



May 30, 2008

Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
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Toronto, ON
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Re: EB-2007-0031

Dear Ms. Walli,

On March 31, 2008 the Board released its Staff Discussion Paper entitled "Rate Design for Recovery of Electricity Distribution Costs" as part of EB-2007-0031. The Coalition of Large Distributors, consisting of Enersource Hydro Mississauga, Horizon Utilities, Hydro Ottawa, PowerStream, Toronto Hydro Electric System and Veridian Connections, very much appreciates the opportunity to provide comments on that discussion paper and submits the attached in response.

This letter and attached comments are being submitted electronically through the Board's RESS system in addition to two paper copies by courier.

Please do not hesitate to contact any of the undersigned should the Board or Board staff have any questions.

Yours truly,

(Original signed by Chris Buckler for Cameron McKenzie on behalf of the CLD)

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Coalition of Large Distributors
Comments on Ontario Energy Board Staff Discussion Paper
Rate Design for Recovery of Electricity Distribution Costs
EB-2007- 0031
May 30, 2008

This is the Coalition of Large Distributors' (CLD) response to the March 31, 2008 Staff Discussion Paper on Rate Design (EB-2007-0031, March 31, 2008). The CLD consists of Enersource Hydro Mississauga, Horizon Utilities, Hydro Ottawa, PowerStream, Toronto Hydro Electric System and Veridian Connections. The CLD is encouraged that the Ontario Energy Board (OEB or the Board) is undertaking this important initiative and welcome the opportunity to provide input. The CLD look forward to continued participation in this process towards the development of a practical approach to Rate Design to achieve the principles of rate-making to best meet the needs of the electricity distribution industry in Ontario.

The CLD feedback to the OEB will be organized according to the following main categories:

1. Summary of CLD Comments
2. Impact of Smart Meters on Rate Design
3. Rate Design Principles
4. Customer Classifications
5. Rate Design Issues
6. Comments & Answers to other Board Staff Questions
7. Next Steps

1. Summary of CLD Comments

As stated in the CLD paper submitted on May 15, 2007:

“From the CLD’s perspective, the design of electrical distribution rates must be built on three main pillars:

- the rates should be set such that the risk to the recovery of the LDC’s revenue requirement is minimized;
- the rates should not be overly complicated for either the customer to understand or for the LDC to implement; and
- the rates charged a specific customer class should reflect as closely as possible the actual costs incurred by that LDC to provide distribution service to that customer class – and nothing more.”

The comments throughout this paper are based on these three “pillars” and are consistent with the three principles identified in the staff discussion paper.

At this time, and until the cost justification of moving to an alternative classification system such as a voltage based system can be fully evaluated, the CLD recommends that the existing classification system of Residential and various size-based general service classes be maintained.

The CLD endorses the concept of one or more additional “intermediate size” class or classes of general service customers. This concept has already been adopted by some Ontario distributors and it may be of benefit to other distributors as well.

The CLD recommends that kW (or kVA where cost effective) be adopted as the preferred billing determinant for all customer classes in that it is a better cost tracking billing determinant than kWh.

The CLD recommends that interruptible distribution rates not be mandated, but rather offered as an option for some distributors who may have capacity constraints on their distribution systems or parts of their distribution systems, and where it is cost effective to implement.

The CLD reiterates, and this appears to be accepted in the staff discussion paper, that distribution costs are essentially fully fixed in the short to medium term in regards to reductions in demand levels. The CLD submits that distributor costs may become more variable in the extreme long term, but they are never fully variable with demand reductions. A rate structure that includes too much weighting on a variable billing determinant would expose a distributor to undue risk under various economic conditions.

The CLD recommends that approved rate orders should have an effective implementation date of January 1st of each year, consistent with the LDC fiscal year.

In the Board staff paper, an innovative rate design concept based on a billing determinant that is the “customer’s prior year’s average monthly demand” is identified. The CLD has briefly considered such a structure on a preliminary basis and suggests that it ought to be discussed further and possibly used in a future voluntary LDC trial test case. More detail is provided in Appendix A of this paper.

The CLD concurs with the concept of a separate classification for Load Displacement Generation. Such a separate classification would help identify the costs and savings that are attributable to these customers. The CLD endorses the concept of standby charges, for load displacement generation, which would

be based on a negotiated “contract” demand where customers can guarantee, with penalties, that the contract demand will not be exceeded.

