range of likely real world scenarios that should be analyzed for fairness such as:

- when a customer served by a congested feeder deploys innovative or disruptive technology
- if subsequently a new customer emerges on the same feeder
- if the feeder has attained its assumed financial life
- if the customer is temporarily increasing or decreasing load
- if the municipal government should be able to remit either CRC or bypass to mitigate against a customer relocating operations and the associated employment from the municipality.

The EDA suggests that the OEB should provide guidance on the criteria for applying CRC for the first time. For example, should customers who made sound investment decisions in prior periods, before the CRC was proposed, be subject to CRC? When should an LDC apply CRC: when the customer commences testing or commences commissioning or only when both testing and commissioning activities are complete? Regulatory accounting guidance on how to appropriately record amounts remitted as bypass will also be

helpful; for example, the accounting treatment that applies to contributions should also be applied to bypass revenue.

The proposed CRC and bypass charges can be expected to impact LDCs' risk. For the more than 10 LDCs who are presently charging OEB approved Stand By rates an incremental change in risk may result whereas other LDCs may experience a discrete change in risk.

The EDA seeks more transparent information on the OEB's consultation on the proposed CRC and bypass charges with potentially affected parties, including any worked examples that may have supported discussions and analysis. The robustness of that consultation will assist the development of customer education materials, reduce duplication and provide an opportunity to reinforce the Board's messaging.

Class Boundary issues

The EDA notes that the proposed creation of the GS<10 kW customer subclass will, if authorized, require a one time classification of customers into the appropriate proposed subclass and that subsequently LDCs will be obliged to analyze more customers than they do presently for whether they should be reclassified. The potential for a customer to experience a negative outcome upon reclassification could be rendered moot if the rates of the 2 subclasses were co-ordinated such that the difference between the amount of the delivery line for each subclass at the eligibility threshold was close to 0. While the EDA points out this potential flexibility it is not suggesting that the OEB set aside sound rate making in order to make customers at the threshold indifferent as to which subclass they are assigned to.

The bigger issue with respect to designing the subclasses is electrical homogeneity. Today's customer classes are those that existed upon the OEB commencing rate regulation of electricity distributors. LDCs acknowledge that this legacy approach has persisted and that it has not been considered problematic. It is the advent of economically viable innovative technologies that has given rise to the perceived need to restructure customer classes in a principled manner and to authorize appropriately designed rates. The computed rates not only support the LDC in recovering its costs, they in combination with commodity and transmission rates support consumers in making economically efficient decisions as to the technology they deploy, the timing of their deployment and their awareness of the risks they are incurring.

Unaddressed Issues, 'Gap' Analysis

In reviewing the Staff Report and analyzing it with Councils the EDA has identified the following 'gaps':

- Is the objective of no cost shifting appropriate or should the objective be no undue cost shifting?
- How should storage devices or Distributed Energy Resources (DERs) that demonstrate the characteristics of both load and supply be charged for delivery service? For redelivery service?
- How should electric vehicles or other geographically flexible loads be charged for delivery service?
- Should the design of RTSRs align with the design of distribution rates?

- Could the proposed rate design changes interact with commodity price structure changes (e.g., to the ICI, RPP, Market Renewal Program)?
- Should LDCs' have discretion as to which rate design innovations are implemented and when? If so, what are those conditions?
- Are the proposed changes cost effective? And if they are: is this a universal outcome or does it depend on other factors (e.g., scale, scope)?
- What data should the LDC use to assign customers to customer classes?
- What are the implications for the consumer's ability to mitigate potential bill impacts through conservation subsequent to the Directive?

The objective of no cost shifting could be short sighted. If costs do not shift the logical conclusion is that no factor used in a cost allocation analysis will have exhibited change and the practical implication is smooth bill impacts can be expected. The EDA suggest that the implications of fulfilling this objective merit further investigation and analysis.

