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May 15, 2007

VIA COURIER AND EMAIL

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
26th Floor
2300 Yonge Street
Toronto, ON
M4P 1E4

Dear Ms. Walli:

Re: OEB's Review of Electricity Distribution Rate Design
EB-2007-0031

Comments of the Vulnerable Energy Consumers Coalition (VECC)

As Counsel to the Vulnerable Energy Consumer's Coalition (VECC), I am writing, per the Board letter of March 30th, to provide comments on the Staff Discussion Paper regarding Rate Design for Electricity Distributors: Overview and Scoping. It is VECC's understanding that the purpose of this initial discussion paper is to obtain input that will help Staff scope and prioritize the issues to be addressed in the Board's comprehensive electricity distribution rate design review. This review will occur over the coming summer during which there will be an opportunity for parties such VECC to provide more comprehensive input to the project. As result, the following comments represent VECC's initial take of the issues/question raised. The comments are organized according to the sections of the Discussion Paper and the specific questions posed.

Section 2 – Rationale for Rate Design Review Initiative

Comments

- On page 4 the paper makes reference to a number of comments and concerns that were raised during recent consultations on amendments to the Distribution System Code and the Retail Settlement Code related to distributed generation

and load displacement. As the Rate Design Review initiative moves forward it would be useful if these comments could be made available/re-published.

- With regard to the discussion on pages 4 & 5, in VECC's view it is important to distinguish between local benefits provided by distributed and load displacement generation versus broader system benefits such as the increased availability of generation and improve system reliability. Customers of the local distribution utility should not be expected to subsidize (through the provision of local distribution facilities) generation that is meant to benefit the entire province. On the other hand, if there are local benefits to be gained (e.g., reduced need for distribution system investment) then it is reasonable for such benefits to be applied against the costs attributed to the connection of local generation.
- With respect to Section 2.4, VECC understands that rate design can have an impact on the lost revenue due to changes in demand (as a result of CDM). However, VECC agrees with the conclusion on page 6 that incentives to encourage electricity distributors to pursue CDM (e.g., SSM) should not be considered part of this project.
- The last paragraph in Section 2.4 suggests there is a correlation between distribution system peak and higher commodity prices. Analysis provided by Hydro One Networks in support of its current Transmission Application (EB-2006-0501) suggests that commodity prices are not necessarily the highest at the time of the transmission system peak. VECC suspects that the same result would hold true for distribution.
- In VECC's view a critical consideration when designing rates so as to reduce peak demand (whether it be the transmission system peak or peak on an individual distribution system) is to ensure that peak will be reduced as opposed to just shifted in time. In the case of distribution this concern is even greater. As the Paper notes (page 7), distribution assets located closer to a customer are likely to be designed based on individual customer's peak demand or the peak demand of a group of customers that live/do business in a certain vicinity of the distributor's service area.
- The Paper states that the new rate designs are not to be implemented until all customers have meters capable of supply hourly data (page 8). In VECC's view, the opportunity exists to leverage the hourly load data that will be available from the earlier installations to improve stakeholders (i.e., the Board, distributors and interested parties) understanding of the load characteristics of the existing (and alternative) customer classifications.

Section 3 – Principles of Rate-Making

Question: ***Are there any principles, beyond the generally accepted, traditional principles of rate-making listed above, that the Board should consider in designing distribution rates? What is the new principle's importance relative to the others?***

Response:

- All of the issues raised on pages 10 and 11 can be associated with the standard regulatory principles for rate making identified in the Paper:
    - In VECC's view, the government policies regarding encouraging conservation, discouraging peak system use and promoting distributed generation are not "absolutes" – that is to be done "at any cost". As a result, the policies can all be viewed as being reflected in the principle that rates should "promote efficient use of resources".
    - Consistency in distribution rates in Ontario can be viewed as being reflected in the principle that rates should be practical and, in particular, accepted by the public and simple to understand.
    - The need to address distributors' business risk is reflected in the "stable for the utility" principle.
- Overall, at this time, VECC does not see the need for introduction of any additional principles.