The CLD recommends that further thought be given to the timing for implementation of any new classifications or rate structures as explained in Section 7 of this paper.

2. Impact of Smart Meters on Rate Design (from page 14 of staff discussion paper)

The use of Smart Meters in Ontario will enable the availability of hourly Load/Usage data for residential and small commercial customers that will revolutionize the way LDCs allocate costs to rate classes in Cost Allocation Studies and change the way LDCs design distribution rates as demand data will be available for most every metered customer.

The CLD is concerned that there is an important group of customers that are excluded from the current Smart Meter program. The Distribution System Code mandates interval meters for all existing customers greater than 1 MW and all new customers greater than 500 kW (some distributors have adopted 200 kW as the threshold). Currently, the Smart Meter program only includes meters for customers that are not billed on demand. As a result, there is a gap for customers with demand greater than 50 kW and less than 500 kW (or 200 kW depending on the distributor). The CLD has raised this as an issue with the Ministry of Energy in regards to the Smart Metering program. This is an issue in these comments as there is a presumption in the staff discussion paper that hourly data will be available for all metered customers.

3. Rate Design Principles (from page 15 of staff discussion paper)

Following is a review of the discussion paper’s stated rate design principles:

- (1) Full Cost Principle,
 - (2) Fairness Principle,
 - (3) Efficiency Principle
-
- (1) Full Cost – This principal provides that the expected revenues of a distributor ought to equal the expected costs (including return on assets). In line with this principle, distributors should start earning their return consistent with the timing of distributors’ expected costs. Rate applications are made for specific calendar years but there is a regulated timing delay in rate implementation, which prevents distributors from starting to earn their expected revenues consistent with when they commence incurring those costs. The CLD believes that approved rate orders should have an effective implementation date of January 1st of each year, consistent with the LDC fiscal year.

- (2) Fairness Principle – There is reference in the staff discussion paper to the customer charge within the context of LDC cost allocation studies and different theoretical calculations of customer cost (i.e. different customer costs which make up the different fixed monthly service charges as determined by the Cost Allocation Model issued by the Board on November 15, 2006). The CLD submits that the theoretical customer cost related charges are insufficient for recovery of the short to medium term fixed costs of distributors. However, a theoretical customer cost related charge could be supplemented with an appropriate fixed distribution charge that reflects a balancing of the short and long run fixed/variable cost structure of distributors as proposed for discussion in Appendix A of this paper.
- (3) Efficiency Principle – It is not entirely clear to what extent distributors' costs will vary if customers reduce their use of system capacity. Will a price signal that causes customers to reduce their demand, actually translate into cost savings for distributors in the long run and what is the "long run", given that there are many different types of assets involved? Once a system has been designed and built, any demand reductions will not cause a distributor to alter the physical assets until the very long run. Efficiency for static (maximize use of existing assets) and dynamic (rational growth) use of the system is a critical concept that will drive other decisions in this process.
- One of the overriding issues in distribution rate design is the signal it sends to the customer. As stated in the CLD comments to the Board of May 15, 2007: *"the rates charged a specific customer class should reflect as closely as possible the actual costs incurred by that LDC to provide distribution service to that customer class – and nothing more."*
- This means that distribution rates should not be used to send signals to consumers about social policy or to encourage a particular form of generation.

International Experience with Innovative Rate Designs (from page 18 of staff discussion paper)

One of the suggestions from OEB staff is to "implement and test options before committing to a single approach". The CLD are encouraged that the OEB staff are suggesting such an innovative way to explore options. The CLD suggest that, on a test case basis, the OEB consider some innovative approaches to rate design with a subsequent review of findings. The CLD suggests such a rate design test later in this paper. Also, the OEB paper suggests that different rate design methods may be appropriate for winter-peaking (North) versus summer-peaking (South) distributors. The CLD cautions that some LDCs are not always one or the other, but can flip between the two.

4. Customer Classifications (from page 20 of staff discussion paper)

Voltage Based Customer Classes

Board Staff discuss changes to the current classification for the Residential class and the non-residential classes, which are subdivided based on demand levels, to a proposed method of Customer Connection Voltage and Service Phase supplied. Examples are Sub-transmission 13.8 kV and up; Primary class at 2.4 kV to 27.6/16 kV; Secondary less than 750 V at 3-phase service and Secondary less than 750 V at single phase.

