

July 17, 2019

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
27th floor
Toronto, ON M4P 1E4

Dear Ms. Walli,

**Re: Staff Report to the Board: Rate Design for Commercial and Industrial Electricity Customers. Rates to Support an Evolving Energy Sector
Board File #: EB-2015-0043**

The OEB is currently evaluating rate options for recovering distribution costs from commercial and industrial electricity customers. The OEB released a staff research paper entitled “Rate Design for Commercial and Industrial Electricity Customers. Rates to Support an Evolving Energy Sector” on February 21, 2019. Strategic Policy Economics would like to offer the following comments on behalf of the Canadian Manufacturers and Exporters (CME).

The OEB’s staff report proposed distribution rate design changes for C&I electricity customers to respond to concerns that customers with distributed generation are not paying their fair share of distribution costs, shifting costs to other customers. The OEB recommend implementing three changes.

- Splitting the general service below 50kW into two categories and stopping consumption-based billing
 - Low consumption users with <10kW demand who will be assigned a fixed monthly charge consistent with the rate policy for residential consumers.
 - Larger demand consumers in the range of 10kW to 50kW who will be charged on a maximum hourly consumption basis as a proxy to the demand charge for all other general service consumers.
- Adding a capacity reserve charge for emergency backup to users over 50kW that have chosen to implement behind the meter distributed generation. This is in lieu of the existing Standby Charge.
- Offering maintenance service and bypass charge options to complement the capacity reserve charge for emergency backup for large consumers (over 5000 kW).

CME commends the OEB for responding to the changing electricity landscape that has evolved with the proliferation of distributed generation resources and the impact distributed resources have had on customers’ distribution needs and costs.

CME generally agrees with the principles of adopting some fixed rate models for most customers to ensure that customers pay their fair share of the costs of distribution infrastructure that are provided

for their benefit, such as transformers and power lines, the costs of which do not change based on electricity consumption.

The CME supports the OEB's proposed rate changes for GS Class 10kW to 50 kW, Capacity Reserve Charges (as Emergency Backup Service) for GS between 50 and 5,000 kW, and the option for customers above 5,000 kW to choose CRC charges as Emergency Backup Service or Maintenance Service charges.

However, the CME opposes Bypass Charges, as they are designed to protect distributors from lost electricity demand and represent the imposition of constraints on the conduct of business to electricity customers.

Converting <10 kW General Service users to fixed monthly charges

CME supports converting low demand users into fixed monthly charges. This is the preferred rate structure for residential consumers as well, who typically fall into this same demand range. This class of user effectively requires access to the same distribution infrastructure regardless of their overall energy customers. That this approach benefits consumers with high average consumption recognizes that these consumers are helping to improve the operating factor of the assets and making the system more cost effective for all users. A monthly charge is a much simpler billing approach for small businesses.

Demand Charge Approach for the new GS 10 kW to 50 kW

The OEB has proposed a proxy to a demand charge for this newly created GS 10 to 50kW customer class. CME agrees with this rate setting mechanism as it charges consumers based on the service needs that a consumer places on the distribution system. Consumers requiring high peak demand require greater capacity in the distribution infrastructure assets and so should pay on the basis of their fair share of the costs. Once a distribution company has connected a consumer, whether the consumer fully uses that capacity all day or only periodically during the day does not any additional impose costs on the distribution system.

The OEB's staff report shows that under the current rate design, customers with flat load profiles but the same consumption as customers with more peak driven demand are charged the same for distribution costs. Manufacturers represent a stable, reliable, and predicible load for distribution companies. This rate structure reflects the improved efficiency in the distribution system that CME members typically provide.

Capacity Reserve Charges (as Emergency Backup Service) for GS between 50 kW and 5,000 kW with distributed generation

The OEB has proposed mandating that GS between 50 kW and 5,000 kW be charged Capacity Reserve Charges (CRC) in the form of Emergency Backup Service (EBS) for customers with distributed generation. The OEB states that EBS charges are intended to represent the cost that distributors pay to hold emergency power capacity for customers during the contingency that their distributed generation cannot meet their electricity demand.

CME agrees with the imposition of EBS charges for GS between 50 kW and 5,000 kW with distributed generation since distributors must maintain capacity for these customers. It is not fair that other consumers should bear the cost of this service. The EBS charge will essentially serve as a mandatory insurance policy that will provide emergency electricity services to customers if their own distributed assets fail.

CME supports that EBS charges should replace the existing Standby Charge as appropriate and that customers without Standby Charges be phased in by increasing their EBS charges 10% annually over 10 years as this will ensure commercial and industrial customers' do not encounter drastically increased distribution charges they may not be prepared for.

Provide two additional Capacity Reserve Charge (Maintenance Service Charge and Bypass Charge) options to GS above 5,000 kW customers

The OEB has proposed providing GS above 5,000 kW customers three CRC options; Emergency Backup Charges, Maintenance Service Charges (MS) and Bypass Charges. CME agrees with the OEB in that customers above 5,000 kW should be allowed to opt out of EBS charges by negotiating a Maintenance Service charge arrangement instead.

CME agrees that customers should be able to opt into MS charges from which they would be provided full load at off peak from their distributor at a negotiated price. The fact that MS charges would be optional for customers to opt into means that they could voluntarily take the risk that their own generation cannot supply their demand.

CME disagrees with the principles behind Bypass Charges as they seem intended to protect distributors from lost electricity demand. The fact that a Bypass Charge would apply to customers who take most or all their load off the system means customers would not be paying for a service, but essentially being charged a penalty for their own innovation. Distributors would be attempting to recoup costs from customers for assets that are no longer in use.

Bypass Charges are analogous to charging penalties against commercial or industrial customer that have had to slow or cease their operations. A Bypass Charge imposes a constraint on a commercial or industrial customer's conduct of business. Distribution companies need to manage within their rate base their risk exposure to economic factors that permanently change the demand that customers place on their system.

Recommendations:

In summary, CME supports a rate design system of fair distribution charges that reflect the costs that customers impose of the distribution system. As such, CME recommends that the OEB should:

1. Adopt the proposed distribution rates for GS 10 to 50 kW based on their maximum hourly consumption each month.
2. Adopt the proposed Capacity Reserve Charges in the form of Emergency Backup Charges for GS customers with between 50 kW and 5,000 kW with distributed generation.
3. Provide GS customers with over 5,000 kW and who have distributed generation the ability to choose Capacity Reserve Charges in the form of either the Emergency Backup Power or Maintenance Service Charges.

4. Not adopt Bypass Charges.

CME would be pleased to discuss these recommendations further with the OEB.

Yours very truly,
Strategic Policy Economics

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