Section 4 – Stages of Rate Making

Question: ***What is the most appropriate basis for determining the service classifications for Ontario distribution customers?***

Response:

- In VECC's view, customer classes should be determined based on customer or service characteristics that impact on distribution cost. Furthermore, when applying the principle the focus should be on customer/service characteristics that are not related to a unique/readily identifiable cost. For example, one could establish a separate customer class for customers who own their transformers. However, the cost implications of transformer ownership can be readily addressed and provided for through a transformer ownership discount and, therefore, the creation of new customer classes is not necessary. In contrast, customers with different load characteristics provide different diversity benefits to the distribution system, but these benefits depend on the load characteristics of other customers on the system. As a result, load characteristics should be key consideration in determining service classifications.
- In the past, metering type was a key consideration in determining service classification as the billing determinant that could be used for customer depended on the type of meter. However, in the future, if all customers have "hourly meters" this will not be the case.
- Customer demand/size of customer load is, at best, a proxy for service requirements and is probably not a good determinant of service classification. It's historical use in Ontario is related to:
    a) The fact customer demand (i.e., 50 kW) was used to determine metering type, and
    b) The fact customer demand was used in statute to define a "direct industrial customer".

- The Paper (page 15) suggests that arguments against a service voltage-based classification on the grounds that customers do not control the service voltage are invalid since customers don't currently have a choice over their current customer classification either. In VECC's view there is a difference. The current customer classification is based on the nature of the customer (i.e., residential vs. general service) and the customer's load. These are all customer-based characteristics; whereas the local supply voltage is a distribution system characteristic.
- Having said this, service voltage may be a legitimate basis for rate classification if the distribution utility is not willing to provide step-down service to utilization voltages for all customers. However, customer classifications based strictly on voltage of the customer's connection will not capture differences in load characteristics such contribution to system diversity which are also relevant for purposes of customer classification.

Question: ***Should sub-classifications be maintained? If so, what is the most appropriate method to allocate diversity benefits?***

Response:

- As long as there is a difference in meter type (and available billing determinants) for <50 kW versus >50 kW customers, there is a legitimate basis for maintaining the two sub-classes. However, once all customers have hourly meters then any rationale for maintaining the sub-classification should be based on whether there are legitimate differences in the load characteristics of the two sub-classes or other differences in the service provided that suggest either differences in distributor's costs to provide service or differences in the nature of the service provided. An example of the latter would customers who are required to provide their own transformation (i.e., utility-owned transformation is not an option).
- If the basis for sub-classification rests on difference in load characteristics then diversity should be shared between each sub-class. However, if there is some other rationale for the sub-classification and the load characteristics of the two sub-classes are otherwise assumed to be the same then the two sub-classes should be treated as one group for purposes of sharing diversity benefits.

Section 5 – Rate Design

Comments:

- The rate design process is also concerned with the allocation of costs. Cost allocation focuses on the fair allocation of costs between customer classes; while rate design deals with the allocation of costs to the individual customers within each customer/rate class.
- The reference to BC Hydro's two zones may be misleading. The zones are meant to reflect whether customers are connected to the grid or served by

remote generation. In this sense, it's not much different from Ontario's current situation.

Question: ***Are there other options for the components described below or other components not discussed here that the Board should consider as it moves forward?***

Response:

- The only other substantially different option that could be considered is the use of avoided (demand-related) costs to set the variable rate. This could be done using a simple two-part rate structure or a tiered rate structure similar to that for residential customers under the RPP. This option could prove useful for those distributors who are facing continuous growth and/or supply pressures on their distribution systems.
- It should be noted the Board's Decision on Cost Allocation identified other options for determining the monthly service charge. The options presented in the current Discussion Paper are simply those that frame the range of potential results. In the the context of the Rate Design review it may be useful to also consider options that yield a more "middle of the road" result.