The cost for a 3-phase service is expected to be not much different than a 1-phase service, on a per kW basis. Transformer prices are normally a dollar value per kVA, regardless of whether they are 3-phase or 1-phase. This dollar value per kVA value may vary somewhat by kVA level but not significantly by the number of phases. Further, single phase lines require 1 full size neutral for each phase, whereas a 3-phase line requires only 1 full size neutral for all 3 phases, or effectively 1/3 the neutral capacity of a 1-phase line, on a per kW basis. Therefore a 3 phase line should be less expensive per kW of capacity. The notion that 3-phase supplies are more costly than one phase supplies should therefore be subject to further study.

The problem with reclassifying by voltage is that similar customers with the same demand levels, but served by one system voltage versus another, would pay different rates and this would be perceived as unfair if the customer could not choose the system supply arrangement. Additionally, an entirely new cost allocation model, with new cost allocations, would need to be developed along with further record keeping pertaining to the voltages used by each customer based on the new classifications. The CLD suggests further consideration of the costs to add this additional complexity to customer class determination.

Practically speaking, the existing customer classifications could continue to be used effectively with the new smart meter technology. Additional intermediate classes might be considered to aid in threshold changes from the General Service > 50 kW class to the Large User Class (there are some existing large discontinuities in customer bills at the threshold between these rate classes).

Recommendation: The CLD supports maintaining the existing customer classifications as appropriate, until further studies can be carried out on the costs of alternative classification systems.

The introduction of one or more intermediate commercial classes may be appropriate.

The use of kW demand would be a better cost-tracking billing determinant for the residential and small commercial customer classes, and should be seriously considered rather than the existing kWh consumption.

The CLD believes that the Residential class should be maintained as distinct from the small commercial class because the class load profiles are different and

the risk impacts arising from commercial classes due to economic and business cycles are also different from Residential customers.

If a sub-transmission class is eventually adopted, then the definition of that class must be specified in more detail than what is stated in the discussion paper as this interpretation may vary by utility (e.g. the term “bulk” was used in recent cost allocation filings).

Interruptible Rates (from page 26 of staff discussion paper)

Board staff poses the following questions on Interruptible Rates:

- **Should they be offered and if so, in what circumstances should they be available?**
- **If interruptible rates are available, what rate classes should qualify for them?**
- **Should separate interruptible rate classes be established, or should they be a rate option within other rate classes?**

The CLD recommends at this time that Interruptible distribution rates not be mandated. Such a rate is most frequently applicable to energy costs/charges rather than to distribution costs/charges. Distribution systems are designed and constructed to withstand the high demands of customers during the days of a hot summer heat wave and the cold days of winter. It would be quite risky to either construct systems that are designed with inadequate capacity margins, or allow distribution systems to become over-utilized to the detriment of power reliability. However, if a distributor required interruptible distribution rates to provide for a short term or even long term distribution system capacity constraint, then such a rate could be proposed for approval by individual LDCs as appropriate. Alternatively, the same objectives could be achieved through the use of a distribution demand response program.

CLD response to Board Staff on the following comments/questions (from page 30 of staff discussion paper regarding a new classification system):

“If not the connection voltage, what is the best approximation to it: the demand, the amperage or a combination of the demand volume and service voltage?” (from page 30 of staff discussion paper)

Board staff suggests that it is preferable to define classes based on the assets used to serve them. The CLD does not concur that this is the appropriate principle for deciding on rate classes. Rate classes ought to be determined based on commonality of costs. Assets used to serve customers represent only one such cost factor. Differences in load patterns are other cost factors that have a bearing on the extent of use of those assets. Customer service costs (number of phone calls, collection costs, write-offs, etc.) are still other cost factors. At this time it is not at all clear that “voltage level” is an appropriate method for setting customer classes. Therefore it is premature to suggest that classes ought to be based on a proxy for voltage. As discussed above and until determined

otherwise, the CLD would support continuation of the existing classes with optional Intermediate Commercial Classes for those distributors not currently using such classes, as follows:

Residential
General Service < 50 kW
General Service > 50 kW
Intermediate User (new Class or Classes for some distributors)
Large User

If proxies for a Voltage Classification System are to be used, what are the appropriate thresholds? (from page 30 of staff discussion paper)

The CLD recommends that proxies should not be used for voltage classifications as explained in the foregoing. Classifications should be based on commonality of costs.

