

**GEC Comments on Board Staff Discussion Paper:  
“Rate Design for Electricity Distribution: Overview and Scoping”**

GEC appreciates the opportunity to comment on Board Staff’s initial discussion of issues and scope. Our comments follow the format utilized in the paper.

**Introduction and Rationale:**

GEC agrees with the paper’s listing of the drivers necessitating a review of distribution rate structure and would only add that such a review is overdue given the current demand/supply situation in the electricity sector.

**Principles of Rate-making:**

GEC agrees with the use of Bonbright’s principles as a starting point with the following caveats.

Fairness should not only consider the matching of distribution costs to the cause. Fairness should also consider the matching of broader societal costs and benefits with the customers creating those costs or benefits. For example, an embedded generator that lowers transmission costs should enjoy that benefit.

Bonbright’s phrase “promote efficient use of resources” must be taken in the broadest sense. It would be foolhardy to set distribution rates that optimize the use of distribution wires but increase pressure on the upstream system and on commodity costs or on the environment and public health.

Accordingly, GEC supports the inclusion of the added considerations that Board Staff list including conservation encouragement, peak use discouragement and promotion of distributed generation.

**Stages of Ratemaking: Customer Classes**

GEC agrees that a new approach to classification such as amperage-based classification should be considered as a means to encourage efficiency while preserving fairness.

GEC believes it would be very timely to consider classes and/or subclasses for embedded retail generation and load-displacement generation. These users of the system have unique characteristics. As discussed by Board Staff, it would be appropriate to consider diversity at the class rather than sub-class level.

## **Rate Design**

### **Fixed and Variable Rates**

GEC is strongly in favour of reducing the fixed charge component of rates as it is variable charges that can inspire conservation and efficiency. Accordingly, consideration at this time of the narrow avoided costs approach (i.e. limiting fixed charges to billing and metering) is appropriate in our view.

### **Billing Determinants**

An increased emphasis on coincident peak demand charges is a timely consideration given Ontario's generation and transmission deficits. Moreover, peak use is highly correlated with distribution system costs. The advent of smart metering suggests that this approach should be applied to all customers. There is little or no rationale for continued use of customer peak as a determinant. Time differentiated energy charges may be a reasonable proxy where metering considerations so dictate.

### **Generation**

GEC believes that use-of-system rates are appropriate for connection costs (and in lieu of standby charges for load displacement generation). This approach will alleviate up front capital costs for generators and allow financing of these investments at the preferred costs of capital enjoyed by LDCs. If based on standardized costs, it would also reduce concern about LDC fairness in assessing connection charges.

It is important that the issue of diversity be revisited as part of this review and that it is done with an assumption that the prevalence of DG will increase. Once diversity is assumed it becomes apparent that embedded generators are creating far fewer costs than benefits for all system users (including lower commodity costs, lower losses and lower transmission investment costs).

### **Designer Power**

Where feasible, allowing customers to pay different rates for different levels of service (e.g. reliability, firmness, power quality) would enhance choice and increase economic efficiency.

### **Marginal Cost**

Long run total system marginal costs should inform rate design to encourage energy and economic efficiency.

### **Impact of the Simplified Bill**

If a high proportion of the total bill is based on variable charges, even a simplified bill can encourage efficiency. However, the Board should hold open the possibility of making suggestions for legislative amendments.

**All of which is respectfully submitted this 2<sup>nd</sup> day of May, 2007**

**David Poch  
Counsel to the GEC**

**613-264-0055**

**[dpoch@eelaw.ca](mailto:dpoch@eelaw.ca)**