

2006 Electricity Distribution Rate Handbook

Chapters 4 & 5 Rate Design

Contact: Margaret Nanninga

519-745-4771 ext. 220

mnanninga@kwhydro.on.ca

Chapter 4

Customer Classes

Summary of discussion:

- Any proposal to change class boundaries would be best addressed following completion of the cost allocation study in 2007.
- Subclasses could be created in the <50 KW class for unmetered scattered load customers, in anticipation that changes may be made to the billing methodology for this type of customer. This idea was subsequently passed on as changes to the unmetered scattered load may not occur.

Customer Classes

Summary of discussion cont'd:

- A clear definition of what is considered $>$ & $<$ 50KW classes in an attempt to create standardization in the industry.
- Rate impacts from any customer class changes considerations.
- Cost allocation completion in 2007 could have a large impact on the different classes in 2008, such as class shifting and monetary impact swings.

Customer Classes

Questions of scope:

- Should changes be made to customer classes before 2007 cost allocation study is complete?
- Should a separate and distinct rate category be created for unmetered scattered load in 2006?

(Crossover with 5.1.1 and 5.1.2)

Customer Classes

General Consensus

- Leave classes as are until 2007 cost allocation study is completed.
- Cost allocation study completion in 2007 crucial to majority consensus.

Customer Classes

Unresolved Issues

- If within scope, what changes should be made to customer classes in 2006? E.g. How should the disparity of treatment of class re: the $>$ & $<$ 50 KW classes be resolved? Should a separate class be created for the unmetered scattered load?

Customer Classes

Unresolved Issues cont'd

- If within scope, what should filing requirements be to support a proposed change in customer class?

Customer Classes

Path

- If within scope, group to continue to study outstanding issues.
- Evidence may be called on unresolved issues within scope.

Cost Allocation

Summary of discussion:

- The outcome of the 2007 cost allocation study cannot be anticipated.
- What is base revenue and how is it calculated? General agreement that adders (such as PILS) would have to be netted out so that the proportions would be similar to the original RUD used.

Cost Allocation

Summary of discussion cont'd:

- Status quo is not without its problems.
- Some cost drivers may not be included in the class revenue requirements if using the status quo.
- Differences amongst utilities and outliers.
- Financial impact to customers resulting from any change in methodologies.

Cost Allocation

Questions of scope:

- Should large user disparity issues be addressed in 2006, rather than waiting for the 2007 cost allocation study?

Cost Allocation

General Consensus

- Cost allocation completion in 2007 crucial to majority consensus.
- Determine revenue requirements based on RUD methodology.
- Reduced lead-time and simplicity are considered important.

Cost Allocation

Unresolved Issues

- How should the “status quo” be defined for purposes of establishing the current relative class revenue requirements to be used for cost allocation purposes (e.g., with/without PILS, 2001 RAM or 2004 RAM, etc.)?
- Precise definition of how to allocate to each class.
- Crossover – Harmonization within class ranges permitted at LDC discretion for 2006 rate application.

Cost Allocation

Path

- If within scope, may call evidence on large user disparity issues.
- Other issues continue to be discussed in the work group

Chapter 5

Fixed/Variable Charges

Summary of discussion:

- Higher fixed charge creates stability of income and could lower the equity risk premium due to decreased variability of revenue.
- Higher volumetric charges are better for utilities in high growth areas and could create an incentive for conservation.
- The new bill format may hide the impact of high variable charges since the format does not show the effect of such charges.

Fixed/Variable Charges

Summary of discussion cont'd:

- Gas utility costs and decisions.
- Which part of the bill should reflect costs of regulatory assets and public policies (i.e. government initiatives)?
- Financial impact to customers from any change in methodologies.

Fixed/Variable Charges

Questions of scope:

- Should any changes be made to the fixed/variable split (apart from rate impact mitigation) before the results of the 2007 cost allocation study?