5. Rate Design Issues (from page 31 of staff discussion paper)

Cost Allocation – It is agreed that cost allocation studies must always be the starting point when designing distribution rates.

Fixed/Variable Split - LDCs generally prefer a higher fixed charge that would reflect their cost structure, which is essentially fixed in nature with respect to reductions in demand in the short to medium run. Some stakeholders believe a fully variable charge would send a price signal to reduce consumption. They believe this would reduce “long-run” distribution costs, however, distributors believe this would be an inappropriate matching of cost structure to rate structure which would create additional risk to distributors.

In order to adequately assess what an appropriate fixed/variable split should be for rates it is important to first analyze a distributor’s cost structure in the short, medium and long runs.

Distributors’ system costs are generally understood to be fully fixed with respect to demand reductions, in the short run of say 1 to 10 years. From 5 to 25 years their costs continue to be highly fixed but may gradually start becoming variable. In the very long run, distributor’s costs could become more variable with reduced demand.

The CLD would support and is willing to participate in any research studies (engineering, operating and economic) to assess the long run variable costs for distribution utilities.

The CLD believes that a distributor’s medium or long run cost structure is in itself inappropriate for setting the fixed/variable revenue splits for given rate years. Rates are established in the short term to enable distributors to recover their

costs and return on equity for one year at a time. This comes from the principle of “full cost recovery”. While the CLD believes that distributors’ short and medium run system costs are essentially fixed with respect to reductions in customer demand, in order to continue to provide a signal to customers for long run efficiency, it may be more appropriate to adopt a fixed component as low as 75% of total costs.

CLD response to Board staff on the following points (page 33 of the staff discussion paper):

- **whether there is a necessary connection between long run variable costs and variable rates;**

The CLD does not dispute that variable rates may influence consumer behaviour resulting in reduced short-term consumption and, in the very long term, possible reductions in distribution costs. However, distributors must be allowed to recover their revenue requirement in the short to medium term. Further, the CLD submits that not all distribution costs are variable with respect to reduced customer demand, even in the extreme long run, due to non-variable customer costs, and in the short to medium term, costs are essentially fixed.

The CLD believes that the fixed distribution revenue should be at least 75% of an LDC’s total distribution revenue. The staff discussion paper makes mention of a billing determinant using a customer’s “prior year’s demand”. The CLD is cognizant of stakeholders concerns about fixed charges for customers, and these concerns could be addressed through innovative rate design strategies while providing a greater degree of revenue stability for the LDC. An example, which should be discussed further and possibly pursued in a voluntary “test site”, is described in Appendix A.

- **whether variable charges are an effective means of controlling long – run variable costs in the rate-setting context** (from page 33 of staff discussion paper):

The CLD submits that while fully variable charges may have an impact on long run costs, they are not appropriate due to the risks they will impose on distributors in the short run. Further, as explained previously, not all distribution costs are variable with reduced demand, even in the extreme long run.

- **whether customers respond to variable rates** (from page 33 of staff discussion paper):

The CLD believes that customers may respond to variable distribution charges and that is precisely the concern: that distributor revenues will fall without a corresponding decrease in the distributor’s costs.

Billing Determinants (from page 39 of staff discussion paper):

Alternatives identified in the staff discussion paper or proposed by the CLD include a kWh charge, a demand charge, a TOU based demand or energy charge, a fully fixed charge based on connected capacity or a demand charge based on customers' prior year's average demand (which for the LDC would act as a fixed charge, while still providing an incentive for demand reduction).

- kW peak demand should be considered as a distribution charge billing determinant for all customer classes. A kWh billing determinant, up to the present time, has been used as a proxy for demand for some classes as the metering technology was not sophisticated enough to allow for the capture of such demand data. With the advent of Smart Meters this data capture will become a reality for use as a billing determinant for all customer classes.
- Power factor will continue to be an issue in rate design. LDCs should continue to be allowed to use kVA meters for larger commercial customers and an adjustment of 90% of kVA should continue to be applicable when assessing demand.
- Coincident peak demand by itself is not an ideal billing determinant, neither in practice nor in theory. For example a customer, who has zero coincident demand and a positive non-coincident demand, would be incurring distribution costs but would generate zero revenue. This would result in cross-subsidization of costs among customers.
- A fixed charge based on service capacity would also be unfair to customers, as two customers with the same consumption demands, but different service capacities, would be billed differently.
- Non-coincident peak demand is the most relevant and practical billing determinant for distribution costs.
- TOU distribution rates would send an inappropriate price signal to customers as distribution costs do not in any way vary with the time of day.

