



June 6, 2014

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, Suite 2700
Toronto, ON M4P 1E4

via RESS and courier

Dear Ms. Walli:

**Re: Rate Design for Electricity Distributors
Submission of the Coalition of Large Distributors
Board File No. EB-2012-0410**

On April 3, 2014, the Ontario Energy Board (the “OEB” or the “Board”) issued a Draft Report of the Board on Rate Design for Electricity Distributors (the “Report”).

The Coalition of Large Distributors (the “CLD”) consisting of Enersource Hydro Mississauga Inc., Horizon Utilities Corporation, Hydro Ottawa Limited, PowerStream Inc., Toronto Hydro-Electric System Limited, and Veridian Connections Inc. thanks the Board for this opportunity to provide comments and appreciated the opportunity to meet in person with Board staff to obtain further clarification on the proposals.

The Report states that the Board intends to pursue a fixed rate design solution to achieve revenue decoupling and ensure that electricity distribution rates reflect the cost drivers of the distribution system. The Board has specifically asked for comments on the three proposed methodologies and the questions raised in the Report.

The CLD supports the Board’s intention to decouple a distributor’s revenue from consumers’ consumption of energy. A fixed rate design allows consumers to be focused on the commodity portion of their bill and furthers consumers’ understanding of the fixed nature of distribution systems’ infrastructure. In addition, revenue decoupling provides greater revenue stability for distributors.

While the Report only addresses revenue decoupling for the Residential and General Service (“GS”) < 50 kW classes, the CLD expects that revenue decoupling will eventually apply to all rate classes and is supportive of this approach. In the meantime, the CLD urges the Board to give LDCs sufficient lead time to implement any policies stemming from the current consultation in order that they may be implemented in a manner which is cost effective and considers the impacts on affected customers.

The CLD is of the view that all three methodologies proposed by the Board have their advantages and disadvantages. The CLD understands that the view of the Board is that distributors should be provided optionality on the appropriate form of fixed rate design of those offered by the Board. In that case, the CLD supports distributors having the option to propose which method is best suited to their customers’ demographics and specific energy needs. The CLD also supports the implementation of different fixed rate design solutions for different rate

classes. The Residential and GS < 50 kW classes have different characteristics and as such, achieving the Board's objectives for rate design may need to be accomplished with different solutions across rate classes. The Board has asked a number of questions which the CLD addresses for all three approaches in the following sections:

How would the different approaches affect achievement of the Board's goal of providing stability and predictability to consumers on their bill?

The Board's Report identifies that distribution charges represent approximately 20% to 25% of a customer's total bill. The Report also states that transitioning to a fully fixed distribution charge will provide stability and predictability to consumers on their bill. The three approaches that the Board has proposed will provide predictability and stability for approximately one quarter of the bill. It is likely that customers seek stability and predictability for the entire bill, not just the distribution portion; therefore this new policy will not, in itself, achieve that outcome. However, variability in the consumer bill will be driven solely by electricity consumption which will facilitate the consumers' ability to forecast costs based on seasonality and household requirements.

While the CLD understands that bill presentment is not within the scope of this consultation, in order for a customer to better understand the distribution portion and be able to see clearly that the distribution portion of their bill is fixed, the CLD recommends that distribution be shown separately from the rest of the delivery portion of the bill.

How would the different approaches affect achievement of the Board's goal of enhancing consumer literacy of energy rates?

The Report states that "the Board believes that when consumers understand what costs are being recovered in the amount they are being charged for the use of the distribution system, they are equipped to make informed choices about their use, their investments and the value of being connected."¹ The CLD shares this belief. Costs to distribute electricity are by nature largely fixed. Linking consumer electricity consumption and conservation to deferring electricity generation and transmission costs rather than to distribution costs aligns with the Minister of Energy's Long Term Energy Plan ("LTEP"). The CLD believes also that there is an important role to be played by the Ministry of Energy, the Ontario Power Authority, the OEB and Local Distribution Companies ("LDCs") in educating consumers on causality between conservation and the cost of electricity infrastructure, the value of reliability in the distribution infrastructure, and the role this reliability plays in the daily lives of Ontarians.

