

# **Electricity Distribution Rates Task Force Terms of Reference**

## **1.0 Background**

The Energy Competition Act, 1998 stipulates a competitive market for both gas and electricity, and the rate regulation of the monopoly delivery systems of both industries by the Ontario Energy Board (the Board).

The Board will need to articulate rate principles that ensure that the legislative objectives are reflected in the rate principles. Therefore, as a first step, the Board issued draft policies on performance based regulation that will be considered in setting rates for gas and electricity transmission and distribution.

It is expected that the Board will be issuing rate orders for a large number (about 270) of electricity utilities. To expedite Board Staff review of a large number of rate applications, rate guidelines should be issued for the utilities to follow that ensure that the proposed rates adhere to the Board's rate principles. The availability of rate guidelines will also facilitate rate setting by the utilities. The guidelines should allow the electricity distribution some latitude to address local distribution issues.

Currently the electricity utilities generally have one set of rates that bundle generation, transmission and distribution costs. With the restructuring of the electricity industry, the commodity rates need to be unbundled from the delivery rates so that the competitive market signal is not obscured by the delivery costs. The electricity transmission rate structure is expected to be recommended by the Market Design Committee and rate structures for gas transmission and distribution are already in place. However, the Board will need to determine suitable rate

structures for electricity distribution. Therefore the rate guidelines will need to include guidelines on rate structure.

The Board's rate principles and guidelines will be published in a Rate Handbook that will be referenced in the terms and conditions of the electricity distribution licences.

### Objective

The objective of this task force is to assist Board Staff in developing rate guidelines and assessing the financial and customer rate implications of different methods of establishing initial PBR rates and rate structures.

### Scope

The task force will evaluate the options available for establishing initial rates for the electricity distribution utilities. A review of gas and electricity rate guidelines and rate structures used in other jurisdictions should also be conducted.

The scope of the task force will cover the following:

1. Review of rate guidelines issued by other energy rate regulators in Canada and in jurisdictions outside of Canada relative to their regulatory and legislated objectives.

In view of the Board's PBR policies on rate setting, frame guidelines that address:

2. Electricity distributors' ROE;
3. The formation of customer/rate classes;
4. Interclass cross-subsidization;
5. Undue discrimination;
6. Electricity distribution rate structures. Include assessment of bill impact of changes in rate structures (including unbundling of rates) for all existing customer

classes of Municipal Electric Utilities (MEU) resulting from rate structures alternatives;

7. The application of the electricity distributors= rates;
8. Optional rates and miscellaneous charges (services other than electricity distribution services); and
9. Rate impact/shock minimization guidelines.