Recommendation:

The CLD recommends a peak demand charge be adopted for all classes and that kVA continue to be used as a billing determinant where economical to do so for larger commercial customers.

1. The OEB could further explore the merits of a three part distribution rate as discussed in Appendix A. Such a rate structure, while being somewhat more complicated than the existing structure, would help stabilize LDC revenue and at the same time provide a price signal to reduce demand.

6. Comments & Answers to other Board Staff Questions

Board staff welcomes comment on revenue stability mechanisms (from page 39 of staff discussion paper):

As explained in the staff discussion paper, and previously in this paper, distributor costs are essentially fixed in the short and medium term. As the term increases, distribution costs may become partially variable in the extreme long term.

Reflecting this, there is a need to stabilize distribution revenues in the short term, and there are various mechanisms that can be used to achieve this:

- The CLD concurs with Board Staff that kW is a better cost tracking billing determinant than kWh.
- A Time of Use demand or energy based distribution rate would not track distribution costs.
- LRAM is difficult to administer from a regulatory perspective in that recoveries must be justified and debated in a public forum with all the inherent costs. However, if sufficient revenue stability is not provided in the rate design, then LRAM or some other revenue recovery mechanism would be required for added revenue stability. The impact of such a mechanism is that current customers would pay for the lost distribution revenue resulting from the previous rate year customers.
- An innovative rate design identified in the staff discussion paper (see Appendix A), which uses the customer's prior year's billing demand, would provide a fixed revenue for the current year while still providing an incentive to the customer to reduce demand as much as possible. Such a rate structure, while being more complicated than the existing structure, would allow distributors to stabilize revenues and reduce the need for other stabilizing mechanisms. This rate structure should be discussed and explored further.

In principle, should distribution customers pay rates that are more reflective of the costs they cause due to load factor difference based on each distributor's cost allocation study? (from page 52 of staff discussion paper)

Customer and class load profiles are a relevant factor in identifying classes, allocating costs and determining rate designs. Load factor is only one element of a load profile but it is indeed an important factor. A classification system based on voltage level, or distribution assets used to serve, would ignore these different load profiles and load factors and could result in customers with very different profiles, and different cost causation, being in the same class and cross subsidizing one another.

Should the revenue-to-cost ratio for the new Single Phase Secondary Class be constrained in any way by the prior revenue-to-cost ratios of the existing Residential and GS classes? (from page 52 of staff discussion paper)

A new revenue-to-cost ratio for any new customer class cannot be determined without a full cost allocation study to include the new class. Such a study or model does not exist. Therefore if a new Single Phase Secondary Class is introduced as a replacement for the existing Residential and General Service classes, without a new cost allocation study, then the new class must be constrained by the combined revenue-to-cost ratios of both existing classes in order to prevent further cross-subsidization. Subject to further research, the CLD submits that the move to a Single Phase Secondary class, as indicated, is premature. Such a class may not be cost/benefit justifiable and differentiating customers on this basis could cause unfair treatment of customers with similar demands on the system.

Is it sufficient to maintain a residential sub-class as a means of identifying residential customers for purpose of billing treatment (e.g. rural rate assistance) that is available only to residential customers under current legislation? (from page 55 of staff discussion paper)

There should be a residential class the same as the existing class subject to further consideration of the costs of alternative classification systems. The residential class should be maintained separate from the commercial class for cost causality reasons as explained previously in Section 4 of this paper and to aid distributors' understanding of impacts caused by economic or other issues that affect the residential class and the commercial classes differently.

Re contract Capacity and Demand Based Rates for the Primary Class - Board staff invites comment as to the appropriateness of these options. (from page 61 of staff discussion paper)

Contract capacity charges are not appropriate, and administratively inefficient, with the exception of customers with load displacement generation, who are currently required to pay standby charges. Distributors build their systems to deliver the expected load of the customers.