Comments

- The paper notes (page 21) the concern of some stakeholders that high fixed rates frustrate conservation efforts. In VECC's view, the rate design of distribution rates should focus on distribution-related issues.
- The same comment applies for distributed generation. While distributed generation can make an important contribution to Ontario's overall supply/demand balance, it should not be subsidized by the other consumers of the local electricity distribution utility where it is located. If such subsidies are deemed appropriate they should be paid for by all consumers in the province. The only exception would be if there are demonstrable benefits that the distributed generator brings to the local electricity distributor. In VECC's view such benefits will be specific to the local circumstances and should be considered as part of the overall connection process and assessment of any requirement for capital contribution. It would be impractical to factor these benefits into a generic rate design.
- It is not clear to VECC what is being put forward as an option at the bottom of page 22 of the Discussion Paper. VECC looks forward to exploring this option (and others) further with Board Staff over the coming summer.
- The Discussion Paper (page 23) suggests that, for electricity distributors, few operating costs are truly variable on a year over year basis and that variable rates increase their business risk. While this may be true, over the long term changes in demand will give rise to the need for additional investment in distribution facilities. Taking this longer term perspective, a greater portion of an electricity distributor's costs could be considered as variable.

Question: ***What are the principles that should inform the decision on fixed and/or variable rates?***

Response:

- The principles that should inform such decisions are those set out in Section 3 (page 9) of the Discussion Paper. In terms of the individual principles set out there, in VECC's view, considerable weighting should be given to the principle of fairness. Furthermore, the weight to be placed on "promoting efficient use of resources" should vary by distributor depending local growth and long-term anticipated need for new distribution facilities.

Question: ***Should the billing determinants be consistent for all customer classifications?***
What are the most appropriate billing determinants for each customer classification?

Response:

- If and when all customers have meters that track usage on a hourly basis it would be reasonable for billing determinants to be consistent across all customer classes. However, for this to be applied to residential and small business customer there would have to be a considerable amount of consumer education. Currently all information on appliance usage etc. for residential customer focuses on kWh.
- The Discussion Paper makes reference (page 24) to kVA billing. While intellectually attractive this introduces additional concepts that may be difficult for smaller consumers to understand. It is relatively easy to understand kWs – everyone knows the difference between a 40 and a 60 watt light bulb. However, the definition of reactive power and how it relates to kWs is something smaller customers have not had to deal with to date.
- The relevance of the individual customer's peak will depend, to some extent, on the basis used to derive the fixed monthly charge. If the fixed monthly charge includes immediate connection costs then the need to also consider the customer's individual peak will be reduced. Another consideration is that the introduction of local peak considerations for purposes of setting distribution rates could give rise to the need for a separate billing determinant to recover the Transmission Costs that are passed through to consumers by the local distributor. While the design of retail transmission rates is not a matter for this Review, related questions regarding how many billing determinants consumers will eventually face are relevant to issues of customer acceptability and management of the common/simplified bill format.

Question: ***Should the Board pursue an analysis of use-of-system rates for distributed generation to investigate rates and determinants?***

Response:

- As VECC understands the option, charging distributed generators "use of system" rates (see page 26) would involve billing them based on each kWh/kW that was delivered to and transported over the distribution system. In VECC's view, such an option should not be considered unless it is done so within a wider context that also involves transmission connected generators and how they are billed for transmission service. At this stage, it is VECC's view that consideration of such options should be assigned a low priority for purposes of the Rate Review project.
- In contrast, to the extent distributed generators require electricity deliveries from the distribution system, the distributed generator should be considered a customer – similar other customers on the distributors system.
- VECC suspects at that, in most cases, the key driver for the distributor's investment in connection facilities and any upgrades needed in the upstream distribution system will be the "generator" and the desire of the customer to deliver electricity using the distributor's network. These costs should be considered during the connection process and factored into any calculation of contributed capital requirements.
- The Paper suggests (page 27) other savings and costs associated with LDG service could be taken into consideration in the design of standby rates. As noted elsewhere in our comments, VECC believes that such savings/costs should be considered in the determination of the initial connections costs. VECC believes that any such savings/costs are likely to be very project specific and best dealt with at the same time as the costs of the specific connection requirements.