Moving to a fixed charge under all three of the proposed methodologies would improve the consumer's understanding of the value of being connected and the dollar impact on their bill of adjusting usage. The CLD believes that Proposal 1 is the simplest and the most transparent (in the sense that the customer would know how much they pay each month for distribution and how the amount is calculated) of the approaches to achieving this goal.

The CLD supports a re-design of the Residential and GS < 50 kW bills. A simpler, transparent bill would facilitate the achievement of the Board's goal of enhancing consumer literacy. A separate line item for the distribution charge on the customer's bill would provide visibility to consumers as to which charges are fixed vs. variable; how charges are calculated; and which components of the bill are retained by the LDC. The bundling of charges on the current bill does not allow for this level of transparency.

How would the different approaches affect achievement of the Board's goal of focusing distributors on optimal use of assets and improving productivity?

The implementation of a fixed rate design solution:

¹Draft Report of the Board on Rate Design for Electricity Distributors, March 31, 2014, p. 1

- best provides the predictable and stable revenues necessary for distributors to better plan and optimize their investment in assets; and
- facilitates the execution of long-term capital plans.

However, the CLD is unclear on how the implementation of a fixed distribution charges for Residential and GS < 50kW customers (under whichever methodology) will fully focus a distributor on the optimal use of assets and improve productivity. For example, under Proposal 2, if a customer were to reduce the service size of their connection, this could undermine the optimal use of the distributor's assets, as they would have been built for the original service size. The CLD does not believe that service size has a significant impact on distribution costs for Residential and GS < 50kW customers. The costs to build infrastructure increase marginally as service size increases; however the cost to maintain and operate the distribution system is virtually the same, regardless of service size. Proposal 2 would also act to discourage brownfield investment (customers' use of existing buildings and distribution assets for new purposes) where the customer may not use 100% of the service size capacity already installed. Some distributors are actively encouraging brownfield investments to reduce capital costs and focus on optimal use of assets by making use of existing facilities and services.

How would the different approaches affect achievement of the Board's goal of removing or reducing regulatory costs?

The CLD cannot conclude that a fixed distribution charge for Residential and GS < 50kW customers (under whichever methodology) would result in reduced overall regulatory costs. Although there may be reduced scrutiny by the Board and intervenors on the sales forecasts for these classes, there would still be the need by the distributor to prepare a load forecast, in order to determine, among other things, transmission rates and Cost of Power for the working capital allowance portion of rate base. Presumably, forecasts of customer numbers for these classes would receive increased attention.

In addition, while the CLD understands revenue decoupling would remove the need for a Lost Revenue Mechanism Adjustment and/or Lost Revenue Adjustment Variance Account application for these classes, a means of recovering lost revenue due to conservation and demand management by the remaining classes would still be required until revenue from those classes was decoupled.

Responses to the following questions differ based on the methodology chosen.

How would the different approaches affect achievement of the Board's goal of providing consumers with tools for managing their costs?

All three proposals assist consumers in the following ways:

- Provide consumers with a clearer message and price signal with respect to their electricity bills. Management of distribution assets is a fixed cost that is not driven by consumer consumption. Consumers can control the majority of the cost of their bill by managing their electricity consumption;
- Consumers are paying fairly for the costs to build and operate the distribution system; and
- LDCs are committed to conservation and the provision of education and tools to assist the consumer.

The manner in which the fixed charges are presented on the bill could further facilitate cost management. Clear identification of charges related to consumption would provide consumers with the information to make adjustments to their usage.

Proposal 1, a single monthly charge for the rate class, provides clarity to the consumer for managing their variable costs. Proposal 1 allows the customer to focus their attention on the

largest part of the bill, the commodity, and work on managing those costs. Proposal 1 is the most transparent, the simplest for the consumer to understand, and allows the consumer to focus on what costs can be influenced by a change in energy consumption. From the perspective of the distributor, the costs to serve customers are almost entirely fixed and a single monthly fixed charge most directly aligns to the manner in which a distributor's costs are incurred.

