RP-2004-0188

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

AND IN THE MATTER OF the preparation of a handbook for electricity distribution rate applications.

WOODSTOCK HYDRO SERVICES INC.
("WOODSTOCK HYDRO") RESPONDING SUBMISSIONS
ON CONSERVATION AND DEMAND MANAGEMENT

FEBRUARY 28, 2005

INTRODUCTION

1. Woodstock Hydro notes that of the approximately 30 final submissions received by the Ontario Energy Board (the "OEB") in respect of the 2006 EDR process, approximately two-thirds addressed Conservation & Demand Management ("C&DM)-related issues. Not all of those submissions spoke to the concern for maintenance of the utility's revenue, but those that did generally supported the notion that utilities should be entitled to some form of recovery of lost revenues resulting from reduced electricity consumption which in turn is the result of C&DM programs. Typically, those commenting on this issue proposed the adoption of a Lost Revenue Adjustment Mechanism ("LRAM"), although approaches to the specific features of, and limitations on that mechanism, varied.

2. Opinions were not as universal with respect to Shared Savings Mechanisms ("SSMs"). However, as it did in its initial submission of February 14, 2005, Woodstock Hydro will not comment on SSMs here except to reiterate its comment at paragraph 11 of its February 14, 2005 submission, to the effect that Woodstock Hydro supports the implementation of SSMs and/or other forms of incentives.

3. Few of the parties that filed submissions on C&DM spoke to the merits of the 100% fixed distribution charge model described by the OEB's witness, AJ Goulding, as the "flat rate access" model and supported by Woodstock Hydro.

4. Woodstock Hydro notes, however, that Energy Probe, at paragraph 7 of its final submission, supports the Woodstock Hydro approach, and recommends that "…the Board in its ongoing decisions…support moving directionally toward a flat monthly connection charge per customer and a shared savings mechanism based on customer bill savings."

5. The EDA, while supporting the "pay as you go" approach at this time, "would suggest that consideration be given to the longer term goal of moving to 'flat rate pricing and customer bill savings' approach in the future." Woodstock Hydro agrees with the EDA's observation that "A move toward fixed charges would ensure distributors are not adversely affected by reduced energy consumption regardless of who promotes conservation initiatives.

6. This submission responds briefly to that portion of the Green Energy Coalition (the "GEC") submission of February 14, 2005 (at pages 11 and 12) that speaks to Woodstock Hydro's 100% fixed charge proposal.

RESPONSE TO THE GREEN ENERGY COALITION SUBMISSION:

7. Woodstock Hydro repeats and relies upon its submission of February 14th, and will not repeat it here, except to remind the OEB and interested parties of its recommendations:

   (a) Woodstock Hydro recommends that the OEB endorse in the 2006 EDR Handbook the adoption by LDCs of 100% fixed distribution charges and the elimination of the variable component of those charges.

   (b) In the alternative, in the event that the OEB is not prepared to generally allow LDCs to change their rate structures in this way, Woodstock Hydro requests that the OEB allow a small number of LDCs, including Woodstock Hydro, to make the change on a test basis, in order to determine the feasibility of this approach. This is an idea that the OEB's consultant considers worthy of exploration,[1] and Woodstock Hydro is concerned that if at least some utilities are not permitted to

[1] Transcript Vol.9, at paras.631-633

proceed in this way for 2006, then distributors that still wish to pursue this approach in the process leading to the next EDR Handbook will be faced with the same reservations as are currently expressed in Exhibit C.1, with respect to the need for changes in thought processes as a result of a new paradigm.

