

May 15, 2007

**BY E-MAIL AND COURIER**

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
P.O. Box 2319  
2300 Yonge Street, 27th Floor  
Toronto, Ontario M4P 1E4

Dear Ms. Walli:

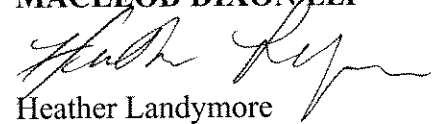
**Re: Review of Electricity Distribution Rate Design  
Board File No. EB-2007-0031**

We are counsel to Rogers Cable Communications Inc. ("Rogers Cable") in respect of the above and, as such, enclosed please find the written comments on Board staff's Discussion Paper filed on behalf of Rogers Cable.

Please do not hesitate to contact the undersigned if you have any questions.

Yours truly,

**MACLEOD DIXON LLP**

  
Heather Landymore

Encl.

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**ONTARIO ENERGY BOARD**

**IN THE MATTER OF** the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15,  
Schedule B;

**REVIEW OF ELECTRICITY DISTRIBUTION RATE DESIGN**

**Comments on Staff Discussion Paper Dated March 30, 2007  
Submitted on behalf of Rogers Cable Communications Inc.  
May 15, 2007**

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## 1 INTRODUCTION

In its letter of March 30, 2007, the Ontario Energy Board (the "**Board**") announced its intention to undertake a comprehensive electricity distribution rate design review to consider the need for changes to distribution rate design in light of industry changes such as the restructuring of the sector, developments in metering and increased distributed generation and conservation and demand management activities. As part of this proceeding, the Board has issued a discussion paper on rate design issues prepared by Board staff (the "**Discussion Paper**"), and requested stakeholder input on the same.

Rogers Cable Communications Inc. ("**Rogers Cable**") is an integrated cable and communications company that receives electricity for its power supplies from distributors throughout Ontario, and an unmetered scattered load customer. Rogers Cable uses power supplies in its cable network to energize its cable signal amplifiers. The power supplies are connected to the distribution network at a number of different points.

In each distributor's territory where Rogers Cable operates, its power supplies consume electricity in essentially the same manner. However, differences in the rates that distributors charge produce significantly different bills. The 2006 EDR process resulted in a consensus proposal which was adopted as an interim solution to address the wide variation in distribution rates applied to unmetered scattered load ("**USL**") customers by different local distribution companies ("**LDCs**"). The Board made it clear that this interim measure was not based on any particular rate making principles, and was merely a temporary solution pending further review.

Subsequently, Rogers Cable participated to the full extent allowed in the Cost Allocation Review stakeholder process, which was completed in 2006. This process resulted in information filings by all distributors following the methodology determined by the Board. We hope that these information filings, together with identification of appropriate principles in this Rate Design review, will finally enable the outstanding issues to be resolved for the long term, in a manner that will result in just, reasonable and consistent rates for USL customers, while avoiding the imposition of unnecessary costs for services that are not relevant to USL customers.

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## 2 COMMENTS ON RATE DESIGN PRINCIPLES

### 2.1 *Summary as to Principles*

It is the view of Rogers Cable that, given an overall level of rates that recover the approved revenue requirement for the LDC, the most important principles for Ontario rate design should be, in order of priority:

- fairness,
- avoidance of undue discrimination, and
- discouragement of the wasteful use of resources.

We also endorse the principle of consistency in terms of general rate structure and rate development approach among distributors, and particularly of methodologies that will produce more uniform levels of bills for very small loads, but believe that each distributor should have rates that collect its own revenue requirement (i.e. not harmonized).

It is our view that information technology and increased customer sophistication allow the principle of practicality to play a reduced level of importance, so that appropriate classification and improved cost tracking in the rate structure can be advanced. Clarity should be achieved through appropriate supplementary documentation. Any rate structure approved should adequately and consistently recover the revenue requirement of the LDC in which it is implemented.

Discussion of specific principles follows in the next two sections, which deal specifically with rate design principles. Reference to the rate design principles is also made in the sections on customer classification and specific rate design approaches. These references are highlighted.

### 2.2 *Traditional Rate Design Principles*

Rogers Cable would like to offer the following comments on the rate design principles set out in the Discussion Paper, derived from Bonbright's classic work.