The proposed rate design changes are silent on how directly connected storage device, or DERs generally, should be charged for distribution service, on whether they should be charged for redelivery service. The EDA points out that LDCs are aware that these technologies may require a 'disruptive' rate design, perhaps one that relies on a novel charge parameter or time differentiated delivery rates or different rates depending on whether the device is withdrawing electricity or injecting electricity into common use grid assets. It will be important for this aspect of any rate design proposal to be co-ordinated with the development and adoption of the IESO's Market Renewal Program.

LDCs note that Electric Vehicles (EV) raise specific rate design issues as the delivery infrastructure relied on to charge an EV may be utilized by several EVs (e.g., at a public charging station) over the course of a billing period. It seems unfair to treat an individual EV as a member of the proposed GS>10 kW, <50 kW customer subclass and to charge each device for delivery service based on its individual charge parameters. The EDA points out that it may be advisable for the regulator to explore whether an hourly or a daily charge could apply, and to explore the appropriateness of providing an EV with the same level of reliability as is provided to a home or a small business.

As is discussed elsewhere in these comments the EDA points out that the delivery line of LDC customers' bills consolidates distribution charges with transmission charges and suggests that the OEB consider whether any authorized rate design changes should be implemented for distribution rates exclusively or if they should be applied to RTSRs as well. There are benefits (e.g., consistency of design that will lessen consumer confusion) of aligning distribution rate design with retail transmission rate design, or vice versa, including consistency of rules for load displacing devices, improving cost causality. The EDA notes that the transmission rate design issue has been raised previously and, in the expectation that it would be among the issues considered through a generic proceeding, was deferred. Arguably, this policy formation process could serve in lieu of such a generic proceeding.

Whether a load customer is eligible for CRC or bypass appears to depend on a triggering event occurring, e.g., the deployment of a storage device or a load displacing generator. Recently, the OEB abandoned its reliance on a trigger when quantifying the amount of financial contribution required for an expansion. The EDA proposes that the regulator revisit that logic for relevance and applicability.

As all are aware the following initiatives are simultaneously underway and are expected to impact the cost of commodity:

- the IESO is actively consulting on its Market Renewal Program
- the OEB is evaluating the design of the Regulated Price Plan
- the government is reviewing the design and operations of the Industrial Conservation Initiative that includes consideration of the pricing of GA to Class A customers
- the IESO will address cost allocation options for electricity system costs incurred in the renewed IESO-Administered Markets that will impact consumers through a White Paper
- the recently issued Directive that alters the provision of conservation throughout the province.

The commodity charge is the single largest bill item and all consumers are financially incented to reduce it. How the above named initiatives will impact customers choices, either alone or in combination, remains to be seen. Whatever customers choose to do in order to mitigate commodity costs will also impact their need for distribution service.

When this initiative concludes, LDCs will need clarity to be able to implement the authorized changes correctly. An example of the required clarity will be the data to use when assigning customers to customer classes, whether to use metered load (the customers use of distribution system infrastructure being their 'net' impact to the LDC) or gross load (the size of load that the LDC may need to be prepared to serve).

Since the Staff Report was issued on February 21 the Minister issued the March 20, 2019 Directive that minimizes and potentially eliminates the LDC from being actively engaged in the provision of conservation. The EDA looks forward to gaining insight into how conservation can be leveraged to assist customers who may be impacted by the Board authorized changes to rate design.

Concluding Thoughts

As is discussed herein, there are numerous issues engaged in this consultation. The kernel of the issue is that the OEB's provision of rate regulation is premised on stability of technology, of economically viable substitutes, of customers' needs for a specific level of service. This assumption should be revisited at this time of technological innovation and transformation in Ontario's electricity sector .

The EDA looks forward to the OEB's next steps in this matter, including its thinking on how to inform and educate customers on the changes that will ultimately be authorized.

Please do not hesitate to contact Kathi Farmer at 905.265.533 or at kfarmer@eda-on.ca if you have any questions on this submission.

Sincerely

Original signed by

Teresa Sarkesian
President and Chief Executive Officer