Fixed/Variable Charges

General Consensus

- Do not change fixed/variable split for 2006. Use the RAM before adders for RSVA & regulatory assets.
- Cost allocation completion in 2007 crucial to majority consensus.

Fixed/Variable Charges

Unresolved Issues

- What is considered the status quo (the 2001 RAM or the 2004 RAM, which had substantial differences)?
- What proportions of fixed and variable rates are appropriate to retrieve costs of Conservation & Demand Management initiatives?

Fixed/Variable Charges

Path

- Group to continue to study outstanding issues.

Unmetered Scattered Load

Summary of discussion:

- Inconsistency of billing methodologies amongst LDC's. Some LDC's have subclasses and others do not, applying the approved <50KW class rate to each connection.
- What are the costs to distributors for tracking all of these connections? Are the benefits of not having a meter lost in the costs of having to track all of the connections?

Unmetered Scattered Load

Summary of discussion cont'd:

- Subclasses could be created for the unmetered scattered load customers. The fixed charge would be decreased for these customers, as a subclass of the GS <50 KW class. Any shortfall would be picked up by the rest of the customers in the class. Three different options for change were discussed.

Unmetered Scattered Load

Summary of discussion cont'd:

- These customers could be billed like street lighting, with adjustments for differences between the two types of customers.
- Attaching meters to all of these customers connections may not work.
- Impact on the remaining customers in the <50 KW class could create rate impact issues.

Unmetered Scattered Load

Questions of Scope:

- Should the inconsistencies in billing methodologies for unmetered scattered load be addressed in 2006 or wait for 2007?
- Should a separate and distinct rate category be created for unmetered scattered load in 2006?

(Crossover with 4.1)

Unmetered Scattered Load

General Consensus

- Any change in policy must hold the distributor harmless.
- No change to existing distribution billing practices.
- Defer to 2007 Cost of Service.

Unmetered Scattered Load

Unresolved Issues

- If within scope, what should the billing methodology be?
- On what basis would revenue requirements be re-allocated among classes?
- Crossovers: 4.1 customer classification, 5.1 fixed / variable split, 5.2 rate impact mitigation

Unmetered Scattered Load

Path

- If within scope, it is expected that the working group will not be able to reach a consensus and that evidence will be called.

Time of Use Distribution Rates

Summary of discussion:

- Past practices leading up to existing time of use rates were reviewed.
- There is insufficient cost data to design a time differentiated distribution rate.
- Implementation of such rates should be in conjunction with smart meters and the completion of cost allocation studies.
- A time differentiated rate may not be an effective conservation tool because of the new bill format.

Time of Use Distribution Rates

Summary of discussion cont'd:

- A time differentiated rate may be a strong conservation tool as it may encourage load shifting.
- Do distribution costs correlate with system peak? There were arguments both ways.
- A formula will have to be created for revenue differentials in the event that discontinuation of TOU distribution rates are required by the DRH.

Time of Use Distribution Rates

Question of scope:

- Should LDC's be permitted / encouraged to eliminate the legacy TOU classes in 2006?
- Should utilities be permitted / encouraged to offer new time differentiated distribution rates in 2006?

Time of Use Distribution Rates

General Consensus

- Leave as is or harmonize within class at distributor discretion.
- Any distributor harmonizing their legacy TOU rates must apply to the Board.
- Any utility proposing harmonization of TOU rates within classes must supply rate impact analysis.

Time of Use Distribution Rates

Unresolved Issues

- Methodology for harmonization.
- If within scope, what time differentiated distribution rates should be offered, and what would be the methodology for calculation of these rates?

Time of Use Distribution Rates

Path

- If within scope, may call evidence.

Recovery of Regulatory Assets

Summary of discussion

- A materiality threshold could be created for regulatory assets which would trigger disposition.
- The methodology would eventually eliminate “other regulatory assets” and leave only RSVA’s remaining for disposition.