Practical	While simplicity is always of value, both technology and customer sophistication have come a long way since Bonbright first set out his principles, and more options are now "feasible" to implement, and to maintain simultaneously.
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The more heterogeneous the customer class, the greater the intra-class inequity that can potentially be created by a "simple" rate design. The alternative solutions are either to implement more complex rates that improve cost tracking across a wider range of consumers, or to introduce new customer classifications.

With modern customer information and billing systems, the principle of practicality should, in our view, no longer be a major obstacle to classification or rate design choices that achieve greater cost tracking and fairness.

Clear

The manner of application of the rate, and definition of eligible customers should, in our view, be set out in a supporting document which is part of the tariff for each distributor. The brief descriptions of customers classes that are part of the current filing spreadsheets represent a simplified version of such clarifying documentation. The "Standard Application of Rates" document which was used by Ontario Hydro when it had authority to approve municipal utility rates would be an example of a more comprehensive version this type of document. Other examples could be provided at the Board's request.

We believe that such a document would be helpful in setting out the conditions of applicability of rates and charges, the eligibility of customers for the rate (i.e. how the class is defined), and any elaborating details about how bills are computed from the rate. For example, this document would be the place to include the definition of billing determinants and dimensions such as peak hours, if applicable. Any special charges or credits that modify the bill computation for qualifying customers (for example, high voltage service, power factor penalty, summary bill credit, etc.) would be set out in detail.

Such a document, forming part of the approved rate schedule of each LDC, would be available to customers to confirm that they are appropriately assigned to a rate class, and that all credits available are being considered.

Effective	Rogers Cable supports the principle that rates should recover the revenue requirement in total. We suggest that this principle relates more to the level of rates than to the structure of rates. It should be a "given" for purposes of this Rate Design Review, allowing the discussion to focus on choices of customer classification and the structure of charges that comprise the rate design.
Stable for the utility, and for customers	<p>As with the effectiveness principle, we endorse the appropriateness of stability in overall levels of rates.</p> <p>Beyond this, we believe that incorporation of unstable billing determinants into the rate design should be avoided.</p>
Fair	We endorse the principle of avoiding cross subsidies between classes, but also believe that cross subsidies between subgroups within a class are inappropriate. Where an identifiable subgroup within a class consistently pays more as compared with its costs than another subgroup (whether or not the class as a whole contributes the appropriate amount), there is a problem of unfairness that needs to be addressed either through changes in the rate design or establishment of a new classification.
Efficient Use of Resources	In our view, the application of this principle goes beyond the obvious meaning of reducing inefficiencies that result in additional generation or network capacity. Rate and customer classification decisions should consider the related technology and administrative costs using a business case approach where the issues involved are substantially financial. As well, imposing costs on customers for unnecessary services is an inefficient use of resources.
Avoid undue discrimination	Discrimination, in our view, should be interpreted to mean either inappropriate <i>inconsistencies</i> of treatment or inappropriate <i>consistency</i> . That is, customers should be treated in accordance with their load, load characteristics, and specific requirements for service.

### 2.3 *Current Issues and Objectives*

Conservation, Peak Demand Use and Distributed Generation	We are generally of the view that in order to remain stable over time, rates should reflect costs. Benefits in distribution rates for customers participating in conservation, demand management or distributed generation programs should be limited to the quantified avoided costs.
Consistency	As a customer of numerous distributors in Ontario, Rogers Cable supports consistency of approach, methodology and rate policy as a principle for electricity distribution rate design in Ontario. We generally support rate design approaches that will result in more consistent levels of bills among distributors for small loads. But in view of the differences in customer mix and cost profile among distributors we would not support harmonization of rates across the province.
Business Risk	Rogers Cable takes the view that a certain level of business risk is assumed when the Board approves a rate of return to shareholders that exceeds the risk-free cost of capital. However, certain risk reduction proposals may be beneficial, and we reserve the opportunity to comment more specifically on these as they are raised.