Proposal 2, a fixed monthly charge based on the size of the electrical connection, would provide the consumer with an additional tool for managing their costs if they chose to replace their current service size with a smaller size. This would be a major decision and would result in a significant upfront capital cost for the customer. This would move the customer into a different grouping with a lower fixed charge; however, the actual impact to the total bill might not be material from a customer's perspective.

Proposal 3, a fixed monthly charge based on use during peak hours, provides the consumer with a small incentive to manage their electricity around the summer (or winter, as applicable) peak. By reducing these peaks, customers may move into a different cohort with a lower fixed charge in the following year; however, once again it would affect only 20-25% of their bill so it is questionable whether the impact would be noticeable or be sufficient to incent conservation behaviours. It is important that the potential cost savings for the consumer be accurately conveyed in any related education or communication effort. Of the three proposals, this one most closely aligns with the intent of Time of Use ("TOU") pricing, and further utilizes smart meter technological capabilities.

The CLD notes that price signals are most effective if consumers see them immediately. Waiting a full year for the signal will dilute its effectiveness. In addition, any reduction in the rates that customers achieve by reducing their peak would be muted if a large number of customers do the same resulting in little or no change in the relative load, since the revenue requirements remain fixed.

How would the different approaches affect achievement of the Board's goal of supporting public policy?

The Report suggests that a fixed distribution charge for the Residential and GS < 50 kW classes would be supportive of the public policy objectives of emphasizing conservation and distributed generation. CLD members have always been supportive of the provincial focus on delivering conservation to consumers and the transition to a fixed charge would not change that commitment. The CLD agrees that a properly designed fixed charge supports the LTEP by removing the distributor disincentive to promoting conservation and net metering since the distributor will not lose any revenue and therefore mitigates the risk of not delivering its approved distribution plan commitments.

The CLD does note that the all of the proposed approaches provide slightly less incentive to customers to participate in conservation relative to the current rate design.

Should distributors be allowed to choose which method they will use or should it be consistent across the province?

The CLD understands that it is the Board's intention that distributors would have choice in the method they choose from the Board's options and believes that distributors should have the flexibility to either choose the methodology that best meets the needs of their particular customers or propose a refinement to one of the methodologies since the impacts of each methodology may be significantly different between customers for each distributor.

Implementation issues:

Factors to consider for implementation are programming requirements for billing systems, collection and availability of information, classification and reclassification of customers into sub-groups, bill re-design and consumer education. There may be technical changes required to billing systems, depending on the methodology chosen. Some utilities may not have the required information immediately available, such as service size (Proposal 2); or there may be the need to establish a methodology to efficiently determine what fixed charge should be used (Proposal 3). Proposal 3 does introduce a significant amount of data processing that would be required each year. In this regard, Proposal 1 represents the most easily implemented of the three options. The CLD believes that in order for a fixed rate design to achieve the Board's goal of providing consumers with tools for managing their costs, consumer education and bill-redesign are critical success factors.

Comments on the Three Methodologies:

Proposal 1: All consumers in a class would receive a single monthly charge. The CLD believes that this proposal best meets the Board's principles of rate design of full cost recovery, simplicity and efficiency to encourage maximum use and rational growth of the system, and eliminate disincentives to delivering conservation programs to consumers and allows consumers to make informed choices about their energy use. It is clear to consumers which costs are within their control and how their choices influence their total bill. While this methodology would be the easiest to administer, it is the most controversial due to the bill impact on low consumption users. The CLD understands that additional programs and/or rate mitigation may be forthcoming for low-income users to ease the burden of electricity prices. As noted earlier, consumer education efforts are necessary to assist consumers in understanding bill impacts. This is necessary for any of the proposals.