Recovery of Regulatory Assets

Questions of Scope

- Should the planned recovery of regulatory assets (true up of existing, or new) be part of the 2006 Rate Handbook?

Recovery of Regulatory Assets

General Consensus

- Methodology should be administratively simple.
- Original approved amount should be treated separately.
- Over or under-recovered amounts should be easily identified.
- Handbook should provide examples and a spreadsheet in an Appendix.

Recovery of Regulatory Assets

Unresolved issues

- Accounting issues and methodologies.
- Should the over or under-recovery be tracked as another regulatory account?
- Where in the handbook will the treatment of regulatory assets be covered?
- Crossover issue: revenue requirement, RSVA

Recovery of Regulatory Assets

Path

- Group will continue to study issue.

Rate Impact Mitigation

Summary of discussion:

- Should the rate impact be based on the total customer bill, the delivery portion of the new bill or the total distribution charges? Another thought was the total bill net of the cost of government initiatives.
- The smaller the base, the higher the percentage. The total customer bill makes the percentage smaller.
- Should there be rate impact mitigation at all?

Rate Impact Mitigation

Summary of discussion cont'd:

- Who is the target of rate impact mitigation? It was assumed the residential class was the main focus.
- Should a dollar amount and a percentage be included together or only one?
- Should fixed/variable rate changes be limited when applying rate impact mitigation due to the wide range of the fixed rates in the province? By limiting the change of the fixed rate, the gap may decrease.

Rate Impact Mitigation

Summary of discussion cont'd:

- Should any foregone revenues lost due to mitigation be put into a deferral account to be recovered later?
- Because of changes coming with the Regulated Price Plan, is enough information known at this time in order to come up with a workable percentage (or dollar value) for mitigation?

Rate Impact Mitigation

Questions of scope:

- None.

Rate Impact Mitigation

General Consensus

- Rate impact mitigation should remain for 2006 Rate Handbook.
- Final decision must not be too constraining and must be easy to track and implement.

Rate Impact Mitigation

Unresolved Issues

- Filing requirements for applying for exemption (i. e. ROE catch-up) from rate impact mitigation.
- Determine base for comparison (i.e. total bill or distribution only).
- % and/or \$ limit for distribution rates.
- Treatment of foregone revenue.
- How and at what stage in rate setting should rate mitigation be applied?

Rate Impact Mitigation

Path

- Group to continue to work to reach a solution.
- Group may not be able to resolve without resolution of other Handbook issues.
- Consider possibility of creation of new chapter for this issue, rather than remaining in Chapter 5.
- Crossover: 1999 financial losses (3.1)

Rate Harmonization

Summary of discussion:

- Should rate harmonization be mandatory or voluntary?
What can a utility do if they cannot or do not want to harmonize their rates?
- Maximum change allowed when combined with rate impact mitigation.

Rate Harmonization

Questions of scope:

- None.

Rate Harmonization

General Consensus

- Change the impact of harmonization per class from +/- 5% to +5%, otherwise leave the same.
- Harmonization should be revenue neutral.
- Rate impacts from harmonization should be in addition to the limits established by rate mitigation unless the harmonization plan reduces the customer impact to below the rate mitigation threshold.

Rate Harmonization

Unresolved Issues

- Effect on utility planning of any change in harmonization rules.
- Should harmonization apply to all LDC charges or just the distribution portion?
- Filing requirements to apply for an exemption.

Rate Harmonization

Path

- Group to continue to study issue.

Transformation Ownership Allowance

Summary of discussion:

- Additional data on transformation credits may be available following completion of the cost allocation study in 2007.
- At this point it is unknown whether the credits are too high or too low and any changes could create swings upon completion of the cost allocation study and the subsequent change in rates.

Transformation Ownership Allowance

Questions of scope:

- None.

Transformation Ownership Allowance *General Consensus*

- Leave as is for 2006.
- Completion of the 2007 cost allocation study crucial for majority consensus.