8. The GEC has again suggested that "The proposal to move to a 100% fixed charge for distribution costs would reduce the conservation price signal to consumers" and therefore should be rejected on that ground alone.[2] However, the GEC also "supports lost revenue protection to remove the disincentive to conservation, a shareholder incentive to encourage aggressive and cost-effective efficiency programs, an expense variance account to enable utilities to pursue successful programs and to return to customers any unspent funds, **and a streamlined process that reduces regulatory burden and costs, provides accountability, and enhances program effectiveness.**" (emphasis added)

9. Woodstock Hydro submits that the elimination of the LRAM through the use of the 100% fixed charge represents a streamlined process that provides the desired lost revenue protection that removes the disincentive for conservation; reduces regulatory burden and costs; provides accountability; and enhances program effectiveness, and assists in maximizing funds available for C&DM initiatives.

10. With respect to the reduction of the conservation price signal to consumers, Woodstock Hydro submits that the conservation price signal with respect to the commodity (over 50% of the bill) and non-competitive consumption-based charges, together comprising approximately 80% of the bill, is not affected by the implementation of a 100% fixed charge. Customers will presumably be motivated by C&DM programs that will offer them savings on 80% of their bill. Having endorsed the concept of guaranteeing LDC revenue, though, the "conservation price signal" that GEC would give to consumers with respect to the 20% of the bill attributable to distribution charges becomes illusory. The signal may be that customers that conserve will have a chance to save on their entire bill; in reality, those customers will see their distribution-related savings taken away from

[2] GEC submission, at p.11

them by their distributor, through the LRAM. Woodstock Hydro submits that it is more appropriate to be forthright with customers from the outset – they will simply not realize savings on their distribution charges. This may avoid cynicism that may develop among customers when they find that they have been misled about the extent of their savings.

11. As for the suggestion that the 100% fixed charge is contrary to the Ontario government's smart metering initiative, Woodstock Hydro notes that smart meters will allow customers to save on their commodity costs by obtaining a benefit (a reduced price) for shifting their consumption to times of the day in which electricity prices are lower. Woodstock Hydro supports this initiative of the provincial government. In no way does showing customers their true cost of distribution service compromise the objectives of the smart meter initiative.

12. With respect to lost revenue protection, both the LRAM and the 100% fixed charge should provide the LDC with that protection. As footnote 17 of the London Economics report states (in part), "under volumetric distribution pricing with an LRAM, customers as a whole end up paying precisely what they would have paid under flat rate pricing."[3] As discussed in Woodstock Hydro's submission of February 14th, the advantage to the 100% fixed charge is that it does this while minimizing the regulatory burdens on Ontario electricity distributors and the OEB, and maximizing the funds that can be dedicated to C&DM activities by avoiding significant expenditures on the processing and defence of an LRAM. Woodstock Hydro submits that parties with an interest in conservation should prefer that as much as possible of the money budgeted for C&DM initiatives actually be spent on those initiatives, rather than on ongoing development, calculation, application for and defence of an LRAM, particularly where there is an alternative to the LRAM that more economically and efficiently accomplishes the same objectives.

13. Woodstock Hydro is concerned about GEC's comment that "The rate impact of the fixed charge proposal outlined in Woodstock Hydro's evidence appears to have smaller users pay more and larger users pay less which likely penalizes the poor and efficient and

[3] See also Transcript Vol.9, at paras.495-498.

rewards the rich and profligate." First, in Exhibit D.9.1, Woodstock Hydro illustrated how its current distribution rates could be readily converted to 100% fixed rates while maintaining revenue neutrality within each rate class and creating minimal customer bill impacts.