### 3 CUSTOMER CLASSIFICATION

Since no rate structure complex enough to track costs perfectly will probably ever be implemented, there will inevitably be some degree of cross subsidy among customers subject to the same rates, even if the rates recover, in total, the exact total of costs incurred by all the customers. The impact of such cross subsidization on individual customers can be reduced by creating relatively homogeneous groupings, called classes, and designing a rate for each class that is set to recover that class' allocated costs. It is Rogers Cable's position that this purpose should be held firmly in mind in decisions as to appropriate customer classifications. **We believe that this approach is supported by the principles of fairness, and avoidance of undue discrimination. Today's information technology effectively supports and makes practical additional appropriate refinements in customer classification.**

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In order to be considered as a possible separate classification, the customers should all have a characteristic or a set of characteristics by which they can be readily identified by the distributor, which make the pattern of costs incurred distinguishable from that of other customers. These distinguishing characteristics should be attributes of the customer's use of electricity or other requirements for service from the distributor, rather than attributes of the distribution network design. They should be characteristics that are relatively permanent, not subject to change in either a random or cyclical (e.g. seasonal) manner. They should not be set on the basis of arbitrary points on a continuum (such as whether greater or less than 50 kW).

If a group of customers can be so identified, the appropriateness of their membership in a class with other customers can be tested through a cost allocation study. If the pattern of cost incurrence is sufficiently different that the rate applicable to the whole class results in significant over or under recovery of costs from the group as compared to the whole class, then the group should be placed in a class of its own, and have its own rate, unless a new rate structure can be designed for the class which restores intra-class fairness.

The Board conducted a Cost Allocation Review in 2005 and 2006, which resulted in a requirement for each distributor to prepare an information filing in accordance with the approved methodology. These filings should inform the Board's decisions as to the formation of new classifications, or the merging of existing ones.

If customer classifications are set appropriately, there should be no need for sub-classes, and diversity should be shared within each separate group. This is the approach approved by the Board for use in the cost allocation information filings, because of greater simplicity and consistency with general North American cost allocation approaches.

## **4 RATE DESIGN**

### **4.1 *Fixed and Variable Components***

Rogers Cable supports a combination of fixed (customer-related) and variable (use related) charges, since such a combination generally reflects long term cost causation in a distribution system. This principle has been recognized repeatedly in standard cost allocation methodologies, which categorize costs as either customer-related or demand-related. In order to provide a reasonable degree of cost tracking, and therefore intra-class fairness, the rate structure must have a minimum of two parts.

Furthermore, customers are now accustomed to the two-part distribution rate structure, after having adjusted from fully variable rates in 2001.

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In setting the fixed component, Rogers Cable supports the option designated in the Discussion Paper as Scenario 2: Directly Related Customer Costs. This approach recognizes both the immediate avoided costs associated with a customer, and the longer term associated administrative and general overhead costs that will be incurred as the number of a distributor's customers increases.

**We anticipate that this approach will result in greater consistency of monthly fixed charges among distributors,** without the necessity of a Board-ordered uniform charge or range of charges.

Rogers Cable does not support the inclusions of cost elements based on the minimum system approach in the fixed charge for two reasons. **First, this would have the effect of producing significant variability among the customer charges of different distributors, and is therefore contrary to the principle of consistency.** Secondly, without having reviewed and compared the results of the cost allocation information filings, we are concerned that adoption of this policy would immediately result in major changes to the level of customer charges within individual distributors, thereby producing unacceptable bill impacts on small customers. An additional concern is that the minimum system analysis supporting the current cost allocation information filings is cursory, and not supported by detailed studies in individual distributors. The minimum system component used in the information filing may therefore not be appropriate as a foundation for rate design in any particular distributor. Should this approach be adopted, it may result in significant rate design changes at some point in the future when better data becomes available. Changes in study methodology from time to time may have the effect of producing instability in rates, and is therefore of concern from the viewpoint of the principle of stability.

**In summary, we believe that the issue of fixed and variable charges should be informed by the following considerations:**

- **Reflection of verifiable cost levels within each distributor**
- **Consistency across distributors**
- **Stability of rates and avoidance of severe bill impacts.**

## ***4.2 Billing Determinants***

### **4.2.1 Customer-Related Determinants**

In the Cost Allocation Review process, considerable discussion was focused on whether costs are fixed by number of "customers" (i.e. accounts or bills) or number of connections

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to the system. For most utility customers, there is one-to-one correspondence, and therefore this issue has no significance for them.

However, this is an important issue for a single organization with multiple connections or service locations, and most significant where the customer has in aggregate a fairly large load but the load at each individual connection is small. Such customers would strongly prefer to receive a single, but itemized, monthly bill for service to all its locations within a distributor, rather than a bill for each location, because summary billing would reduce the internal costs of invoice review, accounting and payment processing. We believe that the distributors could reduce their own internal costs by such summary billing, specifically the costs of billing, bill mailing, payment processing, collection where required, and call center services, and that therefore the Board should encourage the implementation of summary billing where it is not now in place.