Re – Rate Design for the Sub-transmission Class - Board staff invites comment as to the appropriateness of each option and the advantages of using the same rate design for the Primary and Sub-transmission Classes. (from page 63 of staff discussion paper)

A sub-transmission class may be appropriate for some distributors based on their circumstances. However, further clarification and definition of the differences in sub-transmission and primary as compared to the “bulk” customers referred to in the cost allocation proceedings is required. The CLD does not support a

classification system based on type of distribution system provided until further research can be carried out to determine the cost allocation for such a classification system.

Is there any need to maintain a separate class for embedded distributors?
(from page 65 of staff discussion paper)

A separate classification for embedded distributors should be maintained if their costs of service are significantly different from other load customers of comparable demand. If their costs are not different, then the embedded distributor should be classified similar to any other load customer of comparable demand.

Re- Time of Use Based Charges - Board staff invites comment as to the appropriateness of these options. (from page 66 of staff discussion paper)

The CLD believes that such a rate structure is not appropriate and distribution costs of providing service are not impacted by the time of day. Therefore TOU based distribution charges will not track distribution costs and will expose distributors to undue risk.

(Load Displacement Generation) Board staff invites comment as to the appropriateness of these options. (from page 69 of staff discussion paper)

The CLD is in agreement that such a new classification for load displacement generators be established. A contract billing demand billing determinant should be established based on the metered service demand plus 100% of the metered generation output demand except where the customer can demonstrate that something less than 100% of the generator demand can be guaranteed not to be exceeded (with penalties) in the event of generator outage.

Is it advisable to assume the targeted end-state diversity in setting rates in order to stimulate projects? (from page 69 of staff discussion paper)

No. Until more research is carried out, the diversity factors, for different types of generation each of which may have different reliability levels and different maintenance schedules, are unknown. The CLD has recommended that a separate class be established for load displacement generators. If this is accepted, costs can be allocated to this class based on that class' actual diversity factors with rates being set accordingly.

Board Staff invites comments on whether a separate unmetered scattered load class should be mandatory and the relative merits of billing for unmetered scattered load on the basis of customers and connections. (from page 71 of staff discussion paper)

- The CLD prefers that a separate unmetered class not be made mandatory. There may be differences in types of such customers among utilities. Such a separate class may be appropriate at one utility whereas use of an existing commercial load class may be more appropriate at another utility.
- Use of a separate classification would be more costly to administer but would be more accurate for cost allocation purposes and would determine accurate rates for the customer charge and the variable demand charge.
- Regarding the question of billing this class on the basis of number of customers (accounts) versus the number connections, it is more appropriate to bill based on the “number of connections”. A utility must invest in assets for each connection, maintain each connection and keep track of connection numbers and load (essentially providing account management and customer service) for each connection (in view of monthly additions and removals of connections or changes in load). In most cases the distributor is reliant on the customer providing accurate wattage information and changes in equipment. While there may be some savings to these customers for metering and perhaps even billing costs, where appropriate this could be identified through a separate class (i.e. an Unmetered Scattered Load Class separate from the General Service Class) for these customers with a rate designed accordingly.

Board staff is also interested in submissions on the justification for separate classes for street lighting and sentinel lighting. (from page 71 of staff discussion paper)

The CLD prefers that Streetlights should be kept as a separate class to reflect the unique load shape and resulting cost allocation that results from the various connection methods such as “daisy chaining” of lights or two lights to one connection. Additionally, a separate classification supports the off-peak load shape for billing commodity charges. The sentinel lighting class currently exists and inclusion in the street light class should be left to the discretion of the distributor as there are usually few connections and accounts.

Metered Scattered Load - Board staff invites comment on whether the diversity benefit associated with multiple locations should be reflected in the rates paid by customers with metered scattered loads. (from page 72 of staff discussion paper)

The CLD submits there should not be a separate class for Metered Scattered Loads. There is no diversity benefit or cost saving to the distributor in serving different connection points on different parts of the system. These connection points are simply “different customers” for the purposes of providing distribution facilities.

On the other hand, totalizing a bill for several connections at the same location (e.g. portable classrooms in the yard of a main school) may have some merit in cost savings, however a separate class is not required to provide such a totalized billing practice.