Proposal 2: All consumers in a class would have a fixed monthly charge based on the size of the connection current. Most utilities do not have an accurate record of the size of connection current for all of their customers and it would be extremely labour intensive and costly to collect this information if it is not available. Moreover, some distributors may not have the capability to store that information in their Customer Information Systems. Further, distributors are not always informed of customer changes to their service size, suggesting ongoing cost to maintain and confirm accurate data. A fixed design solution based on service size incents customers to under-size their service and could place reliability of supply and consumer safety at risk.

As identified by the Board in the Report, an education program would be necessary to assist consumers in understanding the rate design and how to determine their service size. As noted previously, Proposal 2 is not aligned with encouraging brownfield investment and therefore does not align with the Board's objectives of optimizing asset use.

Proposal 3: All consumers in a class would have a fixed monthly charge based on their use during peak hours. One possible option is to align the "peak use period" with the TOU peak period. This proposal would involve a significant amount of work by the distributor to review and reclassify customers into their appropriate grouping on (potentially) an annual basis.

An education program would be necessary to assist consumers in understanding the rate design and the actions they may take to reduce peak consumption. The CLD is concerned about the impact this would have on users who have less opportunity to control their peak consumption than others, such as senior citizens, small businesses, and schools. The Report states that the fixed charge would vary based on the consumer's peak use in comparison to the rest of consumers in the rate class. As such, the monthly service charge is dependent upon both the consumer's peak consumption and the peak consumption of other consumers in their service territory. There is the potential that a consumer could reduce peak consumption and

see no reduction in the monthly fixed charge if a significant number of other consumers also reduced their consumption.

The key to achieving the Board's objectives of rate design is to provide clear, transparent messaging to consumers. Proposal 3 is complex and could be difficult for consumers to understand and accept.

Other possible methodology:

In past consultations on revenue decoupling, the CLD has made the following submission:

“Furthermore, while the distribution revenue requirement consists only of short-run costs, it may be appropriate for distribution rates to convey some level of price signal to consumers regarding the long-run costs of placing demands on the capacity of the distribution system. Such a signal could be conveyed by partially recovering the distribution revenue requirement through charges based on system capacity usage.”²

The rollout of Smart Meters across the province enables utilities to measure both demand for low volume customers and non-coincident demand which provides an accurate measurement of what is being provided by the distribution system. In addition, demand billing determinants are relatively stable resulting in a more stable revenue stream from these classes. Another option that the Board could consider is a proposal that uses a demand measurement component for the Residential and GS < 50 kW classes, assuming Smart Meters are approved for demand billing. An education program would be necessary to assist consumers in understanding the rate design; the difference between consumption and demand; and the actions that can be taken to reduce demand. The CLD acknowledges that similar to Proposal 3, this proposal is complex and could be difficult for consumers to understand and accept.

Other Comments:

Some stakeholders have raised the issue of the possible effect revenue decoupling might have on the distributors' allowed Return on Equity (“ROE”). The CLD would suggest that any impacts of the proposed rate structures must be reviewed in the context of utilities' entire risk profile and would properly form part of the Board's review of the Setting of the Cost of Capital Parameters which is intended for 2014.

No matter which methodology or methodologies are ultimately used to decouple revenue for the Residential and GS < 50 kW classes, it is important that the Board recognize that distributors will incur incremental costs: to accommodate the changes required to Customer Information Systems; for communication efforts; related to bill format changes; and for additional customer service time required to explain the change to customers. Distributors will need to be able to recover these costs, either through deferral accounts or at rebasing, as they will likely be significant.

In terms of timing of implementation, the CLD recommends that LDC's be allowed discretion based on the timing that best suits their customers and themselves. Different utilities may have different degrees of effort to get their systems and data in place. This would be true whether it was a rebasing year or an IRM year.

² EB-2010-0060 Distribution Revenue Decoupling Consultation, CLD Submission re PEG Report, May 17, 2010, p.5.

Members of the CLD have not had the opportunity to run detailed rate impacts for the various methodologies but note that there may be circumstances requiring bill impact mitigation for some customers.

The CLD appreciates the opportunity to provide input to this important initiative. Should you have any questions, please do not hesitate to contact the undersigned.

Yours truly,



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