Where the customer class includes such customers, the rate structure could address this issue either by implementing two separate fixed monthly charges (one per-account and one per-connection)<sup>1</sup>, or by providing the affected customers with a cost-based credit to the standard rate. Where the class is composed entirely of summary-billed customers, we believe that the two-part monthly charge is most transparent, simple to implement, and provides fairness among members of the class. The per-connection component would be established to collect costs that vary with number of connections (metering, meter reading, etc.) and the per-account charge would collect the costs associated with an account (billing, bill mailing, payment processing, collections, etc.). Where the class is composed of customers who are summary billed and customers with only one service location, a computed credit approach would have the result of maintaining bill simplicity for the non-summary billed customers.

#### **4.2.2 Use-Related Determinants**

In the Cost Allocation Review process, it was the consensus, and approved by the Board, that demand, rather than energy, is the variable most closely related to cost causation. Historically, the rates have used demand (kW) as the billing determinant wherever metering was provided to measure demand; only where such metering was considered too costly (i.e. for the residential and general service customers below 50 kW) was kWh used as a proxy. As noted in the Discussion Paper, smart metering will allow kW to be determined for every metered load. From the standpoint of implementation, cost causation, and consistency, Rogers Cable supports the used of kW as the billing determinant for all metered loads. For USL, Rogers Cable believes that sufficient

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<sup>1</sup> The two charges, in aggregate, should result in total fixed charges which are less than the amount that would be paid by the customer if the standard monthly fixed charge, including both per-connection and per-account costs, were applied.

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information about the load shapes of most types of USL is now available to provide an estimate of kW which is at least as good as the estimate of kWh now being used for billing. It therefore supports kW as the billing determinant for USL rates.

In applying a kW charge, historically the only information available for most demand-billed customers has been the individual customer's monthly peak, without regard to time of occurrence. With smart metering for metered customers and good estimated load shapes for unmetered customers, it would be possible to determine each customer's load at system peak.

**We believe that use of coincident peak as a basis of billing introduces an element of undesirable instability into the rates, as well as a variable that is not controllable by individual customers in planning their consumption pattern. Use of each customer's non-coincident monthly maximum demand provides a basis of billing that is under the customer's control, well understood, and stable.** It provides for sharing of costs in a way that does not permit free riders. It is most similar to the approach currently in place for demand-billed customers, and therefore can be expected to minimize the impact of rate changes on individual bills.

The Discussion Paper suggests a three-part rate structure, applying a distribution demand rate and a customer demand rate. This structure might be considered for large loads as it has the advantage of improved cost tracking, but in our view is excessively complex for small consumers.

### **4.3 Cost Model for Generation**

It is the view of Rogers Cable that load customers on a distribution system should not be required to subsidize the costs of generators in their distribution rates. If there is a province-wide policy to provide a subsidy to generator connections, these should be socialized throughout the province, and should not be a local rate burden. **Use of system rates for generators present an undesirable business risk for the distributor,** since, if the generator failed to use the system for any reason (whether because of technical outages or pricing issues), the distributor would not recover its costs.

### **4.4 Consistency**

Consistency of rates is important for Rogers Cable, a customer of many distributors in Ontario. We support use of the same service classifications, basic rate structure (types of charges and billing determinants) and approach to the application of the rates. **We recommend that fixed charges be established in a manner that results in a high**

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**degree of consistency in the bills of small loads.** See also our comments on rate harmonization in Section 4.5.

#### ***4.5 Rate Harmonization***

Each distributor, as a result is local environment, history, customer mix and system design has a different embedded level and pattern of costs. Rate harmonization across distributors might result either in unfair penalization of some distributor shareholders, or cross-subsidization of the higher-cost service areas by lower-cost ones. **It is the view of Rogers Cable that rates should be set for each distributor to recover its revenue requirement, without cross-subsidization or harmonization.**

#### ***4.6 "Designer Power"***

Increased optionality is desirable, as long as the associated programs and charges do not increase costs for non-participating customers.

#### ***4.7 Marginal Cost***

Rogers Cable has no objection to a marginal cost methodology being investigated, and reserves further comment until the results of such investigations are known.

#### ***4.8 Locational Pricing***

Rogers Cable has no comment on this issue at the present time.

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

Rogers Cable has no comment on this issue at the present time.

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