Board Staff also invites comment on whether customers with metered scattered loads should be able to aggregate their bills and be charged a single fixed monthly charge that reflects the reduced costs associated with the single bill. (from page 73 of staff discussion paper)

The CLD submits that the costs associated with the preparation and mailing of a single bill are insignificant to the total fixed costs of providing distribution service to multiple metered scattered loads and as such the fixed cost per metered point is appropriate.

Recovery of Distribution System Losses - Board Staff invite comment on the most appropriate way to adjust the commodity for distribution system losses. (from page 75 of staff discussion paper)

The CLD recommends that commodity loss factor adjustments should not be changed at this time. The establishment of TOU loss factors or any differentiation of loss factor percentages, other than the existing class specific loss factors, would require significant billing system programming changes and added complexity for settlement of losses and explanation to customers.

7. Next Steps

The implementation of new rate designs with new billing determinants can only be started once distributors have at least two and preferably three years of hourly data for all classes of customers. While the implementation of Smart Meters will accommodate the data collection, it may be at least 2012 before sufficient data is available to implement changes. In fact, before a rate can be designed, a new cost allocation study would have to be performed using the hourly data. Without such a cost allocation study, distributors would have to use estimated billing quantities and load profiles, thus making revenue requirements by customer class highly subjective. Furthermore, distributors will be operating under 3rd Generation IRM in three waves, thus complicating the introduction of new rates with a cost allocation study. A new rate design will have to be implemented in waves at the end of each IRM period, also taking into consideration that some distributors may have their IRM period extended due to MAADs applications.

If the new rate design involves new classes of customers then distributors will require a new cost allocation model, which is a significant undertaking. This would have to be commenced with ample lead time so that the model is ready to be implemented by the end of the 3rd Generation IRM. Also, OEB staff would need to consider whether a sufficiently robust generic model covering the majority of applications would be preferred over multiple models being submitted for each utility.

The implementation of any rate design or customer classification changes should take place in stages as LDCs re-base after IRM, considering the need to collect data for new billing determinants and cost allocation studies and any LDC mergers and rate harmonization issues.

The CLD appreciates the opportunity to provide OEB staff feedback pertaining to their paper and look forward to continued involvement in this process through to implementation.

Appendix A

Rate Design Which Includes a Billing Determinant Based on a Customer's Prior Year's Average Monthly Demand

On page 35 of the staff discussion paper, the concept of a fixed charge based on the customer's prior year average monthly peak demand is identified. The CLD has briefly considered such a structure on a preliminary basis and suggests that it may have merit and ought to be discussed further and possibly used in a future voluntary LDC trial test case.

Following is a description of a possible rate structure for discussion purposes:

1. The rate design would consist of three parts: a "semi-variable" charge based on a customer's prior year's average monthly demand; a customer charge; a fully variable charge based on the customer's current year monthly peak demand.
2. The semi-variable and customer components could comprise 75% of total revenues with the fully variable component comprising the other 25%. The fully variable component would send a direct price signal for efficiency. The semi-variable component would still send some price signal in that customers would want to reduce consumption to influence next year's bills, while for the current year, the distributor's revenues from this rate component would be fixed.
3. In designing the forthcoming year's rates, the distributor would estimate the "prior year" billing determinants with the most up to date information available at the time of rate application. Subsequently, after the end of the "prior year", rates could be adjusted in the rate application that would reflect the precise "prior year" billing determinants and would be implemented for the new rate year.
4. If sufficient historical data is not available for the distributor to establish a kW demand value for the semi-variable charge for individual customers, then the distributor could use the customer's current monthly demand as a proxy for the prior year's demand, to bill the customer, in addition to the customer charge.

While such a rate structure would be somewhat more complicated than the existing structure and may involve significant customer education and other implementation issues, this disadvantage may be outweighed by the benefits that address the following stakeholder concerns:

- 1) Ratepayer concerns:
 - This solution addresses the concern of a relatively high customer charge for small customers in low volume customer classes. This solution would have a lower total fixed charge for low load customers and create larger total fixed charges for higher load customers.

- This solution may provide for a fair and reasonable way of apportioning fixed costs to customers within a class because each customer will only pay for what they use.
- May provide a strong incentive to customers to reduce consumption and demand all year long. Such a structure would provide for a predictable and stable rate to the customer.

2) Distributor concerns:

- An “annual” fixed charge based on the prior year’s demand level could provide for revenues that would more appropriately track the costs of the distributor.