14. Second, customers of varying economic means stand to benefit from C&DM programs, and their savings will be on the commodity and certain non-distribution related non-competitive charges that are based on volume. The point of C&DM initiatives is to reduce consumption of electricity, which accounts for at least half of the bill. It is the utility's C&DM program that will assist in curbing profligate electricity use. In the Woodstock Hydro analysis, larger residential consumers will pay more for distribution as well (as noted in Exhibit D.9.1, class revenue neutrality is maintained and the bill impacts range from $1.10 per month for a residential customer consuming 100 kWh/month to $3.00 per month for a residential customer using over 1,000 kWh/month). This is an issue of the distributor's ability to ensure that C&DM initiatives do not negatively affect its distribution revenues. The distribution infrastructure in place to serve the consumer does not discriminate among customers of varying economic means. Ultimately, to be completely consistent with cost causality principles, the distribution charge paid by the consumer should reflect the service that has been installed to serve that consumer. Full fixed charges should be designed to recover costs at different levels of service, which would reflect the design demand of the infrastructure serving its customers. As noted in its February 14th submission, the end state rate classes would be based on the findings of cost allocation analysis related to the fixed assets required to serve as opposed to the nature of the electricity use. In the interim, however, as a transitional approach, Woodstock Hydro has proposed the establishment of sub-classes of customers based on consumption levels that will effectively mitigate bill impacts. As stated in Woodstock Hydro's February 14th submission, Woodstock Hydro suggests that these impacts are reasonable for a change in rate structure, and that they are less than those associated with the initial unbundling of Woodstock Hydro's distribution charges, another revenue neutral exercise, but Woodstock Hydro intends to review those impacts further prior to filing a rate application based on a 100% fixed charge, in order to ensure that bill impacts are

minimized to the greatest extent possible. Accordingly, Woodstock Hydro is keenly aware of the need to minimize impacts on its customers.

15. Moreover, in the longer term, Woodstock Hydro reiterates its comment in its February 14th submission with respect to one of the advantages to the 100% fixed charge approach as identified in the London Economics report:

> "Furthermore, if the SSM incorporates a measure for compensating the utility for avoiding the cost of new distribution system investments – costs that would otherwise cause an increase in the flat rate – the distribution company becomes incentivized to engage in C&DM investments which reduce both demand for generation and to configure the system so as to minimize future increases in the flat rate"[4]

Accordingly, further opportunities for distribution rate mitigation exist.

16. Woodstock Hydro agrees with the EDA's observations regarding Mr. Chernick's comments with respect to the creation of sub-classes. At p.42 of the EDA submission, the EDA states:

> "Chernick's description of the problems with fixed charges (Tr. Vol. 10 paras. 580-583) demonstrates a misunderstanding of the proposal being developed by Woodstock Hydro. Mr. Chernick assumes customers would move in and out of subclasses based on their consumption changes. In fact the fixed charge would be based on the physical characteristics of the connection to the customer that changes only on certain occasions for certain customers.
>
> A move towards fixed charges would ensure distributors are not adversely affected by reduced energy consumption regardless of who promotes conservation initiatives."

17. Woodstock Hydro acknowledges that the creation of sub-classes is not ideal, but it is only intended as an interim measure, and it is not the complex undertaking that Mr. Chernick suggests. Utility billing systems are typically capable of accommodating the sub-classes. Rate adjustments could be requested if the utility is affected by customer migration resulting from conservation activity, but this is a far cry from the ongoing adjustments by all distributors that are guaranteed if the LRAM approach, being advocated by Mr. Chernick, is adopted.

18. For all of the foregoing reasons, and those set out in its February 14, 2005 submission and Exhibit D.9.1, Woodstock Hydro reiterates that the elimination of the LRAM through the use of the 100% fixed charge represents a streamlined process that provides the

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[4] Exhibit C.1, p.35

desired lost revenue protection that removes the distributor's disincentive for conservation; reduces regulatory burden and costs; provides accountability; enhances program effectiveness, and assists in maximizing funds available for C&DM initiatives. Accordingly, Woodstock Hydro recommends that the OEB endorse in the 2006 EDR Handbook the adoption by LDCs of 100% fixed distribution charges and the elimination of the variable component of those charges. In the alternative, in the event that the OEB is not prepared to generally allow LDCs to change their rate structures in this way, Woodstock Hydro requests that the OEB allow a small number of LDCs, including Woodstock Hydro, to make the change on a test basis, in order to determine the feasibility of this approach.

ALL OF WHICH IS RESPECTFULLY SUBMITTED THIS 28th DAY OF FEBRUARY, 2005.

Original Signed by James C. Sidlofsky
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