Question: ***How important is consistency of the rate design model across the province?***

Response:

- Consistency in rate design across the province could contribute to the rate making principles set out in Section 3 – in particular the principles of "practicality" and "Avoiding undue discrimination". Clearly, the use of a common rate design across the province would tend to make the rate design more publicly acceptable (the same design is applied to every one). Also, the use of different rate designs across the province could lead to customer concerns about discrimination (i.e., they'd be better off if a rate design used by some other distributor was applied in their case as well). As a result, all other things being equal, rate design consistency is important.
- However, having said this, VECC does not believe that rate design consistency should preclude the use of different rate designs in specific utilities that are facing different circumstances than those being experienced by the majority of distributors in the province.

- Overall, in terms of the options put forward, VECC believes that the third one (All distributors with similar customer characteristics use the same service customer classifications and rate design) best meets its foregoing observations. Again, VECC looks forward to exploring this issue further with Board Staff during the consultation process.

Question: ***Is one single rate order (or a few regional rate orders) to be used by all distributors a desirable outcome?***

Response:
- The Paper (page 29) puts forward various options in terms of the degree of rate harmonization that should be implemented across Ontario. Of the options presented, VECC's current view is that the first one (Each distributor has a rate order based on its revenue requirement) is the most appropriate.
- Adoption of regional or provincially pooled distribution rate would create additional costs for both distributors and the regulator and delays in distribution rate changes. Furthermore, it would preclude the use of distribution rates to address differences in circumstances across distributors. Finally, the adoption of "regional rates' could be quite controversial as the rates charged to consumers will vary depending upon how the "regions" are defined.

Question: ***Should distributors offer various levels of service? Should distributors be able to buy (offer credit for) services from customers?***

Response:
- In VECC's view these issues should not be assigned a high priority in the current rate design review.
- If customers want additional services (e.g., additional connection facilities to improve delivery reliability) then they should be negotiated with the utility and provide on a full cost-recovery basis. The requirements for such services are likely to be customer-specific such that a generic rate would be inappropriate.
- Similarly, if distributors wish to obtain services from customers this should be done on a competitive basis – applying the distributor's standard procurement policies. Again, the services are likely to be unique such that a standard rate for payment would be inappropriate.

Question: ***Should the Board investigate a rate design model based on long run marginal costs?***

Response:
- VECC assumes that the reference to long run marginal costs is with respect to marginal distribution costs. As indicated earlier, marginal costs could play a useful role in the design of distribution rates for those distributors facing load growth and the need to install new distribution facilities.

- Incorporating marginal costs into rate design does not necessarily have to lead to over/under recovery of the revenue requirement. However, it would involve the use of more creative rate designs for distribution (such as tiered rates) and could require additional data such as billing frequency information, load research and marginal cost calculations.
- While this could be an interesting and possibly fruitful area of investigation, VECC is concerned that the associated information requirements may make it difficult to purse on a generic basis. Specific distributors would have to be willing to serve as "test cases".

Question: ***Should the Board investigate locational rates for any customers connected to a distribution system?***

Response:
- In VECC's view, this issue should not be considered as part of the current Rate Review project.

Question: ***Given the simplified bill, can a conservation and/or demand management effect be achieved through distribution rate design?***

Response:
- In the case of residential customers, the current bill format does not contain sufficient information for customers to determine how the delivery charges were calculated and, therefore, what actions on their part would lower their bills and by how much. Since all residential charges (except for the monthly fixed charge and the standard supply service charge) are based on kWh usage, while the rate may not be apparent customers know that fewer kWh translate into a lower bill. Furthermore, the residential bills issued by many distributors also contain a history of usage over past billing periods (e.g., kWh/day) that allows customers to understand how their usage is evolving. However, if different billing determinants are introduced for distribution at the residential level then such information will not be useful in term of helping customers manage the distribution portion of their bill.
- Overall, if the simplified billing format is retained, significant customer education and periodic reminders will be required in order for rate design (at the distribution level) to influence consumers usage patterns.

VECC appreciates the opportunity to provide these initial comments on the scope of the Board's Rate Review project and looks forward to discussing the project further with Board Staff.

Yours truly,

Michael Buonaguro
Counsel for VECC